Biloxi Marsh Lands Corporation

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March 15, 2007

To the Shareholders of Biloxi Marsh Lands Corporation:

We are pleased to report that 2006 was the eleven consecutive profitable year for your company. Total revenue for the year ending December 31, 2006 was $14,979,801 compared to total revenue of $22,512,638 in 2005. The annual revenue breakdown is as follows: 2006 revenue from oil and gas activity was $14,040,006 compared to revenue of $21,258,421 in 2005. It should be noted that 2006 included 14 monthly natural gas production payments as compared to the normal 12 monthly payments (5 payments received during Q1-2006; 3 payments received during Q2-2006; 3 payments received during Q3-2006; 3 payments received during Q4-2006). The increased number of payments received during Q1-2006 was due to a timing difference and was a one time event due to the Company taking its gas "in kind" as of December of 2005. Dividend and interest income for 2006 was $814,173 compared to $289,711 for 2005. In 2006 we incurred a loss from the sale of investment securities in the amount of $59,088 as compared to a net gain of $945,085 in 2005. Meanwhile, expenses for the year totaled $1,821,754 compared to $1,567,184 for the prior year. The increase in expenses was mainly due to the contribution made to the Biloxi Marsh Disaster Relief Fund, the development of the *Biloxi Marsh Stabilization and Restoration Plan* and hurricane Katrina related expenses. For the year net earnings were $9,119,130 or $3.31 per share compared to $13,882,006 or $5.04 per share in 2005.

We reported at the end of last year that the company had approximately 82,000 acres open and available for exploration and development. This clearly indicated the need for management to takes steps to jumpstart drilling activity. We also reported that the company was employing a marketing effort which it hoped would result in future oil, gas and mineral agreements. On December 15, 2006 we announced the formation of B & L Exploration, LLC (BLX) of which the company owns 75%. We also announced the placement of our first five well drilling package with the Manti Group. The Manti Group is obligated to drill at least three of the five prospects and hopes to commence drilling the first well which is located on company property by the end of March 2007. The agreement between the company and the Manti Group and the execution of two accompanying 400 acre oil, gas and mineral leases evidences the initial success of our marketing efforts. The establishment of BLX signifies the more active management strategy we are employing to seek opportunities on our property as well as outside of the confines of our physical boundaries. While we can not guarantee the success of each newly drilled well, our goal is to use all of our available assets to obtain revenue interests in newly drilled wells with minimal related cash expenditures.

On January 25, 2007 we announced our participátion in the NAPE Expo in Houston, Texas. With the assistance of BLX's technical consultants we presented our acreage position showing deep regional Tuscaloosa exploration opportunities developed over the past 12 to 18 months using existing geological well control and 3D seismic data. We also presented additional prospects targeting the Tex W, Big Hum and Cris I sand intervals. We are pleased with the interest expressed during the NAPE Expo and are hopeful that our ongoing efforts will result in future oil, gas and mineral agreements.

At the end of last year we reported that The Meridian Resource and Exploration, LLC (TMR) had placed all of its wells back online that were shut-in as a result of hurricane Katrina with the exception of the BML 28-1 well. We are pleased to report that this well was place back online on June 9, 2006. As of December 31, 2006 the combined gross daily production rate from 13 wells was approximately 22 million cubic feet (mmcf) with net daily production accruing to the Company of approximately 2.4 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 then 30% of the proved reserves depleting by the end of 2007. The same reserve study estimates that as of December 31, 2006 the Company's "Developed Producing" proved reserves are 1.5221 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 .337 billion cubic feet, totaling 2.502 bcf of proved reserves (see "Appendix A" for definitions of reserve classifications). Please find the following table showing the Company's proved reserves as of December 31, 2006:

Proved Reserves as of December 31, 2006 (3)

	Developed Producing	Developed Non-Producing	Proved Un-Developed	Total
			(dollars in thousands)	
Net Proved Reserves (1):				
Natural Gas (BCF)……………………	1.5221	.643	.337	2.502
Estimated Future Net Revenues (before income taxes) (2) :………………….			$	13,198
Estimated Discounted Future Net Revenues (before income taxes) (2):…….			$	10,474

(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, 2006 which was $5.623 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.*

It should be noted that the "Estimated Revenues" in the foregoing table are based on the price of natural gas as of December 31, 2006. As of December 31, 2005 the price was $10.05 compared to $5.623 for December 31, 2006, a difference of $4.43 per mmcf of natural gas.

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 Carmedelle 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, in early February 2006, the Louisiana Supreme Court upheld the Corporation's position for a third time. During 2006, the parties continued to engage in discovery efforts such as document production and depositions. Also in 2006, the Carmedelle entities filed an additional lawsuit once again seeking to have the trail court determine title issues. Management intends to vigorously defend the suit.

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, 2006, the Company's potential share of the funds deposited in the various concursus' accounts is approximately 42 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.

Prior to 2004, the Company has paid one dividend each year. During 2006 the Board of Directors paid two dividends totaling $4.00 per share of outstanding common stock or $11,017,712. While we will continue dividend payment, without a significant increase in the price of natural gas above the December 31, 2006 price level ($5.62/mmcf) or the addition of proved reserves it is not realistic to expect that the 2006 payment level will be obtainable in 2007.

Prior to Hurricane Katrina we retained the services of T. Baker Smith, Inc to develop *The Biloxi Marsh Stabilization and Restoration Plan*. Due to Hurricane Katrina we extended the scope of this project and retained additional technical experts to assist in formulating the plan. While we sustained land loss during hurricanes Katrina and Rita the results of the study commissioned by the company indicates that the land loss was not substantial. With this said, stabilization and restoration of our property is a major concern. 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. As of this time, we believe that the most likely source of funding for meaningful restoration projects may be associated with US Army Corps of Engineers de-authorization and subsequent closure of the Mississippi River Gulf Outlet (MRGO). We are participating in this process and other governmental restoration initiatives. *The Biloxi Marsh Stabilization and Restoration Plan* is a valuable tool to foster our participation and guide any future spending on restoration projects. A complete copy of *The Biloxi Marsh Stabilization and Restoration Plan* is available on our website www.biloximarshlandscorp.com

We remind our shareholders that St. Bernard Parish, Louisiana, the Parish where our property is located, was indescribably devastated by Hurricane Katrina and is struggling to recover. To assist in the Parish's rebuilding the Company has established and funded the Biloxi Marsh Disaster Relief Fund Corporation. Detailed information about the fund is available on its website www.selarelief.com. During 2006 the fund applied for and received IRS 501 (c) (3) tax exempt status making all contributions to the fund tax deductible. Those living outside the hurricane affected zone and all interested parties are asked to remember the people of St. Bernard Parish, Louisiana by donating to the Biloxi Marsh Disaster Relief Fund Corporation. You may send a check to the fund at the company's address or contribute using a credit card on the Fund's website: www.selarelief.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.

In last year's President's report we advised that we retained a geologist and geophysicist to determine the extent of our opportunities and to give senior management better understanding of the strategic course the Company should take. We believe that the formation of BLX demonstrates our commitment to moving the company forward while positioning it for the future. Simply to rest on the good fortune of past few years and wait for opportunities to come to us is not acceptable to your Board of Directors. We are pleased with the placement of the first five well package that will give the company a revenue interest in at least three newly drilled wells. We are hopeful that the majority of these wells will be successfully completed leading to the addition of proved reserves.

Sincerely,

William B. Rudolf
President and Chief Executive Officer
Metairie, Louisiana
Email: wrbiloxi@bellsouth.net[i]

[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.

KPMG

BILOXI MARSH LANDS CORPORATION

Financial Statements and Schedule

December 31, 2006 and 2005

(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, 2006 and 2005, 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 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 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, 2006 and 2005, 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, 2006 and 2005 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 14, 2007

BILOXI MARSH LANDS CORPORATION

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

December 31, 2006 and 2005

Assets		**2006**	**2005**
Current assets:			
Cash and cash equivalents	$	1,232,846	3,545,301
Marketable debt securities – at cost		4,732,349	8,633,691
Total current assets		5,965,195	12,178,992
Investments:			
Other investments		1,775,995	—
Marketable debt and equity securities – at cost		7,183,413	6,661,708
Land – at cost		234,939	234,939
		9,194,347	6,896,647
Property:			
Levees and office furniture and equipment (net of accumulated depreciation of $205,004 ($173,497 at 2005)		—	—
Total assets	$	15,159,542	19,075,639
Liabilities and Stockholders' Equity			
Current liabilities:			
Federal income taxes payable	$	697,035	2,395,312
State income taxes payable		34,132	375,289
Payroll taxes payable		33,326	22,138
Total current liabilities		764,493	2,792,739
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		14,422,344	16,310,195
		14,469,864	16,357,715
Less cost of treasury stock – 96,768 shares		(74,815)	(74,815)
		14,395,049	16,282,900
Total liabilities and stockholders' equity	$	15,159,542	19,075,639

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, 2006 and 2005

		2006	2005
Revenues:			
Oil and gas:			
Lease bonuses and delay rentals	$	314,121	1,943,308
Pipeline right of ways		25,000	104,660
Royalties (net of production taxes of $431,539 and $620,845 in 2006 and 2005, respectively)		13,700,885	19,210,457
Total oil and gas revenues		14,040,006	21,258,425
Other:			
Partnership income		169,659	—
Dividends and interest		814,173	289,711
Gain (loss) on sale of securities		(59,088)	954,085
Surface rentals		15,051	7,869
Other		—	2,548
Total other revenues		939,795	1,254,213
Total revenues		14,979,801	22,512,638
Expenses:			
Salaries		102,000	102,000
Bonuses		244,200	244,200
Payroll taxes		12,679	12,641
Employee benefits		58,550	56,550
Association dues		6,600	6,500
Accounting and auditing		131,340	67,645
Severance tax preparation		9,131	—
Gas marketing fees		22,542	—
Clerical		80	126
Consultants		246,791	190,332
Depreciation		31,507	4,944
Directors' fees		99,250	107,500
Franchise taxes		102,381	69,286
Insurance		117,011	116,448
Land management fees and expenses		8,645	7,299
Legal fees		264,244	474,846
Other		92,069	37,999
Hurricane related expenses		15,848	44,916
Portfolio services		40,008	21,972
Property taxes		36,922	—
Rent		16,700	1,980
Charitable contributions		163,256	—
Total expenses		1,821,754	1,567,184
Income before income taxes		13,158,047	20,945,454
Income tax expense		4,028,186	7,063,448
Net income		9,129,861	13,882,006
Retained earnings, beginning of year		16,310,195	11,380,080
		25,440,056	25,262,086
Dividends		11,017,712	8,951,891
Retained earnings, end of year	$	14,422,344	16,310,195
Net income per share	$	3.31	5.04

See accompanying notes to financial statements.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows – Income Tax Basis

Years ended December 31, 2006 and 2005

		2006	2005
Cash flows provided by operating activities:			
Oil and gas revenues received	$	14,040,006	21,258,425
Interest and dividends received		814,173	289,711
Other		15,051	7,869
Cash paid for expenses		(1,638,265)	(1,482,548)
Cash paid for income and other taxes		(6,208,414)	(4,785,377)
Net cash provided by operating activities		7,022,551	15,288,080
Cash flows provided by (used in) investing activities:			
Proceeds from maturing investments		49,198,784	26,943,560
Proceeds from the sale of securities		472,104	2,606,030
Contribution to partnership		(1,606,336)	—
Purchase of securities		(46,350,339)	(32,561,047)
Purchase of office furniture and equipment		(31,507)	(4,217)
Net cash provided by (used in) investing activities		1,682,706	(3,015,674)
Cash flows used in financing activities:			
Dividends paid		(11,017,712)	(8,951,891)
Net increase (decrease) in cash		(2,312,455)	3,320,515
Cash and cash equivalents, beginning of year		3,545,301	224,786
Cash and cash equivalents, end of year	$	1,232,846	3,545,301
Supplemental disclosures of cash flow information:			
Cash paid during the year for income taxes	$	6,067,620	4,716,091

See accompanying notes to financial statements.

(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 2006 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 $0 and $728 for 2006 and 2005, respectively. In addition, assets totaling $31,507 for 2006 and $4,216 for 2005 were expensed in accordance with Section 179 of the Internal Revenue Code (IRC).

(e) Other Investments

During 2006, the Corporation invested in B&L Exploration, LLC (BLX). The Corporation accounts for its investment using the equity method. The Corporation's share of net income from BLX for 2006 is $169,659.

(Continued)

(f) ***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.

(g) ***Expense Reimbursement***

During 2006 and 2005, the Corporation expended $49,450 and $114,404, respectively, 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 $40,795 and $107,105, respectively, by its major lessee for these expenditures.

(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 unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(i) ***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, 2006 and 2005 is as follows:

		2006	2005
Net income	$	9,129,861	13,882,006
Adjustments–cash provided by (used in) operations:			
Depreciation		31,507	4,944
Loss (gain) on sale of securities		59,088	(954,085)
Partnership income		(169,659)	—
Refundable income taxes		—	219,787
Income taxes payable		(2,039,434)	2,127,570
Payroll taxes payable		11,188	7,706
Other		—	152
Cash provided by operating activities	$	7,022,551	15,288,080

(Continued)

(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, 2006 and 2005 are as follows:

		Cost	Fair market value	Unrealized gains (losses)
2006:				
Equity securities	$	4,157,912	6,221,691	2,063,779
Debt securities:				
Municipal bond		1,400,000	1,400,000	—
U.S. government agencies		6,357,850	6,365,441	7,591
		11,915,762	13,987,132	2,071,370
Less current portion		(4,732,349)	(4,759,533)	(27,184)
	$	7,183,413	9,227,599	2,044,186
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

(4) Income Taxes

Components of income tax expense are as follows:

		2006	2005
Federal	$	3,544,629	6,215,099
State		483,557	848,349
	$	4,028,186	7,063,448

(Continued)

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:

		2006	2005
Tax expense (based on federal statutory rate)	$	4,473,736	7,330,909
Income tax effect of :			
Depletion on royalty income		(720,754)	(801,497)
State income tax (net of federal income tax benefit)		319,148	551,427
Other		(43,944)	(17,391)
Provision for income taxes	$	4,028,186	7,063,448

(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, 2006 and 2005 were $41,335 and $63,917, respectively.

(6) Dividends Declared

For the year ended December 31, 2006, cash dividends of $4.00 per shares were paid. Included in these paid dividends was a cash dividend of $2.00 per share declared on December 19, 2005 by the board of directors and paid on January 25, 2006.

(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. 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, 2006, the Corporation's potential share of the funds deposited in the various concursus accounts is approximately $42 million. The

(Continued)

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 the Corporation, 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, 2006 and 2005 of $451,627 and $1,293,196, respectively.

Schedule

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2006 and 2005

Company Description	2006 Shares/ face value	2006 Cost	2006 Market value	2006 Unrealized gains (losses)	2005 Shares/ face value	2005 Cost	2005 Market value	2005 Unrealized gains (losses)
Marketable equity securities:								
Common stock:								
3D Systems Corp.	19,000	$ 222,367	303,240	80,873	19,000	222,367	342,000	119,633
Advanced Med Optics, Inc.	8,200	280,080	288,640	8,560	8,200	$ 280,080	342,760	62,680
American Vanguard Corp.	20,800	116,690	330,720	214,030	15,600	116,690	366,600	249,910
Block, H&R, Inc.	12,700	307,780	292,608	(15,172)	12,700	307,780	311,785	4,005
Cabol Corporation	8,000	279,745	348,560	68,815	8,000	279,745	286,400	6,655
Digital Insight	13,700	341,718	527,313	185,595	—	—	—	—
EPIQ Systems Inc.	16,400	272,679	278,308	5,629	16,400	272,679	304,056	31,377
First State Bancorporation	14,000	211,687	346,500	134,813	14,000	211,687	335,860	124,173
Input Output Inc.	30,000	239,152	408,900	169,748	30,000	239,152	210,900	(28,252)
Jack Henry & Associates	14,000	68,442	299,600	231,158	14,000	68,442	267,260	198,818
Laserscope	—	—	—	—	11,500	218,974	258,290	39,316
Luminex Corp.	34,000	231,313	431,800	200,487	34,000	231,313	395,080	163,767
Marcus Corporation	13,500	222,170	345,330	123,160	13,500	222,170	317,250	95,080
Noble International Ltd.	18,000	289,054	360,900	71,846	12,000	289,054	250,080	(38,974)
O'Reilly Automotive Inc.	10,400	199,077	333,424	134,347	10,400	199,077	332,904	133,827
PHI Inc.	9,500	208,727	313,500	104,773	9,500	208,727	294,500	85,773
Quest Diagnostic, Inc.	6,300	316,562	333,900	17,338	—	—	—	—
SCP Pool Corp.	10,000	18,332	391,700	373,368	10,000	18,332	372,200	353,868
YRC Worldwide Inc.	7,600	332,337	286,748	(45,589)	—	—	—	—
Subtotal		4,157,912	6,221,691	2,063,779		3,386,269	4,987,925	1,601,656
Marketable debt securities:								
Municipal Bonds:								
Jefferson Cnty Ata Swr Rev Ars Ref-wts-subser B-1-C, due February 1, 1942	450,000	450,000	450,000	—	450,000	450,000	450,000	—
Louisiana Loc Govt envir Facs-S-Eastern LA Stud, due August 1, 1934	350,000	350,000	350,000	—	350,000	350,000	350,000	—
Sevier Cnty Tenn Pub Bldg Auth Var-Loc Govt Pub Impt, due October 1, 2025	600,000	600,000	600,000	—	500,000	600,000	600,000	—
Subtotal		1,400,000	1,400,000	—		1,400,000	1,400,000	—
U.S. government agencies:								
Freddie Mac Discount Note, due various	—	—	—	—	1,490,000	1,464,164	1,488,123	23,959
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 23, 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)

(Continued)

Schedule

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2006 and 2005

	2006				2005			
Company Description	Shares/ face value	Cost	Market value	Unrealized gains (losses)	Shares/ face value	Cost	Market value	Unrealized gains (losses)
Fannie Mae, due December 15, 2006 3.07%	—	$ —	—	—	125,000	$ 125,391	122,656	(2,735)
Fannie Mae, due December 29, 2006 3.00%	—	—	—	—	200,000	200,000	196,562	(3,438)
Federal Home Loan Discount Note, due January 10, 2007	1,000,000	987,500	998,287	10,787	—	—	—	—
Federal Home Loan Discount Note, due January 25, 2007	1,000,000	992,004	996,154	4,150	—	—	—	—
Federal Home Loan Discount Note, due February 14, 2007	1,089,000	1,070,094	1,081,726	11,632	—	—	—	—
Federal Home Loan Discount Note, due March 16, 2007	1,450,000	1,432,813	1,434,193	1,380	—	—	—	—
Federal Home Loan Bank Note, due February 28, 2007 4.270%	200,000	199,938	199,688	(250)	200,000	199,938	198,876	(1,062)
Federal Home Loan Bank Note, due September 26, 2007 3.80%	50,000	50,000	49,485	(515)	50,000	50,000	49,219	(781)
Federal Home Loan Bank Note, due February 28, 2008 4.530%	245,000	244,923	243,087	(1,836)	245,000	244,923	243,317	(1,606)
Federal Home Loan Bank Note, due April 14, 2008, 3.750%	200,000	200,000	196,562	(3,438)	200,000	200,000	195,688	(4,312)
Federal Home Loan Bank Note, due August 8, 2008 4.500%	250,000	249,375	247,812	(1,563)	250,000	249,375	248,048	(1,327)
Federal Home Loan Bank Note, due September 16, 2009, 4.110%	100,000	99,875	97,656	(2,219)	100,000	99,875	97,531	(2,344)
Federal Home Loan Bank Note, due October 13, 2009, 4.100%	200,000	200,000	195,126	(4,874)	200,000	200,000	194,876	(5,124)
Federal Home Loan Bank Note, due December 9, 2009, 4.375%	135,000	135,000	132,385	(2,615)	135,000	135,000	132,385	(2,615)
Federal Home Loan Bank Note, due July 14, 2010 4.800%	500,000	496,328	493,280	(3,048)	500,000	496,328	493,905	(2,423)
Subtotal		6,357,850	6,365,441	7,591		10,509,130	10,529,440	20,310
Total investments as of December 31, 2006 and 2005		$ 11,915,762	13,987,132	2,071,370		$ 15,295,399	16,917,365	1,621,966

See accompanying independent auditors' report.