

**Bayou Offshore Master Fund; Bayou Offshore Fund A, Ltd; Bayou
Offshore Fund B, Ltd; and Bayou Offshore Fund C, Ltd
(all in official liquidation)**

Report of the Joint Official Liquidators

30 April 2007

REPORT OF THE JOINT OFFICIAL LIQUIDATORS

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APPENDICES

- I. Fees and expenses of the Liquidators and their professional advisors for the period 2 September 2005 to 30 April 2007.

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1.0 Basis of presentation and disclaimer

1.1. Basis of presentation

This report has been prepared for the purpose of informing the Grand Court of the Cayman Islands ("the Grand Court") and the investors and creditors of Bayou Offshore Master Fund Ltd ("Master"), Bayou Offshore Fund A, Ltd ("Fund A"), Bayou Offshore Fund B, Ltd ("Fund B") and Bayou Offshore Fund C, Ltd ("Fund C") (collectively, "the Bayou Offshore Funds") about the progress made in the liquidations of the Bayou Offshore Funds since the last report dated 15 December 2005 was issued ("the First Report").

This report has been prepared using the information available at the time of preparation. Investigations are ongoing and new information continues to be received. This may result in material changes to the information shown in this report, which should be read in conjunction with the First Report.

As indicated in the First Report, on 8 September 2005, the liquidations of Bayou Offshore Fund D, Ltd; Bayou Offshore Fund E, Ltd and Bayou Offshore Fund F, Ltd (the "Dormant Funds") came under the supervision of the Grand Court. Whilst the information given in the First Report continues to be relevant, in that the Dormant Funds appear never to have solicited investments, the Joint Official Liquidators ("the Liquidators") are keeping this under review.

1.2. Disclaimer

This report should not be copied or disclosed to any third party or otherwise be quoted or referred to, in whole or in part, without the Liquidators' prior written consent. In the event that this report is obtained by a third party or used for any purpose other than in accordance with its purpose of informing the Grand Court and updating the investors and creditors of the Bayou Offshore Funds, any such party relying on the report does so entirely at their own risk and shall have no right of recourse against the Liquidators, Kroll (Cayman) Limited ("Kroll"), its partners, directors, employees, professional advisers or agents.

None of the Liquidators, Kroll, its partners, directors, employees, professional advisers or agents accept any liability or assume any duty of care to any third party (whether it is an assignee or successor of another third party or otherwise) in respect of this report and any such party who receives a copy of this report whether from Kroll, or any other source shall have no right of recourse against Kroll, its partners, directors, employees, professional advisers or agents.

In preparing this report the Liquidators have relied upon information in the possession of the Bayou Offshore Funds at the time of their appointment, and the statutory documentation and other information provided to them. The Liquidators have not performed an audit examination of this information. Except where specifically stated, the Liquidators have been unable to establish the reliability of the sources of information presented to them by reference to independent evidence.

2.0 Appointment of Joint Official Liquidators

The petition presented by the Joint Provisional Liquidators for the winding up of the Bayou Offshore Funds was heard by the Grand Court on 20 December 2005 when it was ordered that the Bayou Offshore Funds be wound up and that Gordon I MacRae and G James Cleaver, the then Joint Provisional Liquidators, be appointed Joint Official Liquidators.

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3.0 Correspondence with investors and creditors

Following their appointment on 20 December 2005, the Liquidators wrote to all known investors and possible creditors of the Bayou Offshore Funds advising them of their appointment. They also advertised their appointment in Cayman Islands Gazette by way of a notice dated 7 February 2006.

During the period covered by this report, the Liquidators continued to use both the dedicated email address, bayou.enquiries@krollcayman.ky, and the website, www.bayoucaymanliquidation.ky, to facilitate the dissemination of information to investors.

On 21 August 2006, the Liquidators wrote to all known investors and possible creditors giving notice to prove claims in the liquidations of the Bayou Offshore Funds. A copy of the notice to prove and the claim form was also placed on the website.

A total of twenty-nine claims have been received and a review of each has been prepared. The claims are summarised in the following table:

Name of Fund	Number of claims received	Total value of Claims US\$
Bayou Offshore Fund A, Ltd	13	16,030,317.03
Bayou Offshore Fund B, Ltd	8	15,622,000.00
Bayou Offshore Fund C, Ltd	8	5,670,200.00

4.0 Assets

4.1 Funds maintained by the Joint Official Liquidators

It remains the case that the funds available to the Liquidators amount to US\$148.31 (see section 5.3 of the First Report), with all subscription monies received from investors having been transferred to the account of the Investment Manager, Bayou Management LLC ("Bayou Management"), held at Wachovia Bank in the United States of America ("the US"). All transfers of subscription monies took place prior to 2 September 2005, the date upon which the Bayou Offshore Funds were placed into provisional liquidation.

4.2 Funds recovered by legal and government authorities in the United States of America

In May 2005, the Arizona Attorney General sought the seizure of approximately \$101 million ("the Forfeited Funds") held in a bank account in the name of Majestic Capital Management. These funds, referred to in section 5.3 of the First report, appeared to relate to the Bayou group of companies.

The Forfeited Funds were recently removed from the supervision and control of the Arizona Attorney General and turned over to United States federal agencies ("the Federal Agencies"). It is presently believed that the Federal Agencies will distribute the Forfeited Funds directly to the individual investors of the Bayou entities (both Onshore and Offshore) as victims of the fraud (see section 4.3 below) and that such distribution of the Forfeited Funds will occur after sentencing of Sam Israel and Dan Marino.

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4.3. The assets of Dan Marino and Sam Israel

In September 2005, the US Attorney, on behalf of the United States of America, filed in the United States District Court for the Southern District of New York (the "District Court") criminal actions against the two former principals of the Bayou Offshore Funds – Sam Israel and Dan Marino - alleging investment advisor fraud, mail fraud and wire fraud, and demanding that they forfeit to the US property, real and personal, that constituted or was derived from any proceeds traceable to the commission of those offences (collectively with the civil forfeiture action, the "Federal Forfeiture Proceedings"). At that time, Marino and Israel pleaded guilty pursuant to plea agreements. In October 2005, the District Court entered Preliminary Orders of Forfeiture, with final forfeiture orders to be entered upon a final adjudication of any third-party interests asserted in Marino's and Israel's forfeited property. On or about 6 January 2006, the District Court ordered the appointment of James P. Shinehouse of Kroll Talbot Hughes as receiver (the "US Government Receiver") to assist the Marshals Service in effecting the identification and recovery of the property forfeited in the criminal actions against Israel and Marino.

The sentencing of Israel and Marino in the criminal proceedings is currently set for July of 2007. Previously set sentencing dates for the criminal defendants have been continued in the past and it is possible that these current settings could be adjourned to some future date.

5.0 The onshore (US registered) Bayou Entities

On 28 April 2006 a federal equity receiver was appointed over the following companies, collectively known as "the Bayou Onshore Entities".

- i) Bayou Management, LLC;
- ii) Bayou Group, LLC;
- iii) Bayou Superfund, LLC;
- iv) Bayou No Leverage Fund, LLC;
- v) Bayou Affiliates Fund, LLC;
- vi) Bayou Accredited Fund, LLC;
- vii) Bayou Fund, LLC;
- viii) Bayou Advisors, LLC and
- ix) Bayou Equities, LLC.

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On 30 May 2006, in the District Court, the Bayou Onshore Entities filed for protection under Chapter 11 of the US Bankruptcy Code and an independent fiduciary, Mr. Jeff Marwil (then of Jenner & Block) was appointed. Mr Marwil is also the federal equity Receiver appointed on 28 April 2006 by US District Judge, Colleen McMahon, in the Southern District of New York charged with a duty to, among other matters, seek recoveries for defrauded investors and otherwise administer the liquidation of the Bayou Onshore Entities.

It was anticipated by the Liquidators that a Joint Protocol could be put in place, whereby information and recoveries could be shared amongst all the victims of the Bayou fraud, whether they were investors and creditors in the Bayou Offshore Funds or the Bayou Onshore Entities. It was thought that this would result in a more timely distribution of dividends to all victims as well as economies because of the sharing of information. The Liquidators, together with their attorneys in both the US and the Cayman Islands, prepared a draft protocol agreement for consideration by Mr Marwil. Unfortunately, he was not amenable to such an arrangement and this has not been pursued.

A bar date of 17 January 2007 was set by the United States Bankruptcy Court, for claims to be lodged against the Bayou Onshore Entities. As monies invested in the Bayou Offshore Funds were sent to Bayou Management, the Liquidators have filed claims against that entity in respect of the net cash amount owed to each of the Bayou Offshore Funds, as follows:

- i) Claim filed by Master in the amount of at least US\$37.24 million;
- ii) Claim filed by Fund A in the amount of at least US\$15.00 million;
- iii) Claim filed by Fund B in an amount of at least US\$16.13 million and;
- iv) Claim filed by Fund C in an amount of at least US\$6.11million.

The claim of US\$37.24 million made by Master is duplicative, but protective, of the three claims filed by each of Funds A; B and C. Each of the Bayou Offshore Funds has also filed a protective claim in an undetermined amount against each of the remaining eight onshore entities.

6.0 Examinations pursuant to Rule 2004 of the Federal Rules of Bankruptcy Procedure

Following the filing of a second Motion for Authority to take Rule 2004 Examinations, several former employees of, and service providers to, Bayou group companies in the US have been examined under the above provisions. This has led to information concerning the use to which investors monies were put and other investments that might still yield realisations for the benefit of investors and creditors. To the extent possible, the Liquidators have shared this intelligence with the Federal Agencies.

7.0 Fees and expenses of the Joint Official Liquidators

Attached, as Appendix I, is a summary that shows the fees billed to 30 April 2007 by the Liquidators and their advisors. It may be seen that total costs (including legal fees) to the end of April 2007 are in the order of US\$1.4 million. On 5 October 2006, the rules of the Cayman Court in relation to liquidators' remuneration were varied pursuant to Practice Direction 1/2006 such that liquidators appointed by or who act under supervision of the Court are now required to make an application to the Court for the setting and ultimate approval of their remuneration.

It continues to be the case that, where there is available a body of creditors or investors that may be convened to consider the appropriateness and reasonableness of an application for approval of fees and who, to the satisfaction of the Court, may be regarded as fairly representative of the interests of creditors or investors as a whole (in this case, the liquidation committee (the "Committee")); the

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application must first be presented to that body for their consideration and opinion. Accordingly, whilst ultimate approval of the Liquidators' remuneration will now fall to the Court, the Committee's review and approval will continue to be sought.

Following the initial meeting of the Committee held on 28 June 2006, the approval of the Committee was obtained for the Liquidators' fees, amounting to US\$321,219.75, and their out-of-pocket expenses (i.e. not including the fees and expenses of advisors engaged by the Liquidators) of US\$38,764.98 to the end of May 2006. On 20 December 2006, the views of the Committee were sought on the Liquidators' fees and their out-of-pocket expenses incurred during the period 1 June 2006 to 31 October 2006, in amounts of US\$90,667.75 and US\$12,089.77 respectively. These were unanimously approved by the Committee. At both of these Committee meetings, the amount of legal fees incurred was discussed and individual attorneys from the firms of Diamond McCarthy and Maples and Calder were present or available to answer questions in relation thereto. Whilst no vote was taken with regard to the legal fees, the Committee did indicate that they were comfortable with the fees charged.

An application for the approval of the Liquidators' fees will be made to the Grand Court once the Liquidators are in receipt of realisations out of which to discharge them. The Liquidators and their legal advisors continue to accrue time costs in relation to these liquidations against which, to date, no remuneration has been paid.

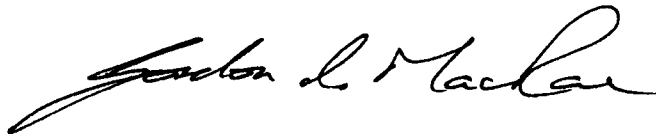
8.0 The Liquidation Committee

The Liquidators continue to liaise closely with the Committee. The most recent meeting was held in New York on 25 April 2007 when the following matters were considered and discussed:

- The potential for the settling of the claims against the Bayou Onshore Entities;
- The potential for action to recover monies from investors that redeemed out of the Bayou Offshore Funds prior to their collapse;
- The Liquidators' fees and expenses incurred between 1 November 2006 and 31 March 2007 in the amount of US\$58,129.88.

9.0 Conclusion

It remains the case that the Bayou Offshore Funds are not presently in a position to return any of the funds invested in them to their respective investors and it is unclear what the extent, nature and recoverability of their assets may be. The Liquidators continue in discussions with various authorities in the US in order to ensure, as far as possible, that the overall conduct of proceedings relating to both the Bayou Offshore Funds and the Bayou onshore entities is carried out in the most efficient and fair manner possible.



Gordon I. MacRae
Joint Official Liquidator of the Bayou Offshore Funds

Appendix 1

Fees and expenses of the Joint Liquidators of the Bayou Offshore Funds and their professional advisors for the period 2 September 2005 to 30 April 2007

	Fees US\$	Expenses US\$
Liquidators' fees and out-of-pocket expenses	468,742.50	54,192.18
Attorney's fees: Maples and Calder	149,609.50	4,257.53
Attorney's fees: DiamondMcCarthy	531,649.00	37,122.89
Attorney's fees: Diamond McCarthy Interface	48,726.50	1,891.21
Attorney's fees: Zeissler & Zeissler	23,376.74	-
Other professionals: Kroll Inc	30,765.00	1,739.00
	1,252,869.24	99,202.81
Fees and expenses incurred in respect of the Bayou Offshore Funds D, E & F	3,262.50	705.44
	1,256,131.74	99,908.25
Total liquidation fees and costs		1,356,039.99