

Biloxi Marsh Lands Corporation

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March 25, 2016

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, 2015. The annual revenue breakdown is as follows: 2015 revenue from oil and gas production from our fee lands was \$285,136 compared to revenue of \$558,205 in 2014.

Dividend and interest income for 2015 was \$147,311, compared to \$202,819 for 2014. In 2015, the Company realized a cumulative gain from the sale of investment securities of \$2,195,981 compared to a cumulative gain in the amount of \$1,717,041 in 2014. Total revenues for 2015 were \$989,665 compared to \$1,145,929 during 2014. For the year 2015, total revenues were reduced by \$1,682,847 from the Company's investment in B&L Exploration, LLC (B&L). This compares to a reduction in revenues of \$1,371,185 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 and production activities. BLMC's share of these DD&A expenses was \$809,513 and \$992,684 for 2015 and 2014, respectively. Expenses for the year totaled \$932,941, slightly lower than the prior year's expenses of \$969,401.

For the year, the Company had net income of \$66,419 or \$.03 per share compared to net income of \$202,411 or \$.08 per share in 2014.

The end of the year proved reserve study commissioned by the Company and completed by an independent reservoir engineering firm estimates that as of December 31, 2015 the Company's "Developed Producing" (PDP) reserves were .067 billion cubic feet of natural gas (Bcfg) and 700 barrels of oil.

Please find the following table showing the Company's proved reserves as of December 31, 2015:

Proved Reserves as of December 31, 2015 (3)

	Developed Producing (PDP) (Dollars in thousands)
Net Proved Reserves (1)	
Natural Gas (Bcfg):	.067
Oil and Condensate, Net MBO:	.7
Estimated Future Net Revenues (before income taxes) (2):	\$ 174.9 (4)
Estimated Discounted Future Net Revenues (before income taxes) (2):	\$ 152.8 (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, 2015. The oil price of \$50.28 per barrel is based on the West Texas Intermediate (WTI), Cushing, Oklahoma spot prices. The natural gas price of \$2.58 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*.

As of December 31, 2015, the combined gross daily production rate from 7 wells operated by our mineral lessees was approximately 1.638 million cubic feet of natural gas (Mmcf) and 109 barrels of oil per day (BOPD) with net daily production accruing to the Company of approximately .264 Mmcf and 2 BOPD. The foregoing production includes four wells producing from S/L 16158 in which we own a small interest.

In June 2014, the Company announced the completion of its previously announced stock buyback program. On December 14, 2015, the board of directors authorized the additional purchase of up to 30,000 shares of its common stock. The purchases 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.

As previously reported, the Company has filed a claim against the US Army Corps of Engineers (USACE) for property damages and losses caused by the Mississippi River Gulf Outlet (MR-GO). While favorable rulings have been recently rendered in similar cases, it is anticipated that this litigation against the federal government will be a long process. We will continue to aggressively pursue this claim and will keep our shareholders advised as things progress.

Two separate reserve studies have been completed by independent reservoir engineering firms which estimate that B&L's proved reserves as of December 31, 2015 were approximately 10.0 Bcfg, approximately 184 thousand barrels of oil (Mbbbl) and approximately 5,500 Mbbbl of natural gas liquids which compared to 9.4 Bcfg and 197 Mbbbl of oil as of December 31, 2014. It should be noted that a significant component of B&L's proved reserves as of December 31, 2015 are Proved Undeveloped (PUD) attributed to B&L's leasehold interest in a federal offshore block located in shallow water on the intercontinental shelf. As is necessary with all PUD reserves, a well or wells must be drilled and completed to fully develop these PUD reserves prior to the expiration of this leasehold interest.

Additionally, as of December 31, 2015, B&L's gross daily production was approximately 48.22 Mmcf and 234 barrels of oil from 7 wells with 2.15 Mmcf and 32 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 its January 26, 2016 news release announced "*during November 2015, FM O&G completed the installation of additional processing facilities to accommodate higher flow rates from the Highlander well. In December 2015, gross rates from the Highlander well averaged approximately 44*

MMcf per day.”

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

B&L completed construction of production facilities and flowline for the Welder No. 3 well and placed the well on production November 25, 2015. As of March 2016, the Welder No. 3 well continues to produce natural gas, condensate and natural gas liquids at commercial rates. B&L plans to take steps to rework the Welder No. 3 in an attempt to increase flow rates during the second quarter of 2016. B&L has a 62.5% working interest in the Welder No. 3 well.

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 14, 2015, the board of directors declared a dividend of \$.125 per outstanding share of common stock payable on Wednesday, December 30, 2015 to shareholders of record at the close of business on Thursday, December 24, 2015. This represents a total cash dividend payment of \$316,879 or \$.125 per share in 2015. Since 2002, we have paid approximately \$55,223,000 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.

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.

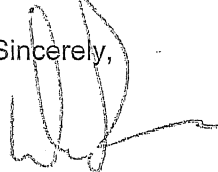
While B&L's management continues to be pleased with its net production volumes and the results from its Lago Verde Project, it is keenly aware that the current lower level of commodity prices, particularly natural gas, creates challenges. Tracking and understanding commodity prices is obviously a major component of B&L's management strategy on a going forward basis. Accordingly, B&L has significantly reduced the number of wells scheduled to be drilled in its drilling program and is adjusting its focus to lower cost or higher volume opportunities. Lower commodity prices decrease revenues from each well, but conversely create opportunities to drill and develop project areas at significantly lower costs due to the fact that the cost of drilling and related services have seen a thirty to forty percent decline since the price of oil was at its peak in 2014. B&L's management also believes that in time a window will open during which costs remain lower, but commodity prices will rise in the near to midterm. B&L management's goal and challenge is to correctly identify this window and take advantage of it.

B&L plans to take actions to increase production from the Welder No. 3. If these actions are successful, it could create an opportunity to drill additional wells to fully develop the reservoir discovered by the Welder No. 3. In November 2015, FM O&G completed the installation of additional processing facilities to accommodate higher flow rates from the Highlander well. In December 2015, gross rates from the Highlander well averaged approximately 44 MMcf per day. Due to its role in development of the Highlander prospect, B&L is fully aware of the magnitude of the Highlander discovery which, in its opinion, is truly a world class discovery. Conversely, B&L's management is also aware of the financial challenges which FM O&G is currently experiencing. B&L's management is actively developing potential strategies designed to protect its interest within the Highlander Area. While development of the Company's core minerals located

beneath our fee lands continues to prove difficult, we believe the Company will be well positioned to take advantage of improvement in natural gas pricing, if and when this improvement occurs.

2016 will again prove to be a challenging year due to continued low commodity prices. With a strong balance sheet, no debt and significant proved reserves from our investment in B&L, we continued to be well positioned for the upcoming year.

Sincerely,



William B. Rudolf
President and Chief Executive Officer
Metairie, Louisiana
Email: wrbiloxi@gmail.com¹

¹ This letter contains forward-looking statements regarding oil and gas discoveries, oil and gas exploration, development and production activities and reserves. Accuracy of the forward-looking statements depends on assumptions about events that change over time and is thus susceptible to periodic change based on actual experience and new developments. The Company cautions readers that it assumes no obligation to update or publicly release any revisions to the forward-looking statements in this report. Important factors that might cause future results to differ from these forward-looking statements include: variations in the market prices of oil and natural gas; drilling results; unanticipated fluctuations in flow rates of producing wells; oil and natural gas reserves expectations; the ability to satisfy future cash obligations and environmental costs; additional drilling, and general exploration and development risks and hazards. Readers are cautioned not to place undue reliance on forward-looking statements made by or on behalf of the Company. Each such statement speaks only as of the day it was made. The factors described above cannot be controlled by the Company. When used in this report, the words "hopeful", "believes", "estimates", "plans", "expects", "could", "should", "outlook", "possibly" and "anticipates" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.



BILOXI MARSH LANDS CORPORATION

Financial Statements and Schedule – Income Tax Basis

December 31, 2015 and 2014

(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, 2015 and 2014, 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, 2015 and 2014, and its revenues and expenses, changes in stockholders' equity, and cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes 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 9, 2016

BILOXI MARSH LANDS CORPORATION

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

December 31, 2015 and 2014

Assets	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 2,584,889	2,815,481
Accounts receivable	22,036	114,739
Accrued interest receivable	17,565	20,310
Prepaid expenses	39,043	40,867
Deferred tax asset	53,150	60,379
Federal income taxes receivable	7,195	10,017
State income taxes receivable	41,434	13,674
Marketable debt securities – at cost	300,025	300,775
Other assets	<u>3,830</u>	<u>3,830</u>
Total current assets	3,069,167	3,380,072
Investment in partnership	2,652,028	2,759,875
Marketable debt and equity securities – at cost	6,330,334	6,175,836
Land – at cost	234,939	234,939
Geological and geophysical costs – fee lands, net of amortization	39,841	45,511
Levees and office furniture and equipment	314,943	314,943
Accumulated depreciation	<u>(314,009)</u>	<u>(313,440)</u>
Total assets	\$ <u>12,327,243</u>	\$ <u>12,597,736</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	\$ <u>14,873</u>	<u>34,906</u>
Total current liabilities	<u>14,873</u>	<u>34,906</u>
Stockholders' equity:		
Common stock, \$0.001 par value. Authorized, 20,000,000 shares; issued, 2,851,196 shares; outstanding, 2,535,028 and 2,535,028 shares in 2015 and 2014, respectively	47,520	47,520
Retained earnings	15,107,475	15,357,935
Treasury stock, 316,168 and 316,168 shares in 2015 and 2014, respectively, at cost	<u>(2,842,625)</u>	<u>(2,842,625)</u>
Total stockholders' equity	<u>12,312,370</u>	<u>12,562,830</u>
Total liabilities and stockholders' equity	\$ <u>12,327,243</u>	\$ <u>12,597,736</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Oil and gas royalties	\$ 235,136	508,205
Surface rentals	50,000	50,000
Total oil and gas revenues	<u>285,136</u>	<u>558,205</u>
Other income (loss):		
Loss from investment in partnership	(1,682,847)	(1,371,185)
Dividends and interest income	147,311	202,819
Gain on sale of securities	2,195,981	1,717,041
Surface rentals	44,084	39,049
Total other income	<u>704,529</u>	<u>587,724</u>
Total revenues and other income	<u>989,665</u>	<u>1,145,929</u>
Expenses:		
Salaries	164,000	164,000
Bonuses	45,000	45,500
Payroll taxes	10,551	10,524
Employee benefits	10,770	12,390
Association dues	8,250	8,320
Accounting and auditing	69,500	65,600
Consultants	56,918	42,402
Amortization – geological and geophysical costs – fee lands	38,564	15,171
Depreciation	569	902
Severance taxes	16,231	23,553
Directors' fees	58,500	89,950
Franchise taxes	64,379	104,943
Insurance	101,593	115,694
Fee land management	43,161	56,695
Legal fees	54,645	13,963
Other	57,520	56,435
Portfolio services	55,083	67,339
Property taxes	23,403	23,487
Rent	41,739	40,199
Shareholder relations	12,565	12,334
Total expenses	<u>932,941</u>	<u>969,401</u>
Net income before income taxes	56,724	176,528
Income tax benefit	<u>(9,695)</u>	<u>(25,883)</u>
Net income – income tax basis	<u>\$ 66,419</u>	<u>202,411</u>
Net income per share – income tax basis	\$ 0.03	0.08

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, 2015 and 2014

	Common stock		Treasury stock		Retained earnings	Total
	Shares	Amount	Shares	Amount		
Balance, December 31, 2013	2,851,196	\$ 47,520	(136,168)	\$ (457,625)	16,169,535	15,759,430
Net income – income tax basis	—	—	—	—	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
Net income – income tax basis	—	—	—	—	66,419	66,419
Dividends	—	—	—	—	(316,879)	(316,879)
Balance, December 31, 2015	2,851,196	\$ 47,520	(316,168)	\$ (2,842,625)	15,107,475	12,312,370

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows – Income Tax Basis

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows provided by operating activities:		
Net income – income tax basis	\$ 66,419	202,411
Adjustments to reconcile net income – income tax basis to net cash used in operating activities:		
Depreciation	569	902
Amortization – geological and geophysical costs – fee lands	38,564	15,171
Gain on sale of securities	(2,195,981)	(1,717,041)
Loss from investment in partnership	1,682,847	1,371,185
Deferred income tax (benefit) expense	7,229	(39,114)
Change in operating assets and liabilities:		
Accounts and interest receivable	95,448	(50,054)
Prepaid expenses	1,824	(1,900)
Income taxes receivable and payable	(24,938)	(622,941)
Accrued expenses	(20,033)	(987)
Other current liabilities	—	(4,608)
Net cash used in operating activities	<u>(348,052)</u>	<u>(846,976)</u>
Cash flows from investing activities:		
Proceeds from the sale of securities	6,907,528	6,436,991
Purchase of securities	(4,865,295)	(2,693,668)
Investment in partnership	(1,575,000)	—
Geological and geophysical costs	<u>(32,894)</u>	<u>(60,682)</u>
Net cash provided by investing activities	<u>434,339</u>	<u>3,682,641</u>
Cash flows from financing activities:		
Treasury stock purchased	—	(2,385,000)
Dividends paid	<u>(316,879)</u>	<u>(1,014,011)</u>
Net cash used in financing activities	<u>(316,879)</u>	<u>(3,399,011)</u>
Net decrease in cash and cash equivalents	(230,592)	(563,346)
Cash and cash equivalents, beginning of year	<u>2,815,481</u>	<u>3,378,827</u>
Cash and cash equivalents, end of year	\$ <u>2,584,889</u>	\$ <u>2,815,481</u>
Supplemental cash flow information:		
Cash paid for income taxes	\$ (45,252)	(683,000)

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

(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 \$2,265,314 and \$2,739,016 of money market funds with an initial term of less than three months at December 31, 2015 and 2014, respectively.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

(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 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.

(f) *Investment Securities*

Investment securities at December 31, 2015 and 2014 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 \$569 and \$902 in 2015 and 2014, respectively. Repair and maintenance costs are expensed when incurred.

Depreciation of property is provided for in amounts sufficient to recognize their cost over their estimated service lives using the Modified Accelerated Cost Recovery System (MACRS) rates as indicated for federal income tax purposes. Capitalized geological and geophysical costs are amortized over a 24-month period.

(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.

(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 (benefit) expense includes federal and state taxes currently (receivable) payable as well as deferred taxes.

Operating loss and tax credit carryforwards are recognized as reductions to net deferred income tax liabilities, if it is likely that their benefit will be realized. Deferred tax assets and liabilities are

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

(k) Net Income Per Share

Net income per share – income tax basis is calculated by dividing net income – income tax basis by the weighted average common stock shares 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. The reclassification does not 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, 2015 and 2014 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2015:				
Corporate bonds	\$ 1,459,054	54,715	(72,030)	1,441,739
Equity securities	5,171,305	133,136	(404,666)	4,899,775
	<u>\$ 6,630,359</u>	<u>187,851</u>	<u>(476,696)</u>	<u>6,341,514</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>

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

Maturities of corporate bonds were as follows at December 31, 2015:

	<u>Cost basis</u>	<u>Fair value</u>
Due within one year	\$ 300,025	307,734
Due after one through five years	1,159,029	1,134,005
	<u>\$ 1,459,054</u>	<u>1,441,739</u>

Cash proceeds from the sale of investment securities were \$6,907,528 and \$6,436,991 in 2015 and 2014, respectively. Realized cash gains from the sale of investment securities were \$2,195,981 and \$1,717,041 in 2015 and 2014, respectively. The Company had no investment securities with other-than-temporary declines in fair value at December 31, 2015.

(3) Investment in Partnership

The Company owns an interest in B&L, an oil and gas exploration business. B&L has commissioned reserve studies, which were completed by independent reservoir engineering firms. These reserve studies estimate 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 proved 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 \$2,652,028 and \$2,759,875 at December 31, 2015 and 2014, 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 \$1,682,847 and \$1,371,185 in 2015 and 2014, respectively. The losses included net reductions in costs of \$582,953 and \$479,120 in 2015 and 2014, respectively, representing intangible drilling costs that the Company elected to capitalize. The capitalized costs will be amortized over a period of 60 months.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

Summary financial information – income tax basis of B&L as of and for the years ended December 31, 2015 and 2014 (on the income tax basis of accounting) is as follows:

	<u>2015</u>	<u>2014</u>
Financial position – income tax basis:		
Current assets	\$ 878,818	1,649,130
Mineral properties and equipment, net	3,481,613	3,842,769
Total assets	<u>\$ 4,360,431</u>	<u>5,491,899</u>
Current liabilities	<u>\$ 706,826</u>	<u>917,227</u>
Total current liabilities	706,826	917,227
Members' equity	<u>3,653,605</u>	<u>4,574,672</u>
Total liabilities and members' equity	<u>\$ 4,360,431</u>	<u>5,491,899</u>
Results of operations – income tax basis:		
Revenues	\$ 2,227,000	3,164,300
Net loss	(3,021,067)	(2,467,073)

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 line of credit expires November 11, 2016. Outstanding borrowings by B&L under the revolving line of credit were \$0 as of December 31, 2015 and 2014. 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, 2015, 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>2015</u>			<u>2014</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 7,822	(10,901)	(3,079)	13,231	(14,366)	(1,135)
State	(24,746)	18,130	(6,616)	—	(24,748)	(24,748)
Total income tax expense (benefit)	<u>\$ (16,924)</u>	<u>7,229</u>	<u>(9,695)</u>	<u>13,231</u>	<u>(39,114)</u>	<u>(25,883)</u>

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

Deferred income taxes have been recorded in the accompanying statements of assets, liabilities, and stockholders' equity – income tax basis for the tax effects of temporary differences that impact the financial statements and income tax returns in different periods, offset partially by carryforwards for federal and state income tax purposes of unused net operating losses and tax credits. The primary components of deferred tax assets are as follows:

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ (53,150)	(60,379)

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>2015</u>		<u>2014</u>	
Statutory rate	\$ 19,853	35.0%	\$ 61,785	35.0%
Percentage depletion	(23,898)	(42.1)	(39,488)	(22.4)
State taxes provided	2,046	3.6	(24,748)	(14.0)
Effect of graduated rates	91	0.1	33	0.1
Other (net)	<u>(7,787)</u>	<u>(13.7)</u>	<u>(23,465)</u>	<u>(13.4)</u>
Effective tax rate	\$ <u>(9,695)</u>	<u>(17.1)%</u>	\$ <u>(25,883)</u>	<u>(14.7)%</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 \$42,318 have unlimited carryforward periods.

Net operating loss (NOL) carryforwards outstanding of \$12,395 federal and \$82,694 state as of December 31, 2015 begin to expire in 2034 and 2035, 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, 2015 and 2014

(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) Treasury Stock

The Company has acquired a total of 67,500 shares of its common stock through a stock repurchase plan authorized by the board of directors. 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. Additionally, the Company successfully negotiated and the board of directors authorized the purchase of 151,900 shares in two separate private transactions in 2014. On December 14, 2015, the board of directors authorized the additional purchase of up to 30,000 shares of its common stock. The purchases 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.

(d) Dividends

The Company paid cash dividends on common stock of \$316,879 and \$1,014,011 in 2015 and 2014, 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.

(7) Related Parties

A member of the board of directors is a partner in a law firm that represents the Company. From time to time, this firm provides legal counsel to the Company and is paid for services provided.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2015 and 2014

(8) Subsequent Events

The Company has evaluated subsequent events from the statement of assets, liabilities, and stockholders' equity – income tax basis date through March 9, 2016, 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, 2015 and 2014

Company description	2015				2014			
	Shares/ face value	Cost	Fair value	Unrealized gains (losses)	Shares/ face value	Cost	Fair value	Unrealized gains (losses)
Common stock:								
2U Inc.	7,200	\$ 158,894	201,456	42,562	—	—	—	—
3 D Systems Corp	10,650	73,899	92,548	18,649	10,650	73,899	350,065	276,166
Apple Inc.	3,150	349,411	331,569	(17,842)	3,600	399,327	397,368	(1,959)
BE Aerospace, Inc.	7,850	330,844	332,604	1,760	5,300	137,592	307,506	169,914
EPIQ Systems Inc.	39,800	512,848	520,186	7,338	39,800	512,848	679,784	166,936
Euronet Worldwide, Inc.	—	—	—	—	8,300	155,134	455,670	300,536
Everbank Financial Corp.	19,000	348,332	303,620	(44,712)	28,900	529,832	550,834	21,002
Express Scripts Holding Co.	—	—	—	—	5,100	303,821	431,817	127,996
Financial Engines Inc.	8,750	367,260	294,612	(72,648)	—	—	—	—
Flowers Foods, Inc.	12,300	323,997	264,327	(59,670)	30,000	397,688	575,700	178,012
Genesee & Wyoming, Inc. – CL A	4,850	306,844	260,396	(46,448)	—	—	—	—
Gulport Energy Co.	5,300	159,987	130,221	(29,766)	—	—	—	—
Howard Hughes Corp.	2,830	353,892	320,243	(33,649)	2,830	237,104	369,089	131,985
Kearny Financial Corp.	17,100	182,800	216,657	33,857	—	—	—	—
KLX Inc.	—	—	—	—	2,650	54,181	109,312	55,131
LKQ Corp.	10,800	291,034	320,004	28,970	19,800	533,562	556,776	23,214
Luminex Corp.	—	—	—	—	30,000	401,570	562,800	161,230
Pinnacle Foods Inc.	—	—	—	—	11,600	379,698	409,480	29,782
Pool Corporation	5,100	419,184	411,978	(7,206)	10,000	236,102	634,400	398,298
Sothebys	—	—	—	—	11,100	550,484	479,298	(71,186)
Taser International, Inc.	17,300	380,448	299,117	(81,331)	—	—	—	—
Varian Medical System Inc.	—	—	—	—	4,900	265,881	423,899	158,018
Visa, Inc.	7,740	611,631	600,237	(11,394)	2,010	140,808	527,023	386,215
Total common stock		5,171,305	4,899,775	(271,530)		5,309,531	7,820,821	2,511,290
Corporate bonds:								
General Electric Capital Corp.	300,000	300,025	307,734	7,709	300,000	300,025	319,675	19,650
JP Morgan Chase & Co.	300,000	299,484	300,645	1,161	—	—	—	—
LKQ Corp.	300,000	293,265	281,625	(11,640)	—	—	—	—
Merck & Co. Inc.	—	—	—	—	300,000	300,775	301,986	1,211
PHI Inc.	300,000	300,765	240,375	(60,390)	300,000	300,765	252,375	(48,390)
Whitney National Bank Sub NO	300,000	265,515	311,360	45,845	300,000	265,515	313,779	48,264
Total corporate bonds		1,459,054	1,441,739	(17,315)		1,167,080	1,187,815	20,735
Total marketable securities		\$ 6,630,359	6,341,514	(288,845)		\$ 6,476,611	9,008,636	2,532,025

See accompanying independent auditors' report.