



Annual Report
2022

Description of Business

Avoca, L.L.C. owns and manages approximately 16,000 acres comprising virtually all of Avoca Island, which is located about 90 miles west of New Orleans in St. Mary Parish, Louisiana, adjacent to and immediately southeast of Morgan City. The island is rural and substantially undeveloped. It's wholly-owned subsidiary Avoca Island Mitigation Phase One, L.L.C. operates a mitigation land bank with mitigation credits for sale.

Board of Managers and Officers

Bernard E. Boudreaux, Jr., Manager and Vice-President; Attorney, Jones, Swanson, Huddell & Daschbach, L.L.C.	John P. (Jack) Laborde, Manager and President; President, Overboard Holdings, L.L.C., President, All Aboard Development Corporation,
Charles Mark Duthu, Manager and Secretary-Treasurer;	Edwin R. (Rod) Rodriguez, Jr., Manager; President, Gustaf W. McIlhenny Foundation Chairman of Board, National Fish and Wildlife Foundation Principal, Financial Advisor, CapTrust
Hardy B. Fowler, Manager Director, Hancock Whitney Corporation	

Corporate Office:

Avoca L.L.C corporate office is located at:
701 Poydras St., Suite 1303, New Orleans, LA 70139
Telephone: 504-552-4720
Email: avoca838@aol.com

Ethics Policy

The Company has adopted a Code of Ethics and operates pursuant to its terms. A copy of the Code of Ethics is available to a member upon request.

Transfer Agent:

American Stock Transfer
& Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
www.astfmancial.com

Membership unit holders address changes or questions about membership units or dividend payments should be directed to the transfer agent at:
(800) 937-5449
[E-mail: help@astfmancial.com](mailto:help@astfmancial.com)

Report to the Members

Issued Preliminary to the Ninety-First
Annual Meeting of Members on March 21, 2023

Dear Members:

As reported in the accompanying consolidated financial statements, the Company's net profit for 2022 was \$464,639 or \$57.66 per membership unit as compared to a net loss for 2021 of \$101,168 or \$12.55 per membership unit. The consolidated financial statements include the accounts of Avoca L.L.C. and its wholly-owned subsidiary Avoca Island Mitigation Phase One L.L.C.

Total revenue increased from \$873,977 in 2021 to \$2,002,911 in 2022 or approximately 129%. The increase in total revenue was due primarily to \$1,648,239 received in 2022 from the sale of mitigation credits, net of cost of development and sales commission expense, as compared to \$379,217 from that source in 2021. In addition, royalty income, net of severance taxes was \$146,351 in 2022 as compared to \$63,302 received in 2021. An offset to the increase in the sale of mitigation credits and royalty income was a realized loss on securities in 2022 in the amount of \$3,267 in comparison to a gain in the amount of \$248,571 in 2021. Total expenses decreased from \$1,054,796 in 2021 to \$928,508 in 2022 in or approximately 12% due to a \$37,715 decrease in surface management expenses relating to repairs and maintenance of Company property not included in the mitigation bank, a \$86,203 decrease in legal fees, \$63,463 decrease in engineering fees and expenses related to the mitigation bank and an increase in management and clerical services of \$43,328. It should also be noted that investments in equity securities incurred an unrealized loss of \$519,887 in 2022 compared to an unrealized gain of \$42,923 in 2021. Further information regarding income and expense activity can be found in the Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report.

The Infrastructure Investment and Jobs Act (IIJA) which will provide an influx of funds into the states for a variety of roads, bridges and other infrastructure projects was signed into law in late 2021. The State of Louisiana has also recently reported a number of future hurricane protection and coastal restoration projects. We are optimistic that a number of these projects may require mitigation credits and the Company will continue to work with interested parties to provide the mitigation credits for their projects.

Sincerely,



John P. (Jack) Laborde
President

January 20, 2023

LeGlue & Company, CPAs, L.L.C.

January 20, 2023

Independent Auditors' Report

To The Board of Managers and
Members of Avoca, L.L.C. and its wholly-owned subsidiary
(Avoca Island Mitigation Phase One, L.L.C.)
New Orleans, Louisiana

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Avoca, L.L.C. and its wholly-owned subsidiary (Avoca Island Mitigation Phase One, L.L.C.) (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Company 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Company'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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 audits.

Respectfully submitted


LeGlue & Company, CPA's, L.L.C.

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

Consolidated Balance Sheets
(See Independent Auditors' Report)

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 655,219	\$ 495,246
Mitigation escrow accounts	593,108	586,826
Short-term investments in debt securities	301,561	175,921
Mitigation bank development costs	331,497	482,366
Accounts receivable	8,504	6,205
Accrued interest receivable	15,983	12,686
Prepaid expenses	40,204	22,647
Total current assets	<u>1,946,077</u>	<u>1,781,897</u>
Property and equipment, less accumulated depreciation and depletion	<u>86,137</u>	<u>113,064</u>
Other assets:		
Long-term investments in debt securities	2,362,997	2,070,889
Long-term investments in equity securities	3,452,828	3,420,590
Deferred tax asset	55,652	96,954
Land - at nominal amount	1	1
	<u>5,871,478</u>	<u>5,588,434</u>
 Total	 <u>\$ 7,903,692</u>	 <u>\$ 7,483,395</u>
Liabilities and Members' equity		
Current liabilities:		
Income tax payable	\$ 1,256	\$ -
Accounts payable and accrued expenses	38,970	84,568
Total current liabilities	<u>40,226</u>	<u>84,568</u>
Commitments	<u>-</u>	<u>-</u>
Members' equity:		
Membership Units, no par value -- 8,305 units authorized		
8,058 issued and outstanding	94,482	94,483
Retained earnings	7,768,983	7,304,344
Total members' equity	<u>7,863,466</u>	<u>7,398,827</u>
 Total	 <u>\$ 7,903,692</u>	 <u>\$ 7,483,395</u>

See accompanying notes to the consolidated financial statements.

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

Consolidated Statements of Income

(See Independent Auditors' Report)

	Years ended December 31	
	2022	2021
Revenue:		
Mitigation credit sales	\$ 1,889,257	\$ 543,125
less cost of development	174,358	47,136
less sales commission expense	66,659	116,772
	<u>1,648,239</u>	<u>379,217</u>
 Royalties, net of severance taxes	146,351	63,602
Interest and dividend income	148,337	112,896
Realized gains/(losses) on securities	(3,267)	248,571
Rental income	47,774	46,345
Miscellaneous income	15,477	23,346
	<u>2,002,911</u>	<u>873,977</u>
Expenses:		
Attorney fees and expenses	9,906	96,109
Auditing fees	27,927	27,745
Board of Managers fees	74,000	69,000
Bookkeeping and clerical services	49,232	36,625
Engineering fees and expenses	116,090	179,553
Insurance	64,779	59,797
Investment management fees	28,871	29,556
Management fees	93,222	62,500
Office and miscellaneous expenses	46,018	40,167
Member servicing expenses	35,370	33,125
Surface management expenses	345,398	383,113
Taxes, other than income taxes	37,696	37,506
	<u>928,508</u>	<u>1,054,796</u>
 Income (loss) from operations	1,074,403	(180,819)
 Unrealized gains (loss) on securities	<u>(519,887)</u>	<u>42,923</u>
 Net Income (loss) before income taxes	554,516	(137,896)
 Income tax expense (benefit)	<u>89,877</u>	<u>(36,728)</u>
 Net income (loss)	<u>\$ 464,639</u>	<u>\$ (101,168)</u>
 Income (loss) per unit	<u>\$ 57.66</u>	<u>\$ (12.55)</u>

See accompanying notes to the consolidated financial statements.

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

Consolidated Statements of Changes in Members' Equity
(See Independent Auditors' Report)

Years ended December 31, 2022 and 2021

	<u>Membership Units</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, January 1, 2021	\$ 94,483	\$ 7,405,512	\$ 7,499,995
Net loss for the year	<u>-</u>	<u>(101,168)</u>	<u>(101,168)</u>
Balance, December 31, 2021	<u>\$ 94,483</u>	<u>\$ 7,304,344</u>	<u>\$ 7,398,827</u>
Balance, January 1, 2022	\$ 94,483	\$ 7,304,344	\$ 7,398,827
Net income for the year	<u>-</u>	<u>464,639</u>	<u>464,639</u>
Balance, December 31, 2022	<u>\$ 94,483</u>	<u>\$ 7,768,983</u>	<u>\$ 7,863,466</u>

See accompanying notes to the consolidated financial statements.

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

Consolidated Statements of Cash Flows

(See Independent Auditors' Report)

	Years ended December 31	
	2022	2021
Operating activities		
Net income (loss)	\$ 464,639	\$ (101,168)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	26,927	26,927
Realized (gains) losses on securities	3,267	(248,571)
Unrealized (gains)/loss on securities	519,887	(42,923)
Deferred taxes	41,302	(36,728)
Increase (decrease) in investments due to amortization of premiums and discounts	16,182	(93,389)
Changes in operating assets and liabilities:		
Mitigation escrow accounts	(6,282)	(161)
Mitigation bank development costs	150,869	47,136
Accounts receivable	(2,299)	(3,355)
Accrued interest receivable	(3,297)	11,491
Prepaid expenses	(17,558)	(1,813)
Accounts payable and accrued expenses	(45,598)	(5,132)
Income taxes	1,257	-
Net cash (used in) provided by operating activities	<u>1,149,295</u>	<u>(447,686)</u>
Investing activities		
Purchase of investments in debt securities	(608,663)	(1,194,692)
Maturity of investments in debt securities	174,733	159,472
Proceeds from sale of debt securities	-	1,353,819
Purchase of investments in equity securities	(1,729,671)	(795,947)
Proceeds from sale of equity securities	1,174,279	1,381,508
Funding of mitigation bank development costs	-	(172,350)
Net cash (used in) provided by investing activities	<u>(989,322)</u>	<u>731,810</u>
 Increase in cash and cash equivalents	 159,973	 284,124
Cash and cash equivalents at beginning of year	<u>495,246</u>	<u>211,122</u>
Cash and cash equivalents at end of year	<u>\$ 655,219</u>	<u>\$ 495,246</u>

See accompanying notes to the consolidated financial statements.

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

NOTE A – Significant Accounting Policies

General: Avoca L.L.C. (the “Company”) owns and manages land located in St. Mary Parish, Louisiana. In addition to proceeds from the sale of mitigation credits, the Company also receives royalties from oil and gas production related to leases to unaffiliated parties for oil and gas exploration, rental income and income from the leasing of hunting rights. Income in the accompanying consolidated financial statements also includes interest and dividend income and gains on sale of securities.

Corporate Action: On December 16, 2015 the shareholders adopted a Plan of Entity Conversion whereby Avoca Incorporated, a Louisiana corporation, was converted to Avoca, L.L.C., a Louisiana limited liability company. Avoca, L.L.C. is the surviving entity. Each share of common stock of the former Corporation was converted into one unit of membership of the new limited liability company. The duration of the Company is perpetual. The personal liability of its members for monetary damages is limited to the fullest extent allowed by Louisiana law.

Principles of Consolidation: The consolidated financial statements include the accounts of Avoca, L.L.C. and its wholly-owned subsidiary Avoca Island Mitigation Phase One L.L.C. (“Phase One L.L.C.”). Avoca L.L.C. contributed the ownership of real property to Phase One L.L.C. which was used to establish and develop a bottomland hardwood forest and cypress swamp coastal and non-coastal wetland mitigation bank on Avoca Island. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting: This summary of significant accounting policies of the Company is presented to assist in the understanding of the Company's consolidated financial statements. The consolidated financial statements and notes are representations of the Company's management who are responsible for the integrity and objectivity of the consolidated financial statements. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents: Cash equivalents consist of investments with a maturity of three months or less from date of purchase.

The Company periodically maintains cash balances at a financial institution that exceed federally insured amounts.

Mitigation Escrow accounts: The Mitigation Banking Instrument establishing the Avoca Island Mitigation Bank was executed in August 2020. The terms of the agreement require that Phase One L.L.C. provide financial assurance sufficient to ensure satisfactory completion of the work described in the mitigation work plan. Accordingly, two escrow accounts were established and the funds are on deposit with a financial institution that has agreed to act as Escrow Agent. One escrow account is for the construction and establishment of the mitigation bank and the second escrow account is for its long-term maintenance and management. The financial assurances shall be reduced as certain

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

benchmarks and success criteria, as detailed in the mitigation banking instrument are achieved. The fair value of the escrow accounts at December 31, 2022 and 2021 was \$593,108 and \$586,826, respectively.

The Mitigation Bank Instrument also required the execution of a perpetual conservation servitude held by a qualified third-party entity approved by the U.S. Army Corps of Engineers New Orleans District. The holder of the servitude will perform yearly inspections and provide annual reports as to compliance with the terms of the servitude. To cover the costs of these services, the Company paid \$72,174 for a stewardship endowment which is included in mitigation bank development costs for each of the years ended December 31, 2022 and 2021 on the accompanying consolidated balance sheets.

Investments: The Company has evaluated its investment policies consistent with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 320 "Investments in Debt and Equity Securities" and determined that its investments in equity securities are to be classified as available-for-sale. Available-for-sale securities are carried at fair value based on quoted market prices of the investment at December 31, 2022 and 2021. Net realized and unrealized gains or losses on equity securities are included in net earnings. For purposes of determining realized gains and losses, the cost of the security sold was based on specific identification. The fair value of the investments in equity securities at December 31, 2022 and 2021 were \$3,452,828 and \$3,420,590, respectively. Unrealized gains (losses) at December 31, 2022 and 2021 were \$(47,414) and \$475,758, respectively.

Short-term investments in debt securities consist of municipal bonds with original maturities of greater than three months but with maturity dates within one year from the balance sheet date.

Long-term investments in debt securities consist of corporate and municipal bonds with maturities in 2021 through 2029.

Management determines the appropriate classification of debt securities at the time of purchase. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost including accrued interest. At December 31, 2022 and 2021, all short-term investments and long-term investments were classified as held-to-maturity. Debt securities whose decline in fair value is determined to be permanent are written down to fair value. The fair value of the investments in debt securities approximated the carrying value at December 31, 2022 and 2021.

Proceeds from sales and maturities of securities for the years ended December 31, 2022 and 2021 were \$1,349,012 and \$2,894,799, respectively.

Investment income (loss) for the years ended December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 148,337	\$ 112,896
Realized gains (loss) on sale of securities	(3,267)	248,571
Unrealized gains (loss) on securities	<u>(519,887)</u>	<u>42,923</u>
	\$ <u>(374,817)</u>	\$ <u>404,390</u>

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

Property and Equipment: Land is carried at cost less amounts received for the sale of rights-of-way and similar servitudes. Land improvements and building are carried at cost and depreciated over their estimated useful lives of 15 to 30 years. Equipment is carried at cost and depreciated over estimated useful lives of 3 to 5 years. Depreciation expense for the periods ended December 31, 2022 and 2021 was \$26,927 and \$26,927, respectively.

Income Taxes: The Company accounts for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 740 "Income Taxes." Income taxes include deferred taxes resulting primarily from federal net operating loss carryforwards, accumulated and temporary differences due to differences in basis amounts and depreciation periods of property and equipment for financial reporting purposes and income tax purposes, including writing off the cost of assets under IRC Section 179 and special depreciation for Go Zone property in the year acquired.

Fair value of Financial Instruments: The fair value of the Company's financial assets and liabilities, other than available-for-sale marketable securities, approximates book value at December 31, 2022 and 2021.

Subsequent Events: We evaluated events occurring between the end of our year on December 31, 2022 and January 20, 2023 when consolidated fiscal statements were available for issue. No events were noted that would require disclosure in the consolidated financial statements. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

NOTE B – Income Taxes

The components of income tax expense (benefit) for the years ended December 31 are as follows:

	<u>2022</u>	<u>2021</u>
Current:		
Federal	\$ 33,129	\$ -
State	<u>15,446</u>	<u>-</u>
Total Current	<u>48,765</u>	<u>-</u>
Deferred:		
Federal	41,302	(36,728)
State	<u>-</u>	<u>-</u>
Total Deferred	<u>41,302</u>	<u>(36,728)</u>
	<u>\$ 89,877</u>	<u>\$ (36,728)</u>

The deferred tax asset of \$55,652 at December 31, 2022 relates to a federal net operating loss carryforward (deferred tax asset of \$58,017) and a difference between the accounting and income tax basis and depreciation periods of property and equipment and the net change in unrealized gain on equity securities available for sale (deferred tax liability of \$2,365).

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

The deferred tax asset of \$96,954 at December 31, 2021 relates to a federal net operating loss carryforward (deferred tax asset of \$214,019) and a difference between the accounting and income tax basis and depreciation periods of property and equipment and the net change in unrealized gain on equity securities available for sale (deferred tax liability of \$117,065).

Federal and State income tax payments were made in 2022 in the amounts of \$48,000 and \$14,000 respectively. No Federal and State payments were made in the year ended December 31, 2021.

The reconciliations between the federal statutory income tax rate and the Company's effective income tax rate for the years ended December 31 are as follows:

	2022		2021	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Tax expense based on federal statutory rate	\$ 116,448	(21.0)%	\$ (28,958)	(21.0)%
Municipal bond interest	-	-	-	(10.4)
Dividend received deduction	(9,955)	(1.7)	(8,216)	(5.9)
Other	<u>(16,616)</u>	<u>3.0</u>	<u>446</u>	<u>.3</u>
INCOME TAXES	<u>\$ 89,877</u>	<u>(16.3)%</u>	<u>\$ (36,728)</u>	<u>(26.6)%</u>

On the basis of the federal income tax returns filed through December 31, 2022, the Company has the following carryovers:

<u>Expires year ended Dec 31</u>	<u>Net operating loss</u>	
	<u>Federal</u>	<u>Louisiana</u>
2037	-	58,551
2038	-	326,219
2039	11,465	460,029
2040	<u>194,815</u>	<u>268,588</u>
	<u>\$ 206,280</u>	<u>\$ 1,113,387</u>

Management has reviewed the tax positions taken in filings with the authorities and believes that there would be no resulting adjustment to taxes paid should these positions be examined. Tax years subject to tax authority review were December 31, 2019 and 2020 and 2021.

NOTE C – Major Customers

The net royalties received from one independent oil and gas exploration company accounted for 100% of total net royalties recorded for the years ended December 31, 2022 and 2021.

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

NOTE D – Major Transaction

Effective August 10, 2020 the Mitigation Banking Instrument (MBI) establishing the Avoca Island Mitigation Bank was executed and entered into by Avoca Island Mitigation Phase One L.L.C. (Phase One L.L.C.) and the Interagency Review Team composed of the U.S. Army Corps of Engineers New Orleans District (CEMVN) and other regulatory agencies. The MBI sets forth guidelines and responsibilities for the establishment, use, operation, protection, monitoring and maintenance of the mitigation bank.

As Owner and Sponsor under the terms of the MBI, Phase One L.L.C. granted a perpetual conservation servitude to a qualified third-party entity approved by the CEMVN. Phase One L.L.C. also provided the financial assurance required by the MBI sufficient to ensure satisfactory completion of the work described in the mitigation work plan in the form of two escrow accounts. Phase One L.L.C. bears the full cost and financial responsibility associated with the construction, operation, and management of the Mitigation Bank and any and all corrective actions and remedial measures deemed necessary under the provision of the MBI.

In exchange for the conservation easement and related commitments, Phase One L.L.C. was granted a specified number of mitigation credits which are traded or sold within the government established market known as the Regulatory In-lieu Fee & Bank Information Tracking System (RIBITS). Future credit releases are tied to achieving all the success criteria milestones at specific monitoring times as outlined in the mitigation work plans. Proceeds received from the sale of mitigation credits for the years ended December 31, 2022 and 2021 were \$1,889,257 and \$543,125, respectively.

When all of the success criteria have been attained and all credits have been sold, Phase One L.L.C. will remain responsible for: 1) the compensatory mitigation requirements for any permit for which it sold bank credits; and 2) the long-term management and maintenance, monitoring, and protection of the mitigation represented by those credits unless such responsibility is transferred to a long-term steward.

NOTE E – Related Party Transaction

The following table summarizes transactions with the Hancock Whitney Bank, a major unitholder of the Company for the years ended December 31, 2022 and 2021.

	<u>Office Rent Paid</u>	<u>Investment Management Fees Paid</u>
2022	\$ 13,965	\$ 28,871
2021	\$ 13,585	\$ 29,556

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

NOTE F – Commitments

On December 13, 2006 the Board of Directors of the Company approved retaining \$1,500,000 from 2006 net income to be used to develop and fund a plan of erosion abatement and control including a levee repair program. As of December 31, 2021, approximately \$56,000 has been spent on hydrographic and topographic surveys necessary to develop the engineering design and related cost estimates for the program and approximately \$56,000 was spent on remedial repair to an eroding breach on Company property.

After reviewing the results of the conceptual design plan and related cost estimates presented by the Company's engineers, the Board concluded that immediate repairs were not warranted and the unexpended funds would continue to be held in reserve for future levee erosion control when needed.

The Company has a lease with the Avoca Duck Club (the "Club"), an unrelated entity, to allow the members of the Club use of the Company's land for the purpose of hunting wild game and birds, and for noncommercial fishing. The term of the lease commenced June 1, 1994 for a period of ten years with the Club having two ten-year options to extend the lease. In 2003, the Club exercised the first ten-year option to extend the lease to June 1, 2014 and in March 2014 exercised the second ten-year option to extend the lease to June 1, 2024.

If the Company elects to exercise its unrestricted, unconditional and absolutely discretionary right to terminate the lease before the end of its term, the Company must reimburse the Club for its undepreciated cost of the building (excluding the Company's cash contribution), based on straight-line depreciation over 30 years. Under the lease, the Club's undepreciated cost of the building will be reduced over time to an ultimate reimbursable amount not less than \$80,000.

During 2009, the Company, as Lessee, entered into a ninety-nine year lease for acreage on Avoca Island adjacent to its property with an entity which is a Variable Interest Entity (VIE) as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 810. The rent for the entire ninety-nine year term shall be the money paid by the Company to file and prosecute a partition by licitation with the intent that the Lessor, a limited liability company formed by two owners of the acreage, will acquire by purchase or contribution additional interests in acreage not now owned by the Lessor. The VIE is managed by the Company. The suit for partition by licitation, prosecuted by the VIE, was dismissed by the court in 2013. The Company continues to act as manager of the VIE and still continues its position as Lessee from the VIE on the acreage adjacent to the Company's property. The VIE has not been consolidated because it would have no effect on the reported results of operations and equity of the Company, nor does the Company own an equity interest in the VIE.

NOTE G – Fair Value Measurements

ASC Section 820, Fair Value Measurements and Disclosures, issued by the FASB, establishes a framework of measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Section 820 are described below:

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

- **Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- **Level 2** - Inputs to the valuation methodology include: (1) quoted market prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted prices that are observable for the asset or liability; and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- **Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021:

- *Corporate Equities:*
Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other markets participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets and liabilities of the Company for which fair values are determined on a recurring basis:

INVESTMENT ASSETS AT FAIR VALUE

December 31, 2022

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ <u>3,452,828</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,452,828</u>

December 31, 2021

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ <u>3,420,590</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,420,590</u>

**Avoca, L.L.C. and its wholly-owned subsidiary
Avoca Island Mitigation Phase One L.L.C.**

**Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

NOTE H – Leases and Mineral Income

The following table provides information on the mineral leases in effect at December 31, 2022. All mineral leases expire with termination of production or 3 years from the date of the lease, if nonproducing.

<u>Lessee (Operator, if different)</u>	<u>Date of Lease</u>	<u>Acreage</u>	<u>Initial Payment Per Acre</u>	<u>Net Royalty Income</u>	
Alliance Operating Company (Delta Operating Corporation)	8/14/87	276.7330	\$ 200	-	*
White Oak Energy (White Oak Operating Co., L.L.C.)	5/27/98	216.5785	\$ 200	\$ 146,351	
White Oak Energy (White Oak Operating Co., L.L.C.)	11/18/99	15.9530	\$ 300	-	*
				<u>\$ 146,351</u>	

- * Royalties received from the Avoca No. 47-1 and the C.M. Thibodaux No. 1, No. 3 and No 4 wells are combined and shown under the May 27, 1998 lease as separate remittances are not received for the individual leases.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's continued liquidity is evidenced by the fact that 12% of its assets, as measured by book value, are cash and cash equivalents and short-term investments in debt securities. Current liabilities at year-end were \$40,226. Current financial resources and anticipated net income are expected to be adequate to meet cash requirements in the year ahead.

2022 As Compared to 2021

The financial statements for Avoca L.L.C. include the accounts of Avoca L.L.C. and its wholly-owned subsidiary Avoca Island Mitigation Phase One L.L.C. (Phase One L.L.C.). The Company owns and manages land located in St. Mary Parish, Louisiana, including the operation of a mitigation bank on Avoca Island.

Total revenue increased from \$873,977 in 2021 to \$2,002,911 in 2022 or approximately 129%. The increase in total revenue was due primarily to \$1,648,239 received in 2022 from the sale of mitigation credits, net of cost of development and sales commission expense, as compared to \$379,217 from that source in 2021. In addition, royalty income, net of severance taxes was \$146,351 in 2022 as compared to \$63,302 received in 2021. An offset to the increase in the sale of mitigation credits and royalty income was a realized loss on securities in 2022 in the amount of \$3,267 in comparison to a gain in the amount of \$248,571 in 2021.

In May 2020, Avoca L.L.C. contributed the ownership of real property to Phase One L.L.C. for use in the establishment and development of a bottomland hardwood forest and cypress swamp coastal and non-coastal wetland mitigation bank on Avoca Island. The final Mitigation Banking Instrument (MBI), which contains detailed information pertaining to the ecological features of the mitigation bank, credit values, financial assurance mechanisms, as well as management and maintenance plans, was approved and signed by the Company, the U.S. Army Corps of Engineers (USACE) and other regulatory agencies in August 2020. In September 2020 Phase One L.L.C. received the first credit release providing mitigation banking credits available for sale. Additional credits will be released in the future as certain benchmarks and success criteria, as detailed in the MBI, are achieved. In 2022, various regulatory agencies inspected Phase One L.L.C. and Avoca is waiting on reports that may release additional

mitigation credits to be sold. The proceeds from the sale of mitigation credits was \$1,889,257, and \$543,125, in 2022 and 2021, respectively. As of December 31, 2022 the Company has received a total of \$2,443,882 in proceeds from the sale of mitigation credits. Additional information about the Avoca Island Mitigation Bank and other mitigation banks is available on the USACE Regulatory In-Lieu & Bank Information Tracking System (RIBITS) website located at <https://ribits.ops.usace.army.mil>.

The construction and development of the mitigation bank began in 2020, continued into 2021, and was substantially completed in the second quarter of 2021 with the planting of tree seedlings. Mitigation bank development costs incurred were \$23,490 (supplemental planting) and \$172,350 in 2022 and 2021, respectively. The total mitigation bank development costs, less the accumulated cost of mitigation credits sold are included on the consolidated balance sheets.

Avoca, L.L.C. owns lands in St. Mary Parish, Louisiana under which hydrocarbons are located. The hydrocarbons are developed in accordance with the custom of the trade in the oil and gas industry in Louisiana, which development is conducted with risks and uncertainties usually associated with the production and marketing of hydrocarbons.

Revenue from royalty income net of severance taxes increased from \$63,602 in 2021 to \$146,351 in 2022 or approximately 130%. The increase in revenue from royalties was due principally to increases in the average sales prices of natural gas and condensate.

The Company's three principal producing wells are located in the Ramos Field. Production from the White Oak Resources VI, LLC wells which were responsible for 100% of the total net royalties for 2022 and 2021. There were no new oil, gas and mineral leases granted by the Company in 2022 or 2021, nor were any new wells affecting Avoca, L.L.C. drilled in 2022 or 2021.

Interest and dividend income on investments increased from \$112,896 in 2021 to \$148,337 in 2022 or approximately 31%.

During 2022 the Company realized a total of \$3,267 in losses before income taxes from the sale of securities as compared to a total gain of \$248,571 from that source in 2021.

The Company's investment in available-for-sale equity securities incurred a net change in unrealized losses in market value of \$519,887 at December 31, 2022 as compared to gains in market value of \$42,923 at December 31, 2021.

Rental income increased from \$46,345 in 2021 as compared to \$47,774 in 2022.

Miscellaneous income decreased from \$23,346 in 2021 as compared to \$15,477 in 2022. Income from the hunting of alligators and collecting of alligator eggs has decreased due to market conditions.

Total expenses decreased from \$1,054,796 in 2021 to \$928,508 in 2022 in or approximately 12% due to a \$37,715 decrease in surface management expenses relating to repairs and maintenance of Company property not included in the mitigation bank, a \$86,203 decrease in legal fees, \$63,463 decrease in engineering fees and expenses related to the mitigation bank and an increase in management and clerical services of \$43,328.

In 2020, the St. Mary Parish Levee District (SMLD) began construction of its Bayou Chene Flood Protection Structure, which includes the elevation of the existing Avoca Road on the island. Performing due diligence on this phase of the project which crosses Avoca Island necessitated an evaluation of its potential impact on the hydrology of the island as well as whether there would be sufficient and appropriate access to Company property upon its completion. During this construction period, a third-party engineering firm was engaged to monitor and inspect the project on behalf of the Company. The Company incurred fees and expenses relative to these evaluation and monitoring services totaling \$10,836 and \$50,160 in 2022 and 2021, respectively.

Income taxes for 2022 were a \$89,877 tax expense as compared to \$36,728 tax benefit for 2021. The company utilized net operating loss carryovers in 2022 to minimize income tax expense. The company still has net operating loss carryovers in the amount of \$206,280 and \$1,113,387 for Federal and State respectively.

Net income was \$57.66 per unit in 2022 as compared to net loss of \$12.55 per unit in 2021. The Company did not declare a dividend in 2022 or 2021. Future dividends will be largely dependent on the sale of mitigation banking credits.

On September 28, 2021, amendments to SEC Rule 15C2-11 went into effect which included a requirement that companies make current information publically available in order to maintain a quoted public market in their stock. Avoca, L.L.C. fully intends to have its membership units continue to be publically traded (symbol AVOA) on the OTC Markets trading platform, formerly known as "The Pink Sheets". The Company submitted and received approval of its application to the OTC Disclosure & News Service the result being that the Company's audited annual financial statements and other information will be publically and currently available on this thereby complying with this new requirement.

Further information regarding the Company's financial condition and results of operations is contained in the President's Report to Members.