MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements of Bayou Bend Petroleum Ltd and related financial information presented in this annual report are the responsibility of Management and have been approved by the Board of Directors. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets.

KPMG LLP, independent external auditors, has audited the Consolidated Financial Statements in accordance with the auditing standards generally accepted in Canada on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee. Their report is included with the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim consolidated financial statements prior to their release, as well as annually to review the Company's annual consolidated financial statements and Management's discussion and analysis, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

Clinton W. Coldren
President and Chief Executive Officer

William D. Hoffman
Chief Financial Officer

April 10, 2008

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Bayou Bend Petroleum Ltd. as at December 31, 2007 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the year ended December 31, 2006 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 13, 2007.

KPMG LLP

Chartered Accountants

Vancouver, Canada

March 14, 2008

BAYOU BEND PETROLEUM LTD.
(formerly Kit Resources Ltd.)
Consolidated Balance Sheets
Expressed in United States Dollars

	December 31, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 58,575,000	$ 2,535,000
Investments	32,056,000	-
Accounts receivable	3,109,000	11,000
Prepaid expenses	629,000	13,000
	94,369,000	2,559,000
Petroleum and natural gas properties	75,731,000	-
Accumulated depletion, depreciation & amortization	(3,259,000)	-
Net properties	72,472,000	-
	$ 166,841,000	$ 2,559,000
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 12,868,000	$ 53,000
Advances from joint interest holders	394,000	-
Asset retirement obligation	987,000	-
Due to related parties	-	18,000
	14,249,000	71,000
Asset retirement obligation	927,000	-
	15,176,000	71,000
SHAREHOLDERS' EQUITY		
Share capital	250,835,000	47,141,000
Contributed surplus	2,237,000	1,566,000
Accumulated other comprehensive income (loss)	3,282,000	(2,000)
Deficit	(104,689,000)	(46,217,000)
	151,665,000	2,488,000
Commitments		
	$ 166,841,000	$ 2,559,000

See accompanying notes to consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
(formerly Kit Resources Ltd.)
Consolidated Statements of Operations and Deficit
Expressed in United States Dollars

	For the Year Ended December 31	
	2007	**2006**
Revenues		
Oil and gas sales	$ 3,661,000	$ -
Royalties	(932,000)	-
	2,729,000	-
Expenses		
Operating	945,000	-
Exploration	4,816,000	-
Dry hole costs	45,150,000	-
Impairment of properties	23,934,000	-
Accretion	37,000	-
Depletion, depreciation and amortization	3,259,000	-
Write-down of mineral property costs	-	255,000
General and administrative	3,035,000	293,000
Stock-based compensation	2,223,000	432,000
Foreign exchange (gain) loss	(18,016,000)	-
	65,383,000	980,000
Other income (expense)		
Interest income	4,182,000	63,000
	4,182,000	63,000
Net loss	(58,472,000)	(917,000)
Deficit, beginning of year	(46,217,000)	(45,300,000)
Deficit, end of year	$ (104,689,000)	$ (46,217,000)
Basic loss per share	$ (0.21)	$ (0.01)
Diluted loss per share	$ (0.21)	$ (0.01)
Weighted average number of common shares used in computing earnings per share:		
Basic	278,016,998	79,880,143
Diluted	278,016,998	79,880,143

See accompanying notes to consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
(formerly Kit Resources Ltd.)
Consolidated Statements of Other Comprehensive Income
Expressed in United States Dollars

	For the Year Ended December 31	
	2007	**2006**
Net loss for the year	$ (58,472,000)	$ (917,000)
Other comprehensive income:		
Unrealized gains (losses) on adoption of U.S.functional currency	3,284,000	(2,000)
Comprehensive loss for the year	$ (55,188,000)	$ (919,000)

See accompanying notes to consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
(formerly Kit Resources Ltd.)
Consolidated Statements of Cash Flows
Expressed in United States Dollars

	For the Year Ended December 31	
	2007	**2006**
Operating activities		
Net loss	$ (58,472,000)	$ (917,000)
Adjustments for non-cash and non-operating transactions:		
Depletion, depreciation and amortization	3,259,000	-
Impairment of properties	23,934,000	-
Dry hole costs	45,150,000	-
Accretion	37,000	-
Stock-based compensation	2,223,000	432,000
Changes in non-cash operating working capital:		
Accounts receivable	(3,098,000)	(9,000)
Prepaid expenses	(616,000)	(13,000)
Accounts payable and accrued expenses	2,715,000	40,000
Advances from joint interest holders	394,000	-
Asset retirement obligation	714,000	-
	16,240,000	(467,000)
Financing activities		
Issuance of share capital	166,785,000	466,000
Repayment of related party loans	(18,000)	(63,000)
	166,767,000	403,000
Investing activities		
Exploration and development expenditures	(98,195,000)	(1,000)
Investments	(32,056,000)	-
	(130,251,000)	(1,000)
Effect of exchange rate changes in cash	3,284,000	219,000
Net increase in cash and cash equivalents	56,040,000	154,000
Cash and cash equivalents - beginning of year	2,535,000	2,381,000
Cash and cash equivalents - end of year	$ 58,575,000	$ 2,535,000
Supplemental disclosures of non-cash financing and investing activities:		
Acquisition of Summit Energy Company, L.L.C. and related property interests through the issuance of common stock	$ 10,593,000	$ -
Acquisition of GOM assets through the issuance of common stock	24,764,000	-
	$ 35,357,000	$ -

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Bayou Bend Petroleum Ltd. (formerly Kit Resources Ltd.) (the "Company") is incorporated under the British Columbia Business Corporations Act. The Company is engaged in the business of oil and gas exploration and development in the United States in the Gulf of Mexico.

On February 7, 2007, the Company received regulatory approval to change its name to Bayou Bend Petroleum Ltd. from Kit Resources Ltd. with an effective date of February 9, 2007. The Company's shares trade on the TSX Venture Exchange under the symbol of "BBP".

On February 20, 2007, the Company purchased 100% of the outstanding membership interests in Summit Energy Company, L.L.C. ("Summit").

Prior to the current year, the Company was considered to be a development stage enterprise for reporting purposes. Starting in 2007, the Company is no longer considered to be in the development stage. Notwithstanding that the Company has sufficient financial resources to fund operations through the 2008 fiscal year, continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Bayou Bend Petroleum U.S.A., Ltd., Summit Energy Company, L.L.C. and Bayou Bend Offshore, Ltd.

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies followed by the Company have been applied consistently in the preparation of these consolidated financial statements. These accounting policies are summarized below.

b) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutions of high-credit worthiness.

c) Investments

Investments are accounted for at fair market value and consist of securities backed by the full credit of the United States Government with maturities of less than one year.

d) Petroleum and Natural Gas Properties

The Company uses the successful efforts method to account for its oil and gas exploration and development costs. Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to dry hole expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those reserves cannot be classified as proved, continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well or related project. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense when incurred.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. Any impairment loss is the difference between the carrying value of the asset and its fair value. Fair value is calculated as the present value of estimated expected future cash flows from proved, probable and, as appropriate, possible reserves.

The Company engages independent engineers in order to determine its share of reserves.

e) Depreciation, Depletion and Amortization (DD&A)

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, productions and reserves of oil are converted to cubic feet of natural gas on an energy equivalent basis at a ratio of one barrel (bbl) of oil to six thousand cubic feet (mcf) of natural gas.

Successful exploratory wells and development costs are depleted over proved developed reserves. However, to the extent significant development costs are incurred in connection with proved undeveloped reserves, such costs are excluded from depletion until the reserves are developed. Acquired resource properties with proved reserves, including offshore platform costs, are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. Costs associated with significant development projects are not depleted until commercial production commences.

Corporate assets are depreciated using the straight-line method at annual rates of 20% to 25%.

f) Asset Retirement Obligations

The fair value of the statutory, contractual or legal liability associated with the retirement and reclamation of oil and gas properties is recorded when incurred, with a corresponding increase to the carrying amount of the related oil and gas properties. The increase to capitalized costs is depleted to earnings on a unit of production basis over the life of the proved reserves for each property. Subsequent changes in the estimated fair value of the asset retirement obligation (ARO) are capitalized and depleted over the remaining useful life of the underlying oil and gas properties.

The ARO liabilities are carried at their discounted present value and are accreted over time for the change in their present value. Actual expenditures incurred are charged against the accumulated obligation.

g) Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of future tax assets and liabilities of a change in tax rates is recognized in income in the period that included the date of enactment or substantive enactment.

i) Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. Accordingly, the fair value of the options at the date of the grant is determined and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

j) Loss per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price for the reporting period.

k) Joint Interests

Substantially all of the Company's exploration and development activities are conducted jointly with others. Accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

l) New Accounting Standards

On January 1, 2007, the Company adopted a new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530, Comprehensive Income.

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income. Other comprehensive income represents changes in shareholders' equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized foreign currency translation gains and losses arising from self-sustaining foreign operations.

On January 1, 2007, the Company also adopted the following new CICA accounting standards: "Financial Instruments – Recognition and Measurement" (section 3855); "Financial Instruments – Disclosure and Presentation" (section 3861), and "Hedges" (section 3865). The adoption of these standards had no financial statement impact to the Company.

m) Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

In the accounting for oil and gas interests, amounts recorded for depletion and amounts used for impairment test calculations are based on estimates of oil and gas reserves and future cash flows, including development costs. By their nature, the estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

n) Foreign Currency Translation

Effective April 1, 2007, the Company's reporting currency was changed from Canadian dollars to U.S. dollars. The Company anticipates that its future sales will be earned in U.S. dollars and significant expenditures of the Company costs will be incurred in U.S. dollars. The comparative financial statements from prior periods have been restated to reflect this change.

For the restatement, the Company followed the method prescribed by the CICA Emerging Issues Committee ("EIC") in release number EIC-130. All prior year financial statements were translated using the current rate method. This method of translation resulted in the financial statements of prior years being translated as if the U.S. dollar reporting currency had been used in those years. The resulting exchange gains and losses were recorded as a cumulative translation adjustment in shareholders' equity.

Prospectively, activities denominated in currencies other than the U.S. dollar are translated using the temporal method. Under this method, monetary assets and liabilities denominated in other currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in other currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. Gains and losses on translation are reflected in the Statement of Operations and Deficit.

Expressed in United States Dollars Unless Otherwise Noted

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts and interest receivable, amounts due to related parties and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair values of these financial instruments approximate their carrying values due to their short-term maturity or capability of prompt liquidation.

4. COMPREHENSIVE INCOME (LOSS)

The following table reconciles the changes in accumulated other comprehensive income (loss) for the years ended December 31, 2007 and 2006.

	For the Year Ended December 31	
	2007	2006
Accumulated other comprehensive loss, beginning of year	$ (2,000)	$ -
Other comprehensive income:		
Unrealized gains (losses) on adoption of U.S. functional currency	$ 3,284,000	$ (2,000)
Accumulated other comprehensive income (loss), end of year	$ 3,282,000	$ (2,000)

5. ACQUISITIONS

On February 20, 2007, the Company acquired all of the issued and outstanding membership interests of Summit for cash consideration of $34,043,000. The assets acquired included an 18.1634% interest in a portfolio of assets onshore and offshore Marsh Island in the Gulf of Mexico, together with an 18.1634% interest in a 40 million cubic feet of gas per day (MMcfgpd) production facility tied into the existing regional pipeline infrastructure.

On March 8, 2007, the Company exercised its option under the Summit Purchase Agreement to acquire two additional properties for the issuance of 1,222,604 shares of stock with a value of $1,458,000.

The Company also acquired from certain other participants an additional 17.4175% interest in the Marsh Island project for consideration of $21,263,000. The consideration paid included the issuance of 393,267 shares of stock with a value of $474,000.

Expressed in United States Dollars Unless Otherwise Noted

In connection with the above transactions and the private placement described in Note 8(a), the Company issued 2.2 million shares of stock as a finders' fee to third parties. An additional 5 million shares of stock were issued under the terms of certain assignment agreements pursuant to which the Company was granted the opportunity to acquire Summit. The value of the 7.2 million shares issued was $8,661,000.

The total consideration, including other related properties and transaction costs, for the above acquisitions was $65,425,000. The allocation of the purchase price is as follows:

Petroleum and natural gas properties	$	63,881,000
Working capital		2,707,000
Asset retirement obligation		(1,163,000)
	$	65,425,000

On May 8, 2007, the Company closed on the acquisition of the Gulf of Mexico Assets from Pearl Exploration and Production Ltd., an affiliated company. The Gulf of Mexico Assets were acquired in exchange for 10 million common shares with a value of $24,764,000.

6. INVESTMENTS

Investments at December 31, 2007 consist of the following.

		Par Value	Market Value
Federal Home Loan Bank Notes	$	23,235,000	23,223,000
Federal National Mortgage Association Notes		8,025,000	8,014,000
Federal Home Loan Mortgage Corporation Notes		750,000	744,000
Bank Certificate of Deposit		75,000	75,000
	$	32,085,000	32,056,000

Expressed in United States Dollars Unless Otherwise Noted

7. PETROLEUM AND NATURAL GAS PROPERTIES

	December 31, 2007		
	Cost	Accumulated Depletion	Net
Petroleum and natural gas	$ 75,627,000	$ (3,239,000)	$ 72,388,000
Office equipment	104,000	(20,000)	$ 84,000
	$ 75,731,000	$ (3,259,000)	$ 72,472,000

At December 31, 2006, the net book value of petroleum and natural gas properties was nil.

Producing properties include the Greylock, Eugene Island Block 7 and Jefferson Island properties.

As of December 31, 2007, the Company reviewed its portfolio of unproved properties. Based on this review, the Company recorded an impairment expense of $23,934,000, primarily related to four leases on the Outer Continental Shelve (OCS) and two prospects in the Marsh Island Project area. These impairments resulted from the evaluation of drilling activities in 2007 and new seismic data.

Expressed in United States Dollars Unless Otherwise Noted

8. SHARE CAPITAL

a) Details are as follows:

	Number of Shares		Share Capital		Contributed Surplus
Authorized:					
Unlimited common shares without par value					
Issued and fully paid:					
Balance - December 31, 2005	39,873,550	$	45,470,000	$	-
Issued for cash:					
- private placement	40,000,000		1,228,000		1,155,000
- warrants exercised	715,000		63,000		
- fair value portion of warrants exercised	-		21,000		(21,000)
- stock options exercised	2,650,000		359,000		-
Issued during the year:					
- stock options granted	-		-		432,000
Balance - December 31, 2006	83,238,550	$	47,141,000	$	1,566,000
Issued for cash:					
- private placement	166,666,667		163,114,000		
- property acquisition	10,000,000		24,764,000		
- warrants exercised	38,785,000		4,433,000		(1,120,000)
- stock options exercised	750,000		790,000		(432,000)
Issued during the year:					
- Summit acquisitions	8,815,871		10,593,000		
- stock options granted					2,223,000
Balance - December 31, 2007	308,256,088	$	250,835,000	$	2,237,000

During the first quarter of 2007, the Company closed a private placement of 166,666,667 shares at a price of Cdn$1.20 per share. Gross proceeds of the offering were Cdn$200,000,000 (Cdn$190,796,000 net of filing fees). During the second quarter the Company finalized the acquisition of the Gulf of Mexico Assets in exchange for 10 million common shares of the Company.

During 2006, the Company closed a non-brokered private placement of 40,000,000 units at Cdn$0.07 per unit. Gross proceeds of the offering were Cdn$2,800,000 (Cdn$2,786,000 net of filing fees). Each unit consisted of one common share and one warrant, with each warrant giving the holder the right to purchase one common share at Cdn$0.10, exercisable by January 9, 2008. As the units consisted of shares and warrants, the net proceeds of the units were divided between the two instruments. The value assigned to share capital was Cdn$1,471,000 and to contributed surplus was Cdn$1,315,000.

Expressed in United States Dollars Unless Otherwise Noted

b) Share Options

The Company has an established share purchase option plan whereby a committee of the Company's board of directors may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares under option at any specific time to any one optionee shall not exceed 5% of the issued and outstanding common shares of the Company. The term of any options granted under the plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. All options granted are subject to a four month hold period from the date of granting. Vesting terms are at the discretion of the Board of Directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange ("the Exchange") on the last trading day preceding the grant date, less the applicable discount, provided that the exercise price will not be less than Cdn $0.10 per share.

The continuity of incentive stock options issued and outstanding is as follows:

Stock Option Continuity

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	2,900,000	Cdn $0.15
Granted	750,000	Cdn $0.76
Exercised	(2,650,000)	Cdn $0.15
Outstanding at December 31, 2006	1,000,000	Cdn $0.61
Granted	3,165,000	Cdn $1.47
Exercised	(750,000)	Cdn $0.56
Cancelled/Forfeited	(200,000)	Cdn $2.20
Outstanding at December 31, 2007	3,215,000	Cdn $1.37

At December 31, 2007, 2,765,000 options are exercisable at an average exercise price of Cdn $1.37 per share with a weighted average remaining life of 3.4 years.

Stock Based Compensation

The Company recognizes compensation expense on stock options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The stock option compensation expense is calculated using the Black-Scholes Option Pricing

Expressed in United States Dollars Unless Otherwise Noted

Model. The weighted average fair value of options granted during 2007 and the assumptions used in their determination are as follows.

	December 31, 2007
Expected dividend yield	0%
Risk-free interest rate (weighted average)	4.07%
Expected stock price volatility (weighted average)	68.94%
Expected option life in years (weighted average)	4.36

Stock option compensation expense for the year ended December 31, 2007 and 2006 were $2,223,000 and $432,000, respectively.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

c) Warrants

As of December 31, 2006, the Company had share purchase warrants outstanding to purchase 39,285,000 shares at Cdn $0.10 per share, exercisable by January 9, 2008. These warrants are outstanding pursuant to the private placement of 40,000,000 units that closed during 2006. During the first three months ended March 31, 2007, 38,585,000 shares were issued at Cdn $0.10 per share, pursuant to these warrants. During the second three months ended June 30, 2007, 200,000 shares were issued at Cdn $0.10 per share. As of September 30, 2007, the Company had share purchase warrants outstanding to purchase 500,000 shares at Cdn $0.10 per share, exercisable by January 9, 2008. These warrants were subsequently exercised on January 8, 2008.

9. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $2,300,000, which will be incurred over the next 20 years with 60% of the costs incurred between 2008 and 2012.

Expressed in United States Dollars Unless Otherwise Noted

Changes to the asset retirement obligation were as follows:

	December 31, 2007	December 31, 2006
Beginning balance	$ -	$ -
Liabilities acquired through acquisitions	1,163,000	-
Liabilities incurred during the year	825,000	-
Liabilities settled during the year	(111,000)	-
Accretion	37,000	-
Ending balance	$ 1,914,000	$ -

10. INCOME TAXES

a. Future income tax expense:

The provision for income taxes reflects an effective tax rate which differs from Federal and Provincial statutory tax rates. The main differences are as follows:

		Years Ended December 31, 2007	Years Ended December 31, 2006
Loss before income taxes	$	(58,472,000)	(917,000)
Corporate income tax rate		34.1%	34.1%
Computed income tax recovery		(19,939,000)	(313,000)
Increase (decrease) resulting from:			
Non-taxable foreign exchange gain		(6,143,000)	-
Share issuance costs charged to share capital		(2,819,000)	-
Non-deductible compensation expense		758,000	147,000
Foreign tax rate difference		(524,000)	-
Effect of change in tax rates		216,000	124,000
Change in valuation allowance		28,813,000	64,000
Other		(362,000)	(22,000)
Income tax expense	$	-	-

Expressed in United States Dollars Unless Otherwise Noted

b. The components of the future income tax assets are as follows:

		December 31, 2007	2006
Future income tax assets:	$		
Non-capital losses		18,887,000	332,000
Share issue costs carried forward		2,257,000	18,000
Properties - tax basis over carrying value		7,996,000	-
Exploration expenses		875,000	852,000
Future income tax assets		30,015,000	1,202,000
Valuation allowance		(30,015,000)	(1,202,000)
Future income tax asset	$	-	-

c. The Company has available to carryforward the following:

		December 31, 2007	2006
Canadian losses from operations	$	796,000	1,071,000
Canadian exploration expenses		3,240,000	2,747,000
Canadian unamortized share issue costs		7,460,000	57,000
U.S. Federal losses from operations		53,349,000	-
U.S. Federal - tax basis over carrying values of properties		22,846,000	-

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2010 to 2026. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortized share issue costs may offset future taxable Canadian income of years 2008 to 2011. The U.S. Federal losses are available to offset future taxable income in the United States through 2027.

11. SIGNIFICANT CUSTOMERS

The Company has oil and natural gas sales to customers accounting for 69% and 27%, respectively, of total oil and natural gas revenues for the year ended December 31, 2007.

12. RELATED PARTY TRANSACTIONS

Namdo Management Services Ltd. (Namdo) provides administrative support to the Company under an agreement which commenced April 1, 2007. The amount paid to Namdo during the year ended December 31, 2007 was $187,000. Namdo is a private corporation owned by a shareholder of the Company.

Expressed in United States Dollars Unless Otherwise Noted

During the year ended December 31, 2007, the Company incurred legal fees of $251,000 with a law firm in which an officer of the Company is a partner.

During the year ended December 31, 2007, the Company incurred geological and geophysical (G&G) costs of $134,000 with a G&G firm in which an officer of the Company is a managing partner.

13. COMMITMENTS

The Company enters into commitments and contractual obligations in the normal course of business, including the purchase of services, farm-in agreements, seismic data acquisition agreements and lease agreements.

a) The Company has agreed to purchase seismic data totaling $4,082,000 in 2008.

b) The Company has operating leases for office space which expire on various dates through 2011. Future minimum commitments as of December 31, 2007 under these operating leases are as follows:

2008	$	122,000
2009		117,000
2010		92,000
2011		8,000
	$	339,000

Expenses related to operating leases were $7,000 and $Nil in 2007 and 2006, respectively.

14. SUBSEQUENT EVENT

On January 18, 2008, the Company and its partners suspended drilling operations on the LaPosada well (Broussard Estates #1) due to encountering subsurface conditions that prevented the completion of the well to its targeted depth. The Company and its partners are evaluating whether to re-commence drilling operations from a new location. The costs of the suspended drilling operations have been included in dry hole expense by the Company at December 31, 2007.

BAYOU BEND PETROLEUM LTD.

DIRECTORS

Clinton W. Coldren
Director
New Orleans, Louisiana

Brian D. Edgar
Director
Vancouver, British Columbia

Gary S. Guidry
Director
Calgary, Alberta

Keith C. Hill
Director
Vancouver, British Columbia

John Zaozirny
Director
Calgary, Alberta

OFFICERS

Keith C. Hill
Chairman
Vancouver, British Columbia

Clinton W. Coldren
President & Chief Executive Officer
New Orleans, Louisiana

William D. Hoffman
Chief Financial Officer
New Orleans, Louisiana

Kevin E. Hisko
Corporate Secretary
Vancouver, British Columbia

William R. Sack
Senior Vice President Exploration
Lafayette, Louisiana

T. Rodney Dykes
Senior Vice President Operations
New Orleans, Louisiana

Melinda L. Stuart
Vice President Asset Development
Lafayette, Louisiana

CORPORATE INFORMATION

CORPORATE OFFICE
885 West Georgia Street
Suite 2101
Vancouver, British Columbia V6C 3E8
Telephone: 604-689-7842
Facsimile: 604-689-4250
Website: www.bayoubendpetroleum.com

OPERATIONS OFFICE
228 St. Charles Avenue
Suite 724
New Orleans, Louisiana 70130
Telephone: 504-561-1151
Facsimile: 504-561-1153
Website: www.bayoubendpetroleum.com

BANKER
HSBC Bank Canada
Vancouver, British Columbia

AUDITOR
KPMG
Vancouver, British Columbia

TRANSFER AGENT
Computershare Trust Company of Canada
Vancouver, British Columbia

STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: BBP

INVESTOR RELATIONS
Sophia Shane
Vancouver, British Columbia