BAYOU BEND PETROLEUM LTD.

Consolidated Financial Statements

Second Quarter Report

For The

Six Months Ended June 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.
Second Quarter Report
For the Period Ended June 30, 2008

To our shareholders:

The second quarter got off to an excellent start with the discovery of the Eagle's Nest gas/condensate field in Eugene Island Block 6 in the state waters of Louisiana and with the well's production starting 10 weeks later. Part of the Marsh Island project, this prospect was jointly drilled with Contango Operators, Incorporated ("Contango") through a Joint Exploration Agreement. Bayou Bend holds a 12.453525% working interest.

Eagle's Nest is the northern extension of the Mary Rose discovery previously announced by Contango. The Eagle's Nest prospect was drilled to a total vertical depth ("TVD") of 16000' and encountered 56' TVD net effective gas pay. The well commenced production on July 24, 2008 and is currently flowing at 35.1 million cubic feet of gas per day and 744 barrels of condensate per day with 9170 psi FTP. The well is tied into Contango's Eugene Island 11 production facility for processing and sales.

Following the success at Eagle's Nest, the Company entered into another Joint Exploration Agreement with Contango to drill the Company's Mt. Moran North Prospect located in Eugene Island Block 10. The well was drilled to a TVD of 17,000' and on August 6th, the Company announced that it had encountered 98' TVD net effective gas pay in three separate gas bearing sands. The well will be completed and tied-in to Contango's Eugene Island 11 production facility for processing and sales. This well is expected to be on production in November of this year. The Company has a 12.453525% working interest in this well.

The Eugene Island 164 #1 well was spud on June 24, 2008 and was drilled to a total depth of 15,689' MD/15,538' TVD. The well discovered a non-commercial gas accumulation in the upper objective, 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 indicates the sand is wet. The well, in which the Company has a 10% working interest, has been plugged and abandoned by the operator, PetroQuest Energy, LLC.

A well drilled earlier in the quarter on the Haystack prospect was unsuccessful. Haystack was drilled to a total depth of 11,028' MD/10,740' TVD utilizing the rig Hercules #49 and based on log correlations, the expected Tex W3 sand is present in the wellbore but log analysis indicated the sand was wet. The seismic attributes that supported this prospect appear to be coming from some thin gas saturated siltstones and sandstones directly overlying the main objective.

From a financial perspective, the Company is still in a strong position. Our working capital position was approximately $66 million and the production coming from Eagle's Nest is expected to add approximately $700,000 per month in cash flow. Cash flow will also be supplemented toward the end of the year by the Mount Moran North discovery coming on stream. There are no requirements or plans to raise additional capital in the near future.

Overall, the Company is on track to have a very successful year. So far this year, 2 of 4 exploration wells (50%) have been successful. With this record so far, and the learnings from the Company's vast seismic data set and proprietary knowledge, we are very excited about the captured portfolio of prospects. Several additional wells are planned for the remainder of 2008 as Bayou Bend continues its aggressive drill program targeting high impact prospects. The Company is excited about the potential of its work in the prolific Gulf of Mexico and looks forward to further success in the months ahead.

On Behalf of the Board

Clinton W. Coldren

President and CEO

August 26, 2008

BAYOU BEND PETROLEUM LTD.

MANAGEMENT DISCUSSION AND ANALYSIS
(Amounts in United States Dollars unless otherwise indicated)
Three and Six Months Ended June 30, 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 unaudited consolidated financial statements for the three and six months ended June 30, 2008 and 2007 and related notes therein, prepared in accordance with Canadian generally accepted accounting principles. The effective date of the MD&A is August 11, 2008. 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 three and six months ended June 30, 2008, the Company's major accomplishments and other significant events were as follows:

- 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. First production occurred on July 24, 2008 and is currently flowing at 35.1 million standard cubic feet per day ("MMCF/D") and 744 barrels of high API gravity condensate per day ("BC/D") with very healthy flowing tubing pressure of 9170 pounds per square inch ("psi") FTP. Bayou Bend has a 12.453525% working interest in this prospect.

- In May 2008 the Company entered into a Participation Agreement with PetroQuest Energy, L.L.C. and others to jointly drill and develop Eugene Island Block 164 in the Federal waters off of the Louisiana coast. The first well was spudded June 24, 2008 and was drilled to a total depth of 15,689' MD/15,538' TVD. The well discovered a non-commercial gas accumulation in the upper objective, 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 indicates the sand is wet. The well, in which the Company has a 10% working interest, has been plugged and abandoned.

- In May 2008 Bayou Bend entered into another joint exploration agreement with Contango Operators, Inc. to drill and develop the Company's Marsh Island Phase I area Mount Moran North prospect located on Eugene Island Block 10 in the state waters of Louisiana. The Mount Moran North well was spud on June 4, 2008 and reached a total depth of 17,004 TVD on July 31, 2008. The well tested the Rob L geologic section which is in a deeper geological horizon than the Company's Eagle's Nest CibOp discovery. The Mount Moran North prospect encountered 98 feet net effective gas pay in three separate gas bearing sands. The well will be completed and tied into Contango's EI 11 production facility for processing and sales. The Company has a working interest in this well of 12.453525% with Contango as operator.

- In June 2008 the Company spudded its first operated well in the Marsh Island Project Area in 2008 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.

- In June 2008 the Mineral Management Service awarded Bayou Bend Vermillion Block 108. The Company was the high bidder on this block in the March lease sale. This brings the Company's current portfolio of Federal blocks to a total of 17 and the total gross acreage held by the Company to 117,249 acres.

- The 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.

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 Quarterly Information

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

($000s, except per share data)	Jun 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007
Revenue - oil & gas sales, net	$798	$965	$1,181	$1,077	$299	$172
Net income (loss)	($5,793)	($3,947)	($46,870)	($13,292)	$6,025	($4,335)
Net income (loss) per share - basic	($0.02)	($0.01)	($0.15)	($0.04)	$0.02	($0.02)
Net income (loss) per share - diluted	($0.02)	($0.01)	($0.15)	($0.04)	$0.02	($0.02)
Exploration & development expenditures	$5,442	$290	$28,127	$8,631	$4,189	$57,248
Total assets	$150,203	$152,988	$166,841	$221,632	$228,730	$186,398
Working capital surplus	$66,621	$76,465	$80,120	$99,432	$117,577	$114,796
Shareholders' equity	$142,560	$147,857	$151,665	$198,344	$211,542	$180,698
Common shares outstanding	308,756	308,756	308,256	308,256	308,256	298,056

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.

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

Production

	For the Quarter Ended					
	Jun 30 2008	Mar 31 2008	Dec. 31 2007	Sep. 30 2007	Jun 30 2007	Mar 31 2007
Oil & gas sales, net ($000's)	$ 798	$ 965	$ 1,181	$ 1,077	$ 299	$ 172
Oil (net bopd)	27	30	32	24	16	16
Natural gas (net mcf/d)	362	835	1,572	1,457	499	211
Total (net mcfe/d)*	524	1,016	1,766	1,601	593	306
Average selling price, net:						
Oil - per bbl	$ 123.21	$ 91.52	$ 91.52	$ 77.37	$ 66.79	$ 60.73
Gas - per mcf	$ 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.

During the three month period ended June 30, 2008, daily production from the Company's Greylock well was down by 63% from the previous quarter which was consistent with the projected production over the remaining life of the well. Currently, proved reserves from Greylock are projected to be depleted during the third quarter of 2008.

In addition to the production associated with the Eugene Island Block 7 facility, the Company's interest in its Jefferson Island wells produced 235 mcfe/d on a net revenue basis during the second quarter of 2008 compared to 255 mcfe/d during the first quarter of the year.

On July 24, 2008, the Company commenced production on its Eagle's Nest well. The well is currently producing at 3.14 mcfe/d on a net revenue basis. The well, in which the Company holds a 12.453525% working interest and a 8.935404% net revenue interest, is tied into Contango's Eugene Island Block 11 production facility.

Results of Operations

	For the Quarter Ended (in $000s)					
	Jun 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007
Oil and gas sales	1,121	1,293	1,614	1,414	432	201
Royalties	(323)	(328)	(433)	(337)	(133)	(29)
Oil and gas sales, net	798	965	1,181	1,077	299	172
Operating	(230)	(466)	(397)	(351)	(152)	(45)
Exploration	(2,102)	(2,721)	(1,916)	(525)	(1,530)	(845)
Dry hole	(3,257)	-	(35,753)	(9,397)	-	-
Impairment of properties	-	-	(11,333)	(10,998)	-	(1,603)
Accretion	(15)	(13)	(11)	(13)	(13)	-
Depletion, depreciation and amortization	(525)	(430)	(2,248)	(759)	(174)	(78)
General and administrative	(943)	(928)	(3)	(888)	(1,687)	(457)
Stock-based compensation	(496)	(89)	(191)	(91)	(37)	(1,904)
Foreign exchange gain (loss)	450	(1,079)	2,627	7,264	8,125	-
Interest income	527	814	1,174	1,389	1,194	425
Net income (loss)	(5,793)	(3,947)	(46,870)	(13,292)	6,025	(4,335)

The Company had a consolidated net loss of $5,793,000 for the three months ended June 30, 2008 compared to net income of $6,025,000 for the comparable period in the prior year. For the six months ended June 30, 2008, the Company had a net loss of $9,740,000 compared to net income of $1,690,000 for the comparable period in 2007. Included in the second quarter and first six months of 2007 was $8,125,000 in foreign exchange gains. In addition, through June 30, 2007, the Company had not incurred any dry hole expense.

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 $798,000 and $1,763,000 for the three and six months ended June 30, 2008, respectively. The comparable numbers for 2007 were $299,000 and $471,000. The increase in oil and gas sales compared to the prior year is due to the Greylock well commencing production on June 8, 2007 and higher prices for natural gas in 2008.

Operating Costs

The Company had operating costs of $230,000 and $696,000 for the three and six months ended June 30, 2008, respectively. In 2007, the comparable amounts were $152,000 and $197,000. Operating costs during the periods are primarily related to the Company's Greylock and Jefferson Island properties.

Dry Hole Costs

Dry hole costs were $3,257,000 for the three and six months ended June 30, 2008, compared to $nil for the comparable periods in the prior year. During the second quarter the Company incurred $3,900,000 in dry hole costs related to its Haystack well. These costs were offset by the reversal of excess dry hole costs accrued in the prior year.

Impairment of Properties

Impairment costs were $nil for the three and six months ended June 30, 2008, compared to $nil and $1,603,000 for the comparable periods in 2007.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") was $525,000 and $955,000 for the three and six months ended June 30, 2008, respectively. For the previous year the comparable amounts were $174,000 and $252,000. DD&A primarily results from production in the Greylock and Jefferson Island properties.

General and Administrative Expenses

General and administrative expenses for the three and six months ended June 30, 2008 were $943,000 and $1,871,000, respectively. In the prior year the comparable amounts were $1,687,000 and $2,144,000.

The general and administrative expenses for the three months ended June 30, 2008 include $233,000 for legal, accounting and audit costs, $449,000 for salaries and benefits, $82,000 for management and consulting fees, and $61,000 for travel and entertainment expenses. General and administrative expenses are expected to continue to increase over the prior periods as the Company continues to increase its exploration and production activities.

The general and administrative expenses for the six months ended June 30, 2008 include $441,000 for legal, accounting and audit costs, $797,000 for salaries and benefits, $192,000 for management and consulting fees, and $120,000 for travel and entertainment expenses.

Stock-Based Compensation

Stock-based compensation was $496,000 and $585,000 for the three and six months ended June 30, 2008, respectively. The comparable amounts in 2007 were $37,000 and $1,941,000. The stock-based compensation expense in 2008 results from the issuance of 3,595,000 stock options in April 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 (gain) loss was $(450,000) and $629,000 for the three and six months ended June 30, 2008, respectively. The Company had foreign exchange income of $(8,125,000) during the three months ended June 30, 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 three and six months ended June 30, 2008, interest income was $527,000 and $1,341,000, respectively. For the comparable periods in 2007 the amounts were $1,194,000 and $1,619,000. Interest income represents bank interest earned on excess cash and investments in marketable 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, 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 July 31, 2008, the Company had approximately $21,000,000 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 June 30, 2008, the Company had total assets of $150,203,000 compared to $166,841,000 at December 31, 2007.

Liquidity and Capital Resources

Working capital at June 30, 2008, totaled $66,621,000, compared to $80,120,000 at December 31, 2007.

Funds used by operations were $3,588,000 and $15,580,000 for the three and six months ended June 30, 2008 compared to funds provided by operations of $13,959,000 and $16,559,000 for the comparable periods in 2007. The primary use of the funds during 2008 was for exploration activities and to reduce trade payables.

Net cash provided from financing activities for the three and six months ended June 30, 2008 was $Nil and $50,000, respectively, compared to $18,000 and $166,767,000 for the comparable periods in 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 used in investing activities was $10,840,000 and $3,322,000 for the three and six months ended June 30, 2008, compared to funds used in investing activities of $4,189,000 and $61,437,000 for the comparable period 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.

Contributed surplus increased $496,000 and $571,000 for the three and six months ended June 30, 2008, respectively compared to $37,000 and $1,938,000 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 2008 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 carrying amounts of financial instruments comprising cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and advances from joint interest holders approximate their fair value due to the immediate or short-term nature of these financial instruments.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of August 11, 2008, the Company had 308,756,088 shares outstanding, 6,560,000 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 $59,000 and $125,000 during the three and six months ended June 30, 2008, respectively, compared to $78,000 and $78,000 in 2007. Namdo is a private corporation owned by a shareholder of the Company.

During the three and six months ended June 30, 2008, the Company incurred legal fees of $4,000 and $8,000, respectively, with a law firm in which an officer of the Company is a partner. The comparable amounts were $207,000 and $207,000 in the prior year.

During the three and six months ended June 30, 2008, the Company incurred geological and geophysical (G&G) costs of $120,000 and $242,000, respectively, with a G&G firm in which an officer of the Company is a managing partner. The comparable costs in 2007 were $nil for both periods.

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

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 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, 2007. 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.

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

The Company plans to continue its active and budgeted exploration drilling program, pursuing Gulf of Mexico oil and gas opportunities to add to its portfolio of exploration and development properties, and focusing on the development of its existing interests in the USA.

Forward-Looking Statements

Certain information regarding the Company contained herein may constitute forward-looking statements. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements in facts. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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

	(unaudited) June 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 39,723	$ 58,575
Investments	29,646	32,056
Accounts receivable	3,969	3,109
Prepaid expenses	150	629
	73,488	94,369
Petroleum and natural gas properties	80,929	75,731
Accumulated depletion, depreciation & amortization	(4,214)	(3,259)
Net properties	76,715	72,472
	$ 150,203	$ 166,841
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 4,027	$ 12,868
Advances from joint interest holders	1,494	394
Asset retirement obligation	1,346	987
	6,867	14,249
Asset retirement obligation	776	927
	7,643	15,176
SHAREHOLDERS' EQUITY		
Share capital	250,899	250,835
Contributed surplus	2,808	2,237
Accumulated other comprehensive income	3,282	3,282
Deficit	(114,429)	(104,689)
	142,560	151,665
	$ 150,203	$ 166,841

Commitments (note 16)
Subsequent event (note 17)

See accompanying notes to 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 June 30		For the six months ended June 30	
	2008	2007	2008	2007
Revenues				
Oil and gas sales	$ 1,121	$ 432	$ 2,414	$ 633
Royalties	(323)	(133)	(651)	(162)
	798	299	1,763	471
Costs and Expenses				
Operating	230	152	696	197
Exploration	2,102	1,530	4,823	2,375
Dry hole costs	3,257	-	3,257	-
Impairment of properties	-	-	-	1,603
Accretion	15	13	28	13
Depletion, depreciation and amortization	525	174	955	252
General and administrative	943	1,687	1,871	2,144
Stock-based compensation	496	37	585	1,941
Foreign exchange (gain) loss	(450)	(8,125)	629	(8,125)
	7,118	(4,532)	12,844	400
Other income (expense)				
Interest income	527	1,194	1,341	1,619
	527	1,194	1,341	1,619
Net income (loss) for the period	(5,793)	6,025	(9,740)	1,690
Deficit, beginning of period	(108,636)	(50,552)	(104,689)	(46,217)
Deficit, end of period	$ (114,429)	$ (44,527)	$ (114,429)	$ (44,527)
Basic income (loss) per share	$ (0.02)	$ 0.02	$ (0.03)	$ 0.01
Diluted income (loss) per share	$ (0.02)	$ 0.02	$ (0.03)	$ 0.01
Weighted average number of common shares used in computing earnings per share (in thousands):				
Basic	308,756	304,000	308,734	247,277
Diluted	308,756	305,525	308,734	248,547

See accompanying notes to consolidated financial statements.

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

	For the three months ended June 30		For the six months ended June 30	
	2008	**2007**	**2008**	**2007**
Net income (loss) for the period	$ (5,793)	$ 6,025	$ (9,740)	$ 1,690
Other comprehensive income:				
Unrealized gains on adoption of U.S. functional currency	-	-	-	3,284
Comprehensive income (loss) for the period	$ (5,793)	$ 6,025	$ (9,740)	$ 4,974

See accompanying notes to 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 June 30		For the six months ended June 30	
	2008	2007	2008	2007
Operating activities				
Net income (loss)	$ (5,793)	$ 6,025	$ (9,740)	$ 1,690
Adjustments for non-cash and non-operating transactions:				
Depletion, depreciation and amortization	525	174	955	252
Impairment of properties	-	-	-	1,603
Dry hole costs	3,257	-	3,257	-
Accretion	15	13	28	13
Stock-based compensation	496	37	585	1,941
Changes in non-cash operating working capital:				
Accounts receivable	(2,247)	(4,756)	(860)	(5,473)
Prepaid expenses	385	978	479	(602)
Accounts payable and accrued expenses	(1,493)	(1,701)	(11,564)	3,691
Advances from joint interest holders	1,121	11,443	1,100	11,443
Asset retirement obligation	146	1,746	180	2,001
	(3,588)	13,959	(15,580)	16,559
Financing activities				
Issuance of share capital	-	18	50	166,785
Repayment of related party loans	-	-	-	(18)
	-	18	50	166,767
Investing activities				
Exploration and development expenditures	(5,442)	(4,189)	(5,732)	(61,437)
Investments, net	(5,398)	-	2,410	-
	(10,840)	(4,189)	(3,322)	(61,437)
Effect of exchange rate changes in cash	-	-	-	3,284
Net increase (decrease) in cash and cash equivalents	(14,428)	9,788	(18,852)	125,173
Cash and cash equivalents - beginning of period	54,151	117,920	58,575	2,535
Cash and cash equivalents - end of period	$ 39,723	$ 127,708	$ 39,723	$ 127,708
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	-	24,764
	$ -	$ 24,764	$ -	$ 35,357

See accompanying notes to consolidated financial statements.

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.

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 – 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 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.

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

5. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
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	$ -	$ -	$ -	$ 3,284
Accumulated other comprehensive income, end of period	$ 3,282	$ 3,282	$ 3,282	$ 3,282

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 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.

Expressed in United States Dollars Unless Otherwise Noted
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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		(1,163)
	$	65,425

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 June 30, 2008 consist of the following.

		June 30, 2008	
		Par Value	Market Value
Federal Home Loan Bank Notes	$	18,070	18,083
Federal National Mortgage Association Notes		3,507	3,508
Federal Home Loan Mortgage Corporation Notes		7,500	7,480
Federal Farm Credit Banks		500	500
Bank Certificate of Deposit		75	75
	$	29,652	29,646

With the exception of the bank certificate of deposit, all of the above investments mature prior to September 30, 2008, and are readily marketable.

8. PETROLEUM AND NATURAL GAS PROPERTIES

	June 30, 2008					
		Cost		Accumulated Depreciation and Depletion		Net
Petroleum and natural gas properties	$	80,702	$	(4,194)	$	76,508
Office equipment		227		(20)	$	207
	$	80,929	$	(4,214)	$	76,715

Expressed in United States Dollars Unless Otherwise Noted
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	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

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			585
Balance - June 30, 2008	308,756,088	$ 250,899	$ 2,808

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.

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

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	3,215,000	Cdn $1.37
Granted	3,595,000	Cdn $0.48
Cancelled/Forfeited	(250,000)	Cdn $0.75
Outstanding at June 30, 2008	6,560,000	Cdn $0.90

At June 30, 2008, 3,938,330 options are exercisable at an average exercise price of Cdn $1.14 per share with a weighted average remaining life of 3.0 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.

Stock option compensation expense for the three months ended June 30, 2008 and 2007 was $496,000 and $37,000, respectively. Stock option compensation expense for the six months ended June 30, 2008 and 2007 was $585,000 and $1,941,000, 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 June 30, 2008, the Company had no warrants outstanding.

10. SIGNIFICANT CUSTOMERS

The Company has oil and natural gas sales to significant customers accounting for 61% and 37% of total oil and natural gas revenues for the six months ended June 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 six months ended June 30, 2008 was $59,000 and $125,000, respectively. The comparable amounts for 2007 were $78,000 and $78,000, respectively. Namdo is a private corporation owned by a shareholder of the Company.

During the three months and six months ended June 30, 2008, the Company incurred legal fees of $4,000 and $8,000, respectively, with a law firm in which an officer of the Company is a partner. The comparable amounts for 2007 were $207,000 and $207,000, respectively.

The Company incurred geological and geophysical (G&G) costs of $120,000 and $242,000, respectively, during the three months and six months ended June 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 June 30, 2008, the Company's receivables consist of $2,487,000 from joint venture partners and other trade receivables and $1,482,000 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.

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 $2,571,000 during the remainder of 2008.

15. SUBSEQUENT EVENT

On June 20, 2008, the Company spud a well on its Haystack Prospect. The well was drilled to a total measured depth of 11,028 feet. On July 2, 2008, the well was determined to be a dry hole. Total estimated costs of $3,900,000 have been included in dry hole expense by the Company at June 30, 2008.

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