

Biloxi Marsh Lands Corporation

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March 20, 2015

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, 2014. The annual revenue breakdown is as follows: 2014 revenue from oil and gas production from our fee lands was \$534,652 compared to revenue of \$636,189 in 2013.

Dividend and interest income for 2014 was \$202,819, compared to \$164,275 for 2013. In 2014, the Company realized a cumulative gain from the sale of investment securities of \$1,717,041 compared to a cumulative gain in the amount of \$2,072,125 in 2013. Meanwhile, for the year 2014, total revenues included a \$1,371,185 loss emanating from the Company's investment in B&L Exploration, LLC (B&L). This compares to a loss of \$1,740,193 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 exploration activities. Our share of these DD&A expenses was \$992,684 and \$927,415 for 2014 and 2013, respectively. Total revenues for 2014 were \$1,122,376 compared to \$4,351,080 during 2013. 2013 revenues included a non-recurring gain under the BP Deepwater Horizon Economic and Property Damages Settlement Program in the amount of \$3,189,681. Expenses for the year totaled \$945,848, slightly lower than the prior year's expenses of \$1,091,414.

For the year, the Company had net income of \$202,411 or \$.08 per share compared to net income of \$2,450,729 or \$.90 per share in 2013.

The 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, 2014 the Company's "Developed Producing" (PDP) reserves were .339 billion cubic feet of natural gas (BCFG) and 2,800 barrels of oil.

Please find the following table showing the Company's proved reserves as of December 31, 2014:

Proved Reserves as of December 31, 2014 (3)

	Developed Producing (PDP) (Dollars in thousands)
Net Proved Reserves (1)	
Natural Gas (BCF):	.339
Oil and Condensate, Net MBO:	2.8
Estimated Future Net Revenues (before income taxes) (2):	\$ 1,660 (4)
Estimated Discounted Future Net Revenues (before income taxes) (2):	\$ 1,205 (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.

Proved Reserves included herein conform to the definition as set forth in the Securities and Exchange Commission (SEC) Regulation, S-X Part 210.4-10 (a) as revised and adopted effective January 1, 2010. The future net revenues are those revenues attributable to the Company's interest in the underlying wells less severance taxes. The discounted future net revenue is based on a discount rate of 10 percent per annum. The forecasts assume that no changes in the current economic conditions, sales demand or costs will occur in the future. Estimates of future net revenues and discounted future net revenues are not intended and should not be interpreted to represent fair market values of the estimated reserves.

PDP reserves were estimated for each producing well based on extrapolation of the historical producing trend.

(2) Base product prices were determined 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, 2014. The oil price of \$94.99 per barrel is based on the West Texas Intermediate (WTI), Cushing, Oklahoma spot prices. The natural gas price of \$4.35 per MMBtu is based on the Henry Hub gas daily prices. Price differentials were applied as appropriate to adjust these base prices of oil and gas to the specific field market situation.

(3) 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.

We caution our shareholders and interested parties that the December 31, 2014 SEC prices used in the foregoing proved reserve report are significantly higher than the current price of oil and natural gas.

As of December 31, 2014, the combined gross daily production rate from 8 wells operated by our mineral lessees was approximately 3.679 million cubic feet of natural gas (mmcfg) and 157 barrels of oil per day (BOPD) with net daily production accruing to the Company of approximately .435 mmcfg and 3 BOPD. The foregoing production includes four wells producing from S/L 16158 in which we own a small interest.

As previously reported, we received a settlement payment during 2013 for our wetlands real property claim under the BP Deepwater Horizon Economic and Property Damages Settlement Program. We have been advised by our legal counsel that an additional limited recovery under the settlement may be expected, but as of this time it is difficult to determine the timing and amount of the additional settlement, if any.

In June 2014, we announced the completion of our stock buyback program with the acquisition of a total of 67,500 shares of our common stock since the inception of the program in September 2008. During the course of completing the buyback program, the opportunity to purchase additional shares of common stock presented itself. We successfully negotiated the purchase of an additional 151,900 shares in two separate private transactions. Since September of 2008, the total number of shares purchased by the Company as treasury stock is 219,400. We paid an average price of \$12.62 for these shares of common stock since the inception of the buyback program. As of the time of this press release, we are not actively seeking to repurchase any additional shares of our common stock.

The Company continues to pursue a claim for damages against the US Army Corps of Engineers for property loss and damage related to the Mississippi River Gulf Outlet (MRGO).

Meanwhile, another reserve study completed by T. J. Smith & Company, Inc. estimates that B&L's proved reserves as of December 31, 2014 were approximately 9.4 BCFG and approximately 197 thousand barrels of oil (MBBL) which compared to 9.0 BCFG and 215 MBBL as of December 31, 2013. It should be noted that a significant component of B&L's proved reserves as of December 31, 2014 are Proved Undeveloped (PUD). As is necessary with all PUD reserves, a well or wells must be drilled and completed to fully develop these PUD reserves. The foregoing reserves do not include any reserves attributable to FM O&G's Highlander Area Well in which B&L is contractually entitled to a 1.5% ORRI.

Additionally, as of December 31, 2014, B&L's gross daily production was approximately 4.655 mmcfg and 336 barrels of oil from 7 wells with 1.685 mmcfg and 43 barrels of oil per day accruing to B&L.

Freeport-McMoRan Inc. (NYSE: FCX) announced on March 16, 2015 "that following production testing on Freeport-McMoRan Oil & Gas' (FM O&G) Highlander discovery, located onshore in South

Louisiana in the Inboard Lower Tertiary/Cretaceous trend, independent reserve engineers provided estimates of proved reserves totaling approximately 38 billion cubic feet (Bcf) of natural gas” “associated with the initial well. Independent reserve engineers estimates of proved, probable and possible reserves for the initial well totaled approximately 197 Bcf of natural gas. In addition, based on work performed to date, independent reserve engineers estimate additional gross resources for the Highlander field exceeding 2 trillion cubic feet (Tcf).

As previously reported, the February 2015 production test, which was performed in the Cretaceous/Tuscaloosa section, utilized expanded testing equipment and indicated a flow rate of approximately 75 million cubic feet of natural gas per day (MMcf/d), approximately 37 MMcf/d”... “on a 42/64th choke with flowing tubing pressure of 10,300 pounds per square inch. FM O&G commenced production in late February 2015. FM O&G plans to install additional amine processing facilities to accommodate the higher rates.

A second well location has been identified and future plans will be determined pending review of performance of the first well. FM O&G has identified multiple prospects in the Highlander area which provide opportunities for future development of the field. FM O&G controls rights to more than 50,000 gross acres.

The Highlander discovery well was drilled to a total depth of approximately 29,400 feet in the first of quarter 2014. Wireline log and core data obtained from the Wilcox and Cretaceous sand packages indicated favorable reservoir characteristics with approximately 150 feet of net pay.”

B&L has been assigned and is contractually entitled to a 1.5% of 8/8ths overriding royalty interest (ORRI) in the Lomond North/Highlander 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. This means that 1.5% of the foregoing reserves estimate by FM O&G’s independent reservoir engineers would accrue to B&L if and when the Highlander field is fully developed by FM O&G.

B&L completed construction of production facilities and the flowline for the Welder No. 1 well and placed the well on production December 12, 2014. As of March 18, 2015, the Welder No. 1 well had gross production of approximately 1.52 mmcfg and 8 BOPD. B&L has 100% working interest in the Welder No. 1 well. B&L’s management is pleased with the production rates on B&L’s Welder No. 1 well which are better than anticipated. Due to the decline in commodity prices during the fourth quarter of 2014, B&L’s management is reevaluating each of its drilling projects. B&L’s management believes that in the event of additional discoveries in the Lago Verde project area each well should continue to be economically viable due to the relatively shallow target depths and lower costs of drilling. While commencement of drilling may be delayed to allow B&L to take advantage of declining drilling costs, B&L’s management anticipates that additional prospects in the Lago Verde project area will be drilled during 2015.

As previously reported, B&L assembled a mineral lease position in Allen and Beauregard Parishes, Louisiana, targeting the Wilcox sand interval which has been a historically prolific oil producing interval in this area using conventional well completion techniques. Based on technical information, B&L believes that reservoir stimulation using hydraulic fracturing could result in the discovery and production of significant oil reserves that were not accessible in the past using conventional well completion techniques. To assist in development of this Wilcox project, B&L placed the majority of the working interest with Petro Harvester Oil & Gas LLC, headquartered in Plano, Texas. Petro Harvester has experience in drilling and stimulating Wilcox wells in neighboring parishes. B&L retained a 15.75% working interest in the Wilcox project. This project is currently being reevaluated by B&L’s management in the context of the current lower oil price environment.

B&L was organized as a limited liability Company (LLC) under the laws of Louisiana in July of 2006. B&L’s members are the Company and Lake Eugenie Land & Development, Inc. (LKEU), which have membership percentages of 75% and 25%, respectively.

During its meeting held on December 11, 2014, the Board of Directors declared a dividend of \$.40 per outstanding share of common stock payable on Tuesday, December 30, 2014 to shareholders of record at the close of business on Monday, December 22, 2014. This represents a total cash dividend payment of \$1,014,011 or \$.40 per share in 2014. Since 2002, we have paid approximately \$54,905,000 in total dividends. With our fee land based production depleting and no new meaningful wells being drilled on our fee lands, it will be difficult to maintain the level of dividends paid since 2002.

With this said, using 3D seismic data in our possession and other means, we are constantly working on developing the minerals located below our fee lands. One important step taken is joining a consortium of oil companies which retained the University of Texas Bureau of Economic Geology (BEG) to evaluate and quantify chlorite coating on cores taken from the Woodbine and Tuscaloosa sand intervals throughout south Texas and Louisiana, including the ARCO - Biloxi Marsh Land P-2 well which was drilled on the Company's property during the early 1980s and penetrated the Tuscaloosa sand interval. The results of the BEG's study indicate significant preserved porosity and permeability in the P-2 well's conventional cores due to chlorite coating of the Tuscaloosa sand grains and the presence of reservoir bitumen in the Tuscaloosa sand interval. This could prove to be significant as we move forward with our attempts to have the conventional Tuscaloosa sand interval further tested and developed beneath our fee lands. Meanwhile, we are focusing on developing reserves outside of our fee acreage through our investment in B&L. In its current stage of growth and continued reinvestment in its drilling program, 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.

The announcement by FM O&G concerning the flow tests of its Lomond North/Highlander discovery well and the reserves attributable to the well and the field are very encouraging. We are not aware of the well's current production rates or FM O&G's development plans beyond information that has been made public, but if the Highlander area is successfully developed with multiple wells, over time the Highlander area could be very significant to B&L. The fact that the Lomond North/Highlander well has been flow tested at high commercial rates from the Tuscaloosa sand interval outside of the traditional "Tuscaloosa Trend" could possibly mean an increase in future drilling activity throughout coastal Louisiana, including on the Company's fee lands. As stated earlier, we are taking various steps to further understand the potential for exploration and development of the Tuscaloosa sand interval beneath our fee lands. 2015 will prove to be a challenging year due to lower commodity prices. With a strong balance sheet, no debt and significant proved reserves from our investment in B&L, we are positioned favorably for the upcoming year.

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", "possibly" and "anticipates" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.



BILOXI MARSH LANDS CORPORATION

Financial Statements and Schedule – Income Tax Basis

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

BILOXI MARSH LANDS CORPORATION

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KPMG LLP
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909 Poydras Street
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Independent Auditors' Report

The Board of Directors
Biloxi Marsh Lands Corporation:

We have audited the accompanying financial statements – income tax basis of Biloxi Marsh Lands Corporation, which comprise the statements of assets, liabilities, and stockholders' equity – income tax basis as of December 31, 2014 and 2013, and the related statements of revenues and expenses – income tax basis, changes in stockholders' equity – income tax basis, and cash flows – income tax basis for the years then ended, and the related notes to the financial statements – income tax basis.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and stockholders' equity of Biloxi Marsh Lands Corporation as of December 31, 2014 and 2013, and its statements of revenues and expenses, changes in stockholders' equity, and cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes 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.

Emphasis of Matter

As described in note 1(b), because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported in the accompanying financial statements – income tax basis may be subject to change at a later date upon final determination by the taxing authorities. Our opinion is not modified with respect to this matter.

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 6, 2015

BILOXI MARSH LANDS CORPORATION

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

December 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 2,815,481	3,378,827
Accounts receivable	114,739	64,157
Accrued interest receivable	20,310	20,838
Prepaid expenses	40,867	38,967
Deferred tax asset	60,379	21,265
Federal income taxes receivable	10,017	—
State income taxes receivable	13,674	—
Marketable debt securities – at cost	300,775	300,262
Other assets	3,830	3,830
Total current assets	<u>3,380,072</u>	<u>3,828,146</u>
Investment in partnership	2,759,875	4,131,060
Marketable debt and equity securities – at cost	6,175,836	8,202,631
Land - at cost	234,939	234,939
Geological and geophysical costs - fee lands, net of amortization	45,511	—
Levees and office furniture and equipment	314,943	314,943
Accumulated depreciation	<u>(313,440)</u>	<u>(312,538)</u>
Total assets	<u><u>\$ 12,597,736</u></u>	<u><u>16,399,181</u></u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Income taxes payable	\$ —	599,250
Accrued expenses	34,906	35,893
Other current liabilities	—	4,608
Total current liabilities	<u>34,906</u>	<u>639,751</u>
Stockholders' equity:		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,535,028 and 2,715,028 shares in 2014 and 2013, respectively	47,520	47,520
Retained earnings	15,357,935	16,169,535
Treasury stock, 316,168 and 136,168 shares in 2014 and 2013, respectively, at cost	<u>(2,842,625)</u>	<u>(457,625)</u>
Total stockholders' equity	<u>12,562,830</u>	<u>15,759,430</u>
Total liabilities and stockholders' equity	<u><u>\$ 12,597,736</u></u>	<u><u>16,399,181</u></u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Oil and gas royalties	\$ 508,205	614,690
Severance taxes	<u>(23,553)</u>	<u>(28,501)</u>
Oil and gas royalties, net	484,652	586,189
Surface rentals	<u>50,000</u>	<u>50,000</u>
Total oil and gas revenues	<u>534,652</u>	<u>636,189</u>
Other income (loss):		
Loss from investment in partnership	(1,371,185)	(1,740,193)
Dividends and interest income	202,819	164,275
Gain on settlement	—	3,189,681
Gain on sale of securities	1,717,041	2,072,125
Surface rentals	<u>39,049</u>	<u>29,003</u>
Total other income	<u>587,724</u>	<u>3,714,891</u>
Total revenues and income	<u>1,122,376</u>	<u>4,351,080</u>
Expenses:		
Salaries	164,000	164,000
Bonuses	45,500	53,500
Payroll taxes	10,524	10,682
Employee benefits	12,390	16,287
Association dues	8,320	8,250
Accounting and auditing	65,600	73,600
Consultants	42,402	79,284
Amortization - geological and geophysical costs - fee lands	15,171	—
Depreciation	902	9,084
Directors' fees	89,950	183,500
Franchise taxes	104,943	90,554
Insurance	115,694	108,903
Fee land management	56,695	66,670
Legal fees	13,963	9,768
Other	56,435	62,703
Portfolio services	67,339	75,192
Property taxes	23,487	23,827
Rent	40,199	39,044
Shareholder relations	<u>12,334</u>	<u>16,566</u>
Total expenses	<u>945,848</u>	<u>1,091,414</u>
Net income before income taxes	176,528	3,259,666
Income tax (benefit) expense	<u>(25,883)</u>	<u>808,937</u>
Net income	<u>\$ 202,411</u>	<u>2,450,729</u>
Net income per share	\$ 0.08	0.90

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, 2014 and 2013

	Common stock		Treasury stock		Retained earnings	Total
	Shares	Amount	Shares	Amount		
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	2,851,196	47,520	(136,168)	(457,625)	16,169,535	15,759,430
Net income	—	—	—	—	202,411	202,411
Purchase of treasury shares	—	—	(180,000)	(2,385,000)	—	(2,385,000)
Dividends	—	—	—	—	(1,014,011)	(1,014,011)
Balance, December 31, 2014	2,851,196	\$ 47,520	(316,168)	\$ (2,842,625)	15,357,935	12,562,830

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows – Income Tax Basis

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows provided by operating activities:		
Net income	\$ 202,411	2,450,729
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	902	9,084
Amortization - geological and geophysical costs - fee lands	15,171	—
Gain on sale of securities	(1,717,041)	(2,072,125)
Loss from investment in partnership	1,371,185	1,740,193
Deferred income tax (benefit) expense	(39,114)	405,080
Change in operating assets and liabilities:		
Accounts and interest receivable	(50,054)	47,043
Prepaid expenses	(1,900)	(2,854)
Income taxes receivable and payable	(622,941)	762,714
Accrued expenses	(987)	15,367
Other current liabilities	(4,608)	—
Net cash (used in) provided by operating activities	<u>(846,976)</u>	<u>3,355,231</u>
Cash flows from investing activities:		
Proceeds from the sale of securities	6,436,991	6,876,220
Purchase of securities	(2,693,668)	(3,838,341)
Purchase of office furniture and equipment	—	(7,620)
Investment in partnership	—	(3,300,000)
Geological and geophysical costs	(60,682)	—
Net cash provided by (used in) investing activities	<u>3,682,641</u>	<u>(269,741)</u>
Cash flows from financing activities:		
Treasury stock purchased	(2,385,000)	(16,165)
Dividends paid	(1,014,011)	(1,493,265)
Net cash used in financing activities	<u>(3,399,011)</u>	<u>(1,509,430)</u>
Net (decrease) increase in cash and cash equivalents	(563,346)	1,576,060
Cash and cash equivalents, beginning of year	<u>3,378,827</u>	<u>1,802,767</u>
Cash and cash equivalents, end of year	\$ <u>2,815,481</u>	<u>3,378,827</u>
Supplemental cash flow information:		
Cash (paid) received for income taxes	\$ (683,000)	314,853

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

(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 \$2,739,016 and \$3,298,499 of money market funds with an initial term of less than three months at December 31, 2014 and 2013, 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 (used in) provided by operating activities in the statements of cash flows – income tax basis. Account balances are charged off after all means of collection have

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

been exhausted and the potential for recovery is remote. The Company does not have any off-balance-sheet exposure related to its customers.

(f) *Investment Securities*

Investment securities at December 31, 2014 and 2013 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 \$902 and \$9,084 in 2014 and 2013, 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 in 2013 were depreciated in the year the asset was put in service in accordance with the Internal Revenue Code (IRC) provisions. Capitalized geological and geophysical costs are amortized over a 24 month period.

(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

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Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Under the income tax basis of accounting, the Company does not recognize a liability for uncertain tax positions until agreement and settlement is reached with the taxing authority.

(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.

(m) Reclassifications

The Company has reclassified certain prior year information to conform to the amounts presented in the current year. None of the changes impact the Company's previously reported financial position or results of operations.

(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, 2014 and 2013 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2014:				
Corporate bonds	\$ 1,167,080	69,125	(48,390)	1,187,815
Equity securities	5,309,531	2,584,435	(73,145)	7,820,821
	<u>\$ 6,476,611</u>	<u>2,653,560</u>	<u>(121,535)</u>	<u>9,008,636</u>
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
	<u>\$ 8,502,893</u>	<u>5,654,099</u>	<u>(5,052)</u>	<u>14,151,940</u>

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Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

Maturities of corporate bonds were as follows at December 31, 2014:

	<u>Cost basis</u>	<u>Fair value</u>
Due within one year	\$ 300,775	301,985
Due after one through five years	866,305	885,550
	<u>\$ 1,167,080</u>	<u>1,187,535</u>

Cash proceeds from the sale of investment securities were \$6,436,991 and \$6,876,220 in 2014 and 2013, respectively. Realized cash gains from the sale of investment securities were \$1,717,041 and \$2,072,125 in 2014 and 2013, respectively. The Company had no investment securities with other-than-temporary declines in fair value at December 31, 2014.

(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.

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 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 \$2,759,875 and \$4,131,060 at December 31, 2014 and 2013, respectively.

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 net losses of \$1,371,185 and \$1,740,193 in 2014 and 2013, respectively. The losses included net reductions in costs of \$479,120 and \$0 in 2014 and 2013, respectively, representing intangible drilling costs that the Company elected to capitalize. The capitalized costs will be amortized over a period of 60 months.

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Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

Summary financial information – income tax basis of B&L as of and for the years ended December 31, 2014 and 2013 (on the income tax basis of accounting) is as follows:

	<u>2014</u>	<u>2013</u>
Financial position – income tax basis:		
Current assets	\$ 1,649,130	3,362,551
Mineral properties and equipment, net	<u>3,842,769</u>	<u>4,499,942</u>
Total assets	<u>\$ 5,491,899</u>	<u>7,862,493</u>
Current liabilities	<u>\$ 917,227</u>	<u>820,748</u>
Total current liabilities	917,227	820,748
Members' equity	<u>4,574,672</u>	<u>7,041,745</u>
Total liabilities and members' equity	<u>\$ 5,491,899</u>	<u>7,862,493</u>
Results of operations – income tax basis:		
Revenues, net	\$ 2,980,174	2,630,421
Net loss	(2,467,073)	(2,320,258)

The Company is a coguarantor 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 coguarantee is allocated to the members based upon their respective membership Class percentages. As of December 31, 2014, the Company's guarantee is 75% of \$7,500,000 or \$5,625,000, 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, 2014 and 2013. 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, 2014, there are no indications that the Company will be required to perform under the terms of the guarantee.

(4) Income Taxes

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

	<u>2014</u>			<u>2013</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 13,231	(14,366)	(1,135)	330,151	313,143	643,294
State	<u>—</u>	<u>(24,748)</u>	<u>(24,748)</u>	<u>73,706</u>	<u>91,937</u>	<u>165,643</u>
Total income tax expense (benefit)	<u>\$ 13,231</u>	<u>(39,114)</u>	<u>(25,883)</u>	<u>403,857</u>	<u>405,080</u>	<u>808,937</u>

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

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

income tax purposes of unused net operating losses and tax credits. The primary components of deferred tax assets are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ (60,379)	(21,265)

Nontaxable revenues and nondeductible expenses may result in reporting net income for tax basis financial statements that differs from taxable income reported on the tax return. The reconciliation of U.S. federal statutory and effective income tax rates is shown below:

	<u>2014</u>		<u>2013</u>	
Statutory rate	\$ 61,785	35.0%	1,140,883	35.0%
Percentage depletion	(39,488)	(22.4)	(431,588)	(13.2)
State taxes provided	(24,748)	(14.0)	107,668	3.3
Effect of graduated rates	33	0.1	(18,910)	(0.6)
Other (net)	(23,465)	(13.4)	10,884	0.3
Effective tax rate	\$ <u>(25,883)</u>	<u>(14.7)%</u>	<u>808,937</u>	<u>24.8%</u>

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 \$34,497 have unlimited carryforward periods.

Net operating loss (NOL) carryforwards outstanding of \$3,339 federal and \$309,345 state as of December 31, 2014 expire in 2034 and 2029, respectively.

(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.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

(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. 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.

(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 made from time to time on the open market at the sole discretion of the Company. All shares purchased are held as treasury stock. The authorization to purchase shares expired during 2014 upon completion of the targeted goal of 67,500 shares. For the periods ended December 31, 2014 and 2013, the Company acquired shares of 28,100 and 1,000, respectively, to arrive at total cumulative shares repurchased under this plan of 67,500 and 39,400, respectively, as of December 31, 2014 and 2013.

Additionally, the Company successfully negotiated and the board of directors authorized the purchase of an additional 151,900 shares in two separate private transactions in 2014.

(d) *Dividends*

The Company paid cash dividends on common stock of \$1,014,011 and \$1,493,265 in 2014 and 2013, respectively.

(6) *Commitments and Contingencies*

From time to time, the Company is involved in legal actions to defend title to its property. In the opinion of management, these matters are necessary to protect the Company's interests and the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2014 and 2013

(7) Subsequent Events

The Company has evaluated subsequent events from the statements of assets, liabilities, and stockholders' equity – income tax basis date through March 6, 2015, 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, 2014 and 2013

Company description	2014				2013			
	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	\$	350,065	276,166	10,650	\$	989,704	915,805
Apple Inc.	3,600	399,327	397,368	(1,959)	—	—	—	—
BE Aerospace, Inc.	5,300	137,592	307,506	169,914	12,000	435,208	1,044,360	609,152
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
EPIQ Systems Inc.	39,800	512,848	679,784	166,936	39,800	512,848	643,566	130,718
Everbank Financial Corp.	8,300	155,134	455,670	300,536	11,200	209,337	535,920	326,583
Express Scripts Holding Co.	28,900	529,832	550,834	21,002	—	—	—	—
Flowers Foods, Inc.	30,000	397,688	431,817	127,996	8,500	490,965	597,040	106,075
Howard Hughes Corp.	2,830	237,104	369,089	178,012	37,000	490,482	794,390	303,908
KLX Inc.	2,650	54,181	109,312	131,985	6,000	502,693	720,600	217,907
LKQ Corp.	19,800	533,562	556,776	55,131	—	—	—	—
Luminex Corp.	30,000	401,570	562,800	23,214	—	—	—	—
Oasis Petroleum Inc.	—	—	—	161,230	30,000	401,570	582,000	180,430
Pinnacle Foods Inc.	11,600	379,698	409,480	29,782	19,000	625,304	892,430	267,126
Pool Corporation	10,000	236,102	634,400	398,298	—	—	—	—
Sanchez Energy Corp.	—	—	—	—	15,000	346,714	872,100	525,386
Sothebys	11,100	550,484	479,298	(71,186)	30,900	745,817	757,359	11,542
Varian Medical System Inc.	4,900	265,881	423,899	158,018	—	—	—	—
Visa, Inc.	2,010	140,808	527,023	386,215	10,000	433,129	776,900	343,771
Total common stock		5,309,531	7,820,821	2,511,290	4,000	281,838	890,720	608,882
Corporate bonds:						7,038,526	12,584,539	5,546,013
BE Aerospace, Inc.	—	—	—	—	300,000	297,790	303,750	5,960
General Electric Capital Corp.	300,000	300,025	319,675	19,650	300,000	300,025	328,885	28,860
Merck & Co Inc.	300,000	300,775	301,986	1,211	300,000	300,775	314,754	13,979
PHI Inc.	300,000	300,765	252,375	(48,390)	—	—	—	—
Wal-Mart Stores Inc.	—	—	—	—	300,000	300,262	303,178	2,916
Whitney National Bank Sub NO	300,000	265,515	313,779	48,264	300,000	265,515	316,834	51,319
Total corporate bonds		1,167,080	1,187,815	20,735		1,464,367	1,567,401	103,034
Total marketable securities		\$ 6,476,611	\$ 9,008,636	\$ 2,532,025		\$ 8,502,893	\$ 14,151,940	\$ 5,649,047

See accompanying independent auditors' report.