



BILOXI MARSH LANDS CORPORATION

Financial Statements, Schedule and President's Report

December 31, 2004 and 2003

Biloxi Marsh Lands Corporation

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February 21, 2005

To the Shareholders of Biloxi Marsh Lands Corporation:

While we are pleased to report that 2004 was the ninth consecutive profitable year for your company, we are even more pleased with the level of revenue and earnings which represents the Company's best annual financial performance since its founding in 1936. Total revenue for the year 2004 was \$22,226,700 compared to total revenue of \$6,704,557 in 2003. The revenue breakdown is as follows: 2004 revenue from oil and gas activity was \$21,267,614 compared to revenue of \$6,262,704 in 2003. Dividend and interest income for 2004 was \$114,065 compared to \$96,549 for 2003. In 2004 gains from the sale of investment securities were \$802,846 as compared to a net gain of \$327,846 in 2003. Meanwhile, net earnings increased to \$13,821,040 or \$5.02 in 2004 from \$4,015,568 or \$1.46 per share in 2003 (split adjusted).

The Meridian Resource and Exploration, LLC (Meridian) continued its 3D seismic program which is planned to be completed in five (V) Phases. In prior years Meridian completed Phase I & II of its 3D seismic survey covering approximately 85 square miles of our acreage. During 2004 Phase III of Meridian's 3D seismic survey was completed. Due to the physical layout of the 3D seismic program, Phase III covered only approximately 4 square miles of Company property. This brings the total amount of Company property surveyed during Phase I, II and III to approximately 89 square miles, leaving approximately 48 square miles to survey. Meridian commenced shooting Phase IV of its 3D seismic survey during the first quarter of 2005. Phase IV is currently planned to cover the approximately 48 square miles of Company property left to survey. As provided for in the lease agreement between the Company and Meridian during 2004 the Company took delivery of the 3D seismic data which was collected during Phase II covering Company property with one mile offsets in every direction. It should be noted that during 2003 we took delivery of the 3D seismic data which was collected during Phase I. Management believes that 3D data sets which Meridian has already delivered to the Company and the seismic data acquired as the result of the completion of subsequent Phases will prove to be valuable corporate assets and we are taking steps to proactively use the data to our strategic advantage.

Meridian added significantly to the pipeline infrastructure running through Company acreage by completing its 8 mile – 12 inch diameter pipeline during the third quarter of 2004 and building a 1 mile spur onto this pipeline during the fourth quarter. The completion of these pipelines enabled Meridian to put 8 additional wells on production during the year. As provided for in the pipeline right of way agreements the Company has the right to use excess capacity in the pipeline for a fee and has the option, not the obligation, to take over the pipeline 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.

During the year Meridian successfully completed 11 wells in which the Company owns an interest with 1 additional well successfully logged awaiting a work over rig and 4 wells which were unsuccessful being plugged and abandoned as dry holes. The Meridian - BML 5-1, 6-3, 7-2, 7-3, 8-1, 19-1, 22-1, 24-1, 31-1, and State Lease (S/L) 17598-1 (formerly Ducros et al No. 32-1) wells were placed on production during the year. The Company owns an interest in each of the producing units that have been or will be formed to produce each of these wells. On December 31, 2004 each of these wells were producing natural gas as were Meridian's BML 1-2 and 18-1 wells. Meanwhile the BML 6-1, and 6-2 wells were producing natural gas on compression. After several unsuccessful attempts to re-complete its BML 7-1 well, Meridian side tracked out of the bore hole to successfully complete its BML 6-3 well. It appears that the BML 6-3 is completed in the same reservoir as the BML 6-1 and 6-2 wells and was also being produced on compression as of December 31, 2004. According to Meridian the BML 7-4 well has been successfully logged and is awaiting a work over rig due to initial completion problems. In addition to the Meridian wells, on December 31, 2004 the Manti Jambi, Inc.-BML 1 and 3 wells continued to produce natural gas on compression. As of December 31, 2004 the combined gross daily production rate from all of these 16 wells was approximately 81 million cubic feet (mmcf) with net daily production accruing to the Company of approximately 9.9 mmcf.

On January 30, 2005, Meridian commenced drilling its Biloxi Marsh Lands (BML) 21-1 well. If this well is

successfully completed the Company will own a percentage of the producing unit. Unlike the majority of our wells producing natural gas from the CRIS I sand interval, the BML 21-1 well is being drilled to develop the shallower BIG HUM sand interval, which is producing natural gas and condensate nearby from Meridian's BML 28-1 well and its S/L 18041-1 well. During January of 2005 Meridian successfully placed its BML 28-1 and S/L 18041-1 on production at a combined gross daily rate of approximately 7.0 mmcf of natural gas and 120 barrels of condensate. The Company will own a percentage of the producing units that are in the process of being formed to produce each of these two wells. It should be noted that in the BML 28-1 well Meridian logged proved non-producing (PDNP) reserves in the shallower TEX W sand interval.

The Company recently 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 2 to 6 years with slightly less than 50% of the proved reserves depleting by the end of 2005. The same reserve study estimates that as of December 31, 2004 the Company's "Developed Producing" proved reserves are 4.772 billion cubic feet (bcf) of natural gas and estimates that the "Developed Non-Producing" proved reserves are 1.021 bcf, totaling 5.792 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 10 producing units covering approximately 3,400 acres of Company property, with the Company owning an additional 84,500 +/- acres. The reserve study does not cover or attempt to estimate un-proven reserves under any of these 84,500 +/- acres. As of this time, we offer no guidance as to quantities of reserves, if any, under any of these 84,500 +/- 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> (dollars in thousands) | | <u>Total</u> |
|--|--------------------------------|--|----|--------------|
| Net Proved Reserves (1): | | | | |
| Natural Gas (BCF)..... | 4.772 | 1.021 | | 5.792 |
| Estimated Future Net Revenues (before income taxes) (2) :..... | | | \$ | 36,323 |
| Estimated Discounted Future Net Revenues (before income taxes) (2):..... | | | \$ | 31,542 |

(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, 2004 which was \$6.38 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 (f) 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 Company on or about November 2, 2001 as the result of disturbances in the Company'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 is being considered by the court. Management intends to vigorously pursue the Corporations' possessory action and vigorously defend the Molero family members' declaratory judgment action.

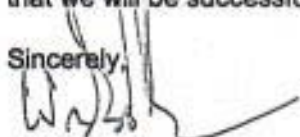
In addition to the above described competing claims to the subject acreage, there are also competing claims between the Company and the State of Louisiana regarding certain waterbottoms within each producing unit. There is no potential for an adverse judgment declaring the payment of Company funds as the consolidated suits will ultimately determine the possession and ownership of the subject property. As of December 31, 2004 the Company's potential share of the funds deposited in the various concursus accounts is close to 23 million dollars. As of the date of this report, there is no way to forecast a time table for the conclusion of the litigation and the resolution of the disputes.

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 2004 we declared the following dividends:

| <u>Date Declared</u> | <u>Date Paid</u> | <u>Type</u> | <u>\$ per share</u> |
|----------------------|------------------|-------------|---------------------|
| April 16, 2004 | May 5, 2004 | Cash | .625 |
| July 7, 2004 | July 21, 2004 | Cash | 1.00 |
| October 5, 2004 | October 27, 2004 | Cash | 1.00 |
| December 20, 2004 | January 17, 2005 | Cash | 1.50 |
| Total Declared: | | | 4.125 |

While we are hopeful that our current major Lessee will continue to successfully develop the relatively shallow TEX W, BIG HUM and CRIS I sand intervals, we believe that the development of the deeper TUSCALOOSA and CRETACEOUS intervals could prove to represent significant value for the Company and its shareholders. Management believes that it has a duty to use a portion of our current strong cash flow to perpetuate cash flows over the long term. This should allow us to work with our current Lessee or seek other business relationships for the future exploration and development of shallow reserves that may be left behind or to explore deeper sand intervals. While there is no guarantee that we will be successful in finding opportunities to maximize shareholder value, we have set this as a goal for the future.

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.

"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.

(ii) Nonproducing reserves include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from completion intervals open at the time of the estimate, but which had not started producing, or were shut in for market conditions or pipeline connection, or were not capable of production for mechanical reasons, and the time when sales will start is uncertain. Behind-pipe reserves are expected to be recovered from zones behind casing in existing wells, which will require additional completion work or a future recompletion prior to the start of production.



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

Independent Auditors' Report

Board of Directors
Biloxi Marsh Lands Corporation
New Orleans, Louisiana:

We have audited the accompanying statement of assets, liabilities and stockholders' equity – income tax basis of Biloxi Marsh Lands Corporation (the Corporation) as of December 31, 2004, and the related statements of revenue and expenses and retained earnings – income tax basis, and cash flows – income tax basis for the year 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 audit. The accompanying financial statements of Biloxi Marsh Lands Corporation as of December 31, 2003 and for the year then ended, were audited by other auditors whose report dated February 3, 2004 expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides 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 2004 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, 2004, and its revenues and expenses and retained earnings, and cash flows for the year then ended, on the basis of accounting described in note 1(b).

Our audit for the year ended December 31, 2004, 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, 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 for the year ended December 31, 2004. The report of the other auditors referred to above, dated February 3, 2004, stated that the supplementary information for the year ended December 31, 2003, included in the schedule of marketable securities, was subjected to auditing procedures applied in their audit of the 2003 basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2003, taken as a whole.

KPMG LLP

January 28, 2005

BILOXI MARSH LANDS CORPORATION

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

December 31, 2004 and 2003

| Assets | 2004 | 2003 |
|--|---------------|-----------|
| Current assets: | | |
| Cash and cash equivalents | \$ 224,786 | 246,787 |
| Refundable state income taxes | — | 27,005 |
| Refundable federal taxes | 219,787 | — |
| Total current assets | 444,573 | 273,792 |
| Investments: | | |
| Marketable debt and equity securities | 11,330,007 | 4,259,485 |
| Land - at cost | 234,939 | 234,939 |
| | 11,564,946 | 4,494,424 |
| Property: | | |
| Levees and office furniture and equipment (net of accumulated depreciation of \$168,553 (\$157,537 at 2003)) | 728 | 1,659 |
| Total assets | \$ 12,010,247 | 4,769,875 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Federal income taxes payable | \$ — | 1,089 |
| State income taxes payable | 643,031 | — |
| Payroll taxes payable | 14,431 | 6,668 |
| Total current liabilities | 657,462 | 7,757 |
| Stockholders' equity: | | |
| Common stock, no par value - 20,000,000 shares authorized, 2,851,196 shares issued, 2,754,428 shares outstanding | 47,520 | 47,520 |
| Retained earnings | 11,380,080 | 4,789,413 |
| | 11,427,600 | 4,836,933 |
| Less cost of treasury stock - 96,768 shares | (74,815) | (74,815) |
| | 11,352,785 | 4,762,118 |
| Total liabilities and stockholders' equity | \$ 12,010,247 | 4,769,875 |

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, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|----------------------|---------------------|
| Revenues: | | |
| Oil and gas: | | |
| Lease bonuses and delay rentals | \$ 3,603,203 | 544,620 |
| Pipeline right of ways | 382,501 | 49,798 |
| Royalties (net of production taxes of \$583,383 and \$161,819 in 2004 and 2003, respectively) | 17,281,910 | 5,636,667 |
| Seismic permit fees | — | 31,619 |
| Total oil and gas revenues | <u>21,267,614</u> | <u>6,262,704</u> |
| Other: | | |
| Dividends and interest | 114,065 | 96,549 |
| Gain on sale of securities | 802,846 | 327,846 |
| Surface rentals | 38,414 | 17,458 |
| Other | 3,761 | — |
| Total other revenues | <u>959,086</u> | <u>441,853</u> |
| Total revenues | <u>22,226,700</u> | <u>6,704,557</u> |
| Expenses: | | |
| Salaries | 100,133 | 104,067 |
| Bonuses | 165,000 | 56,850 |
| Payroll taxes | 10,344 | 6,955 |
| Employee benefits | 51,783 | 44,919 |
| Association dues | 6,500 | 6,670 |
| Accounting and auditing | 57,015 | 31,200 |
| Administrative management | — | 1,500 |
| Clerical | 296 | 645 |
| Consultants | 87,412 | 28,863 |
| Depreciation | 17,888 | 14,849 |
| Directors' fees | 94,000 | 34,000 |
| Franchise taxes | 29,620 | 33,662 |
| Insurance | 79,032 | 67,348 |
| Land management fees and expenses | 6,429 | 116 |
| Legal fees | 258,174 | 308,552 |
| Other | 42,389 | 48,649 |
| Portfolio services | 23,264 | 15,862 |
| Property taxes | 17,498 | 17,908 |
| Rent | 10,560 | 7,290 |
| Total expenses | <u>1,057,337</u> | <u>829,905</u> |
| Income before income taxes | 21,169,363 | 5,874,652 |
| Income tax expense | <u>7,348,323</u> | <u>1,859,084</u> |
| Net income | 13,821,040 | 4,015,568 |
| Retained earnings at beginning of year | <u>4,789,413</u> | <u>4,044,728</u> |
| | 18,610,453 | 8,060,296 |
| Dividends | <u>7,230,373</u> | <u>3,270,883</u> |
| Retained earnings at end of year | \$ <u>11,380,080</u> | \$ <u>4,789,413</u> |
| Net income per share | \$ <u>5.02</u> | \$ <u>1.46</u> |

See accompanying notes to financial statements.

BILOXI MARSH LANDS CORPORATION

Statements of Cash Flows - Income Tax Basis

Years ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|--------------------|--------------------|
| Cash flows provided by operating activities: | | |
| Oil and gas revenues received | \$ 21,267,614 | 6,262,704 |
| Interest and dividends received | 114,065 | 96,549 |
| Other | 42,175 | 17,458 |
| Cash paid for purchased interest | (499) | (961) |
| Cash paid for expenses | (1,003,104) | (810,709) |
| Cash paid for income and other taxes | <u>(6,926,784)</u> | <u>(1,916,590)</u> |
| Net cash provided by operating activities | <u>13,493,467</u> | <u>3,648,451</u> |
| Cash flows provided by (used in) investing activities: | | |
| Proceeds from maturing investments | 2,061,791 | 1,903,878 |
| Proceeds from the sale of securities | 1,422,385 | 861,042 |
| Purchase of securities | (9,759,186) | (4,078,343) |
| Purchase of office furniture and equipment | <u>(10,085)</u> | <u>(13,919)</u> |
| Net cash used in investing activities | <u>(6,285,095)</u> | <u>(1,327,342)</u> |
| Cash flows used in financing activities: | | |
| Dividends paid | <u>(7,230,373)</u> | <u>(3,270,883)</u> |
| Net decrease in cash | (22,001) | (949,774) |
| Cash and cash equivalents at beginning of year | <u>246,787</u> | <u>1,196,561</u> |
| Cash and cash equivalents at end of year | \$ <u>224,786</u> | \$ <u>246,787</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for income taxes | \$ 6,911,000 | 1,885,000 |

See accompanying notes to financial statements.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2004 and 2003

(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. Accordingly, 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) *Cash Equivalents*

Management of the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(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 \$930 for 2004 and 2003. In addition, assets totaling \$10,086 for 2004 and \$13,919 for 2003 were expensed in accordance with Section 179 of the I.R.C.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2004 and 2003

(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.

On April 16, 2004, the shareholders approved a four-for-one stock split on the Company's common stock to be effected by the distribution of three shares for each share outstanding. Additionally, the Company increased the number of authorized common shares from 5,000,000 to 20,000,000. All shares outstanding and per share amounts have been restated to reflect the stock split.

(f) Expense Reimbursement

During 2004, the Company expended \$97,540 in environmental consulting, property management and oversight services related to its major leasee's, The Meridien Resource & Exploration, LLC, field operations. As provided for in the various contract agreements which permit the field operations, the Company was reimbursed \$91,111 by its major Lessee for these expenditures.

(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 years 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, 2004 and 2003 is as follows:

| | 2004 | 2003 |
|--|---------------|-----------|
| Net income | \$ 13,821,040 | 4,015,568 |
| Adjustments - cash provided by (used in) operations: | | |
| Depreciation | 17,888 | 14,849 |
| Gain on sale of securities | (802,846) | (327,846) |
| Purchased interest | 462 | (961) |
| Refundable income taxes | (192,782) | (15,738) |
| Income taxes payable | 641,942 | (41,768) |
| Payroll taxes payable | 7,763 | 4,347 |
| Cash provided by operating activities | \$ 13,493,467 | 3,648,451 |

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2004 and 2003

(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, 2004 and 2003 are as follows:

| | <u>Cost</u> | <u>Fair market Value</u> | <u>Unrealized gains (losses)</u> |
|--------------------------|----------------------|------------------------------|--------------------------------------|
| 2004: | | | |
| Equity securities | \$ 3,075,546 | 5,583,901 | 2,508,355 |
| Debt securities: | | | |
| Corporate bonds | — | — | — |
| Municipal bond | 1,400,000 | 1,400,000 | — |
| U.S. Government Agencies | 6,854,461 | 6,852,241 | (2,220) |
| | <u>\$ 11,330,007</u> | <u>13,836,142</u> | <u>2,506,135</u> |
| 2003: | | | |
| Equity securities | \$ 1,946,733 | 4,020,063 | 2,073,330 |
| Debt securities: | | | |
| Corporate bonds | 99,861 | 102,569 | 2,708 |
| Municipal bond | 318,326 | 317,582 | (744) |
| U.S. Government Agencies | 1,894,565 | 1,898,611 | 4,046 |
| | <u>\$ 4,259,485</u> | <u>6,338,825</u> | <u>2,079,340</u> |

(4) Income Taxes

Components of income tax expense are as follows:

| | <u>2004</u> | <u>2003</u> |
|---------|---------------------|------------------|
| Federal | \$ 6,456,123 | 1,612,513 |
| State | 892,200 | 246,571 |
| | <u>\$ 7,348,323</u> | <u>1,859,084</u> |

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2004 and 2003

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>2004</u> | <u>2003</u> |
|--|---------------------|------------------|
| Tax expense (based on federal statutory rate) | \$ 7,409,277 | 1,997,382 |
| Income tax effect of: | | |
| Depletion on royalty income | (629,904) | (295,734) |
| State income tax (net of federal income tax benefit) | 579,930 | 162,737 |
| Other | <u>(10,980)</u> | <u>(5,312)</u> |
| Provision for income taxes | \$ <u>7,348,323</u> | <u>1,859,073</u> |

(5) Related Party Transactions

A member of the Board of Directors/Officer is a partner in the law firm which represents the Company. Payments to this related party for the years ended December 31, 2004 and 2003 were \$23,254 and \$5,299, respectively.

(6) Dividends Declared

For the year ended December 31, 2003, all dividends were declared and paid prior to December 31. On December 20, 2004, the Board of Directors declared a cash dividend of \$1.50 per share which was paid January 17, 2005. The amount paid of \$4,131,642 will be reflected as a reduction in cash and retained earnings in the 2005 financial statements.

(7) Commitments and Contingencies

There is currently pending a Possessory action suit which was filed by the Company on or about November 2, 2001 as a result of disturbances in the Company's possession of Sections 1, 2 and 3, T13S, and R16E due to competing oil, gas & 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 Company'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 filed a declaratory judgment action with regard to the same acreage, which action was consolidated with the Company'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 a concursus proceeding with respect to additional producing units formed which contain conflict acreage. Consolidation of the concursus proceedings with the Possessory action and declaratory judgment action mentioned above is being considered by the court. Management intends to vigorously pursue the Company's Possessory action and vigorously defend against the Molero family members' declaratory judgment action.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements

December 31, 2004 and 2003

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 waterbottoms within each producing unit. There is no potential for an adverse judgment declaring the payment of Company 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. As of December 31, 2004, the Company's potential share of the funds deposited in the various concursus accounts is close to 23 million dollars. 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 Company 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 Company had uninsured cash balances at December 31, 2004 and 2003 of \$111,999 and \$1,466,819, respectively.

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2004 and 2003

| Company Description | 2004 | | | | 2003 | | | |
|---|--------------------------|------------------|------------------|---------------------------------|--------------------------|------------------|------------------|---------------------------------|
| | Shares/ face value | Cost | Market value | Unrealized gains (losses) | Shares/ face value | Cost | Market value | Unrealized gains (losses) |
| Marketable equity securities: | | | | | | | | |
| Common stocks: | | | | | | | | |
| American Vanguard Corp. | 7,000 | \$ 87,274 | 257,460 | 170,186 | 8,500 | \$ 159,092 | 316,795 | 157,703 |
| Block, H&R, Inc. | — | — | — | — | 4,100 | 109,979 | 227,017 | 117,038 |
| Cerner Corp. | — | — | — | — | 7,000 | 145,303 | 264,950 | 119,647 |
| Cooper Companies Inc. | 6,400 | 133,559 | 451,776 | 318,217 | 6,400 | 133,559 | 301,632 | 168,073 |
| EPIQ Systems Inc. | 8,700 | 126,584 | 127,368 | 784 | 8,700 | 126,584 | 149,031 | 22,447 |
| First State Bancorporation | 4,800 | 115,165 | 176,448 | 61,283 | 4,800 | 115,165 | 166,800 | 51,635 |
| Garmin LTD | 5,000 | 95,517 | 304,200 | 208,683 | 5,000 | 95,517 | 272,400 | 176,883 |
| Input Output Inc. | 30,000 | 239,152 | 265,200 | 26,048 | — | — | — | — |
| Intl Rectifier Corp. | 12,800 | 461,081 | 570,496 | 109,415 | — | — | — | — |
| Irwin Financial Corp. | 5,300 | 126,593 | 150,467 | 23,874 | 5,300 | 126,593 | 166,420 | 39,827 |
| Jack Henry & Associates | 14,000 | 68,442 | 278,740 | 210,298 | 14,000 | 68,442 | 288,120 | 219,678 |
| Labone Inc. | 7,500 | 150,124 | 240,300 | 90,176 | 7,500 | 150,124 | 243,525 | 93,401 |
| Laserscope | 11,500 | 218,974 | 412,965 | 193,991 | — | — | — | — |
| Luminex Corp. | 26,000 | 150,043 | 230,880 | 80,837 | 26,000 | 150,043 | 243,880 | 93,837 |
| Marcus Corporation | 13,500 | 222,170 | 339,390 | 117,220 | — | — | — | — |
| Noble International Ltd. | 7,800 | 191,012 | 159,042 | (31,970) | — | — | — | — |
| O'Charleys Inc. | — | — | — | — | 8,400 | 67,900 | 150,780 | 82,880 |
| O Reilly Automotive Inc. | 5,200 | 199,077 | 234,260 | 35,183 | — | — | — | — |
| Petroleum Helicopters VTG | 7,200 | 139,770 | 185,609 | 45,839 | 7,200 | 139,770 | 176,400 | 36,630 |
| Pfizer, Inc. | 6,000 | 916 | 161,340 | 160,424 | 6,000 | 916 | 211,980 | 211,064 |
| SCP Pool Corp. | 15,750 | 28,873 | 502,425 | 473,552 | 15,750 | 28,873 | 343,140 | 314,267 |
| Stone Energy Corp. | 3,500 | 98,852 | 157,815 | 58,963 | 3,500 | 98,852 | 148,575 | 49,723 |
| Union Planters Corp. | — | — | — | — | 3,375 | 70,425 | 106,279 | 35,854 |
| Yellow Corporation | — | — | — | — | 6,700 | 159,596 | 242,339 | 82,743 |
| 3 D Systems Corp. | 19,000 | 222,368 | 377,720 | 155,352 | — | — | — | — |
| | | <u>3,075,546</u> | <u>5,583,901</u> | <u>2,508,355</u> | | <u>1,946,733</u> | <u>4,020,063</u> | <u>2,073,330</u> |
| Corporate Bonds: | | | | | | | | |
| Ford Motor Credit, 7.740%, due July 16, 2004 | — | — | — | — | 100,000 | 99,861 | 102,569 | 2,708 |
| Municipal Bonds: | | | | | | | | |
| Louisiana Loc Govt Envir Facs Shreveport/ Independence-2000, 1.2%, due March 1, 2004 | — | — | — | — | 30,000 | 30,000 | 30,007 | 7 |
| Louisiana Loc Govt Envir Facs Shreveport/ Independence-2000, 1.2%, due March 1, 2004 | — | — | — | — | 140,000 | 139,999 | 140,032 | 33 |
| Saint Charles Parish Louisiana School District #1 RFDG DO, 2.0%, due March 1, 2004 | — | — | — | — | 50,000 | 50,115 | 50,076 | (39) |
| Tangipahoa Louisiana Cons Sch 116 Gen Oblig Imp Bds, Series 2003, 6.0%, due May 1, 2004 | — | — | — | — | 95,000 | 97,251 | 96,506 | (745) |
| Purchased interest | — | — | — | — | — | 961 | 961 | — |

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities

December 31, 2004 and 2003

| Company Description | 2004 | | | | 2003 | | | |
|--|--------------------------|--------------------------|--------------------------|---------------------------------|--------------------------|-------------------------|-------------------------|---------------------------------|
| | Shares/ face value | Cost | Market value | Unrealized gains (losses) | Shares/ face value | Cost | Market value | Unrealized gains (losses) |
| Municipal Bonds, continued: | | | | | | | | |
| Jefferson Cnty Ala Swr Rev Ars Ref-wts-subser B-1-C, due February 1, 2042 | 450,000 | \$ 450,000 | 450,000 | — | — | \$ — | — | — |
| Louisiana Loc Govt Envir Facs-S-Eastern LA Stud, due August 1, 2034 | 350,000 | 350,000 | 350,000 | — | — | — | — | — |
| Sevier Cnty Tenn Pub Lbdg Auth Var-Loc Govt Pub Impt, due October 1, 2025 | 600,000 | 600,000 | 600,000 | — | — | — | — | — |
| | | <u>1,400,000</u> | <u>1,400,000</u> | <u>—</u> | | <u>318,326</u> | <u>317,582</u> | <u>(744)</u> |
| U.S. Government Agencies: | | | | | | | | |
| Federal Home Loan Bank Note due April 12, 2006 | — | — | — | — | 200,000 | 200,000 | 201,312 | 1,312 |
| Federal Home Loan Bank Note due May 12, 2004 | — | — | — | — | 1,000,000 | 995,811 | 995,969 | 158 |
| Fannie Mae due November 25, 2005, 2.50% | — | — | — | — | 100,000 | 100,000 | 100,219 | 219 |
| Federal Home Loan Bank Note due September 26, 2007, 3.80% | 50,000 | 50,000 | 50,235 | 235 | 50,000 | 50,000 | 51,094 | 1,094 |
| Fannie Mae due April 30, 2004 | — | — | — | — | 300,000 | 298,968 | 298,919 | (49) |
| Fannie Mae, due December 29, 2006, 3.00% | 200,000 | 200,000 | 198,938 | (1,062) | 200,000 | 200,000 | 201,312 | 1,312 |
| U.S. Treasury Bills due June 17, 2004 | — | — | — | — | 50,000 | 49,786 | 49,786 | — |
| 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 | 123,711 | (1,680) | — | — | — | — |
| Federal Home Loan Bank Note due April 14, 2008, 3.750% | 200,000 | 200,000 | 200,062 | 62 | — | — | — | — |
| Federal Home Loan Bank Note due September 16, 2009, 4.110% | 100,000 | 99,875 | 99,969 | 94 | — | — | — | — |
| Federal Home Loan Bank Note due October 13, 2009, 4.100% | 200,000 | 200,000 | 200,062 | 62 | — | — | — | — |
| Federal Home Loan Bank Note due December 29, 2009, 4.375% | 135,000 | 135,000 | 135,464 | 464 | — | — | — | — |
| U.S. Treasury Bills due January 27, 2005 | 153,000 | 152,848 | 152,816 | (32) | — | — | — | — |
| Purchased interest | — | 499 | 499 | — | — | — | — | — |
| | | <u>6,854,461</u> | <u>6,852,241</u> | <u>(2,220)</u> | | <u>1,894,565</u> | <u>1,898,611</u> | <u>4,046</u> |
| Total investments | \$ | <u>11,330,007</u> | <u>13,836,142</u> | <u>2,506,135</u> | \$ | <u>4,259,485</u> | <u>6,338,825</u> | <u>2,079,340</u> |

See accompanying independent auditors' report.