

Biloxi Marsh Lands Corporation

One Galleria Blvd., Suite #902

Metairie, Louisiana 70001

Phone: (504) 837-4337

Fax: (504) 837-1889

March 19, 2014

To the Shareholders of Biloxi Marsh Lands Corporation:

The following is a discussion of the results of operations of the Company for the year ended December 31, 2013. The annual revenue breakdown is as follows: 2013 revenue from oil and gas activity for the Company's fee lands was \$636,189 compared to revenue of \$572,559 in 2012.

During 2013, total revenues included a \$1,740,193 loss emanating from the Company's investment in B&L Exploration, LLC (B&L). This compares to a loss of \$714,604 from B&L in the prior year. As an operating oil and gas entity, B&L's results included deductions for depreciation, depletion and amortization (DD&A) costs relating to its ongoing drilling and production activities. BLMC's share of these DD&A expenses was \$927,415 and \$800,488 for 2013 and 2012, respectively.

Meanwhile, dividend and interest income for 2013 was \$164,275 compared to \$199,024 for 2012. In 2013, we realized a cumulative gain from the sale of investment securities of \$2,072,125 compared to a cumulative gain in the amount of \$23,630 in 2012. During the fourth quarter of 2013, the Company recognized a gain in the amount of \$3,189,681 from a partial settlement of its BP Deepwater Horizon claim. Expenses for the year totaled \$1,116,014 compared to \$983,083 for the prior year. For the year, the Company had net income of \$2,450,729 or \$0.90 per share compared to a net loss of \$460,635 or \$.17 per share in 2012.

As of December 31, 2013 the combined gross daily production rate from 4 wells operated by the Company's mineral lessees was approximately 3.02 million cubic feet (mmcf) of natural gas with net daily production accruing to the Company of approximately .359 mmcf. Meanwhile, as of December 31, 2013, B&L's gross production was approximately 4.716 mmcf and 312 barrels of oil from 5 wells with .804 mmcf and 31 barrels of oil per day accruing to B&L.

Freeport-McMoRan Oil and Gas (FM O&G), a wholly owned subsidiary of Freeport-McMoRan Copper and Gold Inc. (NYSE:FCX), in FCX's January 22, 2014 news release stated that: *"The Lomond North exploratory well in the Highlander area,.....,located in St. Martin Parish, Louisiana, is currently drilling and has encountered gas pay in several Wilcox and Cretaceous aged sands between 24,000 feet and 29,000 feet. The wireline log and core data obtained from the Wilcox and Cretaceous sand packages evaluated to date indicate favorable reservoir characteristics with approximately 150 feet of net pay. FM O&G will continue drilling the Lomond North well in the Cretaceous to test deeper prospective targets. FM O&G plans to commence completion operations in mid-2014 followed by a flow test. FM O&G has identified multiple exploratory prospects in the Highlander area where it controls rights to approximately 56,000 gross acres."*

Subsequently, during the 2014 Credit Suisse Energy Summit held in February 2014, FM O&G presented the Lomond North Well log, structure map and the proposed location of the second well to be drilled in the Highlander area. FM O&G illustrated that the *"Lomond North Discovery"* is the first discovery in the Highlander area and is a discovery within the *"Cretaceous Tuscaloosa"* sand interval. The presentation stated that the Highlander area has *"3.0 TCF Gross Resource Potential."* While B&L's management is encouraged by FM O&G reports, B&L does not have access to information beyond that which is made public by FM O&G and its working interest partners. B&L is awaiting the scheduled flow test of the Lomond North well with cautious optimism. In the event that the flow test is successful and the well is placed on production at rates estimated by FM O&G and/or its working interest partners, the revenue derived from the overriding royalty interest could be relatively significant to B&L.

As previously reported, B&L has been assigned and is contractually entitled to a 1.5% of 8/8ths overriding royalty interest (ORRI) in the Lomond North discovery well and in all mineral leases obtained by FM O&G in its Highlander project area located in Iberia, St. Martin, Assumption and Iberville Parishes, Louisiana.

As previously reported, B&L is actively assembling additional prospective acreage on which to explore, exploit and develop the acreage's mineral interest. The goal is to place a portion of the working interests with third party industry partners in an effort to mitigate risk. In addition to the Lomond North discovery well in which B&L has an ORRI, B&L participated in the drilling of the Williams C-4 ST1 well during the third quarter of 2013. On September 26, 2013 electric logs were run in the Williams C-4 ST1 well. Electric logs indicated approximately 22' of net oil pay sand in the "J" sand interval. In the subsequent flow test, the well flowed at a maximum rate of 665.9 barrels of oil per day (BOPD) and 0.0 barrels of water per day (BWPD), with flowing tubing pressure (FTP) of 1318 psi on a 13/64" choke. B&L has a 16.59% working interest in this well. On March 14, 2014 Linder Oil and Gas, the Operator, began the process of placing this well on production. The planned production rate is approximately 400 barrels of oil per day and associated natural gas. Over the past two days this well has been flowing at an average rate of approximately 375 BOPD and approximately 300 thousand cubic feet of natural gas per day.

B&L's acquisition of approximately 50 square miles or approximately 30,000 acres of mineral and surface rights in Calhoun and Victoria County, Texas is identified as B&L's Lago Verde 3D Seismic Project. As previously reported, B&L successfully placed a significant working interest in its Lago Verde project with the Bass Group with main offices in Fort Worth, Texas. BOPCO, the operating company for the Bass Group, will the wells drilled within this Lago Verde project area. B&L retained a 33.5% ground floor working interest in the Lago Verde project. As of this time, it is anticipated that drilling operations on the Lago Verde multi-well drilling program should commence during the latter part of the second quarter or the early part of the third quarter of 2014. In the initial round of drilling, B&L and the other working interest owners plan to drill four to five prospects. In the ordinary course of any exploration program, the success or failure of the initial round of drilling could lead to the drilling of additional or fewer wells.

As previously reported, B&L has obtained the mineral rights to Eugene Island Block 74. B&L currently holds a 60% working interest in Eugene Island Block 74. We reported that B&L hoped to commence drilling operations during 2014. Due to other exploratory priorities, B&L's management has decided to delay drilling operations in the Eugene Island Block 74 prospect area until 2015.

The final end of the year proved reserve study commissioned by the Company and completed by T. J. Smith & Company, Inc., an independent reservoir engineer, estimates that as of December 31, 2013 BLMC's "Developed Producing" (PDP) reserves were .267 billion cubic feet (BCF) of natural gas and estimates that the "Developed Non-Producing" (PDNP) reserves were .521 BCF, totaling .788 BCF of estimated proved natural gas reserves. Additionally, this reserve study estimates that approximately 13% of the proved reserves will deplete by the end of 2014.

Please find the following table showing the Company's proved reserves as of December 31, 2013:

Proved Reserves as of December 31, 2013 (3)

	<u>Developed Producing (PDP)</u>	<u>Developed Non-Producing (PDNP)</u>	<u>Total</u>
	(Dollars in thousands)		
Net Proved Reserves (1):			
Natural Gas (BCF):	.267	.521	.788
Estimated Future Net Revenues (before income taxes) (2):.....		\$	2,761 (4)
Estimated Discounted Future Net Revenues (before income taxes) (2):.....		\$	1,941 (4)

(1) In general, our engineers based their estimates of economically recoverable oil and natural gas reserves and of the future net revenues therefrom on a number of variable factors and assumptions, such as historical production from the subject properties, the assumed effects of regulation by governmental agencies and assumptions concerning future oil and natural gas prices, all of which may vary considerably from actual results. Therefore, the actual production, revenues, and severance taxes with respect to reserves likely will vary from such estimates, and such variances could be material.

Estimates with respect to proved reserves that may be developed and produced in the future are often based on volumetric calculations and by analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history, and subsequent evaluation of the same reserves, based on production history, will result in variations, which may be substantial, in the estimated reserves.

In accordance with applicable requirements of the Commission, the estimated discounted future net revenues from estimated proved reserves are based on 12 month average price calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12 month period prior. Actual future prices may be materially higher or lower. Actual future net revenues also will be affected by factors such as actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation o costs.

(2) The Estimated Discounted Future Net Revenues represents the Estimated Future Net Revenues before income taxes discounted at 10%. For calculating The Estimated Future Net Revenues and the Estimated Discounted Future Net Revenues, we used the base product price based on the 12 month average price calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12 month period prior to December 31, 2013. The oil price of \$96.78 per barrel is based on the West Texas Intermediate (WTI), Cushing, Oklahoma spot prices. The natural gas price of \$3.67 per MMBtu is based on the Henry Hub gas daily prices.

(3) Alta Mesa Holdings, LP and Manti Jamba, Ltd. separately operate the producing wells. The Company has no control over operations and maintains only a landowner's mineral royalty interest. Please see footnote (i) following the final paragraph of this letter for a warning concerning forward-looking information.

(4) The value of the proved reserves "Undiscounted, M\$" and "Discounted at 10%, M\$" includes a minimal amount of Oil and Condensate as well as Natural Gas Liquids.

Additionally, T.J. Smith & Company, Inc. completed a separate proved reserve study in which the final report estimates that B&L's proved reserves were approximately 9.0 billion cubic feet of natural gas (BCF) and approximately 215,000 barrels of oil as of December 31, 2013 which compares to 8.5 BCF of natural gas and 194,000 barrels of oil at the end of 2012. It should be noted that a significant component of B&L's proved reserves as of December 31, 2013 are Proved Undeveloped (PUD). As is necessary with all PUD reserves, a well or wells must be drilled and completed with the necessary infrastructure installed to fully develop the PUD reserves.

Beginning on October 1, 2008 the Company announced its initial stock repurchase plan to purchase up to 27,500 shares of our common stock. Since that time we have authorized the purchase of additional shares, thus bringing the total authorized amount of shares under the plan to 67,500. As of December 31, 2013 we have been successful in purchasing a total of 39,400 shares of common stock as authorized by our Board of Directors. We plan to continue to repurchase our common stock during 2014.

In 2012 the Company filed a claim with the BP Deepwater Horizon Economic and Property Damages Settlement Facility administered by Patrick Juneau for damages to and loss of its wetlands. During 2013, the Company received a partial settlement payment for its wetlands real property claim. We have been advised by our legal counsel that an additional limited recovery under the settlement is expected, but as of this time it is difficult to determine the timing and amount of the additional settlement, if any.

As previously reported, the Company has filed a claim against the US Army Corps of Engineers (USACE) for property damage and loss caused by the Mississippi River Gulf Outlet (MRGO). We are continuing to pursue this claim and will keep our shareholder advised as things progress.

B&L was organized as a limited liability Company (LLC) under the laws of Louisiana in July of 2006. B&L's Class A members are BLMC and Lake Eugenie Land & Development, Inc. (LKEU), which have membership percentages of 75% and 25% respectively. The Operating Agreement was amended on November 16, 2009 to create a Class B membership to allow for certain future projects at the discretion of the board of managers to be participated by either Class A or Class B members or a combination of the respective Classes. B&L's Class B members are BLMC and LKEU, which have membership percentages of 90% and 10%, respectfully. In December 2012, the members approved the consolidation of all the membership classes into a single class of membership, consistent with the Class A membership. All appropriate actions were taken according to the terms of the operating agreement with respect to the consolidation. Effective January 1, 2013, BLMC and LKEU have membership percentages of 75% and 25%, respectively.

During its meeting held on December 13, 2013, the Board of Directors declared a dividend of \$.55 per outstanding share of common stock payable on Friday, December 27, 2013 to shareholders of record at the close of business on Tuesday, December 24, 2013. This represents a total cash dividend payment of \$1,493,265 or \$.55 per share in 2013. Since 2002, the Company has paid approximately \$53,900,000 in total dividends. With the Company's fee land based production depleting and no new wells being drilled on its fee lands, it will be difficult to maintain the level of dividends paid since 2002. With this said, using 3D seismic data in its possession, the Company is constantly working on developing the minerals located below its fee lands. Meanwhile, the Company is focusing on developing reserves outside of its fee acreage and diversifying into oil production through its investment in B&L. In its current stage of growth and continued reinvestment in its successful drilling program and development of prospects, B&L should not be viewed as a dividend producing entity.

Please remember to visit our website, www.biloximarshlandscorp.com, to obtain general information about the Company as well as historical annual reports and all press releases. We strongly recommend that all interested parties become familiar with the information available on the Company's website: www.biloximarshlandscorp.com.

We are awaiting the flow test on FM O&G's Lomond North well with cautious optimism. In the event that this well flows natural gas and condensate at commercial rates from the Tuscaloosa sand interval, it could mean an increase in drilling activity throughout coastal Louisiana, including on the Company's fee lands. We are watching closely the significant draw down in natural gas storage and the current increase in natural gas pricing. In the event that natural gas pricing remains at higher levels and the Lomond North well produces at commercial rates, we intend to concentrate our efforts on marketing the deep gas prospects beneath the Company's fee lands, including Alpha and Beta prospects.

The combination of our approximately 90,000 acre fee land mineral position, approximately 30,000 acre Lago Verde mineral acreage position in south Texas, 5,000 acre Eugene Island Block 74 in offshore Louisiana waters, plus the over 56,000 acre Highlander project area in south central Louisiana in which B&L is contractually entitled to a 1.5% overriding royalty interest gives the Company and its shareholders exposure to opportunities which we have not seen in the past. We are hopeful that this diversity of mineral interest created by the Company's investment in B&L will ultimately lead to significant increase in shareholder value. The recent increase in the price of the company's common stock is hopefully the beginning of good things to come. Additionally, we are pleased that B&L's proved reserves have increased in both volume and value, despite the fact that B&L only participated in the drilling of one well during 2013. It should be noted that no reserves are assigned to the Lomond North well in B&L's proved reserve report.

We look forward to 2014 as an exciting and challenging year for our company.

Sincerely,



William B. Rudolf
President and Chief Executive Officer
Metairie, Louisiana
Email: wrbiloxi@gmail.comⁱ

ⁱ 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”, 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 and Schedule – Income Tax Basis

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

BILOXI MARSH LANDS CORPORATION

Table of Contents

	Page
Independent Auditors' Report	1
Statements of Assets, Liabilities, and Stockholders' Equity – Income Tax Basis	3
Statements of Revenues and Expenses – Income Tax Basis	4
Statements of Changes in Stockholders' Equity – Income Tax Basis	5
Statements of Cash Flows – Income Tax Basis	6
Notes to Financial Statements – Income Tax Basis	7
Schedule	
Schedule of Marketable Securities – December 31, 2013 and 2012	14



KPMG LLP
Suite 2900
909 Poydras Street
New Orleans, LA 70112

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, which comprise the statements of assets, liabilities, and stockholders' equity – income tax basis as of December 31, 2013 and 2012, 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 – income tax basis in accordance with the basis of accounting the Company uses for income tax purposes; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements – income tax basis 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 – income tax basis 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 – income tax basis are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements – income tax basis. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements – income tax basis, 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 – income tax basis 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 – income tax basis.

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 – income tax basis referred to above present fairly, in all material respects, the assets, liabilities, and stockholders' equity – income tax basis of Biloxi Marsh Lands Corporation as of December 31, 2013 and 2012, and its 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 in accordance with the basis of accounting the Company uses for income tax purposes described in note 1 (b).

Basis of Accounting

We draw attention to note 1 (b) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements – income tax basis as a whole. The supplementary information included in schedule 1 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.

KPMG LLP

New Orleans, Louisiana
March 7, 2014

BILOXI MARSH LANDS CORPORATION

Statements of Assets, Liabilities, and Stockholders' Equity – Income Tax Basis

December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 3,378,827	1,802,767
Accounts receivable	64,157	112,763
Accrued interest receivable	20,838	19,275
Prepaid expenses	38,967	36,113
Deferred tax asset	21,265	426,345
State income taxes receivable	—	177,850
Marketable debt securities – at cost	300,262	295,525
Other assets	3,830	3,830
Total current assets	3,828,146	2,874,468
Investment in partnership	4,131,060	2,571,253
Marketable debt and equity securities – at cost	8,202,631	9,173,122
Land	234,939	234,939
Levees and office furniture and equipment	314,943	307,323
Accumulated depreciation	(312,538)	(303,454)
Total assets	\$ 16,399,181	14,857,651
Liabilities and Stockholders' Equity		
Current liabilities:		
Income taxes payable	\$ 599,250	14,386
Accrued expenses	35,893	20,526
Other current liabilities	4,608	4,608
Total current liabilities	639,751	39,520
Stockholders' equity:		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,715,028 and 2,716,028 shares in 2013 and 2012, respectively	47,520	47,520
Retained earnings	16,169,535	15,212,071
Treasury stock, 136,168 and 135,168 shares in 2013 and 2012, respectively, at cost	(457,625)	(441,460)
Total stockholders' equity	15,759,430	14,818,131
Total liabilities and stockholders' equity	\$ 16,399,181	14,857,651

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Statements of Revenues and Expenses – Income Tax Basis

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Oil and gas royalties	\$ 614,690	553,326
Severance taxes	(28,501)	(30,767)
Oil and gas royalties, net	<u>586,189</u>	<u>522,559</u>
Surface rentals	<u>50,000</u>	<u>50,000</u>
Total oil and gas revenues	<u>636,189</u>	<u>572,559</u>
Other income (loss):		
Loss from investment in partnership	(1,740,193)	(714,604)
Dividends and interest income	164,275	199,024
Gain on settlement	3,189,681	—
Gain on sale of securities	2,072,125	23,630
Surface rentals	29,003	31,772
Other	24,600	85,916
Total other income (loss)	<u>3,739,491</u>	<u>(374,262)</u>
Total revenues and income	<u>4,375,680</u>	<u>198,297</u>
Expenses:		
Salaries	164,000	164,000
Bonuses	53,500	70,000
Payroll taxes	10,682	12,556
Employee benefits	16,287	24,047
Association dues	8,250	8,250
Accounting and auditing	73,600	90,333
Gas marketing fees	2,457	3,233
Consultants	79,284	53,070
Depreciation	9,084	5,025
Directors' fees	183,500	80,000
Franchise taxes	90,554	89,392
Insurance	108,903	107,629
Land management fees	57,570	46,531
Legal fees	9,768	16,937
Other	117,291	93,048
Portfolio services	75,192	70,925
Property taxes	23,827	18,382
Rent	32,265	29,725
Total expenses	<u>1,116,014</u>	<u>983,083</u>
Net income (loss) before income taxes	3,259,666	(784,786)
Income tax expense (benefit)	<u>808,937</u>	<u>(324,151)</u>
Net income (loss)	<u>\$ 2,450,729</u>	<u>(460,635)</u>
Net income (loss) per share	\$ 0.90	(0.17)

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Statements of Changes in Stockholders' Equity – Income Tax Basis

Years ended December 31, 2013 and 2012

	<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, 2011	2,851,196	\$ 47,520	(115,868)	\$ (245,413)	16,351,713	16,153,820
Net loss	—	—	—	—	(460,635)	(460,635)
Purchase of treasury shares	—	—	(19,300)	(196,047)	—	(196,047)
Dividends	—	—	—	—	(679,007)	(679,007)
Balance, December 31, 2012	2,851,196	47,520	(135,168)	(441,460)	15,212,071	14,818,131
Net income	—	—	—	—	2,450,729	2,450,729
Purchase of treasury shares	—	—	(1,000)	(16,165)	—	(16,165)
Dividends	—	—	—	—	(1,493,265)	(1,493,265)
Balance, December 31, 2013	<u>2,851,196</u>	<u>\$ 47,520</u>	<u>(136,168)</u>	<u>\$ (457,625)</u>	<u>16,169,535</u>	<u>15,759,430</u>

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows – Income Tax Basis

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows provided by operating activities:		
Net income (loss)	\$ 2,450,729	(460,635)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	9,084	5,025
Gain on sale of securities	(2,072,125)	(23,630)
Loss from investment in partnership	1,740,193	714,604
Deferred income taxes	405,080	387,462
Change in operating assets and liabilities:		
Accounts and interest receivable	47,043	36,728
Prepaid expenses	(2,854)	3,874
Income taxes receivable and payable	762,714	(133,168)
Accrued expenses	15,367	1,181
Other current liabilities	—	198
Net cash provided by operating activities	<u>3,355,231</u>	<u>531,639</u>
Cash flows from investing activities:		
Proceeds from the sale of securities	6,876,220	3,782,661
Purchase of securities	(3,838,341)	(2,898,017)
Purchase of office furniture and equipment	(7,620)	(8,894)
Investment in partnership	<u>(3,300,000)</u>	<u>(1,950,000)</u>
Net cash used in investing activities	<u>(269,741)</u>	<u>(1,074,250)</u>
Cash flows from financing activities:		
Treasury stock purchased	(16,165)	(196,047)
Dividends paid	<u>(1,493,265)</u>	<u>(679,007)</u>
Net cash used in financing activities	<u>(1,509,430)</u>	<u>(875,054)</u>
Net increase (decrease) in cash and cash equivalents	1,576,060	(1,417,665)
Cash and cash equivalents, beginning of year	<u>1,802,767</u>	<u>3,220,432</u>
Cash and cash equivalents, end of year	\$ <u><u>3,378,827</u></u>	\$ <u><u>1,802,767</u></u>
Supplemental cash flow information:		
Cash received for income taxes	\$ 314,853	570,434

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) *Nature of Operations*

Biloxi Marsh Lands Corporation (the Company) is a Delaware corporation whose principal assets are surface and mineral rights to approximately 90,000 acres of marsh land in St. Bernard Parish, Louisiana, which generates revenues primarily from mineral activities including lease bonuses, delay rentals, and royalties on oil and natural gas production. A study by an independent reservoir engineering firm estimates that the Company has proved reserves in natural gas associated with a portion of this property. These proved reserve estimates are not included in these financial statements – income tax basis.

As discussed in note 3, the Company owns an interest in B&L Exploration L.L.C. (B&L). B&L is engaged principally in the exploration for and development of oil and natural gas resources through various ownership interests in oil and natural gas properties located in Louisiana and Texas.

(b) *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.

(c) *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.

(d) *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 \$3,298,499 and \$1,749,643 of money market funds with an initial term of less than three months at December 31, 2013 and 2012, respectively.

(e) *Accounts Receivable*

Accounts receivable are recorded at invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by 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. The Company does not have any off-balance-sheet exposure related to its customers.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2013 and 2012

(f) *Investment Securities*

Investment securities at December 31, 2013 and 2012 consist of corporate debt and equity securities. The Company has the ability and intent to hold its investments in corporate bonds until maturity. The Company's investments in equity securities are available for sale. The Company does not buy and hold investment securities principally for the purpose of selling them in the near term.

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.

(g) *Land and Equipment*

Land and equipment are stated at cost. The Company had depreciation expense of \$9,084 and \$5,025 in 2013 and 2012, 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. Assets purchased totaling \$7,620 and \$8,894 in 2013 and 2012, respectively, were depreciated in the year the asset was put in service in accordance with the Internal Revenue Code (IRC) provisions.

(h) *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. Severance tax is remitted to the State of Louisiana and is reported as a reduction of oil and natural gas royalties in the statements of revenues and expenses – income tax basis.

(i) *Treasury Stock*

The Company follows the cost method of accounting for treasury stock transactions.

(j) *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 expense includes federal and state taxes currently 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

December 31, 2013 and 2012

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.

(k) Net Income per Share

Net income per share is calculated by dividing net income by the weighted average number of common stock outstanding during the period.

(l) 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.

(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, 2013 and 2012 were as follows:

	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
At December 31, 2013:				
Corporate bonds	\$ 1,464,367	103,034	—	1,567,401
Equity securities	7,038,526	5,551,065	(5,052)	12,584,539
	\$ 8,502,893	5,654,099	(5,052)	14,151,940
At December 31, 2012:				
Corporate bonds	\$ 1,462,102	137,986	—	1,600,088
Equity securities	8,006,545	3,285,878	(159,306)	11,133,117
	\$ 9,468,647	3,423,864	(159,306)	12,733,205

Maturities of corporate bonds were as follows at December 31, 2013:

	Cost basis	Fair value
Due within one year	\$ 300,262	303,178
Due after one through five years	1,164,105	1,264,223
	\$ 1,464,367	1,567,401

Cash proceeds from the sale of investment securities were \$6,876,220 and \$3,782,661 in 2013 and 2012, respectively. Realized cash gains from the sale of investment securities were \$2,072,125 and \$23,630 in 2013 and 2012, respectively. The Company had no investment securities with other-than-temporary declines in fair value at December 31, 2013.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2013 and 2012

(3) Investment in Partnership

The Company owns an interest in B&L, an oil and gas exploration business. B&L has commissioned a reserve study, which was completed by an independent reservoir engineering firm. This reserve study estimates that B&L has proved reserves in natural gas and oil attributable to its mineral properties. Additionally, B&L has various ownership interests in oil and gas properties on which wells are being drilled, completed or are yet to be drilled that are not included within the reserve estimates. The proved reserve estimates are not included in the table below summarizing financial information—income tax basis of B&L.

According to the operating agreement dated August 23, 2006, the Company owns a 75% interest in Class A membership of B&L. The remaining 25% interest in B&L is owned by Lake Eugenie Land & Development, Inc. The operating agreement was amended in 2009 to create a Class B membership to allow for certain future projects at the discretion of the board of managers to be participated by members of either Class A, Class B, or a combination of the respective Classes. The Company owned a 90% interest in Class B membership of B&L. The remaining 10% of Class B membership was owned by Lake Eugenie Land & Development, Inc.

In December of 2012, the B&L members agreed, effective January 1, 2013, to consolidate the membership classes into a single class of membership, consistent with the Class A membership of B&L. Beginning in January 1, 2013, the Company owns a 75% interest in B&L. The remaining 25% interest in B&L is owned by Lake Eugenie Land & Development, Inc. The members will participate in current and future projects based on their respective 75% and 25% ownership interests. The carrying amount of the investment in B&L was \$4,131,060 and \$2,571,253 at December 31, 2013 and 2012, respectively. Summary financial information – income tax basis of B&L as of and for the years ended December 31, 2013 and 2012 (on the income tax basis of accounting) is as follows:

Under the income tax method of accounting, the Company accounts for its membership percentage on the equity method whereby the Company recognizes its share of income and losses of the investment. The Company recognized \$1,740,193 and \$714,604 of losses in 2013 and 2012, respectively.

	2013	2012
Financial position – income tax basis:		
Current assets	\$ 3,362,551	2,535,542
Mineral properties and equipment, net	4,499,942	4,300,735
Total assets	\$ 7,862,493	6,836,277
Current liabilities	\$ 820,748	1,874,274
Total current liabilities	820,748	1,874,274
Members' equity	7,041,745	4,962,003
Total liabilities and members' equity	\$ 7,862,493	6,836,277

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2013 and 2012

	2013	2012
Results of operations – income tax basis:		
Revenues, net	\$ 2,630,421	3,875,100
Net loss	(2,320,258)	(893,619)

The Company is a co-guarantor of a \$7,500,000 revolving line of credit with a bank to be utilized by B&L. From time to time, B&L utilizes the credit facility during the ordinary course of its oil and gas operations, mainly to fund projects which B&L operates. The co-guarantee is allocated to the members based upon their respective membership Class percentages. As of December 31, 2013, the Company's guarantee is 75% of \$7,500,020 or \$5,625,020 which is consistent with its membership percentage. The line of credit expires November 26, 2015. Outstanding borrowings by B&L under the revolving line of credit were \$0 as of December 31, 2013 and 2012, respectively. Under the income tax basis of accounting, the estimated fair value of the Company's guarantee of B&L's revolving line of credit is not required to be recognized. As of December 31, 2013, 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:

	2013			2012		
	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ 330,151	313,143	643,294	(539,912)	307,698	(232,214)
State	73,706	91,937	165,643	(171,701)	79,764	(91,937)
Total income tax expense (benefit)	\$ 403,857	405,080	808,937	(711,613)	387,462	(324,151)

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) liabilities are as follows:

	2013	2012
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ (21,265)	(426,345)

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2013 and 2012

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:

	2013		2012	
Statutory rate	\$ 1,140,883	35.0%	(274,675)	35.0%
Percentage Depletion	(431,588)	(13.2)	—	—
State taxes provided	107,668	3.3	(91,937)	11.7
Effect of graduated rates	18,910	(0.6)	6,830	(0.9)
Other (net)	10,884	0.3	35,631	(4.5)
Effective tax rate	\$ 808,937	24.8%	(324,151)	41.3%

Management believes that it is more likely that not that the deferred tax assets will be realized through future operations and the reversal of other temporary differences.

Federal alternative minimum tax credits of \$21,265 have unlimited carryforward periods.

(5) Stockholders' Equity

(a) 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.

(b) 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, payable November 21, 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

December 31, 2013 and 2012

(c) Repurchase Plan

On September 26, 2008, the board of directors authorized the purchase of up to 27,500 shares of its outstanding common stock. On September 13, 2011, the board of directors authorized the additional purchase of 13,000 shares of its outstanding common stock. On April 24, 2013, the board of directors authorized the additional purchase of 27,000 shares of its outstanding common stock, thus bringing the total authorized amount of shares under the plan to 67,500. The purchases have been and will be made from time to time on the open market at the sole discretion of the Company. All shares purchased will be held as treasury stock. The authorization to purchase shares expires upon completion of the targeted goal. For the periods ended December 31, 2013 and 2012, the Company acquired shares of 1,000 and 19,300, respectively, to arrive at total cumulative shares repurchased under this plan of 39,400 and 38,400, respectively, as of December 31, 2013 and 2012.

(d) Dividends

The Company paid cash dividends on common stock of \$1,493,265 and \$679,007 in 2013 and 2012, respectively.

(6) Gain on Settlement

During 2013, the Company received a settlement payment for its wetlands real property claim under the Deepwater Horizon Economic and Property Damages Settlement Program. The Company received \$3,189,681, net of the Company's \$1,063,227 legal fees.

(7) 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.

(8) Subsequent Events

The Company has evaluated subsequent events from the statements of assets, liabilities, and stockholders' equity – income tax basis date through March 7, 2014, the date at which the financial statements – income tax basis were available to be issued, and determined there are no other items to disclose.

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2013 and 2012

Company description	2013				2012			
	Shares/ face value	Cost	Fair value	Unrealized gains (losses)	Shares/ face value	Cost	Fair value	Unrealized gains (losses)
Common stock:								
3 D Systems Corp	10,650	\$ 73,899	989,704	915,805	22,400	\$ 187,386	1,195,040	1,007,654
Apple Inc.	—	—	—	—	1,050	579,427	558,782	(20,645)
BE Aerospace, Inc.	12,000	435,208	1,044,360	609,152	15,400	558,742	760,760	202,018
Carnival Corp.	—	—	—	—	16,700	522,737	614,059	91,322
Conn's Inc.	15,000	430,525	1,180,350	749,825	—	—	—	—
Edwards Lifesciences Corp.	8,100	537,708	532,656	(5,052)	—	—	—	—
Endurance Specialty Holdings	13,200	520,489	774,444	253,955	13,200	520,489	523,908	3,419
EPIQ Systems Inc.	39,800	512,848	643,566	130,718	39,800	512,848	507,450	(5,398)
Euromet Worldwide, Inc.	11,200	209,337	535,920	326,583	31,000	579,415	731,600	152,185
Express Scripts Holding Co.	8,500	490,965	597,040	106,075	—	—	—	—
Flowers Foods, Inc.	37,000	490,482	794,390	303,908	28,000	556,763	651,560	94,797
Howard Hughes Corp.	6,000	502,693	720,600	217,907	—	—	—	—
Ion Geophysical Corp.	—	—	—	—	—	—	—	—
Luminex Corp.	30,000	401,570	582,000	180,430	85,000	654,171	553,350	(100,821)
NIC Inc.	—	—	—	—	30,000	401,570	503,955	102,385
Northern Oil and Gas, Inc.	—	—	—	—	46,100	546,561	753,274	206,713
Oasis Petroleum Inc.	19,000	625,304	892,430	267,126	19,800	365,478	333,036	(32,442)
Pool Corporation	15,000	346,714	872,100	525,386	—	—	—	—
Sanchez Energy Corp.	30,900	745,817	757,359	11,542	—	—	—	—
Smucker JM Co.	—	—	—	—	23,000	523,692	973,360	449,668
Varian Medical System Inc.	10,000	433,129	776,900	343,771	7,700	548,428	664,048	115,620
Visa, Inc.	4,000	281,838	890,720	608,882	10,000	433,129	702,400	269,271
Total common stock		7,038,526	12,584,539	5,546,013	7,300	515,709	1,106,535	590,826
Corporate bonds:								
BE Aerospace, Inc.	300,000	297,790	303,750	5,960	—	—	—	—
JPMorgan Chase & Co.	—	—	—	—	300,000	295,525	303,984	8,459
Wal-Mart Stores Inc.	300,000	300,262	303,178	2,916	300,000	300,262	311,786	11,524
Merck & Co Inc.	300,000	300,775	314,754	13,979	300,000	300,775	327,371	26,596
General Electric Capital Corp.	300,000	300,025	328,885	28,860	300,000	300,025	330,937	30,912
Whitney National Bank Sub NO	300,000	265,515	316,834	51,319	300,000	265,515	326,010	60,495
Total corporate bonds		1,464,367	1,567,401	103,034		1,462,102	1,600,088	137,986
Total marketable securities	\$	8,502,893	14,151,940	5,649,047	\$	9,468,647	12,733,205	3,264,558

See accompanying independent auditors' report.