BAYOU BEND PETROLEUM LTD.

MANAGEMENT DISCUSSION AND ANALYSIS
(Amounts in United States Dollars unless otherwise indicated)
Years Ended December 31, 2008 and 2007

Management's discussion and analysis ("MD&A") of Bayou Bend Petroleum Ltd.'s (the "Company" or "Bayou Bend") financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2008 and 2007 and related notes thereto, prepared in accordance with Canadian generally accepted accounting principles. The effective date of the MD&A is April 16, 2009. Additional information related to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.bayoubendpetroleum.com.

Background

Bayou Bend is a Canadian-based oil and gas company that currently holds various interests in oil and gas exploration and development properties in the USA. Prior to February 9, 2007, the Company operated under the name Kit Resources Ltd. and traded on the TSX Venture Exchange under the symbol "KIT". On February 9, 2007, the Company changed its name to Bayou Bend Petroleum Ltd. and started trading under the symbol "BBP".

Prior to December 31, 2006, the Company was a resource based company engaged in the continued search for new and viable opportunities in the mineral sector. During the three months ended March 31, 2007, the Company began its transition into an oil and gas exploration and development company and completed several significant acquisitions.

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.

Summary

During the year ended December 31, 2008, the Company's major accomplishments and other significant events were as follows:

- In June 2008 the Company commenced drilling its Mt. Moran North well, located in Eugene Island Block 10. The prospect was drilled to a total vertical depth (TVD) of 17,004 feet and encountered 98 feet TVD net effective gas pay in three separate gas bearing sands. The well was jointly drilled with Contango Operators, Incorporated ("Contango") through the Company's Joint Exploration Agreement. The well has been completed and tied-in to Contango's Eugene Island Block 11 production facility for processing and sales. Production commenced in early

December and is currently producing at 3 million standard cubic feet per day ("MMCF/D") and 230 barrels of condensate per day. Bayou Bend has a 12.453525% working interest in this well.

- In June 2008 a well in Eugene Island Block 164, which is operated by PetroQuest Energy, LLC, was spud. The well was drilled to a total depth of 15,538 feet TVD and fully evaluated. The Company held a 10% working interest position in this well that was drilled in the Federal waters off of the Louisiana coast. The well discovered a non-commercial gas accumulation in the upper objective of the Tex X lower sand. The main objective, the Big A-4 sand, came in as expected in terms of depth and thickness but log analysis indicated the sand was wet. The wellbore was subsequently plugged and abandoned.

- In May 2008 the Company announced that it had made a gas condensate discovery on its Eagle's Nest prospect in the Marsh Island project in Eugene Island Block 6, and had the discovery on production 10 weeks later. The Eagle's Nest prospect was drilled to a total depth of 16,000 feet true vertical depth ("TVD") and encountered 56 feet TVD net effective gas pay. The well was jointly drilled with Contango Operators, Inc. and has been tied into Contango's Eugene Island Block 11 production facility for processing and sales. In July 2008 Eagle's Nest came on production. First production occurred on July 24, 2008 and is currently flowing at 29.6 MMCF/D and 705 barrels of condensate per day. Bayou Bend has a 12.453525% working interest in this prospect.

- In August 2008 the Company entered into a Participation Agreement with Mariner Energy, Inc. ("Mariner") and Apache Corporation to jointly drill and develop the Smoothe Prospect located in the South Timbalier Area, Block 49. In early December 2008, the exploratory well reached its objective depth of 18,426 feet TVD. After reaching its objective depth, drilling continued in an effort to reach a lower zone. Due to excessive cost overruns in this further deepening process, in January 2009, the Company recommended plugging and abandoning the well based on the relative value of the existing logged pay and the potential risk associated with the deepening operations. At that time Mariner informed the Company that they would continue in their attempt to reach total depth, at which point the Company non-consented to the continued operations. The Company holds a 33.33% working interest in the lease and in this well, subject to non-participation clauses in the joint operating agreement. (For financial statement purposes, the Company considers this well a dry hole as of December 31, 2008.)

- In June 2008 the Company commenced drilling a well in the Marsh Island Project Area on its Haystack prospect. The Company had a 45.6275% working interest in this well. The well was completed on July 2, 2008, at a total depth of 11,028 feet MD. Based on log correlations, the expected Tex W3 sand was present in the well bore but log analysis indicated that the sand was wet. The well was subsequently plugged and abandoned.

- The 3-D seismic data super merge project over Marsh Island which consisted of the reprocessing of two proprietary and two multi-client 3D surveys was completed. This integrated, improved data will greatly assist with enhancing the Company's ongoing exploration success in the Marsh Island area.

- In October 2008 the Company was the successful bidder on two blocks in Louisiana State waters in the Marsh Island Project Area. With these blocks, the total gross acreage held by the Company is 115,125 acres.

Oil and Gas Acquisitions

On February 20, 2007, the Company acquired 100% of the membership interests in Summit (the "Summit Acquisition") and Summit became a wholly-owned subsidiary of the Company. 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 MMcfgpd production facility tied into the existing regional pipeline infrastructure. The acquisition costs for this operating company totaled $45,847,000.

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 common shares with a deemed value of $1,712,000.

Also in February 2007, the Company closed on the purchase of an additional 17.4175% participating interest in the Phase I Area of the Marsh Island project bringing its total working interest to 35.5809% and its net revenue interest to 25.2124%. The acquisition costs totaled $28,601,000.

Selected Annual Information

The following is a summary of selected financial information for the Company for the years indicated:

		December 31	
($000s, except per share data)	2008	2007	2006
Revenue - oil & gas sales, net	$5,009	$2,729	$0
Net income (loss)	($98,050)	($58,472)	($917)
Net income (loss) per share - basic	($0.32)	($0.21)	($0.01)
Net income (loss) per share - diluted	($0.32)	($0.21)	($0.01)
Exploration & development expenditures	$20,803	$98,195	$1
Total assets	$63,594	$166,841	$2,559
Working capital surplus	$41,595	$80,120	$2,488
Shareholders' equity	$54,466	$151,665	$2,488
Common shares outstanding	308,756	308,256	83,239

Prior to December 31, 2006, the Company was a mineral exploration company and had limited operational activities. During the first three months of 2007, the Company changed its strategic direction to become an oil and gas exploration and development company by acquiring a variety of oil and gas interests in the USA.

In February 2009, the Company entered into a Letter of Intent with a third party to sell substantially all of the Company's Gulf of Mexico properties. On April 16, 2009, the Company entered into a definitive purchase and sale agreement with a third party to sell substantially all of its oil and gas properties, including related asset retirement obligations, for $12,500,000 in cash and a deferred, contingent payment of up to $8,000,000 based on proved reserves, as defined, as December 31, 2010. The transaction is expected to close prior to the end of May 2009. As a result of the Company's decision to exit the Gulf of Mexico, the Company recorded an impairment expense of $56,300,000 in the fourth quarter 2008 primarily related to unproved properties to reflect the estimated market value of the properties.

The Company follows the successful efforts method of accounting for its oil and gas properties.

Production

	For the Quarter Ended							
	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007
Oil & gas sales, net ($000's)	$ 1,663	$ 1,583	$ 798	$ 965	$ 1,181	$ 1,077	$ 299	$ 172
Oil (net bop/d)	68	48	27	30	32	24	16	16
Natural gas (net mcf/d)	1,927	1,277	362	835	1,572	1,457	499	211
Total (net mcfe/d)*	2,337	1,565	524	1,016	1,766	1,601	593	306
Average selling price, net:								
Oil - per bbl	$ 69.14	$ 124.58	$ 123.21	$ 91.52	$ 91.52	$ 77.37	$ 66.79	$ 60.73
Gas - per mcf	$ 8.02	$ 8.71	$ 9.69	$ 9.13	$ 6.16	$ 5.85	$ 7.05	$ 7.66

* Production information is commonly reported in units of barrel of oil equivalent ("boe"), or if primarily a producer of natural gas in units of thousand cubic feet equivalent ("mcfe"), which may be misleading, particularly if used in isolation. For purposes of computing such units, thousand cubic feet of natural gas equivalent units have been calculated using an energy equivalence conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1). The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip and does not represent value equivalence at the wellhead.

On July 24, 2008, the Company commenced production on its Eagle's Nest well. The well is currently producing 29.6 MMCF/D on an 8/8th basis. The well, in which the Company holds a 12.453525% working interest and an 8.935404% net revenue interest, is tied into Contango's Eugene Island Block 11 production facility.

Production from the Company's Greylock well was stopped on August 30, 2008 due to Hurricanes Gustav and Ike and did not recommence due to damage to Marathon's Burns Point plant until December 4, 2008. Production from the Company's Eagle's Nest well was also stopped on August 30, 2008 due to the hurricanes. When production recommenced on September 29, 2008, the production rate per day was approximately 50% of the pre-storm rate due to transportation pipeline damage. These pipeline damages were repaired by the transport operator in late December 2008 with full production being achieved in late March 2009.

Results of Operations

	For the Quarter Ended (in $000s)							
	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007
Oil and gas sales	$ 2,241	$ 2,068	$ 1,121	$ 1,293	$ 1,614	$ 1,414	$ 432	$ 201
Royalties	$ (578)	(485)	(323)	(328)	(433)	(337)	(133)	(29)
Oil and gas sales, net	$ 1,663	1,583	798	965	1,181	1,077	299	172
Operating	$ (876)	(630)	(230)	(466)	(397)	(351)	(152)	(45)
Exploration	$ (3,312)	(2,365)	(2,102)	(2,721)	(1,916)	(525)	(1,530)	(845)
Dry hole	$ (7,748)	(1,711)	(3,257)	-	(35,753)	(9,397)	-	-
Impairment of properties	$ (56,972)	(11,584)	-	-	(11,333)	(10,998)	-	(1,603)
Accretion	$ (16)	(11)	(15)	(13)	(11)	(13)	(13)	-
Depletion, deprec. & amort.	$ (543)	(414)	(525)	(430)	(2,248)	(759)	(174)	(78)
General and administrative	$ (966)	(526)	(943)	(928)	(3)	(888)	(1,687)	(457)
Stock-based compensation	$ (78)	(138)	(496)	(89)	(191)	(91)	(37)	(1,904)
Foreign exchange gain (loss)	$ (3,575)	(806)	450	(1,079)	2,627	7,264	8,125	-
Interest income	$ 267	448	527	814	1,174	1,389	1,194	425
Net income (loss)	$ (72,156)	$ (16,154)	$ (5,793)	$ (3,947)	$ (46,870)	$ (13,292)	$ 6,025	$ (4,335)
Net income (loss) per share basic	($0.24)	($0.05)	($0.02)	($0.01)	($0.15)	($0.04)	$0.02	($0.02)
Net income (loss) per share diluted	($0.24)	($0.05)	($0.02)	($0.01)	($0.15)	($0.04)	$0.02	($0.02)

The Company had a consolidated net loss of $98,050,000 for the year ended December 31, 2008 compared to a net loss of $58,472,000 for 2007. The increased net loss in 2008 is primarily due to the impairment expense of $68,556,000 recorded during the year.

The production volume and proven reserve base at this early stage of exploration result in higher costs per mcfe than would be the case for a later stage exploration company, particularly operating and general and administrative costs.

Certain prior quarterly expenses, in the quarterly presentation above, have been reclassified to conform to the current quarter's presentation. None of these reclassifications impacted net income.

The various income and expenses categories are explained below in more detail.

<u>Oil and Gas Sales</u>

The Company had oil and gas sales, net of royalties, of $5,009,000 and $2,729,000 for the years ended December 31, 2008 and 2007, respectively.

Oil and gas sales for the last four months of 2008 were negatively impacted by Hurricanes Gustav and Ike. As noted earlier in this report, production from the Company's Greylock and Eagle's Nest wells was essentially halted during the entire month of September due to third-party infrastructure damage from the hurricanes. After September, production from both wells continued to be negatively impacted by the infrastructure damage.

The increases in oil and gas sales compared to the prior year are due to the Greylock well commencing production on June 8, 2007, the Eagle's Nest well commencing production on July 24, 2008, and average higher prices for oil and natural gas in 2008.

Operating Costs

The Company had operating costs of $2,202,000 for the year ended December 31, 2008 ($0.004 per mcfe), compared to $945,000 for the prior year ($0.002 per mcfe). Operating costs during the periods are primarily related to the Company's Greylock, Jefferson Island and Eagle's Nest properties. In 2008 operating expenses increased due to the Eagle's Nest well commencement of production on July 24, 2008.

Exploration Costs

The Company incurred exploration costs of $10,500,000 for the year ended December 31, 2008 and $4,816,000 for the 2007. During the three months ended September 30, 2008, the Company incurred $1,340,000 of additional unplanned expenses from Hurricanes Gustav and Ike from its South Timbalier 49 well that was in the process of being drilled. These costs were primarily related to the re-spudding of the well after the drilling rig was moved off location by the hurricanes.

Dry Hole Costs

For the year ended December 31, 2008, dry hole costs were $12,716,000. The comparable costs in 2007 were $45,150,000.

Impairment of Properties

Impairment costs were $68,556,000 for the year ended December 31, 2008, compared to $23,934,000 in 2007. The impairments in 2008 were due to additional seismic information and the results from wells drilled in the surrounding areas. In April 2009, the Company entered into a Purchase and Sale Agreement with a third party to sell substantially all of the Company's Gulf of Mexico properties. As a result, the Company recorded an additional impairment expense of $56,300,000 in the fourth quarter of 2008, primarily related to unproved properties.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") was $1,912,000 for the year ended December 31, 2008. For the previous year the comparable amount was $3,259,000. DD&A primarily results from production in the Greylock, Jefferson Island and Eagle's Nest properties.

General and Administrative Expenses

General and administrative expenses were $3,363,000 for the year ended December 31, 2008. In the prior year the comparable amount was $3,035,000.

The general and administrative expenses for the year ended December 31, 2008 include $666,000 for legal, accounting and audit costs, $1,619,000 for salaries and benefits, $437,000 for management and consulting fees, and $232,000 for travel and entertainment expenses.

The general and administrative expenses for the year ended December 31, 2007 include $1,370,000 for legal, accounting and audit costs, $863,000 for salaries and benefits, $470,000 for management and consulting fees, and $332,000 for travel and entertainment expenses.

Stock-Based Compensation

Stock-based compensation was $801,000 for the year ended December 31, 2008. The comparable amount in 2007 was $2,223,000. The stock-based compensation expense in 2008 results primarily from the issuance of 3,660,000 stock options and the vesting of stock options that were granted in 2007. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Foreign Exchange (Gain) Loss

Foreign exchange loss was $5,010,000 for the year ended December 31, 2008. The Company had a foreign exchange gain of $18,016,000 during 2007. There was no foreign exchange gain or loss during the first three months of 2007 due to the Company's reporting currency being the Canadian dollar at that time and the Company holding Canadian dollar cash. The Company changed its reporting currency to the U.S. dollar effective April 1, 2007. The year-to-date loss in 2008 results from the strengthening of the United States dollar against the Canadian dollar.

Interest Income

For the year ended December 31, 2008 and 2007, interest income was $2,056,000 and $4,182,000, respectively. Interest income represents bank interest earned on excess cash and investments in marketable securities. The decrease in interest income in 2008 results from a decrease in invested cash and investments and a decrease in yield on those investments from the prior year.

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, during the first quarter of 2007, includes unrealized foreign currency translation gains and losses.

The Company's operations in the United States are denominated in U.S. dollars and are considered integrated. Effective April 1, 2007, the Company changed its reporting currency from the Canadian dollar to the United States dollar.

As of December 31, 2008, the Company had approximately $44,000,000 Canadian dollars in its cash accounts, with the balance in United States dollars. The Company does not have any exposure to asset-backed commercial paper.

Financial Condition

At December 31, 2008, the Company had total assets of $63,594,000 compared to $166,841,000 at December 31, 2007. The decrease in total assets from the prior year is primarily due to the impairment recorded during 2008 on unproved properties as previously described.

Liquidity and Capital Resources

Working capital at December 31, 2008, totaled $41,595,000, compared to $80,120,000 at December 31, 2007.

Funds used by operations were $24,517,000 for the year ended December 31, 2008 compared to funds provided by operations of $16,240,000 for the year 2007. The primary use of the funds during 2008 was for exploration activities.

Net cash provided from financing activities for the year ended December 31, 2008 was $50,000 compared to $166,767,000 for 2007. During the three months ended March 31, 2007 the Company issued 214,817,538 common shares at an average price of Cdn $0.97 per share.

Net cash provided by investing activities was $11,174,000 for the year ended December 31, 2008, compared to funds used in investing activities of $130,251,000 in 2007. During the three months ended March 31, 2007, the Company used cash to add to its oil and gas operations through the acquisition of leases and exploration and development activities.

Net cash used for exploration and development was $20,803,000 for the year ended December 31, 2008, compared to $98,195,000 in 2007.

Contributed surplus increased $787,000 for the year ended December 31, 2008, compared to $671,000 in 2007. The increase is due to stock-based compensation for the year offset by the exercise of warrants. When options are granted, the Black-Scholes option value method is used to calculate a value for the stock options. The offset to the amount that is recorded as stock compensation expense is a credit to contributed surplus. When the options are exercised, the applicable amounts of contributed surplus are transferred to share capital. During the three month period ended March 31, 2007, 750,000 stock options were exercised. No other stock options were exercised during 2007 or 2008.

The Company does not currently generate sufficient cash flow from its oil and gas operations to fund the entire oil and gas exploration, development and acquisition activities. The Company has relied upon the issuance of common shares to assist with financing its ongoing oil and gas exploration, development and acquisition activities to the extent that sufficient cash flow from oil and gas assets or farming out interests in oil and gas properties is not sufficient to finance its operations. Notwithstanding that the Company has sufficient financial resources to fund operations through the 2009 fiscal year, continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations. As previously stated, on April 16, 2009, the Company entered into a definitive purchase and sale agreement to sell substantially all of its oil and gas properties.

Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and advances from joint interest holders.

Cash, cash equivalents and investments are designated as held for trading and therefore carried at fair value, with unrealized gain or loss recorded in interest income.

The fair values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and advances from joint interest holders approximate carrying values because of the short-term nature of these instruments. The fair values of investments are determined directly by reference to quoted market prices.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through its counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its bank accounts and accounts receivable. Bank accounts are with banks that have a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

Accounts receivable are primarily with natural gas marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. As of December 31, 2008, the Company's receivables consist of $996,000 from joint venture partners and other trade receivables and $916,000 of revenue accruals and other receivables from natural gas marketers.

Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project

Receivables from natural gas marketers are typically collected on the end of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with established marketers. The Company has not experienced any collection issues with its natural gas marketers.

Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risk harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operating and non-operating projects to further manage capital expenditures.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates, will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The significant market risk exposures to which the Company is exposed are foreign currency, commodity price and interest rate risks.

Foreign currency risk – The Company maintains a portion of its cash in Canadian dollars. The Company's operations are conducted in U.S. dollars. The Company's operating results and cash flows are affected to varying degrees by the changes in the Canadian dollar vis-à-vis the U.S. dollar. Company expenditures are incurred predominately in U.S. dollars. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

At December 31, 2008, the Company had $36,287,000 denominated in Canadian dollars. As of December 31, 2008, with other variables unchanged, a 1% strengthening of the U.S. dollar against the Canadian dollar would decrease the net loss by $363,000 due to this financial asset.

Commodity price risk – The prices that the Company receives for its crude oil and natural gas production may have a significant impact on its revenue and cash provided by operating activities. Any significant price decline in commodity prices would adversely affect the amount of funds available for capital reinvestment purposes. At this time the Company does not use derivative financial instruments to manage its exposure to this risk.

Interest rate risk – The Company's bank accounts earn interest income at variable rates. The Company's future interest income is exposed to changes in short-term rates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of March 31, 2009, the Company had 308,756,088 shares outstanding, 3,935,000 stock options outstanding under its stock-based compensation plan and zero warrants outstanding.

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 was $264,000 and $187,000 during the years ended December 31, 2008 and 2007, respectively. Namdo is a private corporation owned by a shareholder of the Company.

During the year ended December 31, 2008, the Company incurred legal fees of $18,000 with a law firm in which an officer of the Company is a partner. The comparable amount was $251,000 in 2007.

During the year ended December 31, 2008, the Company incurred geological and geophysical (G&G) costs of $469,000 with a G&G firm in which an officer of the Company is a managing partner. The comparable costs in 2007 were $134,000.

Changes to Management

On December 1, 2008, Clinton W. Coldren resigned as the Company's President and Chief Executive Officer and as a Board member. Keith C. Hill was appointed Acting President by the Board of Directors.

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. In preparing financial statements, management makes 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 reported period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, stock-based compensation, amortization and impairment write-downs. Actual results could differ from these estimates and the differences could be material.

New Accounting Standards Adopted

Effective January 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862 "Financial Instruments – Disclosures", 3863 "Financial Instruments – Presentation", 1535 "Capital Disclosures", and 3031 "Inventories." The adoption of these standards has had no material impact on the Company's net loss or cash flows. Additional information on the implementation of these new standards can be found in Note 2 to the Audited Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007.

Accounting for Oil and Gas Operations

Due to the Company's transition into the oil and gas exploration and development industry, effective in 2007, the Company has followed the successful efforts method of accounting for its oil and gas operations. Under this method, acquisition costs of oil and gas properties, costs to drill and equip exploratory wells that find proved reserves and costs of drilling and equipping development wells are capitalized and subject to quarterly impairment testing.

Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to exploration expense. Exploration well costs that have found sufficient reserves to justify commercial production, but whose 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 and or related project. All other exploration costs, including geological and geophysical costs, are charged to exploration expense when incurred.

Capitalized costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. Successful exploratory wells, development costs and acquired resource properties are depleted over proved developed reserves. Acquisition costs of unproved reserves are not depleted or amortized while under active evaluation for commercial reserves.

Costs associated with significant development projects are depleted once commercial production commences.

A revision to the estimate of proved reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. The impairment test is initially based on undiscounted future cash flows from proved and risk adjusted probable reserves. If an impairment is identified, fair value is calculated as the present value of estimated expected discounted cash flows from proved and risk-adjusted probable reserves. Any impairment loss is the difference between the carrying value of the oil and gas property and its fair value. If it is determined that the estimated fair value is less than the net carrying amount, a write-down to the oil and gas property's fair value is recognized during the period, with a charge to earnings.

Estimates of future cash flows used in the evaluation of impairment of assets are performed based on risk assessments on field and reservoir performance and include judgment assumptions regarding commodity prices, discount rates and future costs.

A substantial portion of the Company's exploration and development activities are conducted jointly with others. The financial statements reflect only the Company's proportionate interests in such activities.

The Company engaged Netherland, Sewell and Associates, Inc., an independent geoscience consultancy firm, to evaluate 100% of the Company's proved and probable oil and gas reserves at December 31, 2008. The estimation of reserves is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations. Reserves will be revised upward or downward based on the results of future drilling, testing and production levels.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that the International Reporting Standards ("IFRS") will replace Canadian GAAP for profit-oriented Canadian publicly accountable enterprises in 2011.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. There are three phases in the process: diagnostic, detailed assessment and design and implementation. The Company is currently performing a review of the major differences between the current Canadian GAAP and IFRS. In 2009 the Company will commence the detailed assessment and design phase of the project.

During the implementation phase, the Company will execute the required changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. At this time, the impact on financial statements is not reasonably determinable.

Risks and Uncertainties

The Company is exposed to a number of risks and uncertainties inherent in exploring for, developing and producing crude oil and natural gas. These risks and uncertainties include, but are not limited to, the following: economic risk of finding and producing reserves at a reasonable cost; cost of capital risk associated with securing the needed capital to carry out the Company's operations; commodity price risk; risk of fluctuating currency exchange rates; risk of carrying out operations with minimal environmental impact; risk of weather, including hurricanes and other storms; risk of governmental policies, social instability or other political, economic or diplomatic developments in the US operations; market risk associated with investing the Company's cash reserves in interest bearing depository instruments; and environmental risks related to its oil and gas and mineral properties. Many of the previously mentioned risks are beyond the Company's control, and it is impossible to ensure that any exploration drilling program will result in commercial operations. The Company does not currently utilize derivative instruments to hedge its foreign currency exchange or interest rate risks.

Outlook

On November 6, 2008, the Company announced that it had engaged an investment advisor to assist the Company with its current review of the strategic and financial alternatives available to it. In February 2009, the Company decided to sell its Gulf of Mexico properties and entered into a Letter of Intent with a third party. On April 16, 2009, the Company entered into a definitive Purchase and Sale Agreement with a third party to sell substantially all of its oil and gas properties, including related asset retirement obligations, for $12,500,000 in cash and a deferred, contingent payment of up to $8,000,000 based on proved reserves, as defined, at December 31, 2010. The transaction is expected to close prior to the end of May 2009.

Considering the Company's favorable cash position and the business opportunities that are routinely presented to members of the Company's Board of Directors, the potential exists for the Company to enter into a new business that may provide greater opportunity for the creation of value than the Company's existing oil and gas business.

Forward-Looking Statements

This report contains forward-looking statements concerning anticipated developments on the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by the words such as “expects,” “anticipates,” “believes,” “intends,” “estimates,” “potential,” “possible,” “budget” and similar expressions, or statements that events, conditions or results “will,” “may,” “could,” or “should” occur or be achieved. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what might be found to be present if and when a project is actually developed. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company’s forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.