

Biloxi Marsh Lands Corporation

One Galleria Blvd., Suite #902

Metairie, Louisiana 70001

Phone: (504) 837-4337

Fax: (504) 837-1889

March 18, 2009

To the Shareholders of Biloxi Marsh Lands Corporation:

We are pleased to report that 2008 was the thirteenth consecutive profitable year for your Company. Total revenue for the year ending December 31, 2008 was \$2,960,529 compared to total revenue of \$4,639,317 in 2007. The annual revenue breakdown is as follows: 2008 revenue from oil and gas activity was \$3,247,721 compared to revenue of \$4,861,263 in 2007. During 2008 total revenues included a \$613,015 loss emanating from partnership income which represents the Company's interest in B&L Exploration, LLC (BLX) compared a loss of \$974,359 in the same category for the prior year. It should be noted that BLX was able to expense \$855,599 and \$212,995 for Depreciation, Depletion, and Amortization during 2008 and 2007 respectively. Dividend and interest income for 2008 was \$330,394 compared to \$521,942 for 2007. In 2008 we incurred a cumulative loss from the sale of investment securities of \$26,696 as compared to a cumulative gain from the sale of investment securities in the amount of \$208,600 in 2007. During the second quarter of 2008, management decided to realign its treasury investments reducing the Company's exposure to equity investments. This decision prompted the sale of equity securities during the second and third quarters of 2008. As a result, the Company carried on its books a gain realized from the sale of securities of \$521,115 through the third quarter of 2008. During the fourth quarter of 2008, due to the precipitous decline in the value of equity investments and in an effort to increase the Company's liquidity, management decided to offset the gain on the sale of securities realized during the second and third quarters. Meanwhile, expenses for the year totaled \$1,653,448 compared to \$1,432,138 for the prior year. For the year net earnings were \$1,076,816 or \$.39 per share compared to \$2,340,175 or \$.85 per share in 2007.

As of December 31, 2008 the combined gross daily production rate from 11 wells operated by the Company's mineral Lessees was approximately 10.7 million cubic feet (mmcf) of natural gas with net daily production accruing to the Company of approximately 1.1 mmcf. Combining this daily production with the Company's proportional share of the daily production from the B&L Exploration, LLC (BLX) wells makes the total net daily production accruing to the Company as of December 31, 2008 approximately 2.2 mmcf. While the SL 18955 #1 and 18957 #1 wells are near the end of their productive lives, the SL 19064 #1 and LKEU #1 wells were being brought on production during December of 2008. It should be noted that as of March 1, 2009, the combined daily production rates from all of the BLX wells was approximately 9.0 mmcf. This makes the total net daily natural gas production accruing to the Company (Lessee wells and BLX wells) as of March 1, 2009 approximately 2.7 mmcf. The Company owns a 75% interest in BLX.

The Company commissioned T. J. Smith & Company, Inc., independent reservoir engineers, to complete a proved reserve study. This reserve study estimates that as of December 31, 2008 the Company's "Developed Producing" (PDP) reserves are .8188 billion cubic feet (bcf) of natural gas and estimates that the "Developed Non-Producing" (PDNP) reserves are .6413 bcf, with the "Proved Un-Developed" (PUD) reserves being 1.0325 bcf, totaling 2.4926 bcf of estimated proved reserves (see "Appendix A" for definitions of reserve classifications). For the years ending 2007 and 2008, the total amount of proved natural gas reserves remained constant near 2.5 bcf, while the "Proved Developed Producing" (PDP) reserves actually decreased year over year from approximately .9144 bcf to .8188 bcf, a decrease of .09 bcf in PDP reserves (see note 5 below). Additionally, this reserve study estimates that slightly more than 20% of the PDP and PDNP reserves directly attributable to the Company will deplete by the end of 2009.

Please find the following table showing the Company's proved reserves as of December 31, 2008:

Proved Reserves as of December 31, 2008 (3), (5)

	Developed Producing (PDP)	Developed Non-Producing (PDNP)	Proved Un-Developed (PUD)	Total
	(Dollars in thousands)			
Net Proved Reserves (1):				
Natural Gas (BCF):	.8188	.6413	1.0325	2.4926
Estimated Future Net Revenues (before income taxes) (2):.....			\$	12,870 (4)
Estimated Discounted Future Net Revenues (before income taxes) (2):.....			\$	9,919 (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. 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, 2008 which was \$5.71 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.*

(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.

(5) The majority of "Proved Reserves as of December 31, 2008" and the related "Estimated Revenues" are "Proved Undeveloped" (PUD). As is typical to PUD reserves there is currently no production related to this category and additional development drilling is necessary for production to commence. As of the date of this letter, there is no additional development drilling scheduled.

Based on another proved reserve study completed by T. J. Smith & Company, Inc., as of December 31, 2008 the BLX's estimated proved reserves were 1.436 billion cubic feet (bcf) of natural gas which equates to "Estimated Future Net Revenues" of \$6.43mm with an "Estimated Discounted Future Net Revenues" of \$5.74mm (see note 2 above). Based upon the Company's seventy-five percent ownership of BLX the estimated reserves allocated to the Company were 1.08 bcf of natural gas which equates to "Estimated Future Net Revenues" of \$4.82mm with an "Estimated Discounted Future Net Revenues" of \$4.31mm (see note 2 above). Combining the proved reserves in the foregoing table with the Company's portion of BLX's estimated reserves makes the total estimated proved reserves accruing the Company 3.57 bcf of natural gas. The combined "Estimated Future Net Revenues" is \$17.69mm and the combined "Estimated Discounted Future Net Revenues" is \$14.23mm (see notes 2, 4 & 5 above).

We elected not to host a booth during this year's NAPE Expo in Houston, Texas. While we did not host a booth, Company representatives attended NAPE in an effort to identify investment opportunities. In the current business environment, management believes that it will have more success placing prospects through private marketing efforts. As stated in the past, deeper Tuscaloosa prospects are much more difficult to place than the shallower drilling packages previously placed by BLX. We are focusing on developing creative ways to explore the deeper horizons under our property that appear to be prospective on 3D Seismic.

During 2008 the Company, through its subsidiary BLX, entered into negotiations with the Whitney National Bank to affect a line of credit to be used for general corporate purposes. As a result BLX currently has available to it a line of credit in the amount of \$5mm. BLX has only utilized a small portion of the line of credit and as of the date of this letter has no outstanding balance.

As previously reported, there is currently pending a possessory action suit which was filed by the Company in state district court on or about November 2, 2001. This suit was filed due to disturbances in the Company's possession of Sections 1, 2 & 3, T13S, R16E. The disturbances of possession were caused by protective oil, gas & mineral leases granted by the Manuel Molero Family (Moleros) and the Louis and Gustave Carmadelle family entities (Carmadelles) to Manti Resources, Inc. (Manti). On or about April 11, 2002, the Moleros filed a declaratory judgment action with regard to the same acreage. Additionally, in 2003 Manti filed concursus proceedings, and began to deposit funds into the registry of the court representing royalties attributable to the conflict acreage in the producing unit. Meanwhile, Meridian Resource & Exploration LLC (Meridian) also filed concursus proceedings in 2003 with respect to additional producing units formed which contain conflict acreage. Consolidation of the concursus proceedings with the possessory and declaratory judgment actions above mentioned has been granted by the state courts.

As a result of adverse rulings by the state district court dating back to 2003 regarding the procedure to be employed at trial, the Company was forced to engage itself in protracted legal proceedings before the Louisiana appellate courts. In April of 2003 the state trial court ruled against the Company, essentially determining that it would not consider the issues involved in the Company's first-filed possessory action prior to considering issues of ownership and title. Accordingly, the Company was forced to apply for a supervisory writ to the Louisiana Fourth Circuit Court of Appeal ("Fourth Circuit"). On September 30, 2003, the Fourth Circuit granted the Company's writ, ordering the state district court to first make a finding of which party is in possession of the property prior to considering the issues of ownership and title. The Moleros challenged this ruling by application for a writ of certiorari to the Louisiana Supreme Court; however, the writ was denied on January 16, 2004. Thereafter, in an effort to circumvent the determination of possession altogether and avoid applicable Louisiana law, the Carmadelles challenged the substance and scope of this initial ruling by the Fourth Circuit on several occasions. In appellate rulings dated March 31, 2004, March 30, 2005, and June 27, 2005, the Fourth Circuit upheld its position in favor of the Company. The Carmadelles sought review of all of these Fourth Circuit rulings. The Louisiana Supreme Court denied these requests via rulings dated June 25, 2004 and February 3, 2006, respectively.

In response to the appellate rulings set out above, on or about July 20, 2006 the Carmadelles filed another petition in the state district court against the Company, the Assessor of St. Bernard Parish, the Sheriff of St. Bernard Parish and the Clerk of Court of St. Bernard Parish. This suit sought to prematurely litigate the issue of title in contravention of the rulings of the Fourth Circuit and the Louisiana Supreme Court. In response to the suit, the Company filed exceptions seeking to have the suit dismissed. The state district court granted the Company's exceptions on April 9, 2007, and the matter was dismissed. No appeal was taken, and thus, the dismissal is now a final judgment.

Shortly thereafter, in May of 2007, for the fifth time, the Carmadelles, yet again, tried to have the issue of their title litigated prior to the determination of the Company's possessory action by filing new litigation in the United States District Court in New Orleans against the Company, the Moleros, the Assessor of St. Bernard Parish, the Sheriff of St. Bernard Parish and the Clerk of Court of St. Bernard Parish. The Company immediately moved to have this new suit dismissed or, in the alternative, have the federal district court abstain from hearing the new lawsuit. The Company's motion was granted in March of 2008, with the federal district

court electing to stay the federal proceedings pending resolution of the state court issues. Thereafter, in April of 2008, the Carmadelles filed a Notice of Interlocutory Appeal seeking a review of the District Court's ruling by the United States Fifth Circuit Court of Appeals ("Fifth Circuit"). Appellate briefs have been filed and oral arguments held before the Fifth Circuit on March 4, 2009. We are currently awaiting a decision by the Fifth Circuit. If the ruling by the federal district court is upheld by the Fifth Circuit, the federal court litigation will be concluded (barring a Writ of Certiorari filed with the United States Supreme Court). Due to a concern that a decision in federal court could affect the state court proceedings, the parties have been reluctant to schedule the initial trial in state court until the outcome of the actions in federal court becomes apparent.

During 2008, in addition to the federal court proceedings, discovery in the state court proceedings, including but not limited to the taking of several depositions, was conducted by the Company's attorneys as preparations for trial in state court continues.

Once the issues are settled by the federal courts in a manner that will allow the state district court proceedings to move forward, there will be an initial trial in state district court to determine which party was in possession of the property prior to the disturbance of the Company's possession caused by the Moleros and Carmadelles granting protective oil, gas and mineral leases to Manti. The ruling in this initial trial will set the burden of proof by which each party must establish ownership. Once an un-appealable judgment is received in this initial trial, the state district court will conduct a second trial to determine ownership. Only after an un-appealable judgment is received in this second trial will the matter be resolved and the litigation complete. Taking into consideration the strong probability that each state district court ruling will be appealed, as of the date of this report there is no way to forecast a timetable for the conclusion of these matters.

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 the various producing units ("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. The competing claims between the Company and the State of Louisiana involve multiple suits covering different geographical areas which are beds of various bodies of water. We are in the process moving the first Concursus Proceeding toward trial with the goal of trying each of these Concursus Proceedings sequentially. This type of litigation is dependent on assembling the most respected team of experts. The Company has retained Louisiana's most respected experts in the fields of land surveying, biological, physical, and cultural sciences as well as geoforensic services. While the trial is not yet scheduled in the first sequential Concursus Proceeding, we hope that it will be held during the fourth quarter of 2009 or the first quarter of 2010.

As of December 31, 2008, the Company's potential share of the funds deposited in the various concursus' accounts (if the Company prevails in all of the issues raised in all of the aforesaid litigation proceedings) is approximately 50 million dollars. This amount includes revenues from land and water-bottom disputes. There is no potential in any of the litigation, including the Concursus Proceedings, for rendition of an adverse judgment requiring the payment of Company funds.

On October 1, 2008 we announced our plans to repurchase up to 27,500 shares of our common stock. As of December 31, 2008 we have been successful in purchasing 5,000 shares of common stock. As of this time, we plan to continue to repurchase our common stock until we fulfill our goal of acquiring 27,500 shares.

Two years ago, the Company returned to its custom of paying one dividend per calendar year. During 2008 we paid \$1.00 per share of outstanding common stock or \$2,754,428 in November. It is anticipated that the custom of paying one dividend per calendar year will be followed in 2009. It should be noted that during 2008, a dividend was paid which equated to more than our net earnings. Since 2002 the Company has paid close to \$39,000,000 in total dividends.

In the past we have reported that the Company developed *The Biloxi Marsh Stabilization and Restoration Plan*. After Hurricane Katrina we extended the scope of this project and retained additional technical experts to assist in formulating *The Biloxi Marsh Stabilization and Restoration Plan*. To enhance the surface of our property management is working closely with local, state and federal officials in an attempt to influence any restoration projects that may take place on or near the Company's property. Our efforts have resulted in bringing the need to stabilize and restore the marshes of St. Bernard Parish, Louisiana the forefront of the coastal restoration debate. This is evidenced by restoration projects such as the closure of the Mississippi River Gulf Outlet (MRGO) and the Violet - Mississippi River diversion, as well as my recent appointment to the Governor's Advisory Commission on Coastal Restoration and Flood Protection. A complete copy of *The Biloxi Marsh Stabilization and Restoration Plan* is available on our website www.biloximarshlandscorp.com.

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

Through our investment in BLX, we were able to replace our reserves and keep our production rates relatively steady. This was accomplished primarily due to BLX bringing two new wells on production during the fourth quarter of 2008. We are pleased that during the second quarter of 2008, management took steps to insulate the Company's treasury from fluctuations in the equity markets by reducing our investment in equity securities. Management and your Board of Directors clearly understand the difficult business environment that we are operating in today and plan to move the Company forward in a cautious and prudent manner. With this said, we have a strong balance sheet accompanied by significant proved reserves and steady production rates relative to 2007. Based on these facts we are optimistic, that we will be able to take advantage of the current downturn in the oil and gas industry by identifying opportunities that may not have been available in a more robust business environment. While challenging, we are hopeful that 2009 will be another good year for your Company.

Sincerely,



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

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

APPENDIX A

SEC Reserve Definitions

The Securities and Exchange Commission (SEC) sets forth standards by which reserves are to be considered as proved for purposes of completing SEC reporting requirements. These standards as defined in Section 4-10(a) of Securities and Exchange Commission Regulation S-X are summarized as follows:

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by oil and gas and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other sources.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Further, as approved by the Board of Directors of the Society of Petroleum Engineers (SPE), Inc. on February 27, 1987, developed reserves are categorized based upon the producing status of the wells and/or reservoirs.

(i) Producing reserves are expected to be recovered from completion intervals open at the time of the estimate and producing. Improved recovery reserves are considered to be producing only after an improved recovery project is in operation.



BILOXI MARSH LANDS CORPORATION

Financial Statements – Income Tax Basis and Schedule

December 31, 2008 and 2007

(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, 2008 and 2007, 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. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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) to the financial statements, 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 U.S. 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, 2008 and 2007, and its revenues and expenses and cash flows for the years then ended, on the basis of accounting described in note 1(b).

Our audits were 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, 2008 and 2007 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

March 18, 2009

BILOXI MARSH LANDS CORPORATION

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

December 31, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 5,249,590	2,197,864
Marketable debt and equity securities – at cost	—	5,596,554
Accounts receivable	271,005	419,572
Accrued interest receivable	53,763	64,071
Federal income taxes receivable	322,578	—
Payroll taxes receivable	2,068	—
Prepaid expenses	36,926	40,488
State income taxes receivable	62,731	18,744
Other	3,830	—
Total current assets	<u>6,002,491</u>	<u>8,337,293</u>
Investment in Partnership	938,621	1,551,636
Marketable debt and equity securities – at cost	5,346,972	4,803,035
Land	234,939	234,939
Levees and office furniture and equipment	187,972	181,390
Accumulated depreciation	(187,972)	(181,390)
Total assets	<u>\$ 12,523,023</u>	<u>14,926,903</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Federal income taxes payable	\$ —	36,420
Deferred tax liability	—	612,715
Accrued expenses	42,778	50,065
Payroll taxes payable	—	27,956
Other current liabilities	2,520	2,160
Total current liabilities	<u>45,298</u>	<u>729,316</u>
Stockholders' equity:		
Common stock, \$0.001 par value. Authorized 20,000,000 shares; issued 2,851,196 shares; outstanding 2,749,428 shares in 2008 and 2,754,428 in 2007	47,520	47,520
Retained earnings	12,547,270	14,224,882
Treasury stock, 101,768 and 96,768 shares in 2008 and 2007, respectively, at cost	(117,065)	(74,815)
Total liabilities and stockholders' equity	<u>\$ 12,523,023</u>	<u>14,926,903</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, 2008 and 2007

	2008	2007
Revenues:		
Oil and gas:		
Lease bonuses and delay rentals	\$ 221,500	335,900
Pipeline right of ways	30,031	5,000
Royalties (net of production taxes of \$103,034 and \$217,856 in 2008 and 2007, respectively)	2,996,190	4,520,363
Total oil and gas revenues	3,247,721	4,861,263
Other:		
Loss from investment in partnership	(613,015)	(974,359)
Dividends and interest	330,394	521,942
Gain (loss) on sale of securities	(26,696)	208,600
Surface rentals	22,125	21,871
Total other	(287,192)	(221,946)
Total revenues	2,960,529	4,639,317
Expenses:		
Salaries	162,000	162,000
Bonuses	311,610	265,800
Payroll taxes	16,279	15,191
Employee benefits	64,813	62,050
Association dues	6,650	6,600
Accounting and auditing	118,506	115,718
Severance tax preparation	3,755	4,207
Gas marketing fees	6,188	13,046
Consultants	102,120	73,934
Depreciation	6,582	9,958
Directors' fees	87,000	72,000
Franchise taxes	73,034	74,050
Insurance	93,713	107,101
Land management fees	31,851	15,044
Legal fees	411,532	301,983
Other	74,013	73,070
Portfolio services	34,651	30,124
Property taxes	17,213	18,031
Rent	23,425	11,231
Charitable contributions	8,513	1,000
Total expenses	1,653,448	1,432,138
Net income before income taxes	1,307,081	3,207,179
Income tax expense	230,265	867,004
Net income	\$ 1,076,816	2,340,175
Net income per share (see note 1(g))	\$ 0.39	0.85

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, 2008 and 2007

	<u>Common stock</u>	<u>Treasury stock</u>	<u>Retained earnings</u>	<u>Total</u>
Balance, December 31, 2006	\$ 47,520	(74,815)	14,639,135	14,611,840
Net income	—	—	2,340,175	2,340,175
Distributions	—	—	(2,754,428)	(2,754,428)
Balance, December 31, 2007	47,520	(74,815)	14,224,882	14,197,587
Net income	—	—	1,076,816	1,076,816
Purchase of treasury shares	—	(42,250)	—	(42,250)
Distributions	—	—	(2,754,428)	(2,754,428)
Balance, December 31, 2008	\$ <u>47,520</u>	<u>(117,065)</u>	<u>12,547,270</u>	<u>12,477,725</u>

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows – Income Tax Basis

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flow provided by operating activities:		
Net income	\$ 1,076,816	2,340,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,582	9,958
Deferred income taxes	(612,715)	(619,285)
(Gain) loss on sale of securities	26,696	(208,600)
Loss from investment in partnership	613,015	974,359
Change in operating assets and liabilities:		
Accounts and interest receivables	158,875	155,274
Prepaid expenses	3,562	18,098
Income taxes	(402,985)	154,851
Other assets	(3,830)	—
Accrued expenses	(7,287)	(66,989)
Payroll taxes and other liabilities	(29,664)	(3,210)
Net cash provided by operating activities	<u>829,065</u>	<u>2,754,631</u>
Cash flow provided by investing activities:		
Proceeds from maturing investments	6,478,383	22,780,040
Proceeds from the sale of securities	3,139,771	3,874,132
Investment in partnership	—	(750,000)
Purchase of securities	(4,592,233)	(24,929,399)
Purchase of office furniture and equipment	(6,582)	(9,958)
Net cash provided by investing activities	<u>5,019,339</u>	<u>964,815</u>
Cash flows from financing activities:		
Treasury stock purchased	(42,250)	—
Dividends paid	(2,754,428)	(2,754,428)
Net cash used in financing activities	<u>(2,796,678)</u>	<u>(2,754,428)</u>
Net increase in cash	3,051,726	965,018
Cash and cash equivalents, beginning of year	<u>2,197,864</u>	<u>1,232,846</u>
Cash and cash equivalents, end of year	<u>\$ 5,249,590</u>	<u>2,197,864</u>

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2008 and 2007

(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 accrual 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 accrual 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 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) *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.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, amounts due from depository institutions, and money market funds.

(e) *Depreciation*

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 totaling \$6,582 for 2008 and \$9,958 for 2007 were expensed in accordance with Section 179 of the Internal Revenue Code (IRC).

(f) *Investment in Partnership*

During 2006, the Corporation acquired a 75% interest in B&L Exploration, LLC (BLX). Under Subchapter K of the Internal Revenue Code, the Corporation reports its distributive share of the

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2008 and 2007

income and losses from its investment in BLX. The Corporation's share of net loss from BLX for 2008 and 2007 is \$613,015 and \$974,359, respectively.

(g) 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 year.

(h) 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 accrued amounts as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(i) Reclassifications

Certain reclassifications have been made to the prior period financial statements in order to conform to the classification adopted for reporting in fiscal 2008.

(2) Investments in Marketable Securities

Marketable securities consist of investments in debt securities, which are carried at their amortized cost and equity securities, which are carried at cost. Cost, fair market value, and unrealized gains (losses) by security type at December 31, 2008 and 2007 are as follows:

	<u>Cost</u>	<u>Fair market value</u>	<u>Unrealized gains (losses)</u>
2008:			
Equity securities	\$ 1,314,842	1,688,388	373,546
Debt securities:			
Municipal bonds	350,000	350,000	—
Corporate bonds	3,682,130	3,562,718	(119,412)
	<u>\$ 5,346,972</u>	<u>5,601,106</u>	<u>254,134</u>

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2008 and 2007

	<u>Cost</u>	<u>Fair market value</u>	<u>Unrealized gains (losses)</u>
2007:			
Equity securities	\$ 3,521,832	5,151,533	1,629,701
Debt securities:			
Municipal bonds	350,000	350,000	—
U.S. government agencies	<u>6,527,757</u>	<u>6,535,777</u>	<u>8,020</u>
	10,399,589	12,037,310	1,637,721
Less current portion	<u>(5,596,554)</u>	<u>(5,600,777)</u>	<u>(4,223)</u>
	<u>\$ 4,803,035</u>	<u>6,436,533</u>	<u>1,633,498</u>

(3) Income Taxes

Components of income tax expense are as follows:

	<u>2008</u>	<u>2007</u>
Current:		
Federal	\$ 756,003	1,318,087
State	86,977	168,202
	<u>842,980</u>	<u>1,486,289</u>
Deferred:		
Federal	(531,168)	(531,547)
State	(81,547)	(87,738)
	<u>(612,715)</u>	<u>(619,285)</u>
	<u>\$ 230,265</u>	<u>867,004</u>

When the Corporation was required to change its accounting method from the cash receipts and disbursements method and file its tax returns on the accrual method in 2005, the Corporation was allowed to recognize a certain portion of income over a four-year period pursuant to Internal Revenue Code Section 481(a). The deferred benefit recognized above represents one fourth of the deferred taxes on the income deferral. Fiscal 2008 was the fourth and final year of the income deferral for income tax purposes.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2008 and 2007

The reconciliation of U.S. federal statutory and effective income tax rates is shown below:

	<u>2008</u>	<u>2007</u>
Statutory rate	34.0%	34.0%
Percentage depletion	(16.9)	(7.6)
State taxes provided	0.3	1.7
Other (net)	0.2	(1.1)
Effective tax rate	<u>17.6%</u>	<u>27.0%</u>

(4) 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, 2008 and 2007 were \$26,685 and \$43,803, respectively.

(5) Dividends

For the years ended December 31, 2008 and 2007, cash dividends of \$1.00 per share were paid on shares outstanding as of the date the dividends were declared.

(6) 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. On or about July 20, 2006, the Carmadelle entities filed an additional Declaratory Judgment lawsuit with regard to the same acreage. 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 Corporation has no liability beyond the costs of defending and prosecuting the various lawsuits and concursus proceedings. As of December 31, 2008, the Corporation's potential share of the funds deposited in the various concursus accounts is approximately \$50 million. 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 the Corporation, at this time, predict the outcome of the litigation.

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2008 and 2007

Company description	2008				2007			
	Shares/ face value	Cost	Market value	Unrealized gains (losses)	Shares/ face value	Cost	Market value	Unrealized gains (losses)
Marketable equity securities:								
Common stock:								
3 D Systems Corp.	16,500	\$ 205,024	131,010	(74,014)	23,000	\$ 282,042	355,120	73,078
AAR Corp.	—	—	—	—	12,200	337,787	463,966	126,179
American Vanguard Corp.	15,000	89,682	175,500	85,818	20,800	116,690	360,880	244,190
Cabelas's Inc. - Class A	—	—	—	—	13,000	315,667	195,910	(119,757)
EPIQ Systems Inc.	18,000	208,659	300,780	92,121	18,000	208,659	313,380	104,721
First State Bancorporation	—	—	—	—	14,000	211,687	194,600	(17,087)
Gulf Island Fabrication Inc.	4,500	85,309	64,845	(20,464)	9,000	284,372	285,390	1,018
Ion Geophysical Corp.	12,000	95,661	41,160	(54,501)	26,500	211,251	418,170	206,919
Jack Henry & Associates	10,000	48,890	194,100	145,210	14,000	68,442	340,760	272,318
Luminex Corp.	12,000	104,187	256,320	152,133	34,000	231,313	552,160	320,847
Marcus Corporation	11,000	181,030	178,530	(2,500)	13,500	222,170	208,575	(13,595)
Noble International Ltd.	—	—	—	—	18,000	289,054	293,580	4,526
O' Reilly Automotive Inc.	8,000	153,136	245,920	92,784	10,400	199,077	337,272	138,195
PHI Inc.	6,100	143,264	100,223	(43,041)	9,500	208,727	300,200	91,473
Quest Diagnostic, Inc.	—	—	—	—	6,300	316,562	333,270	16,708
SCP Pool Corp.	—	—	—	—	10,000	18,332	198,300	179,968
Subtotal		1,314,842	1,688,388	373,546		3,521,832	5,151,533	1,629,701
Marketable debt securities:								
Municipal bonds:								
Louisiana Loc Govt envir Facs-S-Eastern LA	—	—	—	—	350,000	350,000	350,000	—
Stud, due August 1, 2034	—	—	—	—	—	—	—	—
Louisiana Loc Govt Fac Aut	—	—	—	—	—	—	—	—
06/01/2039 0.00%	350,000	350,000	350,000	—	—	—	—	—
Subtotal		350,000	350,000	—		350,000	350,000	—

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2008 and 2007

Company description	2008				2007			
	Shares/ face value	Cost	Market value	Unrealized gains (losses)	Shares/ face value	Cost	Market value	Unrealized gains (losses)
U.S. government agencies:								
Federal Home Loan Bank Note, due February 28, 2008 4.530%	—	—	—	—	245,000	\$ 244,923	244,924	1
Federal Home Loan Bank Note, due April 14, 2008, 3.750%	—	—	—	—	200,000	200,000	199,500	(500)
Federal Home Loan Bank Note, due August 8, 2008 4.500%	—	—	—	—	250,000	249,375	250,235	860
Federal Home Loan Bank Note, due September 16, 2009, 4.110%	—	—	—	—	100,000	99,875	100,000	125
Federal Home Loan Bank Note, due October 13, 2009, 4.100%	—	—	—	—	200,000	200,000	200,000	—
Federal Home Loan Bank Note, due December 9, 2009, 4.375%	—	—	—	—	135,000	135,000	135,000	—
Federal Home Loan Bank Note, due July 14, 2010 4.800%	—	—	—	—	500,000	496,328	500,000	3,672
Federal Home Loan Bank Note, due January 15, 2008 5.200%	—	—	—	—	1,000,000	1,000,000	1,000,310	310
Federal Home Loan Bank Note, due February 4, 2008 5.200%	—	—	—	—	775,000	775,000	775,488	488
Federal Home Loan Discount Note, due March 24, 2008	—	—	—	—	2,706,000	2,675,964	2,679,077	3,113
Federal Home Loan Discount Note, due April 15, 2008	—	—	—	—	457,000	451,292	451,243	(49)
Subtotal						6,527,757	6,535,777	8,020
Corporate Bonds:								
Abbott Laboratories	300,000	300,025	305,915	5,890	—	—	—	—
Wells Fargo & Co	300,000	301,525	307,516	5,991	—	—	—	—
PHI Inc	300,000	281,650	183,750	(97,900)	—	—	—	—
JPMorgan Chase & Co	300,000	295,525	301,347	5,822	—	—	—	—
Caterpillar Fin Serv Corp	300,000	300,330	294,807	(5,523)	—	—	—	—
Dupont EI Nemour	300,000	297,775	297,524	(251)	—	—	—	—
Merck & Co Inc	300,000	300,775	299,633	(1,142)	—	—	—	—
United Technologies Corp	300,000	294,925	296,339	1,414	—	—	—	—
Goldman Sachs Group Inc	300,000	287,125	282,000	(5,125)	—	—	—	—
General Electric Capital Corp	300,000	300,025	299,759	(266)	—	—	—	—
Whitney National Bank Sub NO	500,000	442,525	400,000	(42,525)	—	—	—	—
Eli Lilly & Co	300,000	279,925	294,128	14,203	—	—	—	—
Total investments as of December 31, 2008 and 2007		\$ 3,682,130	\$ 3,562,718	(119,412)		\$ 10,399,589	\$ 12,037,310	\$ 1,637,721
		\$ 5,346,972	\$ 5,601,106	254,134				

See accompanying independent auditors' report.