

Biloxi Marsh Lands Corporation

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March 10, 2006

To the Shareholders of Biloxi Marsh Lands Corporation:

While we are pleased to report that 2005 was the tenth consecutive profitable year for your company, we are even more pleased with the level of revenue and earnings which were slightly better than last year's earnings which represented the Company's best annual financial performance since its founding, despite that fact that we did not receive any royalty revenue during the month December due Hurricanes Katrina and Rita. Total revenue for the year 2005 was \$22,512,638 compared to total revenue of \$22,226,700 in 2004. The revenue breakdown is as follows: 2005 revenue from oil and gas activity was \$21,258,425 compared to revenue of \$21,267,614 in 2004. Dividend and interest income for 2005 was \$289,711 compared to \$114,065 for 2004. In 2005 gains from the sale of investment securities were \$954,085 as compared to a net gain of \$802,846 in 2004. Meanwhile, net earnings increased to \$13,882,006 or \$5.04 per share from \$13,821,040 or \$5.02 per share in 2004.

In 2005 The Meridian Resource and Exploration, LLC (Meridian) completed the final phase of its 3D seismic program. This 3D seismic survey was completed in four phases and covers approximately 137 square miles of the Company's +/- 141 square miles of titled acreage. As provided for in the Oil, Gas and Mineral Lease between the Company and Meridian, we have taken delivery of Phase I, II and III of the 3D seismic data which includes company acreage plus adjacent land and water-bottoms extending one mile in every direction beyond the bounds of our acreage. Currently our 3D seismic inventory contains approximately 314 square miles covering Company property and adjacent areas. As per letter agreement with Meridian, we are scheduled to take delivery of Phase IV of the seismic data in April of 2006. After we take delivery of this final phase the Company's 3D seismic inventory should include approximately 375 to 400 square miles covering Company property and adjacent areas. It should be noted Meridian did not complete Phase V of its seismic survey as they advised us was originally planned. This did not affect any of our property. Management believes that the 3D data sets which Meridian has already delivered to the Company and the seismic data acquired as the result of the completion the final Phase will prove to be valuable corporate assets. Though we were delayed by Hurricane Katrina we are continuing to proactively use the data to our strategic advantage. Toward this end the Company has retained a geophysicist and a geologist who are currently in the process of evaluating the seismic data in order to determine if there are any additional prospects within the area covered by the 3D seismic data. In addition to these efforts the Company recently marketed its acreage and potential prospects during the Gulf Coast Prospects Exposition in Lafayette, Louisiana and National Association of Petroleum Engineers Expositions (NAPE) in Houston, Texas. We are pleased with the response to our marketing effort and are hopeful that it will result in future oil, gas and mineral agreements.

Over the past several years, Meridian has added significantly to the pipeline infrastructure running through Company acreage. As provided for in the pipeline right of way agreements the Company has the right to use excess capacity in the pipelines for a fee and has the option, not the obligation, to take over the pipelines if Meridian chooses to abandon it. Management is very pleased with the development of the pipeline infrastructure throughout our property and believes that the right to use excess capacity and take over the pipeline after abandonment may prove to be valuable for the future development of our mineral interests.

The primary term of the lease between the Company and Meridian expired on December 15, 2005. As of the date of this letter the Company has approximately 82,000 acres open and available for exploration and development, approximately 3,900 acres are held by production (HBP), and approximately 4,300 acres are under the secondary term of the lease between the Company and Meridian.

During January of 2005 Meridian successfully placed its BML 28-1 and S/L 18041-1 on production. Correspondingly during 2005 Meridian successfully logged its BML 7-4 well, but according to Meridian this well has not been placed on production because of completion problems. During 2005 Meridian plugged and abandoned its BML 21-1 well as a dry hole. In August and September of 2005 Hurricane Katrina and Rita severely impacted all the production facilities supporting production emanating from our property. To Meridian's credit they began placing wells back on production during the first part of October and completed placing all wells which were producing prior to the hurricanes on

production by the first part of November, with the exception of the BML 28-1 well, which according to Meridian, may have to be re-drilled due to severe damage to the Christmas tree. Correspondingly, Manti Jambi, Inc. placed its BML 1 and 3 wells back on production during November of 2005. In addition to the Meridian wells, on December 31, 2005 the Manti Jambi, Inc.-BML 1 and 3 wells continued to produce natural gas on compression. As of December 31, 2005 the combined gross daily production rate from 14 wells was approximately 45 million cubic feet (mmcf) with net daily production accruing to the Company of approximately 5.0 mmcf.

The Company again commissioned T. J. Smith & Company, Inc., independent reservoir engineers, to complete a proved reserve study. Based upon this reserve study, the productive life of the wells range from 1 to 7 years with slightly more than 38% of the proved reserves depleting by the end of 2006. The same reserve study estimates that as of December 31, 2005 the Company's "Developed Producing" proved reserves are 3.393 billion cubic feet (bcf) of natural gas and estimates that the "Developed Non-Producing" proved reserves are .643 bcf, with the "Proved Un-Developed" being .384 billion cubic feet, totaling 4.421 bcf of proved reserves (see "Appendix A" for definitions of reserve classifications). It should be noted that the current production and the corresponding proved reserves are being produced from 9 producing units and other leased based production covering approximately 3,900 acres of Company property, with the Company owning an additional 85,500 +/- acres. The reserve study does not cover or attempt to estimate un-proven reserves under any of these 85,500 +/- acres. As of this time, we offer no guidance as to quantities of reserves, if any, under any of these 85,500 +/- acres. Please find the following table showing the Company's proved reserves as of December 31, 2004:

Proved Reserves as of December 31, 2004 (3)

	<u>Developed Producing</u>	<u>Developed Non-Producing</u>	<u>Proved Un-Developed</u>	<u>Total</u>
			(dollars in thousands)	
Net Proved Reserves (1):				
Natural Gas (BCF).....	3.393	.643	.384	4.421
Estimated Future Net Revenues (before income taxes) (2) :.....			\$	54,179
Estimated Discounted Future Net Revenues (before income taxes) (2):.....			\$	45,849

(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. All such estimates are to some degree speculative, and classifications of reserves, that are based on the mechanical status of the completion, may also define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of wells, classifications of such reserves based on risk of recovery and estimates of the future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. Therefore, the actual production, revenues, and severance taxes with respect to reserves likely will vary from such estimates, and such variances could be material.

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

In accordance with applicable requirements of the Commission, the estimated discounted future net revenues from estimated proved reserves are based on prices as of the date of the estimate. Actual future prices may be materially higher or lower. Actual future net revenues also will be affected by factors such as actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

(2) The Estimated Discounted Future Net Revenues represents the Estimated Future Net Revenues before income taxes discounted at 10%. For calculating The Estimated Future Net Revenues and the Estimated Discounted Future Net Revenues, we used the price as of December 31, 2005 which was \$10.05 per mmcf of natural gas.

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

The production and reserves as stated in the foregoing paragraph are accruing and will accrue to the Company, not to the Biloxi Marsh Lands 1 Royalty, LLC or any acreage that is subject to adverse and competing title claims. It should also be noted that since the establishment of the Biloxi Marsh Lands 1 Royalty, LLC on November 29, 2002, the Company and the LLC are separate and distinct entities and operate as such. As previously disclosed, the purchase or

sale of Biloxi Marsh Lands Corporation common stock after November 29, 2002 does not include the purchase or sale of ownership units in Biloxi Marsh Lands 1 Royalty, LLC.

As previously reported, there is currently pending a possessory action suit which was filed by the Corporation on or about November 2, 2001 as the result of disturbances in the Corporation's possession of Sections 1, 2 & 3, T13S, R16E due to protective oil, gas & mineral leases granted to Manti Resources, Inc. (Manti) by particular Manuel Molero family members and also to Louis and Gustave Carmadelle family entities. Further disturbance in possession is the result of seismic permit/lease options and protective leases granted by the same parties to The Meridian Resource & Exploration LLC (Meridian) for disputed and productive acreage outside of the Manti lease. The Manuel Molero family members filed a declaratory judgment action with regard to the same acreage, which action was consolidated with the Corporation's possessory action. Additionally, Manti, which is producing two wells within a geographical unit on the acreage in conflict, filed a concursus proceeding, and deposited funds into the registry of the court representing royalties attributable to the conflict acreage in the producing unit. Meanwhile, Meridian has filed concursus proceedings with respect to additional producing units formed which contain conflict acreage. Consolidation of the concursus proceedings with the possessory action and declaratory judgment action above mentioned has been granted by the court. Management intends to vigorously pursue the Corporations' possessory action and vigorously defend the Molero family members' declaratory judgment action.

During 2005, significant legal discovery was taken by the parties and a trial date on the Corporation's possessory action had been set by the Court. Unfortunately, as a result of Hurricane Katrina, the Courthouse for St. Bernard Parish was severely damaged and the trial date for the Corporation's possessory action has been indefinitely continued.

The Carmadelle entities continued their strategy of attempting to have the trial court determine an issue related to title. Their latest attempt was their third attempt. The matter was once again appealed and the Corporation's position was upheld by the Appellate Court and, just recently in early February 2006, the Louisiana Supreme Court upheld the Corporation's position for a third time.

In addition to the above described competing claims to the subject acreage, there are also competing claims between the Company and the State of Louisiana regarding certain tracts within each producing unit ("Concursus Proceedings"). The object of the Concursus Proceedings is to determine whether the State or the Company is entitled to the royalty on production attributable to the disputed acreage. The judgments ultimately rendered in these proceedings will order the distribution of royalty proceeds currently being deposited into the Registry of the Court. There is no potential in the Concursus Proceedings for rendition of an adverse judgment requiring the payment of Company funds. As of December 31, 2005, the Company's potential share of the funds deposited in the various concursus' accounts is in excess of 28 million dollars.

The timing of the resolution of the competing claims in the Concursus Proceedings is being impacted substantially by the effects of Hurricane Katrina on St. Bernard Parish. While the courthouse has been declared open and while judges have returned to their offices, the parish remains without sufficient facilities to support a trial. This is particularly true with respect to trials that may take multiple days to complete as the Concursus Proceedings undoubtedly will. At the present time, there is no way to know how long it will take for the judicial system in St. Bernard Parish to resume normal operations. We are advised that, because the courthouse is formally open for business, the Supreme Court is not likely to consider establishing alternate locations outside of St. Bernard Parish for the trial of cases pending in that parish. For these reasons, as of the date of this report, there is no way to forecast a timetable for the conclusion of the Concursus Proceedings.

Historically the company has declared and paid a dividend once each year. While we have not formally changed our dividend policy, due to the company's strong financial performance, during 2005 we declared the following dividends:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Type</u>	<u>\$ per share</u>
April 27, 2005	May 11, 2005	Cash	.75
June 16, 2005	August 10, 2005	Cash	1.00
December 19, 2005	January 25, 2006	Cash	2.00
Total Declared:			3.75

As of the middle of February our Metairie, Louisiana office has been partially renovated and we have reopened for business with our staff working out of their homes and the office. We hope to have the renovations completed by the end of March. As previously reported we were able to successfully evacuate and save all of our electronic files including all processed and raw 3D seismic data prior to Hurricane Katrina. Unfortunately, most of our paper files were damaged by flood waters. The files have been restored through a freeze drying process and are back in our possession. While the

vast majority of the papers contained in each file are readable, all papers must be removed from the file folders and re-filed. During this process we are scanning each paper so that we will have electronic back up for all of our paper files.

Prior to Hurricane Katrina we retained the services of T. Baker Smith, Inc to develop a *Restoration and Stabilization Plan* for our property. Due to Hurricane Katrina we have extended the scope of this project and retained additional technical experts to assist in formulating the plan. We hope to have the plan finished by mid-year and are going to use the Plan to seek Federal funding for restoration. T. Baker Smith, Inc. is also in the process of determining the extent of the damage to the property caused by Hurricanes Katrina and Rita. This is being done by comparing pre-storm and post-storm satellite imagery. While there was damage to the property, we are encouraged by the preliminary results of this comparison.

In addition to the *Restoration and Stabilization Plan* the Company is setting up the Biloxi Marsh Disaster Relief Fund Corporation. The Board has approved a donation of \$150,000 to set up this fund and we plan to match \$.50 of any donation received by the Biloxi Marsh Disaster Relief Fund Corporation up to a total match of \$150,000 of funds contributed by third parties, making the Company's total donation commitment \$300,000. The purpose of the fund is to solicit additional funds and provide funding for the rebuilding of St. Bernard Parish which was devastated by Hurricane Katrina. The Biloxi Marsh Disaster Relief Fund Corporation will have a Board of five people with strict governance rules with KPMG providing auditing and accounting services all of which are designed to lend credibility to the Relief Fund and the way it expends funds.

The Company's large open acreage position combined with its sizeable 3D seismic inventory may represent an opportunity for the company, as previously stated we have retained a geologist and geophysicist, to determine the extent of our opportunities. Senior Management is involved in this process which will help us determine the extent of our remaining potential reserves. Once this process is completed Management will have a better understanding of the strategic course the Company should take and your Board of Directors will take appropriate steps to take advantage of any opportunity that may be identified.

In closing we are glad to have survived Hurricane Katrina with our property in what appears to be a sustainable state and we believe that 2006 will represent an exciting year for the Company.

Sincerely,



William B. Rudolf
President and Chief Executive Officer
Metairie, Louisiana
Email: wrbiloxi@bellsouth.net¹

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



BILOXI MARSH LANDS CORPORATION

Financial Statements and Schedule

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

Board of Directors
Biloxi Marsh Lands Corporation:

We have audited the accompanying statements of assets, liabilities and stockholders' equity – income tax basis of Biloxi Marsh Lands Corporation (the Corporation) as of December 31, 2005 and 2004, and the related statements of revenue and expenses and retained earnings – income tax basis, and cash flows – income tax basis for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1(b), these financial statements were prepared on the basis of accounting the Corporation uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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, 2005 and 2004, and its revenues and expenses and retained earnings, and cash flows for the years then ended, on the basis of accounting described in note 1(b).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule of marketable securities as of December 31, 2005 and 2004 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

February 3, 2006

BILOXI MARSH LANDS CORPORATION

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

December 31, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 3,545,301	224,786
Refundable federal taxes	—	219,787
Marketable debt and equity securities – at cost	8,633,691	5,844,195
Total current assets	12,178,992	6,288,768
Investments:		
Marketable debt and equity securities – at cost	6,661,708	5,485,812
Land – at cost	234,939	234,939
	6,896,647	5,720,751
Property:		
Levees and office furniture and equipment (net of accumulated depreciation of \$173,497 and \$168,553 in 2005 and 2004, respectively)	—	728
Total assets	\$ 19,075,639	12,010,247
Liabilities and Stockholders' Equity		
Current liabilities:		
Federal income taxes payable	\$ 2,395,312	—
State income taxes payable	375,289	643,031
Payroll taxes payable	22,138	14,431
Total current liabilities	2,792,739	657,462
Stockholders' equity:		
Common stock, \$.001 par value – 20,000,000 shares authorized, 2,851,196 shares issued, 2,754,428 shares outstanding	47,520	47,520
Retained earnings	16,310,195	11,380,080
	16,357,715	11,427,600
Less cost of treasury stock – 96,768 shares	(74,815)	(74,815)
	16,282,900	11,352,785
Total liabilities and stockholders' equity	\$ 19,075,639	12,010,247

See accompanying notes to financial statements.

BILOXI MARSH LANDS CORPORATION

Statements of Revenues and Expenses and Retained Earnings – Income Tax Basis

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Oil and gas:		
Lease bonuses and delay rentals	\$ 1,943,308	3,603,203
Pipeline right of ways	104,660	382,501
Royalties (net of production taxes of \$620,845 and \$583,383 in 2005 and 2004, respectively)	<u>19,210,457</u>	<u>17,281,910</u>
Total oil and gas revenues	<u>21,258,425</u>	<u>21,267,614</u>
Other:		
Dividends and interest	289,711	114,065
Gain on sale of securities	954,085	802,846
Surface rentals	7,869	38,414
Other	<u>2,548</u>	<u>3,761</u>
Total other revenues	<u>1,254,213</u>	<u>959,086</u>
Total revenues	<u>22,512,638</u>	<u>22,226,700</u>
Expenses:		
Salaries	102,000	100,133
Bonuses	244,200	165,000
Payroll taxes	12,641	10,344
Employee benefits	56,550	51,783
Association dues	6,500	6,500
Accounting and auditing	67,645	57,015
Clerical	126	296
Consultants	190,332	87,412
Depreciation	4,944	17,888
Directors' fees	107,500	94,000
Franchise taxes	69,286	29,620
Insurance	116,448	79,032
Land management fees and expenses	7,299	6,429
Legal fees	474,846	258,174
Other	37,999	42,389
Hurricane related expenses	44,916	—
Portfolio services	21,972	23,264
Property taxes	—	17,498
Rent	<u>1,980</u>	<u>10,560</u>
Total expenses	<u>1,567,184</u>	<u>1,057,337</u>
Income before income taxes	20,945,454	21,169,363
Income tax expense	<u>7,063,448</u>	<u>7,348,323</u>
Net income	<u>13,882,006</u>	<u>13,821,040</u>
Retained earnings at beginning of year	<u>11,380,080</u>	<u>4,789,413</u>
	25,262,086	18,610,453
Dividends	<u>8,951,891</u>	<u>7,230,373</u>
Retained earnings at end of year	\$ <u>16,310,195</u>	\$ <u>11,380,080</u>
Net income per share	\$ <u>5.04</u>	\$ <u>5.02</u>

See accompanying notes to financial statements.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows – Income Tax Basis

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows provided by operating activities:		
Oil and gas revenues received	\$ 21,258,425	21,267,614
Interest and dividends received	289,711	114,065
Other	7,869	42,175
Cash paid for purchased interest	—	(499)
Cash paid for expenses	(1,482,548)	(1,003,104)
Cash paid for income and other taxes	<u>(4,785,377)</u>	<u>(6,926,784)</u>
Net cash provided by operating activities	<u>15,288,080</u>	<u>13,493,467</u>
Cash flows provided by (used in) investing activities:		
Proceeds from maturing investments	26,943,560	2,061,791
Proceeds from the sale of securities	2,606,030	1,422,385
Purchase of securities	(32,561,047)	(9,759,186)
Purchase of office furniture and equipment	<u>(4,217)</u>	<u>(10,085)</u>
Net cash used in investing activities	<u>(3,015,674)</u>	<u>(6,285,095)</u>
Cash flows used in financing activities:		
Dividends paid	<u>(8,951,891)</u>	<u>(7,230,373)</u>
Net increase(decrease) in cash	3,320,515	(22,001)
Cash and cash equivalents at beginning of year	<u>224,786</u>	<u>246,787</u>
Cash and cash equivalents at end of year	\$ <u><u>3,545,301</u></u>	<u><u>224,786</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	\$ 4,716,091	6,911,000

See accompanying notes to financial statements.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2005 and 2004

(1) **Summary of Significant Accounting Policies**

(a) ***Nature of Operations***

Biloxi Marsh Lands Corporation (the Corporation) has extensive land holdings in St. Bernard Parish, Louisiana, the vast majority of which are leased to exploration and production companies. A study by a reservoir engineering firm has estimated that the Corporation has proved reserves in natural gas associated with a portion of this property. These proved reserve estimates are not included in these financial statements.

The Corporation's principal source of income consists of rents, mineral royalties and other income related to its real estate ownership. In addition, the Corporation has significant revenues from the investment of funds in marketable securities.

(b) ***Basis of Accounting***

The accompanying financial statements have been prepared on the cash receipts and disbursements method of tax accounting in accordance with Section 446(c) of the Internal Revenue Code. As such, the provision for income taxes and the income tax payable or refundable is computed based on the cash receipts and disbursements method of tax accounting. The accompanying financial statements are not intended to present the financial position and results of operations of the Corporation in conformity with accounting principles generally accepted in the United States of America.

The Corporation's tax returns, which for 2005 will be prepared using the accrual method, are subject to examination by federal taxing authorities. Because many types of transactions are susceptible to varying interpretations under federal income tax laws and regulations, the amount reported in the accompanying financial statements may be subject to change at a later date upon final determination by taxing authorities.

(c) ***Cash And Cash Equivalents***

Cash and cash equivalents include cash on hand and amounts due from depository institutions.

(d) ***Depreciation***

Depreciation of property is provided for in amounts sufficient to relate their cost over their estimated service lives using the Accelerated Cost Recovery System (ACRS) rates as indicated for federal income tax purposes. Depreciation expense under generally accepted accounting principles is spread over the estimated useful lives of the assets using straight-line and some accelerated methods.

Depreciation, using 18-19 ACRS lives, reflected in the accompanying financial statements totaled \$728 and \$930 for 2005 and 2004, respectively. In addition, assets totaling \$4,216 for 2005 and \$10,086 for 2004 were expensed in accordance with Section 179 of the Internal Revenue Code (IRC).

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2005 and 2004

(e) *Net Income Per Share*

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

(f) *Expense Reimbursement*

During 2005, the Corporation expended \$114,404 in environmental consulting, property management and oversight services related to its major lessee's, The Meridian Resource & Exploration, LLC, field operations. As provided for in the various contract agreements which permit the field operations, the Corporation was reimbursed \$107,105 by its major lessee for these expenditures. In 2004, the amounts expended and reimbursed were \$97,540 and \$91,111, respectively.

(g) *Use of Estimates*

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(h) *Reclassifications*

Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income.

(2) **Supplementary Cash Flow Disclosures**

A reconciliation of net income to net cash provided by operating activities for the years ended December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Net income	\$ 13,882,006	13,821,040
Adjustments—cash provided by (used in) operations:		
Depreciation	4,944	17,888
Gain on sale of securities	(954,085)	(802,846)
Purchased interest	—	462
Refundable income taxes	219,787	(192,782)
Income taxes payable	2,127,570	641,942
Payroll taxes payable	7,706	7,763
Other	152	—
Cash provided by operating activities	<u>\$ 15,288,080</u>	<u>13,493,467</u>

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2005 and 2004

(3) Investments in Marketable Securities

Marketable securities consist of investments in debt and equity securities which are carried at their amortized cost. Cost, fair market value, and unrealized gains (losses) by security type at December 31, 2005 and 2004 are as follows:

	Cost	Fair Market Value	Unrealized Gains (Losses)
2005:			
Equity securities	\$ 3,386,269	4,987,925	1,601,656
Debt securities:			
Municipal bond	1,400,000	1,400,000	—
U.S. government agencies	10,509,130	10,529,440	20,310
	\$ 15,295,399	16,917,365	1,621,966
less current portion	(8,633,691)	(8,675,595)	(41,904)
	\$ 6,661,708	8,241,770	1,580,062
2004:			
Equity securities	\$ 3,075,546	5,583,901	2,508,355
Debt securities:			
Municipal bond	1,400,000	1,400,000	—
U.S. government agencies	6,854,461	6,852,241	(2,220)
	\$ 11,330,007	13,836,142	2,506,135
less current portion	(5,844,195)	(5,843,800)	395
	\$ 5,485,812	7,992,342	2,506,530

(4) Income Taxes

Components of income tax expense are as follows:

	2005	2004
Federal	\$ 6,215,099	6,456,123
State	848,349	892,200
	\$ 7,063,448	7,348,323

Due to Hurricane Katrina, the IRS provided relief to corporations for estimated tax payments. Originally, this ruling called for a payment date of February 28, 2006. The IRS has subsequently extended the tax payment deadline until August 28, 2006. Consequently, the Corporation has a tax payment of \$2,927,620, computed using the accrual method, due August 28, 2006 related to its 2005 income tax liability.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2005 and 2004

The provision for income taxes differs from the amounts computed by applying the federal statutory tax rate to earnings before income tax for the years ended December 31 for the following reasons:

	<u>2005</u>	<u>2004</u>
Tax expense (based on federal statutory rate)	\$ 7,330,909	7,409,277
Income tax effect of :		
Depletion on royalty income	(801,497)	(629,904)
State income tax (net of federal income tax benefit)	551,427	579,930
Other	<u>(17,391)</u>	<u>(10,980)</u>
Provision for income taxes	<u>\$ 7,063,448</u>	<u>7,348,323</u>

(5) Related-Party Transactions

A member of the Board of Directors/Officer is a partner in the law firm that represents the Corporation. Payments to this related party for the years ended December 31, 2005 and 2004 were \$63,917 and \$23,254, respectively.

(6) Dividends Declared

On December 19, 2005, the Board of Directors declared a cash dividend of \$2.00 per share, which was paid January 25, 2006. The amount paid of \$5,508,856 will be reflected as a reduction in cash and retained earnings in the 2006 financial statements.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2005 and 2004

(7) Commitments and Contingencies

There is currently pending a Possessory action suit which was filed by the Corporation on or about November 2, 2001 as a result of disturbances in the Corporation's possession of Sections 1, 2 and 3, T13S, and R16E due to competing oil, gas and mineral leases granted to Manti Resources Inc. (Manti) by certain Manuel Molero family members and also to Louis and Gustave Carmadelle family entities. Further disturbances in the Corporation's possession are the result of competing seismic permit/lease options and competing leases granted by the same parties to The Meridian Resource & Exploration LLC (Meridian) for acreage outside of the Manti lease. The Manuel Molero family members have filed a Declaratory Judgment action against the Corporation and the Louis and Gustave Carmadelle family entities with regard to the same acreage, which action has been consolidated with the Possessory action.

In addition to the above-described competing claims to the subject acreage, there are also competing claims between the Corporation and the State of Louisiana regarding certain waterbottoms within each producing unit on the acreage in question. As a result of the competing claims and above-mentioned actions, both Manti and Meridian have filed concursus proceedings whereby royalties attributable to all of the conflicting acreage are deposited into the registry of the court. There is no potential for an adverse judgment declaring the payment of Corporation funds as the consolidated suits will ultimately determine the possession and ownership of the subject property and the right to the proceeds from production on deposit. The company has no liability beyond the costs of defending and prosecuting the various concursus proceedings. As of December 31, 2005, the Corporation's potential share of the funds deposited in the various concursus accounts is approximately \$28 million. The effects of Hurricane Katrina have substantially impacted the aforementioned litigation due to severe damages to the courthouse in St. Bernard Parish. Therefore, as of the date of this report, there is no way to forecast a timetable for the conclusion of the litigation and the resolution of the disputes, nor can we, at this time, predict the outcome of the litigation.

(8) Uninsured Cash Balances

The Corporation maintains cash and cash equivalents with local highly rated financial institutions. The cash balances are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. The Corporation had uninsured cash balances at December 31, 2005 and 2004 of \$1,293,196 and \$111,999, respectively.

Schedule

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2005 and 2004

Company Description	2005				2004			
	Shares/ face value	Cost	Market value	Unrealized gains (losses)	Shares/ face value	Cost	Market value	Unrealized gains (losses)
Marketable equity securities:								
Common stock:								
Advanced Med Optics, Inc.	8,200	\$ 280,080	342,760	62,680	—	\$ —	—	—
American Vanguard Corp.	15,600	116,690	366,600	249,910	7,000	87,274	257,460	170,186
Block, H&R, Inc.	12,700	307,780	311,785	4,005	—	—	—	—
Cabot Corporation	8,000	279,745	286,400	6,655	—	—	—	—
Cooper Companies	—	—	—	—	6,400	133,559	451,776	318,217
EPIQ Systems Inc.	16,400	272,679	304,056	31,377	8,700	126,584	127,368	784
First State Bancorporation	14,000	211,687	335,860	124,173	4,800	115,165	176,448	61,283
Garmin LTD	—	—	—	—	5,000	95,517	304,200	208,683
Irwin Financial Corp.	—	—	—	—	5,300	126,593	150,467	23,874
Input Output Inc.	30,000	239,152	210,900	(28,252)	30,000	239,152	265,200	26,048
International Rectifier Corp.	—	—	—	—	12,800	461,081	570,496	109,415
Jack Henry & Associates	14,000	68,442	267,260	198,818	14,000	68,442	278,740	210,298
Labone Inc.	—	—	—	—	7,500	150,124	240,300	90,176
Laserscope	11,500	218,974	258,290	39,316	—	—	—	—
Luminex Corp.	34,000	231,313	395,080	163,767	11,500	218,974	412,965	193,991
Marcus Corporation	13,500	222,170	317,250	95,080	26,000	150,043	230,880	80,837
Noble International Ltd.	12,000	289,054	250,080	(38,974)	13,500	222,170	339,390	80,837
O Reilly Automotive Inc.	10,400	199,077	332,904	133,827	7,800	191,012	159,042	(31,970)
Petroleum Helicopters VTG	9,500	208,727	294,500	85,773	5,200	199,077	234,260	35,183
Pfizer, Inc.	—	—	—	—	7,200	139,770	185,609	45,839
SCP Pool Corp.	10,000	18,332	372,200	353,868	6,000	916	161,340	160,424
Stone Energy Corp.	—	—	—	—	15,750	28,873	502,425	473,552
3 D Systems Corp.	19,000	222,367	342,000	119,633	3,500	98,852	157,815	58,963
Subtotal		3,386,269	4,987,925	1,601,656		3,075,546	5,583,901	2,508,355

Marketable debt securities:

Municipal Bonds:				
Jefferson City Ata Swr Rev Ars Ref-wts-subser				
B-1-C, due February 1, 1942	450,000	450,000	450,000	—
Louisiana Loc Govt Envir Facs-S-Eastern L/A				
Stud, due August 1, 1934	350,000	350,000	350,000	—
Sevier City Tenn Pub Bldg Auth Var-Loc				
Govt Pub Impmt, due October 1, 2025	500,000	600,000	600,000	—
Subtotal		1,400,000	1,400,000	—

(Continued)

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2005 and 2004

Company Description	2005			2004				
	Shares/ face value	Cost	Market value	Unrealized gains (losses)	Shares/ face value	Cost	Market value	Unrealized gains (losses)
U.S. government agencies:								
Freddie Mac Discount Note, due various	1,490,000	\$ 1,464,164	1,488,123	23,959	—	\$ —	—	—
Federal Home Loan Bank Note, due September 26, 2007 3.80%	50,000	50,000	49,219	(781)	50,000	50,000	50,235	235
Fannie Mae, due December 29, 2006 3.00%	200,000	200,000	196,562	(3,438)	200,000	200,000	198,938	(1,062)
Federal Home Loan Bank Note, due January 14, 2005	—	—	—	—	4,200,000	4,196,448	4,196,282	(166)
Federal Home Loan Discount Note, due February 28, 2005	—	—	—	—	1,500,000	1,494,400	1,494,203	(197)
Fannie Mae, due December 15, 2006, 3.07%	125,000	125,391	122,656	(2,735)	125,000	125,391	123,711	(1,680)
Federal Home Loan Bank Note, due April 14, 2008, 3.750%	200,000	200,000	195,688	(4,312)	200,000	200,000	200,062	62
Federal Home Loan Bank Note, due September 16, 2009, 4.110%	100,000	99,875	97,531	(2,344)	100,000	99,875	99,969	94
Federal Home Loan Bank Note, due October 13, 2009, 4.100%	200,000	200,000	194,876	(5,124)	200,000	200,000	200,062	62
Federal Home Loan Bank Note, due December 9, 2009, 4.375%	135,000	135,000	132,385	(2,615)	135,000	135,000	135,464	464
U.S. Treasury Bills, due January 27, 2005	—	—	—	—	153,000	152,848	152,816	(32)
Federal Home Loan Discount Note, due January 12, 2006	1,565,000	1,543,825	1,552,686	8,861	—	—	—	—
Federal Home Loan Discount Note, due January 29, 2006	2,615,000	2,600,635	2,607,824	7,189	—	—	—	—
Federal Home Loan Discount Note, due February 24, 2006	2,525,000	2,499,676	2,508,556	8,880	—	—	—	—
Federal Home Loan Bank Note, due November 28, 2006 4.280%	200,000	200,000	199,188	(812)	—	—	—	—
Federal Home Loan Bank Note, due February 28, 2007 4.270%	200,000	199,938	198,876	(1,062)	—	—	—	—
Federal Home Loan Bank Note, due February 28, 2008 4.530%	245,000	244,923	243,317	(1,606)	—	—	—	—
Federal Home Loan Bank Note, due August 8, 2008 4.500%	250,000	249,375	248,048	(1,327)	—	—	—	—
Federal Home Loan Bank Note, due July 14, 2010 4.800%	500,000	496,328	493,905	(2,423)	—	—	—	—
Purchased interest various	—	—	—	—	—	499	499	—
Subtotal		10,509,130	10,529,440	20,310		6,854,461	6,852,241	(2,220)
Total investments as of December 31, 2005 and 2004	\$	15,295,399	16,917,365	1,621,966	\$	11,330,007	13,836,142	2,506,135

See accompanying independent auditors' report.