

## **BAYOU BEND PETROLEUM LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS (Amounts in United States Dollars unless otherwise indicated) Three Months Ended March 31, 2009 and 2008**

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 unaudited consolidated financial statements for the three months ended March 31, 2009 and 2008 and related notes therein, prepared in accordance with Canadian generally accepted accounting principles. The effective date of the MD&A is May 11, 2009. Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's web-site at [www.bayoubendpetroleum.com](http://www.bayoubendpetroleum.com).

#### **Overview**

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".

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.

## Selected Quarterly Information

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

(\$000s, except per share data)	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	2009	2008	2008	2008	2008	2007	2007	2007
Revenue - oil & gas sales, net	\$715	\$1,663	\$1,583	\$798	\$965	\$1,181	\$1,077	\$299
Net income (loss)	(\$4,058)	(\$72,156)	(\$16,154)	(\$5,793)	(\$3,947)	(\$46,870)	(\$13,292)	\$6,025
Net income (loss) per share - basic	(\$0.01)	(0.24)	(\$0.05)	(\$0.02)	(\$0.01)	(\$0.15)	(\$0.04)	\$0.02
Net income (loss) per share - diluted	(\$0.01)	(\$0.24)	(\$0.05)	(\$0.02)	(\$0.01)	(\$0.15)	(\$0.04)	\$0.02
Exploration & development expenditures	\$450	\$10,959	\$4,146	\$5,442	\$256	\$28,127	\$8,631	\$4,189
Total assets	\$59,740	\$63,594	\$134,245	\$150,203	\$152,988	\$166,841	\$221,632	\$228,730
Working capital surplus	\$37,545	\$41,595	\$59,031	\$66,621	\$76,465	\$80,120	\$99,432	\$117,577
Shareholders' equity	\$50,408	\$54,466	\$126,544	\$142,560	\$147,857	\$151,665	\$198,344	\$211,542
Common shares outstanding	308,756	308,756	308,756	308,756	308,756	308,256	308,256	308,256

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

## Production

	For the Quarter Ended							
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	2009	2008	2008	2008	2008	2007	2007	2007
Oil & gas sales, net (\$000's)	\$ 715	\$ 1,663	\$ 1,583	\$ 798	\$ 965	\$ 1,181	\$ 1,077	\$ 299
Oil (net bop/d)	79	68	48	27	30	32	24	16
Natural gas (net mcf/d)	1,028	1,927	1,277	362	835	1,572	1,457	499
Total (net mcf/d)*	1,504	2,337	1,565	524	1,016	1,766	1,601	593
Average selling price, net:								
Oil - per bbl	\$ 32.52	\$ 69.14	\$ 124.58	\$ 123.21	\$ 91.52	\$ 91.52	\$ 77.37	\$ 66.79
Gas - per mcf	\$ 5.07	\$ 8.02	\$ 8.71	\$ 9.69	\$ 9.13	\$ 6.16	\$ 5.85	\$ 7.05

\* 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 ("mcf"), 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 32.3 MMCF/D on an 8/8<sup>th</sup> 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)							
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	2009	2008	2008	2008	2008	2007	2007	2007
Oil and gas sales	\$ 899	\$ 2,241	\$ 2,068	\$ 1,121	\$ 1,293	\$ 1,614	\$ 1,414	\$ 432
Royalties	(184)	\$ (578)	(485)	(323)	(328)	(433)	(337)	(133)
Oil and gas sales, net	715	\$ 1,663	1,583	798	965	1,181	1,077	299
Operating	(591)	\$ (832)	(630)	(272)	(468)	(397)	(351)	(152)
Exploration	(755)	\$ (2,978)	(2,365)	(2,317)	(2,840)	(1,916)	(525)	(1,530)
Dry hole	(6)	\$ (7,748)	(1,711)	(3,257)	-	(35,753)	(9,397)	-
Impairment of properties	(15)	\$ (56,972)	(11,584)	-	-	(11,333)	(10,998)	-
Accretion	(12)	\$ (16)	(11)	(15)	(13)	(11)	(13)	(13)
Depletion, deprec. & amort.	(431)	\$ (543)	(414)	(525)	(430)	(2,248)	(759)	(174)
General and administrative	(1,646)	\$ (1,344)	(526)	(686)	(807)	(3)	(888)	(1,687)
Stock-based compensation	-	\$ (78)	(138)	(496)	(89)	(191)	(91)	(37)
Foreign exchange gain (loss)	(1,446)	\$ (3,575)	(806)	450	(1,079)	2,627	7,264	8,125
Interest income	129	\$ 267	448	527	814	1,174	1,389	1,194
Net income (loss)	\$ (4,058)	\$ (72,156)	\$ (16,154)	\$ (5,793)	\$ (3,947)	\$ (46,870)	\$ (13,292)	\$ 6,025

The Company had a consolidated net loss of \$4,058,000 for the three months ended March 31, 2009 compared to a net loss of \$3,947,000 for the comparable period in the prior 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.

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

### Oil and Gas Sales

The Company had oil and gas sales, net of royalties, of \$715,000 and \$965,000 for the three months ended March 31, 2009 and 2008, respectively. The decrease in oil and gas sales compared to the prior year is primarily due to the interruption of gas production caused by Hurricanes Gustav and Ike and the decrease in the sales price of oil and natural gas. Full production was not resumed until late March 2009.

#### Operating Costs

The Company had operating costs of \$591,000 and \$466,000 for the three months ended March 31, 2009 and 2008, respectively. Operating costs during the periods are primarily related to the Company's Eagle's Nest, Greylock and Jefferson Island properties.

#### Exploration Costs

The Company had exploration costs of \$755,000 and \$2,721,000 for the three months ended March 31, 2009 and 2008, respectively. The decrease in exploration costs compared to the prior year is due to the Company's decision to sell its Gulf of Mexico properties.

#### Dry Hole Costs

Dry hole costs were \$6,000 for the three months ended March 31, 2009, compared to \$nil for the comparable period in the prior year.

#### Impairment of Properties

Impairment costs were \$15,000 and \$nil for the three months ended March 31, 2009 and 2008, respectively.

#### Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") was \$431,000 and \$430,000 for the three months ended March 31, 2009 and 2008, respectively. DD&A primarily results from production on the Eagle's Nest, Greylock and Jefferson Island properties.

#### Stock-Based Compensation

Stock-based compensation was \$nil and \$89,000 for the three months ended March 31, 2009 and 2008, respectively. 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.

#### General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2009 and 2008 were \$1,646,000 and \$928,000, respectively.

The general and administrative expenses for the three months ended March 31, 2009 include \$222,000 for legal, accounting and audit costs, \$898,000 for salaries and benefits, \$110,000 for management and consulting fees, and \$29,000 for travel and entertainment expenses. The increase in salaries and benefits over the comparable period in the prior year is due to severance payments made to terminated employees due to the Company's decision to sell its Gulf of Mexico assets.

### Foreign Exchange Gain (Loss)

Foreign exchange loss was \$1,446,000 and \$1,079,000 for the three months ended March 31, 2009 and 2008, respectively. The losses in 2009 and 2008 results from the strengthening of the United States dollar against the Canadian dollar.

### Interest Income

For the three months ended March 31, 2009 and 2008, interest income was \$129,000 and \$814,000, respectively. Interest income represents bank interest earned on excess cash and investments in government securities.

### **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.

The Company's operations in the United States are denominated in U.S. dollars and are considered self-sustaining.

As of May 11, 2009, the Company had approximately \$44,017,000 Canadian dollars in its cash and investments accounts, with the balance in United States dollars. The Company does not have any exposure to the liquidity crisis involving asset-backed commercial paper.

### **Financial Condition**

At March 31, 2009, the Company had total assets of \$59,740,000 compared to \$63,594,000 at December 31, 2008.

### **Liquidity and Capital Resources**

Working capital at March 31, 2009, totaled \$37,545,000, compared to \$41,595,000 at December 31, 2008.

Funds used by operations were \$3,607,000 for the three months ended March 31, 2009 compared to \$12,026,000 for the prior year three month period. The primary use of the funds during the first quarter of 2009 was to pay down trade payables.

Net cash provided from financing activities for the three months ended March 31, 2009 was \$nil, compared to \$50,000 for the comparable period in 2008.

Net cash used in investing activities was \$450,000 for the three months ended March 31, 2009, compared to net cash provided by investing activities of \$7,552,000 for the comparable period in 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.

### **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 March 31, 2009, the Company's receivables consist of \$2,054,000 from joint venture partners and other trade receivables and \$325,000 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. Management considers these receivables collectible.

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 March 31, 2009, the Company had \$44,076,000 denominated in Canadian dollars. As of March 31, 2009, with other variables unchanged, a 1% strengthening of the U.S. dollar against the Canadian dollar would decrease the net loss by \$441,000 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 April 30, 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. The amount paid to Namdo was \$34,000 and \$66,000 during the three months ended March 31, 2009 and 2008, respectively. Namdo is a private corporation owned by a shareholder of the Company.

During the three months ended March 31, 2009 and 2008, the Company incurred legal fees of \$37,000 and \$4,000, respectively, with a law firm in which an officer of the Company is a partner.

During the three months ended March 31, 2009 and 2008, the Company incurred geological and geophysical (G&G) costs of \$nil and \$122,000, respectively, with a G&G firm in which an officer of the Company is a managing partner.

### **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.



## Accounting for Oil and Gas Operations

The Company follows 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 annual 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 and 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; 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 Gulf of Mexico 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.