

BAYOU BEND PETROLEUM LTD.

Interim Consolidated Financial Statements

Third Quarter Report

For The

Three and Nine Months Ended September 30, 2008

(The accompanying consolidated financial statements have been prepared by management and have not been reviewed by the Company's auditors)

BAYOU BEND PETROLEUM LTD.
Consolidated Balance Sheets
Expressed in Thousands of United States Dollars

	(unaudited)	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 45,523	\$ 58,575
Investments	16,055	32,056
Accounts receivable	1,473	3,109
Prepaid expenses	1,909	629
	<u>64,960</u>	<u>94,369</u>
Petroleum and natural gas properties	73,913	75,731
Accumulated depletion, depreciation & amortization	<u>(4,628)</u>	<u>(3,259)</u>
Net properties	69,285	72,472
	<u>\$ 134,245</u>	<u>\$ 166,841</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 4,583	\$ 12,868
Advances from joint interest holders	746	394
Asset retirement obligation	600	987
	<u>5,929</u>	<u>14,249</u>
Asset retirement obligation	1,772	927
	<u>7,701</u>	<u>15,176</u>
SHAREHOLDERS' EQUITY		
Share capital	250,899	250,835
Contributed surplus	2,946	2,237
Accumulated other comprehensive income	3,282	3,282
Deficit	<u>(130,583)</u>	<u>(104,689)</u>
	126,544	151,665
	<u>\$ 134,245</u>	<u>\$ 166,841</u>

Commitments (note 14)
Subsequent event (note 15)

See accompanying notes to the consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
Consolidated Statements of Operations and Deficit
Expressed in Thousands of United States Dollars except Per Share Amounts
(unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2008	2007	2008	2007
Revenues				
Oil and gas sales	\$ 2,068	\$ 1,414	\$ 4,482	\$ 2,047
Royalties	(485)	(337)	(1,136)	(499)
	<u>1,583</u>	<u>1,077</u>	<u>3,346</u>	<u>1,548</u>
Costs and Expenses				
Operating	630	351	1,370	548
Exploration	2,365	525	7,522	2,900
Dry hole costs	1,711	9,397	4,968	9,397
Impairment of properties	11,584	10,998	11,584	12,601
Accretion	11	13	39	26
Depletion, depreciation and amortization	414	759	1,369	1,011
General and administrative	526	888	2,019	3,032
Stock-based compensation	138	91	723	2,032
Foreign exchange (gain) loss	806	(7,264)	1,435	(15,389)
	<u>18,185</u>	<u>15,758</u>	<u>31,029</u>	<u>16,158</u>
Other income				
Interest income	448	1,389	1,789	3,008
	<u>448</u>	<u>1,389</u>	<u>1,789</u>	<u>3,008</u>
Net loss for the period	(16,154)	(13,292)	(25,894)	(11,602)
Deficit, beginning of period	(114,429)	(44,527)	(104,689)	(46,217)
Deficit, end of period	<u>\$ (130,583)</u>	<u>\$ (57,819)</u>	<u>\$ (130,583)</u>	<u>\$ (57,819)</u>
Basic loss per share	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.08)</u>	<u>\$ (0.05)</u>
Diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.08)</u>	<u>\$ (0.05)</u>
Weighted average number of common shares used in computing earnings per share (in thousands):				
Basic	<u>308,756</u>	<u>304,000</u>	<u>308,734</u>	<u>247,277</u>
Diluted	<u>308,756</u>	<u>305,525</u>	<u>308,734</u>	<u>248,547</u>

See accompanying notes to the consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
Consolidated Statements of Other Comprehensive Income
Expressed in Thousands of United States Dollars
(unaudited)

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net loss for the period	\$ (16,154)	\$ (13,292)	\$ (25,894)	\$ (11,602)
Other comprehensive income:				
Unrealized gains on adoption of U.S. functional currency	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,284</u>
Comprehensive loss for the period	<u>\$ (16,154)</u>	<u>\$ (13,292)</u>	<u>\$ (25,894)</u>	<u>\$ (8,318)</u>

See accompanying notes to the consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
Consolidated Statements of Cash Flows
Expressed in Thousands of United States Dollars
(unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2008	2007	2008	2007
Operating activities				
Net loss	\$ (16,154)	\$ (13,292)	\$ (25,894)	\$ (11,602)
Adjustments for non-cash and non-operating transactions:				
Depletion, depreciation and amortization	414	759	1,369	1,011
Impairment of properties	11,584	10,998	11,584	12,601
Dry hole costs	1,711	9,397	4,968	9,397
Accretion	11	13	39	26
Stock-based compensation	138	91	723	2,032
Changes in non-cash operating working capital:				
Accounts receivable	2,496	(2,673)	1,636	(8,146)
Prepaid expenses	(1,759)	59	(1,280)	(543)
Accounts payable and accrued expenses	(1,577)	(2,851)	(10,418)	840
Advances from joint interest holders	(748)	(8,495)	352	2,948
Asset retirement obligation	239	(22)	419	1,979
	(3,645)	(6,016)	(16,502)	10,543
Financing activities				
Issuance of share capital	-	-	50	166,767
Repayment of related party loans	-	-	-	(18)
	-	-	50	166,749
Investing activities				
Exploration and development expenditures	(4,146)	(8,631)	(12,601)	(70,068)
Investments, net	13,591	-	16,001	-
	9,445	(8,631)	3,400	(70,068)
Effect of exchange rate changes in cash	-	-	-	3,284
Net increase (decrease) in cash and cash equivalents	5,800	(14,647)	(13,052)	110,508
Cash and cash equivalents - beginning of period	39,723	127,708	58,575	2,535
Cash and cash equivalents - end of period	\$ 45,523	\$ 113,061	\$ 45,523	\$ 113,043
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
Acquisition of GOM assets through the issuance of common stock	-	-	-	24,764
	\$ -	\$ -	\$ -	\$ 35,357

See accompanying notes to the consolidated financial statements.

BAYOU BEND PETROLEUM LTD.
Notes to the Consolidated Financial Statements
Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

1. NATURE OF OPERATIONS

Bayou Bend Petroleum 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. 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”).

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

Basis of Presentation

The interim 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 interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, using the same accounting policies and methods of computation as set out in note 2 to the audited consolidated financial statements in the Company’s Annual Report for the year ended December 31, 2007, except as described in note 3 to these interim consolidated financial statements. Certain disclosures, which are normally required to be included in the notes to annual financial statements, have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007.

Certain reclassifications have been made to the prior period financial statements in order to conform to the classifications used for reporting in the current period.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

a) Financial Instruments – Disclosure and Presentation

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) section 3862, “*Financial Instruments* –

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Notes to the Consolidated Financial Statements

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Disclosures” and CICA section 3863, “*Financial Instruments – Presentation*,” which replaced CICA section 3861, “*Financial Instruments – Disclosure and Presentation*.” Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, section 3862 requires disclosure of the significance of financial instruments on the Company’s financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. The presentation requirements under section 3863 are relatively unchanged from the former presentation requirements under section 3861. Please refer to Note 12, “Financial Instruments and Risk Management” for additional disclosures under section 3862.

b) Capital Disclosures

Effective January 1, 2008, the Company adopted CICA section 1535, “*Capital Disclosures*.” Section 1535 requires disclosure about the Company’s objectives, policies and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of any externally imposed capital requirements, how the requirements are incorporated into the Company’s management of capital, whether the requirements have been complied with or consequences of non-compliance and an explanation of how the Company is meeting its objectives for managing capital. In addition, quantitative disclosures regarding capital are required. Please refer to Note 13, “Capital Disclosures.”

c) Inventories

Effective January 1, 2008, the Company adopted CICA section 3031, “*Inventories*,” which replaced CICA section 3030 of the same name. The new guidance provides additional measurement and disclosure requirements. While this standard has been adopted, it has no financial statement impact on the Company.

4. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the AcSB announced its decision to replace Canadian GAAP with International Financial Reporting Standards (“IFRS”) for all Canadian Publicly Accountable Enterprises (“PAE”). On February 13, 2008, the AcSB confirmed January 1, 2011 as the official change-over date for PAE’s to commence reporting under IFRS. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in

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accounting policies, as well as increased disclosure requirements under IFRS. The Company continues to monitor and assess the impact of IFRS on its financial statements.

5. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table reconciles the changes in accumulated other comprehensive income (loss).

	<u>For the Three Months</u>		<u>For the Nine Months</u>	
	<u>Ended September 30</u>		<u>Ended September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Accumulated other comprehensive income (loss), beginning of period	\$ 3,282	\$ 3,282	\$ 3,282	\$ (2)
Other comprehensive income:				
Unrealized gains on adoption of U.S. functional currency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,284</u>
Accumulated other comprehensive income, end of period	<u>\$ 3,282</u>	<u>\$ 3,282</u>	<u>\$ 3,282</u>	<u>\$ 3,282</u>

6. 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 ("MMCFG/D") 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.

In February 2007, 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.

In connection with the above transactions and the private placement described in Note 8(a) to the audited annual consolidated financial statements, the Company issued 2.2 million common shares as a finders' fee to third parties. An additional 5 million common shares were issued under the terms of certain assignment

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agreements pursuant to which the Company was granted the opportunity to acquire Summit. The deemed 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
Working capital		2,707
Asset retirement obligation		<u>(1,163)</u>
	\$	<u>65,425</u>

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 deemed value of \$24,764,000.

7. INVESTMENTS

Investments at September 30, 2008 consist of the following.

	September 30, 2008	
	<u>Par Value</u>	<u>Market Value</u>
Federal Home Loan Bank Notes	\$ 10,000	9,980
Federal National Mortgage Association Notes	2,500	2,500
Federal Home Loan Mortgage Corporation Notes	3,500	3,500
Bank Certificate of Deposit	75	75
	<u>\$ 16,075</u>	<u>16,055</u>

With the exception of the bank certificate of deposit, all of the above investments mature prior to December 31, 2008, and are readily marketable.

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8. PETROLEUM AND NATURAL GAS PROPERTIES

	September 30, 2008		
	Cost	Accumulated Depreciation and Depletion	Net
Petroleum and natural gas properties	\$ 73,684	\$ (4,578)	\$ 69,106
Office equipment	229	(50)	\$ 179
	\$ 73,913	\$ (4,628)	\$ 69,285

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

As of September 30, 2008, the Company reviewed its portfolio of unproved properties. Based on that review, the Company recorded impairment expense of \$11,584,000 during the quarter ended September 30, 2008. These impairments resulted from the evaluation of drilling activities and new seismic data reviews.

9. SHARE CAPITAL

- a) The Company has authorized an unlimited number of common shares without par value. Details of issued and fully paid shares are as follows.

	Number of Shares	Share Capital	Contributed Surplus
Balance - December 31, 2007	308,256,088	\$ 250,835	\$ 2,237
Issued for cash:			
- warrants exercised	500,000	50	
- fair value portion of warrants exercised		14	(14)
Stock options granted			723
Balance - September 30, 2008	308,756,088	\$ 250,899	\$ 2,946

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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:

	Number of <u>Options</u>	Weighted Average <u>Exercise Price</u>
Outstanding at December 31, 2007	3,215,000	Cdn \$1.37
Granted	3,660,000	Cdn \$0.48
Cancelled/Forfeited	<u>(250,000)</u>	Cdn \$0.75
Outstanding at September 30, 2008	<u><u>6,625,000</u></u>	Cdn \$0.90

At September 30, 2008, 4,184,996 options are exercisable at an average exercise price of Cdn \$1.14 per share with a weighted average remaining life of 2.7 years.

c) Stock Based Compensation

The Company recognizes compensation expense on stock options granted to both employees and non-employees at fair value at the date of grant using the Black-Scholes Option Pricing Model. The Company records the expense ratably over the vesting periods.

The stock option compensation expense is calculated using the Black-Scholes Option Pricing Model. The weighted average fair value of options granted during 2008 and 2007 and the assumptions used in their determination are as follows:

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	<u>2008</u>	<u>2007</u>
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.06%	4.07%
Expected stock price volatility (weighted average)	94.24%	68.94%
Expected option life in years (weighted average)	3.00	4.36

Stock option compensation expense for the three months ended September 30, 2008 and 2007 was \$138,000 and \$91,000, respectively. Stock option compensation expense for the nine months ended September 30, 2008 and 2007 was \$723,000 and \$2,032,000, 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.

d) Warrants

As of December 31, 2007, the Company had share purchase warrants outstanding to purchase 500,000 shares at Cdn \$0.10 per share, exercisable by January 9, 2008. All of these warrants were exercised on January 8, 2008. At September 30, 2008, the Company had no warrants outstanding.

10. SIGNIFICANT CUSTOMERS

The Company has oil and natural gas sales to significant customers accounting for 35%, 33% and 30% of total oil and natural gas revenues for the nine months ended September 30, 2008. For the year 2007, oil and natural gas sales to significant customers accounted for 69% and 27% of total oil and natural gas revenues.

11. 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 three months and nine months ended September 30, 2008 was \$91,000 and \$216,000, respectively. The comparable amounts for 2007 were \$51,000 and \$129,000, respectively. Namdo is a private corporation owned by a shareholder of the Company.

During the three months and nine months ended September 30, 2008, the Company incurred legal fees of \$5,000 and \$13,000, respectively, with a law firm in which an officer of the Company is a partner. The comparable amounts for 2007 were \$12,000 and \$219,000, respectively.

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The Company incurred geological and geophysical (G&G) costs of \$91,000 and \$333,000, respectively, during the three months and nine months ended September 30, 2008 with a G&G firm in which an officer of the Company is a managing partner. The comparable amounts were \$nil for both periods in 2007.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 value 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 September 30, 2008, the Company's receivables consist of \$395,000 from joint venture partners and other trade receivables and \$1,078,000 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

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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 September 30, 2008, the Company had \$19,756,000 denominated in Canadian dollars. As of September 30, 2008, with other variables unchanged, a 1% strengthening of the U.S. dollar against the Canadian dollar would decrease the net loss by \$200,000 due to this financial asset.

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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.

13. CAPITAL DISCLOSURES

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers its capital structure to include shareholders' equity and working capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or sell assets to settle liabilities. The Company is not subject to externally imposed capital requirements.

14. 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. The Company has agreed to purchase seismic data totaling \$2,564,000 during the remainder of 2008.

15. SUBSEQUENT EVENT

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. Alternatives being considered by the Company include the sale of some or all of the Company's existing oil and gas properties and assets, or potential business combinations with other oil and gas companies.

BAYOU BEND PETROLEUM LTD.

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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
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