

Biloxi Marsh Lands Corporation

One Galleria Blvd., Suite #902

Metairie, Louisiana 70001

Phone: (504) 837-4337

Fax: (504) 837-1889

March 18, 2010

To the Shareholders of Biloxi Marsh Lands Corporation:

We are pleased to report that 2009 was the fourteenth consecutive profitable year for your Company. Total revenue for the year ending December 31, 2009 was \$23,008,898 compared to total revenue of \$2,960,529 in 2008. The annual revenue breakdown is as follows: 2009 revenue from oil and gas activity was \$22,041,872 compared to revenue of \$3,247,721 in 2008. \$21,460,469 in revenue categorized as *Oil and Gas Royalty Settlement* and \$2,754,707 categorized as *Interest Income Settlement* were directly attributable to the settlement of the litigation pending since 2001 in the Louisiana State Court in St. Bernard Parish to determine the ownership of Sections 1, 2 and 3, Township 13 South, Range 16 East. It should be noted that the revenues received as the result of the settlement are onetime, non-recurring revenue items. During 2009 total revenues included a \$2,615,703 loss emanating from the *Gain (Loss) from Investment in Partnership* category which represents the Company's interest in B&L Exploration, LLC (BLX). This compares to a loss of \$613,015 in the same category for the prior year. BLX was able to expense Depreciation, Depletion, and Amortization. BLMC's share of this expense was \$591,409 for 2009 and \$855,599 for 2008. Dividend and interest income for 2009 was \$362,442 compared to \$330,394 for 2008. In 2009 we realized a cumulative gain from the sale of investment securities of \$122,461 as compared to a cumulative loss from the sale of investment securities in the amount of \$26,696 in 2008. Meanwhile, expenses for the year totaled \$2,139,318 compared to \$1,653,448 for the prior year. For the year, net earnings were \$13,722,625 or \$5.00 per share compared to \$1,076,816 or \$.39 per share in 2008.

The Company previously announced on July 14, 2009 that settlement agreements have been reached effective July 1, 2009 binding all of the parties to the litigation pending since 2001 in the Louisiana State Court in St. Bernard Parish to determine the ownership of Sections 1, 2 and 3, Township 13 South, Range 16 East. These settlement agreements have resulted in the dismissal of all litigation between the settling parties. In accordance with the settlement agreements, the Company received a onetime non-recurring settlement payment of \$23,949,171. Also, under the terms and provisions of the settlement, in addition to receiving the settlement funds, the Company will remain the sole owner of the property and has the exclusive right to enter into oil, gas and mineral leases.

As a result of the receipt of the settlement funds and the end of the litigation, the Board of Directors declared a \$2.00 per share special dividend payable on Wednesday, July 29, 2009 to shareholders of record as of the close of business on Friday, July 24, 2009. The settlement funds were taxable income to the Company, as they represent proceeds paid on natural gas production attributable to the disputed tracts.

It should be noted that the announced settlement does not involve the disputes raised in the pending litigation in State Court in St. Bernard Parish with the State of Louisiana regarding the State's claims to certain waterbottoms owned by the Company. As of this time, there is approximately \$15mm deposited in the various concursus accounts established to hold the funds relating to these disputes between the Company and the State of Louisiana.

As of December 31, 2009 the combined gross daily production rate from 3 wells operated by the Company's mineral Lessees was approximately 6.7 million cubic feet (mmcf) of natural gas with net daily production accruing to the Company of approximately .68 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, 2009 approximately 1.25 mmcf per day.

BLX was organized as a limited liability company (LLC) under the laws of Louisiana in July of 2006. BLX's Class A members are BLMC and Lake Eugenie Land & Development, Inc. (LKEU), which have membership percentages of 75% and 25% respectively. The Operating Agreement was amended on November 16, 2009 to create a Class B membership to allow for certain future projects at the discretion of the board of managers to be participated by either Class A or Class B members or a combination of the respective Classes. BLX's Class B members are BLMC and LKEU, which have membership percentages of 90% and 10% respectfully.

We previously announced that BLX drilled and successfully completed the SL 19061 #1 Well. This well was placed on production January 8, 2010 and was producing at a rate of 2.75 mmcf per day as of March 1, 2010. BLX is the Operator of this well. In addition, we are pleased to announce that BLX participated in the drilling and completion of the Delacroix # 41 ST and the SL 1212 #1 in Plaquemines Parish, Louisiana. Each of these wells logged oil and gas pay within the UL-5 sand interval. BOPCO, L.P. is the Operator of these wells located within the Pointe A La Hache Field. BLX has a 25% working interest in each of these wells. Including these new discovery wells, as of March 1, 2010 the total net daily natural gas production accruing to the Company (Lessee wells on fee based lands and BLX wells) approximately 2.7 mmcf of natural and natural gas equivalents. BLMC owns a 75% interest in the BLX wells located in St. Bernard Parish and a 90% interest in the BLX wells located in Plaquemines, Parish. BLX's future plans include participating in the drilling of additional wells during 2010 as well as formulate strategies to focus on the mineral potential under our fee based lands.

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, 2009 the Company's "Developed Producing" (PDP) reserves are .613 billion cubic feet (bcf) of natural gas and estimates that the "Developed Non-Producing" (PDNP) reserves are .62 bcf, with the "Proved Un-Developed" (PUD) reserves being .576 bcf, totaling 1.951 bcf of estimated proved reserves (see "Appendix A" for definitions of reserve classifications). This represents a decline in our fee based land reserves of approximately .54 BCF. Additionally, this reserve study estimates that slightly more than 23% of the proved reserves directly attributable to the Company will deplete by the end of 2010.

Please find the following table showing the Company's proved reserves as of December 31, 2009:

Proved Reserves as of December 31, 2009 (3), (5)

	<u>Developed Producing (PDP)</u>	<u>Developed Non-Producing (PDNP)</u>	<u>Proved Un-Developed (PUD)</u>	<u>Total</u>
			(Dollars in thousands)	
Net Proved Reserves (1):				
Natural Gas (BCF):	.613	.62	.576	1.951
Estimated Future Net Revenues (before income taxes) (2):.....			\$	7,033 (4)
Estimated Discounted Future Net Revenues (before income taxes) (2):.....			\$	5,513 (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 base product price based on the 12 month average price calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12 month period prior to December 31, 2009. The oil price of \$61.18 per barrel is based on the West Texas Intermediate (WTI), Cushing, Oklahoma spot prices. The natural gas price of \$3.87 per MMBtu is based on the Henry Hub gas daily prices.

(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.

Based on another proved reserve study completed by T. J. Smith & Company, Inc., as of December 31, 2009 the BLX's estimated proved reserves were 2.2 billion cubic feet (bcf) of natural gas and 27 thousand barrels of oil (mdbl) which equates to "Estimated Future Net Revenues" of \$6.61mm with an "Estimated Discounted Future Net Revenues" of \$5.66mm (see note 2 above). Based upon the Company's proportional ownership in the BLX wells, as of December 31, 2009 the portion of the estimated reserves allocated to the Company was 1.762 BCF of natural gas and 24.3 MBBL of oil. Combining the Company's portion of the proved reserves in both studies makes the estimated proved reserves accruing to the Company to 3.712 BCF of natural gas and 24.3 MBBL of oil, equating to 3.955 BCFE or natural gas equivalents (10:1 ratio). This compares to total proved reserves allocated to the Company as December 31, 2008 of 3.57 BCF, an increase year over year of .385 BCFE

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. As of December 31, 2008 and 2009, BLX utilized \$300,000 and \$1,400,000 respectively.

On October 1, 2008 we announced our plans to repurchase up to 27,500 shares of our common stock. As of December 31, 2009 we have been successful in purchasing a total of 13,000 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.

Three years ago, the Company returned to its custom of paying one dividend per calendar year. However, due to the settlement of the litigation we paid two dividends during 2009. On July 29, 2009 the Company paid a dividend of \$2.00 per share and again on December 30, 2009 the Company paid an additional dividend of \$1.00 per share, totaling \$3.00 per share or \$8,224,284. It is anticipated that the custom of paying one dividend per calendar year will be followed in 2010. Since 2002, the Company has paid slightly more than \$47,000,000 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 appointment to the Governor's Advisory Commission on Coastal Protection, Restoration and Conservation. 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.

At this time last year we were hopeful that the downturn in the oil and gas industry would allow us to identify opportunities that were not available to us in a more robust business environment. We believe that the recent success of BLX demonstrates that we have been able to take advantage of opportunities which became available. Due to the one time non-recurring influx of cash from the settlement of the litigation, we decided to accelerate BLX's drilling program during the third and fourth quarters of 2009. The goal of this accelerated drilling program was to mitigate our income tax liabilities while increasing our proved reserves. With our fee based land production declining, we are pleased with the results of BLX's drilling program. Not only has the drilling program more than replaced our proved reserves and kept our daily production steady, it has diversified our proved reserve base by the addition of oil production as well as expanding geographic area from which our production emanates. During 2010 we plan to continue to attempt to increase our proved reserves through our investment in BLX, while developing strategies that hopefully will increase drilling activity on our fee based lands.

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.



BILOXI MARSH LANDS CORPORATION
Financial Statements and Schedule – Income Tax Basis
December 31, 2009 and 2008
(With Independent Auditors' Report Thereon)

BILOXI MARSH LANDS CORPORATION

Table of Contents

	Page
Independent Auditors' Report	1
Statements of Assets, Liabilities, and Stockholders' Equity – Income Tax Basis	3
Statements of Revenues and Expenses – Income Tax Basis	4
Statements of Stockholders' Equity – Income Tax Basis	5
Statements of Cash Flows – Income Tax Basis	6
Notes to Financial Statements – Income Tax Basis	7
Schedule	
1 Schedule of Marketable Securities – December 31, 2009 and 2008	14



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

Independent Auditors' Report

The 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 as of December 31, 2009 and 2008, and the related statements of revenues and expenses – income tax basis, stockholders' equity – income tax basis, and cash flows – income tax basis for the years then ended. These financial statements – income tax basis are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements – income tax basis 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 – income tax basis 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements – income tax basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported in the accompanying financial statements – income tax basis may be subject to change at a later date upon final determination by the taxing authorities.

In our opinion, the financial statements – income tax basis referred to above present fairly, in all material respects, the assets, liabilities, and stockholders' equity of Biloxi Marsh Lands Corporation as of December 31, 2009 and 2008, and its revenues and expenses, changes in stockholders' equity, 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 – income tax basis taken as a whole. The supplementary information included in schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements – income tax basis. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements – income tax basis and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements – income tax basis taken as a whole.

KPMG LLP

March 12, 2010

BILOXI MARSH LANDS CORPORATION

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

December 31, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 6,611,227	5,249,590
Accounts receivable	148,996	271,005
Accrued interest receivable	69,571	53,763
Federal income taxes receivable	244,918	322,578
Payroll taxes receivable	—	2,068
Prepaid expenses	37,327	36,926
State income taxes receivable	80,803	62,731
Other assets	3,830	3,830
Total current assets	<u>7,196,672</u>	<u>6,002,491</u>
Investment in partnership	2,822,918	938,621
Marketable debt and equity securities – at cost	7,679,804	5,346,972
Land	234,939	234,939
Levees and office furniture and equipment	251,332	187,972
Accumulated depreciation	<u>(251,332)</u>	<u>(187,972)</u>
Total assets	<u>\$ 17,934,333</u>	<u>12,523,023</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	\$ 21,747	42,778
Other current liabilities	2,520	2,520
Total current liabilities	<u>24,267</u>	<u>45,298</u>
Stockholders' equity:		
Common stock, \$0.001 par value. Authorized 20,000,000 shares; issued 2,851,196 shares; outstanding 2,741,428 shares in 2009 and 2,749,428 in 2008	47,520	47,520
Retained earnings	18,045,611	12,547,270
Treasury stock, 109,768 and 101,768 shares in 2009 and 2008, respectively, at cost	<u>(183,065)</u>	<u>(117,065)</u>
Total stockholders' equity	<u>17,910,066</u>	<u>12,477,725</u>
Total liabilities and stockholders' equity	<u>\$ 17,934,333</u>	<u>12,523,023</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues:		
Oil and gas royalties	\$ 1,341,856	3,099,224
Oil and gas royalties settlement	21,460,469	—
Severance taxes	<u>(810,453)</u>	<u>(103,034)</u>
Oil and gas royalties, net	21,991,872	2,996,190
Lease bonuses and delay rentals	45,000	221,500
Pipeline right of ways	<u>5,000</u>	<u>30,031</u>
Total oil and gas revenues	<u>22,041,872</u>	<u>3,247,721</u>
Other income (loss):		
Gain (loss) from investment in partnership	(2,615,703)	(613,015)
Dividends and interest income	362,442	330,394
Interest income on oil and gas royalties settlement	2,754,707	—
Gain (loss) on sale of securities	122,461	(26,696)
Surface rentals	16,125	22,125
Other	<u>326,994</u>	<u>—</u>
Total other income (loss)	<u>967,026</u>	<u>(287,192)</u>
Total revenues and income	<u>23,008,898</u>	<u>2,960,529</u>
Expenses:		
Salaries	202,000	162,000
Bonuses	397,500	311,610
Payroll taxes	17,441	16,279
Employee benefits	74,000	64,813
Association dues	6,650	6,650
Accounting and auditing	181,095	122,261
Gas marketing fees	6,030	6,188
Consultants	49,187	102,120
Depreciation	63,360	6,582
Directors' fees	261,000	87,000
Franchise taxes	60,339	73,034
Insurance	91,162	93,713
Land management fees	41,726	31,851
Legal fees	515,598	411,532
Other	61,515	74,013
Portfolio services	45,242	34,651
Property taxes	16,740	17,213
Rent	21,437	23,425
Charitable contributions	<u>27,296</u>	<u>8,513</u>
Total expenses	<u>2,139,318</u>	<u>1,653,448</u>
Net income before income taxes	20,869,580	1,307,081
Income tax expense	<u>7,146,955</u>	<u>230,265</u>
Net income	<u>\$ 13,722,625</u>	<u>1,076,816</u>
Net income per share	\$ 5.00	0.39

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION
 Statements of Stockholders' Equity – Income Tax Basis
 Years ended December 31, 2009 and 2008

	Common Stock		Treasury Stock		Retained earnings	Total
	Shares	Amount	Shares	Amount		
Balance, December 31, 2007	2,851,196	\$ 47,520	(96,768)	(74,815)	14,224,882	14,197,587
Net income	—	—	—	—	1,076,816	1,076,816
Purchase of treasury shares	—	—	(5,000)	(42,250)	—	(42,250)
Dividends	—	—	—	—	(2,754,428)	(2,754,428)
Balance, December 31, 2008	2,851,196	47,520	(101,768)	(117,065)	12,547,270	12,477,725
Net income	—	—	—	—	13,722,625	13,722,625
Purchase of treasury shares	—	—	(8,000)	(66,000)	—	(66,000)
Dividends	—	—	—	—	(8,224,284)	(8,224,284)
Balance, December 31, 2009	<u>2,851,196</u>	<u>\$ 47,520</u>	<u>(109,768)</u>	<u>(183,065)</u>	<u>18,045,611</u>	<u>17,910,066</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flow provided by operating activities:		
Net income	\$ 13,722,625	1,076,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	63,360	6,582
Deferred income taxes	—	(612,715)
(Gain) loss on sale of securities	(122,461)	26,696
Loss from investment in partnership	2,615,703	613,015
Change in operating assets and liabilities:		
Accounts and interest receivables	110,031	155,045
Prepaid expenses	(4,231)	3,562
Income taxes	59,588	(402,985)
Accrued expenses	(21,031)	(7,287)
Payroll taxes and other liabilities	2,068	(29,664)
Net cash provided by operating activities	<u>16,425,652</u>	<u>829,065</u>
Cash flow provided by investing activities:		
Proceeds from maturing investments	350,000	6,478,383
Proceeds from the sale of securities	256,661	3,139,771
Investment in partnership	(4,500,000)	—
Purchase of securities	(2,817,032)	(4,592,233)
Purchase of office furniture and equipment	(63,360)	(6,582)
Net cash (used in) provided by investing activities	<u>(6,773,731)</u>	<u>5,019,339</u>
Cash flows from financing activities:		
Treasury stock purchased	(66,000)	(42,250)
Dividends paid	(8,224,284)	(2,754,428)
Net cash used in financing activities	<u>(8,290,284)</u>	<u>(2,796,678)</u>
Net increase in cash	1,361,637	3,051,726
Cash and cash equivalents, beginning of year	<u>5,249,590</u>	<u>2,197,864</u>
Cash and cash equivalents, end of year	\$ <u><u>6,611,227</u></u>	\$ <u><u>5,249,590</u></u>
Supplemental cash flow information:		
Cash paid for income taxes	\$ 7,087,367	596,830

See accompanying notes to financial statements – income tax basis.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) *Nature of Operations*

Biloxi Marsh Lands Corporation (the Company) is a Delaware corporation whose principal assets are surface and mineral rights to approximately 90,000 acres of marsh land in St. Bernard Parish, Louisiana, which generates revenues primarily from mineral activities including lease bonuses, delay rentals, and royalties on oil and natural gas production. A study by an independent reservoir engineering firm estimates that the Company has proved reserves in natural gas associated with a portion of this property. These proved reserve estimates are not included in these financial statements – income tax basis.

As discussed in note 3, the Company owns an interest in B&L Exploration L.L.C. (B&L). B&L is engaged principally in the exploration for and development of petroleum natural resources through various ownership interests in oil and natural gas properties located in the state of Louisiana.

(b) *Basis of Accounting*

The accompanying financial statements are presented in accordance with the accrual method of tax accounting used for federal income tax reporting purposes. Under this method of accounting, revenues are generally recorded when earned, and expenses are recognized when incurred. The accompanying financial statements – income tax basis are not intended to present the financial position and results of operation of the Company in conformity with accounting principles generally accepted in the United States of America.

Because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported in the financial statements – income tax basis may be subject to change at a later date upon final determination by the taxing authorities.

(c) *Use of Estimates*

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

(d) *Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include \$2,470,430 and \$5,177,271 of money market funds with an initial term of less than three months at December 31, 2009 and 2008, respectively.

(e) *Accounts Receivable*

Accounts receivable are recorded at invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statements of cash flows – income tax basis. Account balances are charged off after all means of collection have been

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

exhausted and the potential for recovery is remote. The Company does not have any off-balance-sheet exposure related to its customers.

(f) Investment Securities

Investment securities at December 31, 2009 and 2008 consist of corporate debt and equity securities. The Company has the ability and intent to hold its investments in corporate bonds until maturity. The Company's investments in equity securities are available for sale. The Company does not buy and hold investment securities principally for the purpose of selling them in the near term.

Under the income tax basis of accounting, investment securities are recorded at cost in the statements of assets, liabilities, and stockholders' equity – income tax basis. Unrealized gains and losses are excluded from earnings until realized. Realized gains and losses from the sale of equity securities are determined on a specific-identification basis. Dividend income is recognized when received. Interest income is recognized when earned.

(g) Land and Equipment

Land and equipment are stated at cost. The Company had depreciation expense of \$63,360 and \$6,582 in 2009 and 2008, respectively. Repair and maintenance costs are expensed when incurred.

(h) Revenue Recognition

Under the accrual method of tax accounting, the Company recognizes revenue in the period in which all events have occurred that fix the right to receive the revenue, and the amount can be determined with reasonable accuracy. Severance tax is remitted to the State of Louisiana and is reported as a reduction of oil and natural gas royalties in the statements of revenues and expenses – income tax basis.

(i) 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 purchased totaling \$63,360 and \$6,582 in 2009 and 2008, respectively, were depreciated in full in the year the asset was put in service in accordance with Section 179 of the Internal Revenue Code (IRC).

(j) Treasury Stock

The Company follows the cost method of accounting for treasury stock transactions.

(k) Income Taxes

Under the income tax basis of accounting, income taxes are accounted for based on an estimate of current federal and state income tax expense. Deferred tax assets and liabilities are not recognized. The Company has no net operating loss or tax credit carryforwards at December 31, 2009 and 2008.

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

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

(l) Net Income per Share

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

(m) Commitments and Contingencies

Under the income tax basis of accounting, liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, and penalties and other sources, are not recorded until paid. Commitments and contingencies, if material, are disclosed even if not paid as of the financial reporting date.

(2) Investments in Investment Securities

The cost basis, unrecorded gross unrealized gains, unrecorded gross unrealized losses, and fair value of corporate bonds and equity securities as of December 31, 2009 and 2008 were as follows:

	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At December 31, 2009:				
Corporate bonds	\$ 4,870,620	279,778	(34,161)	5,116,237
Equity securities	<u>2,809,184</u>	<u>682,404</u>	<u>(57,505)</u>	<u>3,434,083</u>
	\$ <u><u>7,679,804</u></u>	<u><u>962,182</u></u>	<u><u>(91,666)</u></u>	<u><u>8,550,320</u></u>
At December 31, 2008:				
Debt securities:				
Municipal bonds	\$ 350,000	—	—	350,000
Corporate bonds	3,682,130	33,590	(153,002)	3,562,718
Equity securities	<u>1,314,842</u>	<u>568,066</u>	<u>(194,520)</u>	<u>1,688,388</u>
	\$ <u><u>5,346,972</u></u>	<u><u>601,656</u></u>	<u><u>(347,522)</u></u>	<u><u>5,601,106</u></u>

Maturities of corporate bonds were as follows at December 31, 2009:

	<u>Cost basis</u>	<u>Fair value</u>
Due after one through five years	\$ 2,368,540	2,497,046
Due after five years through ten years	<u>2,502,080</u>	<u>2,619,191</u>
	\$ <u><u>4,870,620</u></u>	<u><u>5,116,237</u></u>

Cash proceeds from the sale of investment securities were \$256,661 and \$3,139,771 in 2009 and 2008, respectively. Realized cash gains were \$122,461 in 2009 and realized cash losses from the sale of investment securities were \$26,696 in 2008. The Company had no investment securities with other-than-temporary declines in fair value at December 31, 2009.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

(3) Investment in Partnership

The Company owns an interest in B&L Exploration, L.L.C., (B&L) an oil and gas exploration business. According to the operating agreement dated August 23, 2006, the Company owns a 75% interest in Class A membership of B&L. The remaining 25% interest in B&L is owned by Lake Eugenie Land & Development, Inc., a related party of the Company. B&L has commissioned a reserve study which was completed by an independent reservoir engineering firm. This reserve study estimates that B&L has proved reserves in natural gas and oil attributable to its mineral properties. The proved reserve estimates are not included in the table below summarizing financial information – income tax basis of B&L. The operating agreement was amended on November 16, 2009 to create a Class B membership to allow for certain future projects at the discretion of the board of managers to be participated by members of either Class A, Class B, or a combination of the respective Classes. The Company owns a 90% interest in Class B membership of B&L. The remaining 10% of Class B membership percentage is owned by Lake Eugenie Land & Development, Inc.

Under the income tax method of accounting, the Company accounts for its membership percentage on the equity method whereby the Company recognizes its share of income and losses of the investment. The Company recognized \$2,615,703 and \$613,015 of losses in 2009 and 2008, respectively.

The carrying amount of the investment in B&L was \$2,822,918 and \$938,621 at December 31, 2009 and 2008, respectively. Summary financial information – income tax basis of B&L as of and for the years ended December 31, 2009 and 2008 (on the income tax basis of accounting) follows:

	<u>2009</u>	<u>2008</u>
Financial position – income tax basis:		
Current assets	\$ 3,276,317	364,111
Mineral properties and equipment, net	<u>1,947,890</u>	<u>1,582,576</u>
Total assets	<u>\$ 5,224,207</u>	<u>1,946,687</u>
Current liabilities	\$ 731,399	444,876
Revolving line of credit	<u>1,400,000</u>	<u>300,000</u>
Total current liabilities	2,131,399	744,876
Members' equity	<u>3,092,808</u>	<u>1,201,811</u>
Total liabilities and members' equity	<u>\$ 5,224,207</u>	<u>1,946,687</u>
Results of operations – income tax basis:		
Revenues, net	\$ 2,065,078	1,795,908
Net loss	(3,109,003)	(817,353)

The Company has provided a guarantee of a \$5,000,000 revolving line of credit with a bank held by B&L. The guarantee is allocated to the members based upon membership class percentage which can be identified to certain projects for which the borrowings were utilized. As of December 31, 2009, the Company's guarantee is 75% of \$5,000,000, or \$3,750,000, which is consistent with its Class A membership percentage, as all borrowings are identified with Class A membership projects. The line of

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

credit expires August, 28, 2010. Outstanding borrowings by B&L under the revolving line of credit were \$1,400,000 and \$300,000 as of December 31, 2009 and 2008, respectively. Under the income tax basis of accounting, the estimated fair value of the Company's guarantee of B&L's revolving line of credit is not required to be recognized. As of December 31, 2009, there are no indications that the Company will be required to perform under the terms of the guarantee.

(4) Income Taxes

Components of income tax expense (benefit) are as follows:

	<u>2009</u>	<u>2008</u>
Current:		
Federal	\$ 6,502,010	756,003
State	644,945	86,977
	<u>7,146,955</u>	<u>842,980</u>
Total current income tax expense		
Deferred:		
Federal	—	(531,168)
State	—	(81,547)
	<u>—</u>	<u>(612,715)</u>
Total deferred income tax benefit		
Total income tax expense	\$ <u>7,146,955</u>	<u>230,265</u>

In 2005, the Company was required to change its tax accounting method from the cash receipts and disbursements method to the tax accrual method. The Company was allowed to recognize a certain portion of taxable income as a result of the change over a four-year period pursuant to IRC Section 481(a). In 2008, the Company recognized the remaining tax effects of the accounting change.

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

	<u>2009</u>	<u>2008</u>
Statutory rate	35.0%	34.0%
Percentage depletion	(2.9)	(16.9)
State taxes provided	2.0	0.3
Other (net)	0.1	0.2
	<u>34.2%</u>	<u>17.6%</u>
Effective tax rate		

(5) Stockholders' Equity

(a) Common Stock

Holders of common stock are entitled to one vote per share, to receive dividends, and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to stockholders.

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

(b) Rights Plan

On November 6, 2003, the board of directors of the Company adopted a shareholder rights plan. Pursuant to the Rights Agreement by and between the Company and the Company (as Rights Agent), authorized and declared a dividend of one preferred share purchase right for each outstanding share of common shares of the Company on November 20, 2003, payable November 21, 2003. Each right entitles the holder to purchase from the Company one one-hundredth of a share of Series A Junior

Participating Preferred Stock, with a par value of \$0.001, at a price of \$90.00 per one one-hundredth of a share. The rights, however, will not become exercisable unless and until, among other things, any person acquires 15% or more of the outstanding common shares of the Company. If a person acquires 15% or more of the outstanding common shares (subject to certain conditions and exceptions more fully described in the Rights Agreement), each right will entitle the holder (other than the person who acquired 15% or more of the outstanding common shares) to purchase preferred stock of the Company at a favorable price. The rights have no voting power, and unless the rights are redeemed, exchanged, or terminated earlier, they will expire on October 31, 2013.

(c) Repurchase Plan

On September 26, 2008, the board of directors authorized the purchase of up to 27,500 shares of its outstanding common stock. The purchases will be made from time to time on the open market at the sole discretion of the Company. All shares purchased will be held as treasury stock. For the period ended December 31, 2009 and 2008, the Company acquired shares of 8,000 and 5,000, respectively, to arrive at total cumulative shares as of December 31, 2009 and 2008 of 13,000 and 5,000, respectively, under this plan. The authorization to purchase shares expires upon completion of targeted goal.

(d) Dividends

The Company paid cash dividends on common stock of \$8,224,284 and \$2,754,428 in 2009 and 2008, respectively.

(6) Commitments and Contingencies

Effective July 1, 2009 settlement agreements were reached binding all of the parties to the litigation pending since 2001 in the Louisiana State Court in St. Bernard Parish to determine the ownership of Sections 1, 2 and 3, Township 13 South, Range 16 East. These settlement agreements resulted in the dismissal of all litigation between the settling parties. In accordance with the settlement agreements, the Company received a one-time nonrecurring settlement payment of \$23,949,171. Also, under the terms and provisions of the settlement, in addition to receiving the settlement funds, the Company will remain the sole owner of the property and has the exclusive right to enter into oil, gas and mineral leases.

The announced settlement does not involve the disputes raised in the pending litigation in State Court in St. Bernard Parish with the State of Louisiana regarding the State's claims to certain waterbottoms owned by the Company. As of this time, there is approximately \$15,000,000 deposited in the various concursus accounts established to hold the funds relating to these disputes between the Company and the State of Louisiana. There are multiple cases involving disputes over the ownership of waterbottoms. The first case involving disputes over the ownership of waterbottoms has been scheduled for trial on

BILOXI MARSH LANDS CORPORATION

Notes to Financial Statements – Income Tax Basis

December 31, 2009 and 2008

September 20th, 2010 in Louisiana State 34th District Court in St. Bernard Parish. As of the date of this report, there is no way to forecast a timetable for the conclusion of the litigation and resolution of the multiple cases, nor can the Company predict an outcome of the litigation.

(7) Related Parties

The Company is related to a series of entities partially owned and managed by the same persons. Transactions with related entities and persons are recorded at amounts agreed to by the parties which may not be representative of amounts that would be received or charged by unrelated parties. Reimbursements of expenses from related parties are reported net in the statements of revenues and expenses – income tax basis.

(8) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through March 12, 2010, the date of which the financial statements – income tax basis were available to be issued, and determined there are no other items to disclose.

BILOXI MARSH LANDS CORPORATION

Schedule of Marketable Securities
December 31, 2009 and 2008

Company description	2009				2008			
	Shares/ face value	Cost	Fair value	Unrealized gains (losses)	Shares/ face value	Cost	Fair value	Unrealized gains (losses)
Marketable equity securities:								
Common stock:								
3 D Systems Corp.	16,500	\$ 205,024	186,450	(18,574)	16,500	\$ 205,024	131,010	(74,014)
Abbott Labs	4,000	171,813	215,960	44,147	—	—	—	—
American Vanguard Corp.	15,000	89,682	124,500	34,818	15,000	89,682	175,500	85,818
Bank of America Corporation	15,000	171,727	225,900	54,173	—	—	—	—
Carter's Inc.	8,800	191,946	231,000	39,054	—	—	—	—
Cleco Corporation	7,800	168,372	213,174	44,802	—	—	—	—
Cullen Frost Bankers Inc.	4,000	197,048	200,000	2,952	—	—	—	—
EPIQ Systems Inc.	18,000	208,659	251,820	43,161	18,000	208,659	300,780	92,121
Gulf Island Fabrication Inc.	—	—	—	—	4,500	85,309	64,845	(20,464)
H&R Block, Inc.	10,000	182,035	226,200	44,165	—	—	—	—
Ion Geophysical Corp.	12,000	95,661	71,040	(24,621)	12,000	95,661	41,160	(54,501)
Jack Henry & Associates	—	—	—	—	10,000	48,890	194,100	145,210
Linumex Corp.	12,000	104,187	179,160	74,973	12,000	104,187	256,320	152,133
Marcus Corporation	11,000	181,027	141,020	(40,007)	11,000	181,030	178,530	(2,500)
McDonald's	3,000	175,660	187,320	11,660	—	—	—	—
O'Reilly Automotive Inc.	8,000	153,136	304,960	151,824	8,000	153,136	245,920	92,784
PHI Inc.	6,100	143,264	128,954	(14,310)	6,100	143,264	100,223	(43,041)
Smucker JM Co.	4,300	173,180	265,525	92,345	—	—	—	—
Varian Medical System Inc.	6,000	196,763	281,100	84,337	—	—	—	—
Subtotal		2,809,184	3,434,083	624,899		1,314,842	1,688,388	373,546
Marketable debt securities:								
Municipal bonds:								
Louisiana Loc Govt envr Faes-S-Eastern LA 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	—
Corporate bonds:								
Abbott Laboratories	300,000	300,025	309,567	9,542	300,000	300,025	305,915	5,890
Wells Fargo & Co.	300,000	301,525	320,784	19,259	300,000	301,525	307,516	5,991
PHI Inc.	300,000	281,650	291,375	9,725	300,000	281,650	183,750	(97,900)
General Electric Capital Corp.	300,000	291,448	314,276	22,828	—	—	—	—
JP Morgan Chase & Co.	300,000	295,525	316,634	21,109	300,000	295,525	301,347	5,822
Caterpillar Fin Serv Corp	300,000	300,330	318,777	18,447	300,000	300,330	294,807	(5,523)
DuPont EI Nemour	300,000	297,775	320,797	23,022	300,000	297,775	297,524	(251)
Wal-Mart Stores Inc.	300,000	300,262	304,836	4,574	—	—	—	—
Merck & Co. Inc.	300,000	300,775	323,930	23,155	300,000	300,775	299,633	(1,142)
United Technologies Corp.	300,000	294,925	324,327	29,402	300,000	294,925	296,339	1,414
Goldman Sachs Group Inc.	300,000	287,125	311,992	24,867	300,000	287,125	282,000	(5,125)
General Electric Capital Corp.	300,000	300,025	295,889	(4,136)	300,000	300,025	299,759	(286)
Whitney National Bank Sub NO	300,000	442,525	412,500	(30,025)	500,000	442,525	400,000	(42,525)
AT&T Inc.	300,000	297,058	315,276	18,218	—	—	—	—
Eli Lilly & Co.	300,000	279,925	301,148	21,223	—	—	—	—
Pfizer Inc.	300,000	299,722	334,129	34,407	300,000	279,925	294,128	14,203
Subtotal		4,870,620	5,116,237	245,617		3,682,130	3,562,718	(119,412)
Total marketable securities as of December 31, 2009 and 2008		\$ 7,679,804	\$ 8,550,320	\$ 870,516		\$ 5,346,972	\$ 5,601,106	\$ 254,134

See accompanying independent auditors' report.