

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2005

Or

Transition Report Pursuant to Section 13 or 15(d)
Of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 0-6994

MEXCO ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Colorado
*(State or other jurisdiction
of incorporation)*

84-0627918
*(IRS Employer
Identification Number)*

214 West Texas Avenue, Suite 1101, Midland, Texas 79701
(Address of principal executive offices)

(432) 682-1119
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO _____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES _____ NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, \$0.50 par value:
1,733,041 shares outstanding at February 8, 2006

MEXCO ENERGY CORPORATION

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Mexco Energy Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31 2005 (Unaudited)	March 31 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 81,125	\$ 85,209
Accounts receivable:		
Oil and gas sales	581,347	418,348
Trade	3,021	23,258
Related parties	1,062	2,103
Prepaid costs and expenses	64,080	7,362
Total current assets	730,635	536,280
Investment in GazTex, LLC	282,126	282,126
Property and equipment, at cost		
Oil and gas properties, using the full cost method (\$970,831 and \$921,719 excluded from amortization as of December 31, 2005 and March 31, 2005 respectively)	18,792,530	18,376,974
Other	39,848	36,855
	18,832,378	18,413,829
Less accumulated depreciation, depletion, and amortization	10,335,206	9,929,086
Property and equipment, net	8,497,172	8,484,743
	\$ 9,509,933	\$ 9,303,149
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 103,094	\$ 111,675
Income tax payable	295,740	48,127
Total current liabilities	398,834	159,802
Long-term debt	1,125,000	1,990,000
Asset retirement obligation	375,714	374,506
Deferred income tax liability	730,933	715,284
Minority interest	25,362	25,362
Commitments and contingencies		
Stockholders' equity		
Preferred stock - \$1.00 par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock - \$0.50 par value; 40,000,000 shares authorized; 1,766,566 shares issued	883,283	883,283
Additional paid-in capital	3,841,238	3,826,592
Retained earnings	2,275,144	1,473,895
Treasury stock, at cost (33,525 shares)	(145,575)	(145,575)
Total stockholders' equity	6,854,090	6,038,195
	\$ 9,509,933	\$ 9,303,149

The accompanying notes are an integral part of
the consolidated financial statements.

Mexco Energy Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2005	2004	2005	2004
Operating revenue:				
Oil and gas sales	\$ 1,111,524	\$ 774,966	\$ 2,848,159	\$ 2,172,413
Other	387	372	2,755	5,555
Total operating revenues	<u>1,111,911</u>	<u>775,338</u>	<u>2,850,914</u>	<u>2,177,968</u>
Operating expenses:				
Production	223,169	206,493	648,844	604,458
Accretion of asset retirement obligation	6,566	5,824	18,132	19,077
Depreciation, depletion, and amortization	129,398	141,764	406,120	414,816
General and administrative	193,997	134,037	569,478	465,984
Total operating expenses	<u>553,130</u>	<u>488,118</u>	<u>1,642,574</u>	<u>1,504,335</u>
Operating profit	558,781	287,220	1,208,340	673,633
Other income (expense):				
Interest income	232	107	594	238
Interest expense	<u>(25,286)</u>	<u>(23,309)</u>	<u>(82,159)</u>	<u>(61,115)</u>
Net other expense	<u>(25,054)</u>	<u>(23,202)</u>	<u>(81,565)</u>	<u>(60,877)</u>
Earnings before income taxes and minority interest	533,727	264,018	1,126,775	612,756
Income tax expense:				
Current	179,287	(6,910)	321,230	106,522
Deferred	3,019	87,569	15,649	101,114
	<u>182,306</u>	<u>80,659</u>	<u>336,879</u>	<u>207,636</u>
Income before minority interest	351,421	183,359	789,896	405,120
Minority interest in loss of subsidiary	<u>3,187</u>	<u>-</u>	<u>11,353</u>	<u>-</u>
Net income	<u>\$ 354,608</u>	<u>\$ 183,359</u>	<u>\$ 801,249</u>	<u>\$ 405,120</u>
Net income per common share:				
Basic:	\$ 0.20	\$ 0.11	\$ 0.46	\$ 0.23
Diluted:	\$ 0.19	\$ 0.10	\$ 0.43	\$ 0.22

The accompanying notes are an integral part of
the consolidated financial statements.

Mexco Energy Corporation and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Nine Months Ended December 31
(Unaudited)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 801,249	\$ 405,120
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in deferred income taxes	15,649	101,115
Stock-based compensation	14,646	33,973
Depreciation, depletion, and amortization	406,120	414,816
Accretion of asset retirement obligations	18,132	19,077
Minority interest in loss of OBTX, LLC	(11,353)	-
Increase in accounts receivable	(141,721)	(51,447)
Decrease (increase) in prepaid expenses	(56,718)	2,000
Increase in income taxes payable	247,613	85,781
Decrease in accounts payable and accrued expenses	<u>(13,396)</u>	<u>(2,215)</u>
Net cash provided by operating activities	1,280,221	1,008,220
Cash flows from investing activities:		
Additions to oil and gas properties	(445,190)	(729,816)
Increase in long-term receivable (GazTex, LLC)	-	(253,584)
Investment in subsidiary (GazTex, LLC)	-	(20,509)
Proceeds from sale of oil and gas properties and equipment	<u>14,532</u>	<u>-</u>
Net cash used in investing activities	(430,658)	(1,003,909)
Cash flows from financing activities:		
Acquisition of treasury stock		(16,646)
Long-term borrowings	-	425,000
Reduction of long-term debt	(865,000)	(450,000)
Minority interest contributions	<u>11,353</u>	<u>20,990</u>
Net cash (used in) provided by financing activities	<u>(853,647)</u>	<u>(20,656)</u>
Net decrease in cash and cash equivalents	(4,084)	(16,345)
Cash and cash equivalents at beginning of year	<u>85,209</u>	<u>92,795</u>
Cash and cash equivalents at end of period	<u>\$ 81,125</u>	<u>\$ 76,450</u>
Interest paid	\$ 83,776	\$ 58,445
Income taxes paid	\$ 73,617	\$ 4,538

The accompanying notes are an integral part of
the consolidated financial statements.

MEXCO ENERGY CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations

Mexco Energy Corporation (a Colorado Corporation), its wholly owned subsidiary, Forman Energy Corporation, and its 90% owned subsidiary, OBTX, LLC (a Delaware Limited Liability Company) (collectively, the "Company") are engaged in the exploration, development and production of natural gas, crude oil, condensate and natural gas liquids (NGLs). OBTX, LLC was formed on April 8, 2004, and is included in the consolidated financial statements since its date of formation. Although most of the Company's oil and gas interests are centered in West Texas, the Company owns producing properties and undeveloped acreage in ten states. Although most of the Company's oil and gas interests are operated by others, the Company operates several properties in which it owns an interest.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position of the Company as of December 31, 2005, and the results of its operations and cash flows for the interim periods ended December 31, 2005 and 2004. The results of operations for the periods presented are not necessarily indicative of the results to be expected for a full year. The accounting policies followed by the Company are set forth in more detail in Note A of the "Notes to Consolidated Financial Statements" in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, the disclosures herein are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Form 10-K.

2. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Mexco Energy Corporation and its wholly owned and majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Although management believes its estimates and assumptions are reasonable, actual results may differ materially from those estimates. Significant estimates affecting these financial statements include the estimated quantities of proved oil and gas reserves, the related present value of estimated future net cash flows and the future development, dismantlement and abandonment costs.

Stock-based Compensation. The Company accounts for employee stock option grants in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"), as amended by Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB Opinion No. 25. The Company applies the intrinsic value method in accounting for its employee stock options and records no compensation costs for its stock option awards to employees. The Company recognizes compensation cost related to stock options awarded to independent consultants based on fair value of the options at date of grant.

For the nine months ending December 31, 2005, the Company recognized \$14,646 related to these stock options for independent consultants.

The following pro forma information, as required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148 ("SFAS 148"), presents net income and earnings per share information as if expense relating to stock options issued had been determined based on the fair value at the grant dates for all employee awards under the plan:

	Three Months Ended December 31		Nine Months Ended December 31	
	2005	2004	2005	2004
Net income, as reported	\$ 354,608	\$ 183,359	\$ 801,249	\$ 405,120
Deduct: Stock-based employee compensation expense determined under fair value based method (SFAS 123), net of tax	<u>(15,033)</u>	<u>(23,362)</u>	<u>(57,327)</u>	<u>(67,396)</u>
Net income, pro forma	<u>\$ 339,575</u>	<u>\$ 159,997</u>	<u>\$ 743,922</u>	<u>\$ 337,724</u>
Basic earnings per share:				
As reported	\$ 0.20	\$ 0.11	\$ 0.46	\$ 0.23
Pro forma	\$ 0.20	\$ 0.09	\$ 0.43	\$ 0.19
Diluted earnings per share:				
As reported	\$ 0.19	\$ 0.10	\$ 0.43	\$ 0.22
Pro forma	\$ 0.18	\$ 0.09	\$ 0.40	\$ 0.18

Asset Retirement Obligations. The Company's asset retirement obligations relate to the plugging and abandonment of oil and gas properties. The fair value of a liability for an asset retirement obligation is required to be recorded in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset.

The asset retirement obligations are recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost.

The following table provides a rollforward of the asset retirement obligations during the first nine months of fiscal 2006:

Carrying amount of asset retirement obligations as of April 1, 2005	\$ 395,046
Liabilities incurred	1,180
Liabilities settled	(18,104)
Accretion expense	18,132
Carrying amount of asset retirement obligations as of December 31, 2005	<u>396,254</u>
Less: Current portion	<u>20,540</u>
Non-Current asset retirement obligation	<u>\$ 375,714</u>

The non-current portion of the asset retirement obligation, which is included on the consolidated balance sheet, was \$375,714 at December 31, 2005. The current portion of the asset retirement obligation as of December 31, 2005, was \$20,540 and is included on the consolidated balance sheet in accounts payable and accrued expenses. Accretion expense was \$18,132 and \$19,077 for the nine months ending December 31, 2005 and 2004, respectively.

Oil and Gas Costs. The cost of certain oil and gas leases that the Company has acquired, but not evaluated has been excluded in computing amortization of the full cost pool. The Company will begin to amortize these properties when the projects are evaluated, which is currently estimated to be within this calendar year. Costs excluded from amortization at December 31, 2005 total \$970,831 for U.S. properties. Of this amount, approximately \$856,000 relates to a lease which originally expired in January 2006. The Company extended this lease for thirty (30) days through February 8, 2006. However, the Company has decided not to further extend this lease due to the inability to secure drilling participants. These costs will be included in the full cost amortization base in the fourth quarter of fiscal 2006.

Earnings Per Share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares (stock options and warrants) outstanding during the period. The following is a reconciliation of the number of shares used in the calculation of basic earnings per share and diluted

earnings per share for the three and nine month periods ended December 31, 2005 and 2004.

	Three Months Ended		Nine Months Ended	
	December 31		December 31	
	2005	2004	2005	2004
Weighted average number of common shares outstanding	1,733,041	1,733,758	1,733,041	1,735,277
Incremental shares from the assumed exercise of dilutive stock options and warrants	<u>126,211</u>	<u>57,249</u>	<u>150,181</u>	<u>91,159</u>
Dilutive potential common shares	<u>1,859,252</u>	<u>1,791,007</u>	<u>1,883,222</u>	<u>1,826,436</u>

Options and warrants to purchase 159,000 shares at an average exercise price of \$6.87 outstanding at December 31, 2004 were not included in the computation of diluted net income per share because the exercise price of the options and warrants was greater than the average market price of the common stock of the Company and, therefore, the effect would be antidilutive. No options outstanding at December 31, 2005 were excluded in the computation of diluted net income per share.

Income Taxes. The Company recognizes deferred tax assets and liabilities for future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applicable to the years in which those differences are expected to be settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date. The effective income tax rate for the nine months ended December 31, 2005 was 30%. This decreased rate differs from the statutory rate as a result of a revision of an estimate of statutory depletion and an adjustment for prior year tax estimate.

Investment in GazTex, LLC. The Company's long-term assets consist of an investment in GazTex, LLC, a Russian company owned 50% by OBTX, LLC, accounted for by the equity method. OBTX, LLC is a Delaware limited liability company in which Mexco owns 90% of the interest, with the remaining 10% divided equally among three individuals, one of whom is Arden Grover, a director of Mexco Energy Corporation. All geological and geophysical costs associated with the evaluation of Russian properties have been paid 90% by Mexco Energy Corporation and 10% by the other three owners of OBTX, LLC. GazTex, LLC was formed during fiscal 2005 and through December 31, 2005 has no operations other than the evaluation activity. As of December 31, 2005, the Company has \$282,126 classified as a long-term investment in GazTex, LLC. The 10% interest in OBTX, LLC is included in the Company's financial statements as a minority interest. OBTX, LLC, plans to participate in any Russian venture entered into and own a 50% interest. For the nine months ended December 31, 2005, the Company has expensed approximately \$114,000 in consulting costs for the evaluation of projects. No costs were expensed during the first nine months of fiscal 2005. The Company is currently in negotiations to secure a prospect for this venture. If such negotiations are not finalized on terms agreeable to both parties, the Company could incur an impairment on the investment.

Long Term Liabilities. Long term debt consists of a revolving credit agreement with Bank of America, N.A. ("Bank"), which provides for a credit facility of \$5,000,000, subject to a borrowing base determination. On September 28, 2005, the borrowing base was redetermined and set at \$3,250,000. As of December 31, 2005, the balance outstanding under this agreement was \$1,125,000 and matures on April 1, 2007. Amounts borrowed under this agreement are collateralized by the common stock of the Company's wholly owned subsidiary and all oil and gas properties.

Recent Accounting Pronouncements. Share based payment - In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), Share-Based Payment, which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods and services. SFAS No. 123(R) focuses primarily on accounting for transactions with employees, and carries forward without change to prior guidance for share-based payments for transactions with non employees.

SFAS No. 123(R) eliminates the intrinsic value measurement objective in APB Opinion 25 and generally requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost must be recognized over the period during which an employee is required to provide service in exchange for the award (which is usually the vesting period). The standard also requires the Company to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The Company is required to apply SFAS No. 123(R) to all awards granted, modified or settled in our first annual reporting period beginning after June 15, 2005. The Company will adopt SFAS No. 123(R) on April 1, 2006. The Company has not yet

completed the analysis of the impact of SFAS No. 123(R).

FASB Interpretation (FIN) No. 47 – In March 2005, the Financial Accounting Standard Board (FASB) issued FASB Interpretation (FIN) No. 47, “Accounting for Conditional Asset Retirement Obligation.” This Interpretation clarifies the definition and treatment of conditional asset retirement obligations as discussed in FASB Statement of Financial Accounting Standards (SFAS) No. 143, “Accounting for Asset Retirement Obligations.” A conditional asset retirement obligation is defined as an asset retirement activity in which the time and/or method of settlement are dependent on future events that may be outside the control of the Company. FIN 47 states that a company must record a liability when incurred for conditional asset retirement obligations if the fair value of the obligation is reasonably estimable. This Interpretation is intended to provide more information about long-lived assets, more information about future cash outflows for these obligations and more consistent recognition of these liabilities. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company does not believe that its financial position, results of operations or cash flows will be impacted by this Interpretation since the Company currently records all asset retirement obligations.

FASB Statement No. 154 – In May 2005, the FASB issued FASB Statement No. 154, Accounting Changes and Error Corrections (“Statement 154”). Statement 154 requires companies to recognize changes in accounting principle, including changes required by a new accounting pronouncement when the pronouncement does not include specific transition provisions, retrospectively to prior periods’ financial statements. Statement 154 will become effective for the Company’s fiscal year beginning April 1, 2006. The Company does not believe that the adoption of Statement 154 will have a material effect on its financial position or results of operations.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, references to the “Company”, “Mexco”, “we”, “us” or “our” mean Mexco Energy Corporation and its consolidated subsidiaries.

Cautionary Statements Regarding Forward-Looking Statements. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements can be identified with words and phrases such as “believes,” “expects,” “anticipates,” “should,” “estimates,” “foresees” or other words and phrases of similar meaning. Forward-looking statements appear throughout this Form 10-Q and include statements regarding our plans, beliefs or current expectations with respect to, among other things: profitability, planned capital expenditures; estimates of oil and gas production, estimates of future oil and gas prices; estimates of oil and gas reserves; future financial condition or results of operations; and business strategy and other plans and objectives for future operations. Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results to differ materially from those contained in any forward-looking statement. While we have made assumptions that we believe are reasonable, the assumptions that support our forward-looking statements are based upon information that is currently available and is subject to change. All forward-looking statements in the Form 10-Q are qualified in their entirety by the cautionary statement contained in this section. We will not undertake to update, revise or correct any of the forward-looking information.

Liquidity and Capital Resources. Historically, our sources of funding have been from operating activities and bank financing.

Our focus is on increasing profit margins while concentrating on obtaining gas reserves with low cost operations by acquiring and developing primarily gas properties with potential for long-lived production.

For the first nine months of fiscal 2006, cash flow from operations was \$1,280,221 compared to \$1,008,220 for the first nine months of fiscal 2005. The cash flow from operations for the first nine months of fiscal 2006 included the effects of an increase in accounts receivable, income tax payable and prepaid expenses. Cash of \$445,190 was used for additions to property and equipment and cash of \$865,000 was used to pay on the line of credit during fiscal 2006. Accordingly, net cash decreased \$4,084.

Through December 31, 2005, we have reviewed a number of possible projects in Russia. We established a long-term investment in GazTex, LLC for our capital costs of these projects of \$282,126. If we are unable to finalize a prospect related to these capitalized costs, they will be expensed. Any projects reviewed that we have decided not to continue studying or develop have been expensed. We expensed approximately \$114,000 for the first nine months of fiscal 2006 related to Russian projects. No costs were expensed during the first nine months of fiscal 2005.

In December 2005, we purchased an additional mineral interest in the East Ponder unit located in Denton County, Texas for approximately \$52,000. The East Ponder Unit is 360 acres of pooled leases which are currently being drilled on 40 acre spacing. The unit has 4 wells currently producing with plans to drill additional wells in 2006.

We continue to focus our efforts on the acquisition of royalties in areas with significant development potential.

We are reviewing several other projects in which we may participate. The cost of such projects would be funded, to the extent possible, from existing cash balances and cash flow from operations. The remainder may be funded through borrowings on the credit facility discussed below.

At December 31, 2005, we had working capital of \$331,801 compared to a working capital of \$376,478 at March 31, 2005, a decrease of \$44,677, primarily due to an increase in income tax payable.

Long-Term Debt. We have a revolving credit agreement with Bank of America, N.A. ("Bank"), which provides for a credit facility of \$5,000,000, subject to a borrowing base determination. On September 28, 2005, the borrowing base was redetermined and set at \$3,250,000 with no monthly commitment reductions. As of December 31, 2005, the balance outstanding under this agreement was \$1,125,000. The borrowing base is evaluated annually, on or about August 1. Amounts borrowed under this agreement are collateralized by the common stock of our wholly owned subsidiary and all oil and gas properties. A letter of credit for \$50,000, in lieu of a plugging bond with the Texas Railroad Commission covering the properties we operate, is also outstanding under the facility. Interest under this agreement is payable monthly at prime rate (7.25% and 5.25% at December 31, 2005 and 2004, respectively). This agreement generally restricts our ability to transfer assets or control of the company, incur debt, extend credit, change the nature of our business, substantially change management personnel or pay cash dividends. The balance outstanding on the line of credit as of February 6, 2006 was \$900,000.

The prices of natural gas and crude oil have fluctuated significantly in recent years as well as in recent months. Fluctuations in price have a significant impact on our financial condition and liquidity. However, management is of the opinion that cash flow from operations and funds available from financing will be sufficient to provide for its working capital requirements and capital expenditures for the current fiscal year.

Results of Operations – Three Months Ended December 31, 2005 and 2004. Net income increased from \$183,359 for the quarter ended December 31, 2004 to \$354,608 for the quarter ended December 31, 2005, an increase of \$171,249 or 93%.

Oil and gas sales increased from \$774,966 for the third quarter of fiscal 2005 to \$1,111,524 for the same period of fiscal 2006. This increase of 43%, or \$336,558, resulted from an increase in oil production and increases in both oil and gas prices offset partially by a decrease in gas production. Average gas prices increased from \$5.84 per mcf for the third quarter of fiscal 2005 to \$9.67 per mcf for the same period of fiscal 2006, while average oil prices increased from \$46.11 per bbl for the third quarter of fiscal 2005 to \$55.14 for the same period of fiscal 2006. Oil and gas production quantities were 4,379 barrels ("bbls") and 98,071 thousand cubic feet ("mcf") for the third quarter of fiscal 2005 and 4,463 bbls and 89,461 mcf for the same period of fiscal 2006, an increase of 2% in oil production and a 9% decrease in gas production.

Production costs increased from \$206,493 for the third quarter of fiscal 2005 to \$223,169 for the same period of fiscal 2006. This was the result of increased production taxes due to the increase in oil and gas sales.

General and administrative expenses increased 45% from \$134,037 for the third quarter of fiscal 2005 to \$193,997 for the same period of fiscal 2006. This is primarily the result of an increase in consulting services and travel related to our Russian activities. These expenses were approximately \$32,000 for the third quarter of fiscal 2006.

Depreciation, depletion and amortization based on production and other methods decreased 9%, from \$141,764 for the third quarter of fiscal 2005 to \$129,398 for the same period of fiscal 2006 primarily due to a decrease in production quantities.

Interest expense increased 8% from \$23,309 for the third quarter of fiscal 2005 to \$25,286 for the same period of fiscal 2006, due to increased interest rates, partially offset by decreased borrowings.

Results of Operations – Nine Months Ended December 31, 2005 and 2004. Net income increased from \$405,120 for the nine months ended December 31, 2004 to \$801,249 for the same period of fiscal 2006, an increase of \$396,129 or 98%.

Oil and gas sales increased from \$2,172,413 for the nine months ended December 31, 2004 to \$2,848,159 for the same period of fiscal 2006. This increase of 31%, or \$675,746, resulted from an increase in oil production and increases in both oil and gas prices offset partially by a decrease in gas production. Average gas prices increased from \$5.53 per mcf for the first nine

months ended December 31, 2004 to \$7.68 per mcf for the same period of fiscal 2006, while average oil prices increased from \$41.22 per bbl for the first nine months ended December 31, 2005 to \$54.05 for the same period of fiscal 2006. Oil and gas production quantities were 12,383 barrels ("bbls") and 300,399 thousand cubic feet ("mcf") for the first nine months ended December 31, 2004 and 12,939 bbls and 279,792 mcf for the same period of fiscal 2006, an increase of 4% in oil production.

Gas production decreased 7% as a result of natural decline.

Production costs increased 7% from \$604,458 for the first nine months ended December 31, 2004 to \$648,844 for the same period of fiscal 2006. This was the result of increased production taxes due to the increase in oil and gas sales.

General and administrative expenses increased 22% from \$465,984 for the first nine months ended December 31, 2004 to \$569,478 for the same period of fiscal 2006. This is primarily the result of an increase in consulting services related to our Russian activities. These expenses were approximately \$114,000 for the nine month period ended December 31, 2005.

Depreciation, depletion and amortization based on production and other methods decreased 2%, from \$414,816 for the first nine months ended December 31, 2004 to \$406,120 for the same period of fiscal 2006, primarily due to a decrease in production.

Interest expense increased 34% from \$61,115 for the first nine months ended December 31, 2004 to \$82,159 for the same period of fiscal 2006 due to increased interest rates, partially offset by decreased borrowings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary sources of market risk for us include fluctuations in commodity prices and interest rate fluctuations. At December 31, 2005, we had not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other similar agreements relating to crude oil and natural gas.

At December 31, 2005, we had an outstanding loan balance of \$1,125,000 under our \$5.0 million revolving credit agreement, which bears interest at the prime rate, which varies from time to time. If the interest rate on our bank debt increases or decreases by one percentage point, our annual pretax income would change by \$11,250, based on the outstanding balance at December 31, 2005.

Credit Risk. Credit risk is the risk of loss as a result of nonperformance by other parties of their contractual obligations. Our primary credit risk is related to oil and gas production sold to various purchasers and the receivables generally are uncollateralized. At December 31, 2005, our largest credit risk associated with any single purchaser was \$66,329. We have not experienced any significant credit losses.

Volatility of Oil and Gas Prices. Our revenues, operating results and future rate of growth are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond our control. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic. We cannot predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect our ability to obtain capital for our exploration and development activities and may require a reduction in the carrying value of our oil and gas properties. Similarly, an improvement in oil and gas prices can have a favorable impact on our financial condition, results of operations and capital resources.

Item 4. Controls and Procedures

We maintain controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15(b). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures are effective.

No changes in our internal control over financial reporting occurred during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We were a defendant in a lawsuit that had arisen in the ordinary course of business related to the oil and gas leases on the Campbell 15-1 well in Hemphill County, Texas. We released the lease on the Campbell 15-1 well effective January 31, 2006 as part of a pending compromise settlement agreement in the lawsuit. We believe, the settlement of the lawsuit and the release of the lease will not have a material effect on our consolidated financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None.

Item 3. Defaults Upon Senior Securities None.

Item 4. Other Information None.

Item 5. Exhibits and Reports on Form 8-K None.

Exhibits

31.1 Certification of the Chief Executive Officer of Mexco Energy Corporation

31.2 Certification of the Chief Financial Officer of Mexco Energy Corporation

32.1 Certification of the Chief Executive Officer and Chief Financial Officer of Mexco Energy Corporation pursuant to 18 U.S.C. §1350

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEXCO ENERGY CORPORATION
(Registrant)

Dated: February 8, 2006

/s/ Nicholas C. Taylor
Nicholas C. Taylor
President

Dated: February 8, 2006

/s/ Tamala L. McComic
Tamala L. McComic
Vice President, Treasurer and Assistant Secretary

CHIEF EXECUTIVE OFFICER CERTIFICATION

CERTIFICATION

I, Nicholas C. Taylor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mexco Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2006

/s/ Nicholas C. Taylor
Nicholas C. Taylor
Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION

CERTIFICATION

I, Tamala L. McComic, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mexco Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2006

/s/ Tamala L. McComic
Tamala L. McComic
Chief Financial Officer

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF MEXCO ENERGY CORPORATION
PURSUANT TO 18 U.S.C. §1350

The undersigned, the Chief Executive Officer and Chief Financial Officer of Mexco Energy Corporation (the "Company"), each hereby certifies that to his knowledge on the date hereof pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended December 31, 2005 and filed with the Securities and Exchange Commission pursuant to Section 13(a) of the Securities Exchange Act of 1934 by the Company (the "Report") fully complies with the requirements of that section.
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This written certification is being furnished to the Securities and Exchange Commission as an exhibit to the report. A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: February 8, 2006

/s/ Nicholas C. Taylor
Nicholas C. Taylor
Chief Executive Officer

Date: February 8, 2006

/s/ Tamala L. McComic
Tamala L. McComic
Chief Financial Officer