

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Second Wave Petroleum Ltd. ("Second Wave" or the "Company") should be read in conjunction with the interim unaudited consolidated financial statements for the three months ended March 31, 2008 and the audited financial statements and notes of the Company for the year ended December 31, 2007. This MD&A incorporates information up to and including May 26, 2008. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All of the amounts reported in this MD&A are in Canadian dollars, unless otherwise indicated. Certain other information with respect to the Company is available on SEDAR, at www.sedar.com and at the Company's website at www.secondwavepetroleum.com. Information can also be obtained by contacting the Company at Second Wave Petroleum Ltd, Suite 1700, 520, 5th Ave. S.W., Calgary, Alberta, T2P 3R7.

NON-GAAP FINANCIAL MEASUREMENTS

The Company has used certain measures of financial reporting that are commonly used benchmarks within the oil and gas industry in this MD&A that are considered non-GAAP measures. The measures used in this document include "funds from operations", "funds from operations per share", and "netback". The term funds from operations contained within the MD&A should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP. The Company believes that funds from operations is a useful supplementary measure as investors may use this information to analyze operating performance, leverage and liquidity. Funds from operations, as disclosed within this MD&A, represents cash flow from operating activities before changes in non-cash working capital. The Company presents funds from operations per share whereby per share amounts are calculated consistent with the calculation of net loss and comprehensive loss per share. The Company believes that the term netback contained within the MD&A is also a useful supplementary measure as investors may use this information to analyze field level operating performance of the Company's oil and gas properties. These non-GAAP measures may not necessarily be comparable to similarly titled measures used by other entities and readers of this MD&A are cautioned in attempting to make such comparisons.

OTHER MEASUREMENTS

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("BOE") using 6,000 cubic feet (6 Mcf) of natural gas equal to one barrel of oil (6:1), unless otherwise stated. The BOE conversion ratio of 6 Mcf to 1 barrel is based on an energy equivalency conversion method and does not represent a value equivalency. Therefore BOEs may be misleading if used in isolation. References to natural gas liquids ("NGLs") in this MD&A include condensate, propane, butane and ethane and one barrel of NGLs is considered to be equivalent to one barrel of crude oil equivalent (BOE).

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in the MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to reserves, crude oil and natural gas prices, well productivity, operating costs, general and administrative costs, taxation rates, interest rates, and capital expenditure plans for 2008 and beyond. Existing or potential investors should not place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations they are based on will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific that contributes to the possibility that although the predictions, forecasts, projections and other forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in the presentation include general economics, business and market conditions; volatility of energy prices; fluctuations in interest rates; energy supply and demand; competition, access to future funding, timing and amount of capital expenditures, imprecision in estimation future productive

capacity, well productivity, operating cost adjustments; cost overruns; and such other risks and uncertainties described from time to time. Existing or potential investors are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this document are made as of the date this report. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

This management discussion and analysis is dated as at May 26, 2008.

Overview

(\$000s, except per share amounts)	Three months ended March 31,		
	2008	2007	% Change
Petroleum and natural gas sales	3,407	1,045	226
Royalties	(466)	(165)	182
Lease operating costs	(829)	(272)	205
Transportation	(54)	(21)	157
Operating netback	2,058	587	251
Other income	-	3	(100)
General and administrative	(370)	(528)	(30)
Financing expenses	(71)	(335)	(79)
Funds from operations⁽¹⁾	1,617	(273)	692
Depletion, depreciation, and accretion	(1,060)	(442)	140
Non-cash portion of financing expenses	-	(108)	(100)
Future income tax	-	1,455	(100)
Stock-based compensation	(164)	(237)	(31)
Accretion of convertible debenture	(13)	-	(100)
Net income and comprehensive income	380	395	(4)
Funds from operations per share ⁽¹⁾ :			
Basic (\$)	0.01	0.00	100
Diluted (\$)	0.01	0.00	100
Net income per share:			
Basic (\$)	0.00	0.01	(100)
Diluted (\$)	0.00	0.01	(100)
Average number of shares outstanding (000s):			
Basic	234,861	59,889	292
Diluted	247,159	75,764	226

⁽¹⁾ Funds from operations is a non-GAAP measure that does not have a standardized meaning as prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other oil and gas companies. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.

(\$000s)	Three months ended March 31,		
	2008	2007	% Change
Cash flow from operating activities (GAAP)	1,440	(217)	764
Change in non-cash working capital (GAAP)	176	(56)	414
Funds from operations (non-GAAP)	1,617	(273)	692

New Management Team

In the first quarter of 2008, Second Wave restructured its management team through the addition of a full complement of oil and gas professionals with significant experience in the areas of engineering, geophysics, geology and finance. The new management team has implemented a number of changes to refocus the company to successfully exploit its existing land base while growing additional core area's through strategic acquisitions, land sales and farm-ins. In conjunction with the restructuring of the Company's management team the balance sheet was also significantly improved through the conversion of \$9,000,000 of debt to equity and an additional \$4,700,000 in new equity.

Acquisition of Milagro Energy Inc.

On May 8, 2008, Second Wave acquired 68% of the outstanding common shares of Milagro Energy Inc. ("Milagro") and acquired an additional 7% on May 26, 2008 stemming from an extension of the offer to Milagro shareholders that expired on May 23, 2008. With the objective of obtaining 100% of the outstanding shares of Milagro, the offer was further extended to June 6, 2008.

Although this acquisition has no impact on the financial results for the first quarter of 2008, it will have an impact on future quarters as follows:

- The second quarter of 2008 will account for the acquisition of Milagro's oil and gas assets and related liabilities on Second Wave's balance sheet effective May 8, 2008
- Second Wave's operating results will include the results of operations from Milagro commencing from the effective date of the acquisition, May 8, 2008

As a result of this acquisition, Second Wave expects a step change increase in future operating results. In particular, sales revenues, royalties, lease operating costs will reflect approximately 300 boe per day of incremental production from the addition of Milagro's properties. Financing expenses will increase as a result of new debt facilities utilized to retire Milagro's outstanding term facility and convertible debentures. Management also expects that general and administrative expenses will be reduced on a per unit basis and that the absolute amount of depletion will increase as a result of the acquisition.

Funds from Operations and Net Income and Comprehensive Net Income

Funds from operations (\$000s, except per share)	Three months ended March 31,		
	2008	2007	% Change
Funds from operations	1,617	(273)	692
Basic (\$)	0.01	(0.00)	100
Diluted (\$)	0.01	(0.00)	-

Funds from operations for the three months ended March 31, 2008 totalled \$1,617,000, or \$0.01 per share, compared to (\$273,000), or (\$0.00) per share, for the same period in 2007. This increase is mainly due to the increase in production volumes from acquisitions that occurred during 2007.

Net income and comprehensive income (\$000s, except per share)	Three months ended March 31,		
	2008	2007	% Change
Net income and comprehensive income	380	395	(4)
Basic (\$)	0.00	0.01	(100)
Diluted (\$)	0.00	0.01	(100)

Net income and comprehensive income for the three month period ended March 31, 2008 was \$380,000, or \$0.00 per share compared to a \$395,000, or \$0.01 per share, for the same period in 2007. Almost all metrics improved during the three months ended March 31, 2008 when compared with the first quarter of 2007 resulting in a significant increase in income before income taxes of approximately \$1,439,000. Net income and comprehensive income from the comparative period included a \$1,455,000 income tax recovery.

Petroleum and natural gas sales

Sales volumes		Three months ended March 31,		
		2008	2007	% Change
Oil and natural gas liquids	<i>bbls/d</i>	351	106	230
Natural gas	<i>mcf/d</i>	920	681	35
Total (6:1)	<i>boe/d</i>	504	220	129

Sales volumes, on a boe basis, averaged 504 boe per day during the first quarter of 2008, up 129% from the 220 boe per day average in the first quarter of 2007. The increase in sales volumes for both liquids and natural gas is a direct result of the acquisition of producing properties which closed in October 2007.

Oil and natural gas liquids (“NGL”) sales volumes increased 230% to 351 bbl/d in the three months ended March 31, 2008 from 106 bbl/d for the same period in 2007.

Natural gas sales volumes increased 35% during the first quarter 2008 as compared to the comparative period in 2007.

With the acquisition of approximately 300 boe per day from Milagro and the anticipated addition of production from the 2008 capital program, management expects sales volumes for the remainder of 2008 to increase significantly over first quarter 2008 levels. Second Wave will include Milagro sales volumes in its results from the date of acquisition, May 8, 2008 onward.

Revenues (\$000s)	Three months ended March 31,		
	2008	2007	% Change
Oil and natural gas liquids	2,724	565	382
Natural gas	683	480	42
Total	3,407	1,045	226

Gross revenue from the sale of petroleum and natural gas in the first quarter of 2008 totaled \$3,407,000, up by 226% from the same quarter last year. Increase in total revenues was a result of increased production volumes from acquisitions, and higher product prices year-over-year.

Oil and natural gas liquids revenue rose 382% to \$2,724,000 in the first three months of 2008 from \$565,000 in the same period of 2007.

In January 2008, Second Wave entered into a costless collar to hedge 100 bbl of oil per day from April 1, 2008 to October 31, 2008 at prices between US\$80 - \$101/bbl. Although the current WTI oil price is above the ceiling of US\$101 per bbl, Second Wave does not expect that this hedge will materially affect its cash flow for 2008 due to the small amount of production that has been hedged.

Overall natural gas sales were \$683,000 for the three months ended March 31, 2008, 42% higher than the \$480,000 received in the first quarter of 2007.

Revenues are expected to increase commencing in the second quarter of 2008 due to the production increases from the acquisition of Milagro, higher commodity prices, and the anticipated addition of production from the 2008 capital program.

Average Sales Prices		Three months ended March 31,		
		2008	2007	% Change
Oil and natural gas liquids	<i>\$/bbl</i>	85.34	59.02	45
Natural gas	<i>\$/mcf</i>	8.16	7.83	4
Total (6:1)	<i>\$/boe</i>	74.28	52.82	41

The overall average price received from sale of oil and gas products in the first quarter of 2008 was up 41%, to \$74.28/boe, from the \$52.82/boe received during the first quarter last year. The majority of this increase was as a result of the 45% increase in the average oil and natural gas liquids price received for sales volumes in 2008.

Royalties

(\$000s)		Three months ended March 31,		
		2008	2007	% Change
Crown royalties		271	142	91
Freehold		160	5	3,100
Gross overriding		35	17	106
Total		466	164	184
Total per boe		10.16	8.29	23
Total as % of revenues		14%	16%	(14)

Total royalties increased significantly in the first quarter of 2008, totaling \$466,000 versus \$164,000 in the same period of 2007. Royalties as a percentage of working interest revenues amounted to 14% during the first quarter of 2008, compared to 16% during the same quarter last year. On a total dollar basis, the increase in royalty dollars is due to increased production from the acquisition of assets in October 2007.

Absolute amounts of royalties are expected to increase during the remainder of the year as the result of additional production from the Milagro acquisition and new production volumes from the Company's capital program.

On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" (the "NRF") containing the governments proposals for Alberta's new royalty regime, which is scheduled to be effective on January 1, 2009. Given that the NRF has only recently been announced, it is not possible at this time to determine the full impact of the NRF on Second Wave's future operations. Based on oil and gas properties held at year end, the increased royalties payable to the Alberta government pursuant to its NRF will not materially negatively impact our net cash flow. In addition, we cannot provide any assurance that the NRF will be implemented in the form proposed. If changes are made to the NRF before it is implemented and legislated by the Alberta government, such changes could result in the implementation of a new royalty regime that impacts us in a materially different manner, and that is more adverse to us, than the NRF as currently proposed.

Lease Operating Costs

(\$000s, except per boe)		Three months ended March 31,		
		2008	2007	% Change
Lease operating costs		829	272	205
Per boe (\$)		18.07	13.75	31

Lease operating costs increased 205% from \$272,000 in the first quarter last year to \$829,000 in the first quarter of 2008.

Operating costs per unit were higher in the first quarter this year mainly due to the acquisition of higher operating cost properties in October 2007. A significant amount of repairs and maintenance are required on the properties subsequent to their acquisition, of which only a portion of these expenditures have been completed to date. The properties acquired

have experienced high operating costs in the past, and will require capital improvements to improve efficiencies. The Company is taking steps in 2008 to improve field operating efficiencies and has budgeted in excess of \$1,000,000 for certain capital expenditures and facility improvements to be incurred later in 2008.

On a boe basis, lease operating costs increased 31% in the three months ended March 31, 2008 to \$18.07 per boe from \$13.75 per boe in the same period of 2007 largely due to the acquisition of assets in October 2007.

The acquisition of Milagro, will initially incorporate properties with operating costs in excess of those currently experienced by Second Wave (\$27.81 per boe experienced during the first quarter of 2008). As a result Second Wave expects future operating costs to trend higher until such time as the Company can implement planned capital improvements to enhance the operating efficiencies, and alternatively may pursue the disposition of certain high operating cost, non-core properties. Second Wave expects to address the high operating costs of Milagro properties on a continuous process throughout the remainder of the 2008.

Transportation

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2008	2007	% Change
Transportation	54	21	157
Per boe (\$)	1.18	1.06	11

Transportation costs for the three months ended March 31, 2008 amounted to \$54,000 with the transportation costs for the comparative period in 2007, amounting to \$21,000.

On a boe basis, transportation costs increase 11% in the three months ended March 31, 2008 to \$1.18 per boe from \$1.06 per boe in the same period of 2007. The increase in absolute amount and per boe amount is a result of the acquisition of properties that occurred in October 2007.

Absolute amounts of transportation expenses are expected to increase in the second quarter due to the acquisition of Milagro.

Second Wave considers transportation to include all oil trucking costs commencing from the wellhead to delivery to the ultimate sales point.

Operating Netback <i>(\$/boe)</i>	Three months ended March 31,		
	2008	2007	% Change
Petroleum and natural gas sales	74.28	52.82	41
Royalties	(10.16)	(8.29)	23
Net revenues	64.12	44.53	44
Lease operating costs	(18.07)	(13.75)	31
Transportation	(1.18)	(1.06)	11
Operating netback ⁽¹⁾	44.87	29.72	51

⁽¹⁾ Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.

Operating netbacks were significantly higher for the three months ended March 31, 2008, when compared to the prior year period, due mainly to the increase in commodity prices. Higher net revenues were only partially offset by higher lease operating costs and transportation costs. Second Wave expects netbacks to remain high in the near term due to the current commodity price environment for crude oil and natural gas.

General and Administrative and Stock-based Compensation

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2008	2007	% Change
General and administrative	499	528	(5)
Stock-based compensation	264	236	12
	763	764	-
Less capitalized amounts	(229)	-	(100)
Total	534	764	(30)
Per boe (\$)	11.64	38.61	(70)

General and administrative (“G&A”) and stock-based compensation costs, decreased 30% in the first quarter of this year, to \$534,000 from \$764,000 in the same period last year. On a boe basis, costs were 70% lower during the first quarter this year as production volumes were higher than the first quarter last year. Although Second Wave expects that G&A will increase moderately as a result of the acquisition of Milagro, management expects that G&A costs on a per unit basis will continue to trend downward as a result of increased production volumes from both the acquisition of Milagro during the second quarter of 2008, and Second Wave’s capital program for the remainder of the year.

General and administrative expenses of \$129,000 and stock-based compensation expenses of \$100,000 were capitalized during the first quarter of 2008 (2007 – Nil).

Financing Expenses

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2008	2007	% Change
Cash component			
Interest on short term debt	40	335	(88)
Interest on convertible debenture	31	-	100
Total cash component	71	335	(79)
Non-cash component			
Loan extension fees	-	108	(100)
Total	71	443	(84)
Per boe (\$)	1.55	22.39	(93)

Financing expenses decreased by 84% from \$443,000 in 2007 to \$71,000 in the first quarter of 2008.

The majority of the decrease related to loan extension and other lender fees on the Company’s debt facilities in 2007.

In January 2008, Brookfield Bridge Lending Fund Inc. (“Brookfield”) elected to convert its \$9,000,000 convertible debenture into equity, and exercised warrants for proceeds totalling \$4,700,000. These events in combination with management’s private placement of \$1,100,000 in January 2008 virtually eliminated the majority of debt outstanding as at December 31, 2007.

With the acquisition of Milagro Energy Inc. and commencement of the Company’s drilling program during the second quarter of 2008, the Company expects to utilize its outstanding credit facilities and incur higher debt carrying costs throughout the remainder of the year. Upon closing the Milagro acquisition, the repayment of Milagro’s credit facilities and repayment of certain trade creditors, Second Wave estimates its total debt outstanding is approximately \$11,000,000. Notwithstanding the increase in debt from the end of the first quarter, Second Wave has approximately \$14,500,000 of remaining credit available on its existing debt facilities.

Depletion, Depreciation and Accretion

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2008	2007	% Change
Depletion	1,011	429	136
Depreciation	4	4	-
Accretion	45	9	400
Total	1,060	442	140
Per boe (\$)	23.11	22.34	3

Depletion, depreciation and accretion expense increased 140% in the first three months of 2008 to \$1,060,000 from \$442,000 in the same period of 2007. This increase in absolute dollar amount is a result of the acquisition in October 2007 and expenditures incurred from Second Wave's exploratory drilling program from the fourth quarter of 2007.

Accretion of Convertible Debenture

Accretion of convertible debenture was \$13,000 during the first quarter of 2008 and nil during the comparative period in 2007. As the Company entered into the convertible debenture during the third quarter of 2007, the comparable balance for 2007 was nil.

As the convertible debenture was converted to equity during the first quarter of 2008, no further accretion of the convertible debenture will be experienced during the remainder of the year.

Income Taxes

The income tax provision for the first quarter ended March 31 was Nil, compared to a recovery of \$1,455,000 in the comparative period of 2007. The 2007 recovery was a result of reversal of a valuation allowance as at December 31, 2006.

Income taxes are comprised of two components: current and future income taxes. The expected 2008 income tax rate as a percentage of pre-tax income is 29.5%. Due to the reversal of the valuation allowance on existing tax losses, the Company had no income tax provision in the 2008 period.

With the proposed acquisition of Milagro Energy Inc. ("Milagro") and its significant amount of available tax pools, we expect to push out our cash tax horizon well into the future.

Liquidity and Capital Resources

The oil and gas business is inherently risky and capital intensive and can require significant capital and cash resources to expand by growing reserves, production and cashflow. Given the nature of the oil and gas business, and the size of Second Wave, it must be able to continue to access capital markets to raise additional monies to grow.

During the quarter ended March 31, 2008, \$1,627,000 (2007 - \$396,000) was expended on capital additions as summarized below:

Capital Expenditures (\$000s)	Three months ended March 31,		
	2008	2007	% Change
Land and acquisitions	198	58	241
Geological and geophysical	22	2	1,000
Drilling and completion	1,090	172	534
Facilities and equipment	88	164	(46)
Capitalized G&A	129	-	100
Total cash portion	1,527	396	286
Non-cash portion			
Capitalized stock-based compensation	100	-	100
Total capital expenditures	1,627	396	311

Second Wave has budgeted \$9,800,000 of capital expenditures for 2008 and expects to rely on internally generated cash flows and available lines of credit fund its capital program.

Financing activities from raising equity during the first quarter of 2008 resulted in cash inflows of \$5,783,000. Cash inflows from financing activities were used to repay \$5,050,000 of debt and for the company's investment activities which consumed \$2,171,000 of cash resources, principally on drilling and completion work. As a result of the activities in the first quarter of 2008, the company's available line of credit increased from \$400,000 as at December 31, 2007, to \$4,350,000 as at March 31, 2008.

The previously disclosed conversion of the \$9,000,000 Convertible debenture by Brookfield, together with their exercise of \$4,700,000 in warrants during January resulted in the issuance of 119,606,818 Class A shares to Brookfield which together with their previous holdings resulted in them owning approximately 58% of the issued and outstanding Class A shares of Second Wave.

On January 17, 2008, Second Wave closed a private placement to members of management and directors of Second Wave. In aggregate, Second Wave issued 6,004,889 Units, for aggregate proceeds of \$1,100,000.

In order to finance the acquisition of Milagro, Second Wave closed an equity private placement for 40,000,000 Units at \$0.25 per Unit for gross proceeds of \$10,000,000 and entered into a \$7,500,000 secured revolving facility agreement, both with Brookfield. Each Unit was comprised of one Class A Share and 0.6 Class A Share purchase warrant. Each warrant is exercisable for two years from the closing date at a price of \$0.3125 per warrant. The facility bears interest at the bank's prime rate plus 2%, and has a two year term. Proceeds from these activities were used upon closing the acquisition of Milagro to repay its outstanding term facility and convertible debentures.

On May 8, 2008, upon successful closing of the Milagro acquisition, Second Wave negotiated with its senior lender to increase its borrowing base from \$6,000,000 to \$18,000,000 on its existing credit facility. On May 8, 2008, Second Wave had a combined maximum credit facility of \$25,500,000, up from \$6,000,000 at December 31, 2007.

As of May 26, 2008, the Company had approximately \$14,500,000 of its line of credit available for ongoing operations. In addition, the Company receives free cash flow, after royalties, operating expenses, overhead, and debt servicing costs, on a monthly basis. The 2008 capital budget as approved by the Board of Directors is \$9,800,000. The acquisition of Milagro Energy Inc. is expected to provide the Company with approximately 300 barrels per day of additional production and the resultant cash flow.

As a result of monies raised in 2007 and 2008, as at May 27, 2008, the Company was committed to incur additional exploration expenditures of \$1,100,000 and has flow through warrants outstanding which upon exercise by the warrant holders could add an additional \$1,900,000 of flow through obligation. Within its 2008 capital program the company has budgeted for exploration projects to cover the maximum flow through liability from these financings of \$3,000,000.

Financial Statements of
Second Wave Petroleum Ltd.
Three Months Ended March 31, 2008

Second Wave Petroleum Ltd.

Consolidated Balance Sheets

As at March 31, 2008 and December 31, 2007

(unaudited)

	2008	2007
ASSETS		
Current assets:		
Accounts receivable	\$ 2,064,776	\$ 1,982,292
Prepaid expenses	564,603	134,400
	<u>2,629,379</u>	<u>2,116,692</u>
Property and equipment (note 4)	29,612,329	29,000,831
	<u>\$ 32,241,708</u>	<u>\$ 31,117,523</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,590,590	\$ 2,889,217
Loans payable (note 5)	500,290	5,551,042
	<u>3,090,880</u>	<u>8,440,259</u>
Convertible debenture (note 6)	-	8,585,844
Asset retirement obligation (note 8)	2,419,355	2,374,826
	<u>5,510,235</u>	<u>19,400,929</u>
Shareholders' equity		
Share capital (note 9)	56,527,472	40,991,342
Warrants (note 9)	1,193,606	1,957,057
Equity component of convertible debenture (note 6)	-	506,481
Contributed surplus (note 9)	1,634,172	1,265,096
Deficit	(32,623,777)	(33,003,382)
	<u>26,731,473</u>	<u>11,716,594</u>
Nature of business (note 1)		
Contingencies (note 10)		
Subsequent events (note 16)		
	<u>\$ 32,241,708</u>	<u>\$ 31,117,523</u>

See accompanying notes to financial statements.

Second Wave Petroleum Ltd.

Consolidated Statements of Income, Comprehensive Income and Deficit

For the three months ended March 31, 2008 and 2007

(unaudited)

	2008	2007
REVENUE		
Crude oil, natural gas, and natural gas liquids sales	\$ 3,406,859	\$ 1,045,200
Royalties	(465,921)	(164,722)
Other income	-	2,782
	<u>2,940,938</u>	<u>883,260</u>
EXPENSES		
Operating	829,278	271,578
Transportation	54,170	21,561
General and administrative	369,889	527,748
Depletion, depreciation and accretion	1,059,729	442,157
Financing expense (note 11)	71,132	443,469
Stock based compensation	164,452	236,413
Accretion of convertible debenture	12,683	-
	<u>2,561,333</u>	<u>1,942,926</u>
Income (loss) before income taxes	379,605	(1,059,666)
Income Taxes		
Future income tax recovery	-	(1,455,000)
Net income and comprehensive income	379,605	395,334
Deficit, beginning of year	(33,003,382)	(29,456,589)
Deficit, end of period	\$ (32,623,777)	\$ (29,061,255)
Net income and comprehensive income per share-basic and diluted (note 9)	\$ 0.00	\$ 0.01

See accompanying notes to financial statements.

Second Wave Petroleum Ltd.
Consolidated Statements of Cash Flow
For the Three months ended March 31, 2008 and 2007
(unaudited)

	2008	2007
Cash provided by (used in):		
OPERATIONS:		
Net income and comprehensive income	\$ 379,605	\$ 395,334
Add (deduct) items not involving cash:		
Depletion, depreciation and accretion	1,059,729	442,157
Stock based compensation	164,452	236,413
Accretion of convertible debenture	12,683	-
Warrants issued on loan extensions	-	108,045
Future income tax recovery	-	(1,455,000)
	1,616,469	(273,051)
Change in non-cash working capital (note 13)	(176,361)	56,185
	1,440,108	(216,866)
FINANCING:		
Issue of Class A shares and warrants	1,080,880	4,076,625
Share and warrant issuance costs	(10,337)	(231,469)
Issue of Class A shares on exercise of warrants	4,702,136	-
Loan repayment	(5,050,752)	(2,000,000)
Change in non-cash working capital (note 13)	8,883	(176,625)
	730,810	1,668,531
INVESTING:		
Property and equipment expenditures	(1,527,082)	(395,885)
Change in non-cash working capital (note 13)	(643,836)	(669,299)
	(2,170,918)	(1,065,184)
Increase in cash and cash equivalents	-	386,481
Cash and cash equivalents, beginning of year	-	142,052
Cash and cash equivalents, end of period	\$ -	\$ 528,533

See accompanying notes to consolidated financial statements.

Supplementary Cash Flow Information

Interest received	\$ 77	\$ 2,782
Interest paid	59,802	335,425

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

1. Nature of business:

The accompanying unaudited interim consolidated financial statements, include the accounts of Second Wave Petroleum Ltd. (“Second Wave” or “the Company”) and its wholly-owned subsidiary, Second Wave Holdings Ltd (“Holdings”). Second Wave and Holdings are incorporated under the laws of the province of Alberta. The Company’s Class A and Class B shares trade under the symbols SCS.A and SCS.B respectively. The Company is engaged in the acquisition, development and exploration of petroleum and natural gas in Western Canada.

2. Basis of Presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and followed the same accounting policies as the audited financial statements for the year ended December 31, 2007. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. These interim financial statements should be read in conjunction with the financial statements and footnotes as at and for the year ended December 31, 2007.

3. Changes in Accounting Policies:

(a) Accounting changes:

The Company adopted new Canadian accounting standards for “Capital Disclosures”, “Financial Instruments – Disclosures”, and “Financial Instruments – Presentation”. These standards became effective for the Company in the first quarter of 2008.

The new Capital Disclosure standard requires the disclosure objectives, policies and processes for managing capital. This includes qualitative information regarding the Company’s objectives, policies and processes for managing capital and summary quantitative data about what the Company manages as capital.

The new Financial Instrument standards outline disclosures and presentation for financial instruments. They place greater emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

(b) Basis of presentation:

Certain amounts from the prior period have been reclassified to conform to the current years presentation.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

4. Property and equipment

March 31, 2008			
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$69,478,141	\$39,929,002	\$29,549,139
Office equipment	129,550	66,360	63,190
	\$69,607,691	\$39,995,362	\$29,612,329

December 31, 2007			
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$67,856,468	\$38,918,002	\$28,938,466
Office equipment	124,526	62,161	62,365
	\$67,980,994	\$38,980,163	\$29,000,831

As at March 31, 2008, \$1,069,454 (December 31, 2007 - \$1,025,025) of undeveloped land and seismic costs have been excluded from the depletion base. Future development costs of \$2,185,375 (December 31, 2007 – \$2,185,375) were included in the calculation of depletion. In 2008, \$129,567 (December 31, 2007 – Nil) of general and administrative costs and \$99,616 of stock based compensation have been capitalized.

5. Loans payable

	March 31, 2008	December 31, 2007
Cheques issued in excess of balance in account	116,140	216,892
Revolving operating loan facility (note 5a)	384,150	3,334,150
Term loan payable (note 5b)	-	2,000,000
Balance, end of period	\$ 500,290	\$ 5,551,042

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

5. Loans payable (continued)

(a) Revolving operating loan facility

On October 26, 2007, the Company entered into a \$6,000,000 credit facility with a Canadian chartered bank. The facility is a demand revolving operating line which is reviewed annually and includes a \$1,265,850 letter of guarantee that was posted for potential contingent liabilities in connection with an asset acquisition. The operating line bears interest at the bank's prime rate plus 0.4% and is secured by the assets of the Company. The letter of guarantee has a one year term and includes a fee of 2% per annum.

(b) Non-revolving term loan

On October 26, 2007, the Company entered into a \$2,000,000 term loan due January 31, 2008. The term loan, bearing interest at the bank's prime rate plus 2% was repaid in full on January 15, 2008.

6. Convertible debenture

The Company classifies convertible debentures as debt with a portion of the proceeds allocated to equity to represent the inherent value of the conversion option. In the event that the debentures are converted into common shares of the Company, the debt and equity components are reclassified into share capital. The debt balance associated with the convertible debentures accretes over time to the amount owing at maturity with the accretion reflected as non-cash interest expense in the statement of operations.

Convertible debenture	March 31, 2008		December 31, 2007	
	Equity Component	Debt Component	Equity Component	Debt Component
Beginning of year	\$ 506,481	\$ 8,585,844	\$ -	\$ -
Conversion of debenture	(506,481)	(8,493,519)	-	-
Transfer of excess of carrying amount of debenture to contributed surplus	-	(105,008)	-	-
Debt issued	-	-	-	9,000,000
Equity portion	-	-	515,466	(515,466)
Issue costs (net of future income taxes of \$3,850)	-	-	(8,985)	-
Accretion of non-cash interest expense	-	12,683	-	101,310
End of period	\$ -	\$ -	\$ 506,481	\$ 8,585,844

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

6. Convertible debenture (continued)

On July 30, 2007, the Company issued a secured convertible debenture (“the Debenture”) in the amount of \$9,000,000. The Debenture bore interest at bank prime rate plus 2% per annum, had a fixed charge on all the assets of the Company and was due on July 30, 2009. Proceeds from the issuance of the debenture were used to repay the Company’s existing credit facility. The Company may redeem the Debenture at anytime prior to July 30, 2009 at a price equal to 108% of the aggregate principal amount outstanding and is convertible at anytime, in whole or in part, into Class A shares of the Company at a price of \$0.11 per share.

At December 31, 2007, the Company was not in compliance with certain financial covenants under the loan agreement. The lender waived compliance to such covenants.

On January 17, 2008, Brookfield Bridge Lending Fund Inc. exercised its option to convert its \$9,000,000 convertible debenture into 81,818,182 Class A Shares of Second Wave.

7. Future income taxes

The provision for income taxes in the financial statements differs from the result which would be obtained by applying the federal and provincial tax rate to the Company’s earnings before income taxes. This difference results from the following items:

	For the Three Months Ended March 31,	
	2008	2007
Net income (loss) and comprehensive income (loss) before income taxes	\$ 379,605	\$ (1,059,566)
Combined federal and provincial tax rate	29.5%	32.5%
Calculated “expected” income tax expense	112,000	(344,000)
Increase (decrease) resulting from:		
Other non-deductible items	52,000	116,000
Change in tax rate	(25,000)	-
Valuation allowance	(139,000)	1,227,000
Future income tax reduction	\$ -	\$ (1,455,000)

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

7. Future income taxes (continued)

The components of the Company's net future income tax asset are as follows:

	Three Months ended March 31, 2008	Year ended December 31, 2007
Property, plant and equipment	\$ (379,000)	\$ 431,000
Share issuance costs and other	530,000	696,000
Non capital losses	2,522,000	100,000
Valuation allowance	(3,278,000)	(1,227,000)
Asset retirement obligations	605,000	-
Net future income tax asset (liability)	\$ -	\$ -

The Company has accumulated non-capital losses for income tax purposes of approximately \$10,000,000 which are available against future taxable income. Unless sufficient taxable income is earned, these losses will expire between in 2011 and 2027.

8. Asset retirement obligation

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas assets. A credit adjusted risk free rate of 7.5% and an inflation rate of 2% (2007 - 2%) were used to calculate the fair value of the asset retirement obligation. Undiscounted estimated cash flow of \$3,475,000 (2007 - \$3,475,000) is required to settle the obligation at estimated dates in the future ranging from 2008 to 2025.

	March 31, 2008	December 31, 2007
Beginning of year	\$ 2,374,826	\$ 522,765
Liabilities incurred	-	115,948
Accretion expense	44,529	54,991
Acquired on asset acquisition (note 4b)	-	1,766,750
Acquired on business acquisitions (note 4a and 4c)	-	209,279
Changes in accounting estimates	-	(239,141)
Abandonments	-	(55,766)
End of period	\$ 2,419,355	\$ 2,374,826

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

9. Share capital

(a) Authorized:

The authorized share capital consists of an unlimited number of Class A and B voting shares. The Class B shares are convertible into Class A shares based on a formula equal to \$10 divided by the greater of \$1 and the then market price of the Class A shares. The Class B shares are convertible at the option of the Company at any time after January 21, 2008 and before January 31, 2010. The Class B shares are convertible at the option of the shareholder, at any time after February 1, 2010 and before March 1, 2010. Any Class B shares not previously converted will automatically convert to Class A shares on March 1, 2010.

(b) Issued and outstanding:

Class A Shares	March 31, 2008		December 31, 2007	
	Number of Shares	Value	Number of Shares	Value
Beginning of year	129,569,131	\$ 35,873,910	32,118,631	\$ 28,261,895
Issued for cash (note 9c)	6,004,889	823,150	77,500,000	7,266,393
Issued on conversion of convertible debenture (note 6)	81,818,182	9,000,000	-	-
Warrants exercised (note 9g)	37,788,636	4,702,138	11,958,000	1,499,125
Transfer of carrying value on exercise of warrants	-	1,021,181	-	290,938
Flow through shares issued on exercise of warrants (note 9g)	-	-	200,000	24,000
Broker warrants exercised (note 9g)	-	-	1,600,000	200,000
Future tax effect of flow-through shares	-	-	-	(2,282,200)
Issued for acquisition of Stone Castle	-	-	6,192,500	891,720
Share issue costs (net of future income taxes of Nil (2007 - \$128,040))	-	(10,339)	-	(277,961)
End of period	255,180,838	\$ 51,410,040	129,569,131	\$ 35,873,910
Class B Shares				
Beginning and end of period	935,616	\$ 5,117,432	935,616	\$ 5,117,432
End of period – Class A and Class B shares	256,116,454	\$ 56,527,472	130,504,747	\$ 40,991,342

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

9. Share capital (continued)

(c) Issued for cash:

On January 17, 2008, the Company issued 6,004,889 Units at \$0.18 per unit for gross proceeds of \$1,080,880. Each Unit consisted of one flow through Class A share and one Class A share purchase warrant. The Company used the Black-Scholes option pricing model to determine the values of the Class A share purchase warrants in connection with the issuance. The Black-Scholes value of the warrants was \$257,730.

In connection with the private placement, Second Wave is committed to expend \$1,080,880 in eligible flow through expenditures prior to December 31, 2009.

On January 15, 2007, the Company issued 32,000,000 Units at \$0.125 per unit for gross proceeds of \$4,000,000 and in September 2007, the Company issued an additional 45,500,000 Units at \$0.11 per unit for gross proceeds of \$5,005,000. In both placements the Units consisted of one Class A share and one Class A share purchase warrant. The Company used the Black-Scholes option pricing model to determine the values of the Class A share purchase warrants in connection with these issuances. The Black-Scholes value of the warrants was \$1,738,607.

(d) Flow-through shares issued:

In November 2007, 200,000 Class A shares of the Company were issued on exercise of \$0.12 flow through warrants. The Company is committed to spend 100% of the funds on qualifying exploration and development expenditures prior to December 31, 2008.

In March 2006, the Second Wave issued 2,916,700 Class A “flow through” shares at \$2.40 per share for gross proceeds of \$7,000,080. The Company is committed to spend 100% of the funds on qualifying exploration and development expenditures. Effective December 31, 2006 in accordance with the terms of the share subscription agreements, the Company renounced for income tax purposes, \$7,000,080 to holders of Class A shares and had incurred \$2,370,000 in eligible expenditures. During 2007, \$3,650,000 was expended on qualifying flow through expenditures and approximately \$882,000 was incurred during the first quarter in 2008.

(e) Per share data:

The basic weighted average number of Class A and Class B shares outstanding during the period was 234,861,399 (March 31, 2007 – 59,889,414).

Diluted weighted average number of Class A and Class B shares outstanding as at March 31, 2008 was 247,158,731 (March 31, 2007 was 75,764,059). The dilutive effect of outstanding options and warrants is calculated using the treasury stock method.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

9. Share capital (continued)

(f) Stock option plan:

The Company has a stock option plan for directors, officers, employees and consultants. The Company may grant up to 10% of the aggregate number of Class A and Class B shares outstanding and no one optionee is permitted to hold more than 5% of the total Class A and B shares outstanding. Options granted prior to December 21, 2007 vest one third immediately and one third on the first and second anniversary dates of the grant. Options granted subsequent to the appointment of new management vest one third on the each of the first, second and third anniversary dates. All options expire in five years from the date of grant.

	March 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of year	12,675,000	\$ 0.23	1,645,333	\$ 0.60
Granted	6,175,000	0.25	13,300,000	0.20
Forfeited	(333,331)	0.15	(2,270,333)	0.39
Outstanding – end of period	18,516,669	\$ 0.24	12,675,000	\$ 0.23
Exercisable – end of period	3,541,674	\$0.28	2,441,677	\$ 0.31

Exercise Price	Options outstanding		Options exercisable	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$0.11	266,668	4.41	133,336	4.41
\$0.15	233,334	4.07	100,002	4.07
\$0.20	11,266,667	4.37	2,866,669	3.80
\$0.24	3,950,000	4.79	-	-
\$0.26	2,225,000	4.91	-	-
\$0.40	150,000	1.77	150,000	1.77
\$1.00	400,000	3.27	266,667	3.27
\$2.04	25,000	2.36	25,000	2.36
	18,516,669		3,541,674	

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

9. Share capital (continued)

The weighted average grant date fair value of all options granted in 2008 was \$0.15 (2007 - \$0.125).

The fair value of options granted during the period of \$948,498 (2007 - \$1,662,528) was calculated using a risk free rate of approximately 4%, dividend yield of 0%, volatility factor of 75%, and an expected life of 5 years. The value of the options was recorded as stock based compensation expense, with an offsetting amount to contributed surplus based on the vesting terms.

(g) Warrants:

	March 31, 2008		December 31, 2007	
	Number of Warrants	Value	Number of Warrants	Value
Beginning of year	81,634,500	\$ 1,957,057	-	\$ -
Issued with shares, net of share issuance costs of Nil (2007 - \$103,490 and future taxes of \$31,054)	6,004,889	257,730	79,100,000	1,662,796
Issued on loan extensions	-	-	8,500,000	401,030
Issued on acquisition of Stone Castle Exploration	-	-	6,192,500	145,706
Issued to brokers	-	-	1,600,000	38,463
Warrants exercised	(29,288,636)	-	(11,958,000)	-
Loan extension warrants exercised	(8,500,000)	-	-	-
Broker warrants exercised	-	-	(1,600,000)	-
Flow through warrants exercised	-	-	(200,000)	-
Transfer of carrying value on exercise of warrants	-	(1,021,181)	-	(290,938)
End of period	49,850,753	\$ 1,193,606	81,634,500	\$ 1,957,057

All warrants issued by the Company have been valued using the Black-Scholes option pricing model calculated using a risk free rate of 4%, dividend yield of 0%, volatility factor of 75%, and expected life equal to the life of warrant.

On January 15, 2008, the holder of 29,288,636 of these warrants exercised its warrants and elected not to take the related flow through deductions. If all remaining flow through warrants that arose from the September 2007 private placement are exercised, the Company could be committed to expend an additional \$1,900,000 of eligible expenditures.

On January 17, 2008, the Company issued 6,004,889 Units at \$0.18 per unit for gross proceeds of \$1,080,880. Each Unit consisted of one flow through Class A share and one Class A share purchase warrant. The Company used the Black-Scholes option pricing model to determine the values of the Class A share purchase warrants in connection with the issuance. The Black-Scholes value of the warrants was \$257,730.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

9. Share capital (continued)

On January 15, 2007, the Company issued 32,000,000 Units at \$0.125 per unit for gross proceeds of \$4,000,000. The Units were comprised of one Class A share and one Warrant. Each warrant is exercisable into one Class A Share at a price of \$0.125 per share until March 31, 2007 (extended to April 3, 2007), thereafter at \$0.20 per share until June 30, 2007, thereafter at \$0.30 per share until December 31, 2007, and thereafter at \$0.40 per share until expiry on December 31, 2008. In connection with the financing, the Company also issued 1,600,000 broker warrants to the financing agent. Each broker warrant is exercisable into one unit comprised of one Class A Share and one warrant at a price of \$0.125 per unit, with each warrant then being exercisable under the same terms as the non-broker warrants. Upon exercise of the brokers warrants, an additional 1,600,000 warrants were issued to the brokers.

On January 15, 2007, the Company issued 3,500,000 warrants to its lender as consideration for the loan extension. Each warrant is exercisable into one Class A Share at a price of \$0.125 per share, before the Facility is fully paid, \$0.175 upon full repayment of the Facility, until expiry on January 15, 2009.

In May 7, 2007, the Company issued 12,385,000 units at \$0.084 per unit for total consideration \$1,037,426 to the shareholders of Stone Castle. The units consisted of 0.5 Class A share and 0.5 warrant. Each warrant is exercisable into one Class A share at a price of \$0.20 per share until June 30, 2007, thereafter at \$0.30 per share until December 31, 2007 and thereafter at \$0.40 per share until expiry on December 31, 2008.

In May 7, 2007, as a result of the acquisition of Stone Castle, the Company increased its debt facility with its principal lender by \$1,000,000 and extended the repayment of the debt facility to December 31, 2007. As consideration for the increased loan and extension, the Company issued 5,000,000 warrants to purchase 5,000,000 Class A shares to its lender. The warrants have an exercise price of \$0.15 until the loan is repaid and thereafter at a price of \$0.175 until expiry on May 7, 2009.

On September 11, 2007, the Company issued 45,500,000 Units at \$0.11 per unit for gross proceeds of \$5,005,000. Each unit consisted of a Class A Share and a flow through warrant exercisable at \$0.12 until they expire on December 31, 2008.

(h) Escrowed shares

Pursuant to an Escrow Agreement dated October 28, 2004 a total of 6,179,000 Class A shares of certain officers, directors, employees, and principal shareholders were being held in escrow. On January 7, 2005 when the shares of the Company were listed on the TSX Venture exchange, 10% of the escrowed shares were released. The remaining 90% were released in 15% increments during consecutive 6 month periods following the listing. As of December 31, 2007, 911,094 Class A shares were in escrow, and were released on January 11, 2008.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

9. Share capital (continued)

(i) Contributed surplus

A summary of change in the Company's contributed surplus balance for the three months ended March 31, 2008 and year ended December 31, 2007 is as follows:

	March 31, 2008	December 31, 2007
Balance beginning of year	\$1,265,096	\$ 699,878
Stock based compensation related to fair value of options granted	264,068	565,218
Conversion of convertible debenture	105,008	-
Balance, end of period	\$1,634,172	\$ 1,265,096

10. Contingencies

In connection with an asset acquisition that closed in October 2007, the Company currently has an outstanding letter of credit in the amount of \$1,300,000 as security for potential contingent liabilities associated with the acquisition. Settlement of potential contingent liabilities will be treated as purchase price adjustments in the period of settlement.

11. Financing expense

	Three months ended March 31,	
	2008	2007
Interest on short term debt	\$ 39,657	\$ 335,424
Interest on convertible debenture	31,475	-
Loan extension fees	-	108,045
	\$ 71,132	\$ 443,469

12. Related party transactions

During the period ended March 31, 2008, the Company incurred the following

- Legal services, disbursements and regulatory costs totaling \$125,909 (2007 - \$116,574 payable to a legal firm of which a director of the Company is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs.
- Financing and advisory fees of \$Nil, (2007 - \$218,400) payable to a Company of which a director of the Company is an officer.
- Payments of \$31,475 (2007 - \$Nil) for financing expenses were paid to a company who is a significant shareholder of the Company.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

12. Related party transactions (continued)

All transactions have been completed on the basis of general market terms and conditions and have been recorded at fair market value.

13. Changes in non-cash working capital

	Three months ended March 31,	
	2008	2007
Decrease (increase) in non-cash working capital		
Accounts receivable	\$ (82,484)	\$ 72,960
Prepaid expenses	(430,203)	22,131
Accounts payable and accrued liabilities	(298,627)	(884,830)
Net change in non-cash working capital	\$ (811,314)	\$ (789,739)
Relating to:		
Operations	\$ (176,361)	\$ 56,185
Financing	8,883	(176,625)
Investments	(643,836)	(669,299)
	\$ (811,314)	\$ (789,739)

14. Financial instruments

During 2007, the Company did not undertake any financial instrument activities with respect to its crude oil, natural gas liquids, and natural gas sales. The Company was exposed to fluctuations in commodity prices. In January 2008, Second Wave entered into the following hedge:

Volume (bbl/d)	Costless Collar (WTI)	Term
100 bbl	US \$80 - \$101/bbl	April – October 2008

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

15. Financial Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note provides information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from petroleum and natural gas marketers and joint venture partners.

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day of the following month in which the production is sold. The Company's policy to mitigate capital risk associated with these balances is to establish marketing arrangements with large purchasers. The Company has historically not experienced any collection issues with its petroleum and natural gas marketers. Where Second Wave has activities with joint venture partners it collects Company share of net revenues, and partners share of capital expenditures. Collection of joint venture receivables are typically received one to three months subsequent to the date of billing to partners. These amounts are typically subject to normal industry risk. Second Wave attempts to mitigate risk from joint venture receivables by partnering with obtaining partner approval prior to expenditure and collects in advance for significant amounts related to partners' share of capital expenditures in accordance with normal operating procedures. Collection of outstanding balances from joint venture partners is dependant on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling, in addition further risk exist with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

15. Financial Risk Management (continued)

The Company's credit risk is limited to the carrying value of its accounts receivable, which are primarily due from entities involved in the oil and gas industry. At March 31, 2008, the Company had no material accounts receivable deemed uncollectible, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the periods ended March 31, 2008 and December 31, 2007.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares an annual budget for operations and capital, which is monitored and updated as considered necessary.

The financial liabilities on its balance sheet consist of accounts payable and bank debt. Accounts payable consist of invoices payable to trade suppliers relating to capital expenditure program, field operations and office expenses. At March 31, 2008, Second Wave's bank debt is on a revolving reserve based credit facility that is reviewed annually by the lender.

Market risk

Market risk is the risk that changes in market prices, such as changes in foreign exchange rates, commodity prices and interest rates will effect 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.

Second Wave uses financial derivatives to manage market risk. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

(i) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use a financial derivative contract as indicated in Note 14.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

15. Financial Risk Management (continued)

(ii) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency, however the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place at March 31, 2008.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's debts that have a floating interest rate. The Company had no interest rate swaps or hedges as at and during the period ended March 31, 2008.

Fair value of financial instruments

The Company's financial instruments recognized in the balance sheet include cash and cash equivalents, accounts receivable, accounts payable, and bank loans. The fair values of these instruments approximate their carrying value due to their short term to maturity of these instruments and the market rate of interest applied to the loan.

The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes.

Bank debt bears interest at a floating market rate and accordingly the fair value approximates the carrying value.

Capital management

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholder's equity, bank debt, and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on petroleum and natural gas reserves. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

16. Subsequent events

- (a) On February 22, 2008, Second Wave agreed to acquire all of the issued shares of Milagro Energy Inc. (“Milagro”) through the issuance of a maximum 5,000,000 units comprised of one Class A Share of Second Wave and one share purchase warrant to acquire one Class A Share of Second Wave. Each whole warrant would entitle the holder to purchase one Class A Share of Second Wave at a price of \$0.40 for one year from the closing date of the Transaction. The acquisition is subject to approval of Milagro’s shareholders.

On May 8, 2008, Second Wave acquired 68.81% of Milagro Energy Inc through the issuance of 3,437,483 Class A shares of Second Wave and 3,437,483 warrants to acquire Second Wave Class A shares at \$0.40 per share for a period of one year.

In connection with the closing of the acquisition of Milagro, on May 8, 2008, Second Wave closed an equity private placement with Brookfield Bridge Lending Fund Inc. (“Brookfield”) for 40,000,000 Units at \$0.25 per Unit for gross proceeds of \$10,000,000. Each Unit is comprised of one Class A Share and 0.6 Class A Share purchase warrant. Each whole warrant is exercisable for two years from the closing date at a price of \$0.3125 per warrant.

On May 8, 2008, in connection with the closing of the acquisition of Milagro, Second Wave entered into a \$7,500,000 secured revolving facility agreement with Brookfield. The facility bears interest at the bank’s prime rate plus 2%, and has a two year term.

The use of the proceeds from the private placement and secured revolving facility were used to close the acquisition of Milagro and to pay down the outstanding debt of Milagro upon closing the acquisition.

- (b) On May 8, 2008, upon successful closing of the Milagro acquisition, Second Wave closed an agreement with its senior lender to increase its borrowing base from \$6,000,000 to \$18,000,000 on its existing credit facility.
- (c) Effective May 26, 2008, Second Wave exercised its right to convert all Class B shares of Second Wave to Class A shares. Each Class B share was converted into 10 Class A shares. As a result, an additional 9,356,160 Class A shares were issued for the conversion.
- (d) On May 26, 2008, Second Wave acquired 10,371,777 shares of Milagro Energy Inc. and issued 309,076 Class A shares of Second Wave and 309,076 warrants to acquire Second Wave Class A shares at \$0.40 per share for a period of one year.

Second Wave Petroleum Ltd.

Notes to the Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007

16. Subsequent events (continued)

- (e) On May 27, 2008 the Company announced that its Board of Directors has approved the information circular, for which shareholders will vote to:
 - i. Consolidate its Class A shares on a 1 for 10 basis
 - ii. Change the designation of the Class A Shares of the Corporation, whether issued or unissued to Common Shares
 - iii. Change the name of the Company to Second Wave Petroleum Inc.
 - iv. Authorizing the reduction of the stated capital of the Corporation's Class A Shares by the amount not represented by the realizable assets of the Corporation effective as of December 31, 2007. It is anticipated that the stated capital account of the Class A Shares will be reduced by an amount equivalent to the Corporation's deficit as at December 31, 2007 which was \$33,003,382, with an offsetting elimination to the deficit.
- (f) On May 27, 2008, the Company announced the extension of the offer to acquire Milagro to June 6, 2008.
- (g) As at May 27, 2008, Brookfield owned 188,895,454 or 61% of the outstanding Class A shares of Second Wave.