



Management's Discussion & Analysis ("MD&A")

For the quarter ended March 31, 2010

Dated: May 21, 2010

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Second Wave Petroleum Inc. ("Second Wave" or the "Company") should be read in conjunction with the unaudited financial statements and notes for the three months ended March 31, 2010 and the audited financial statements and notes of the Company for the year ended December 31, 2009. This MD&A incorporates information up to and including May 21, 2010. The 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 Inc, 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", "operating netback", and "operating netback per share". 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 operating 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. Further supplemental indicators of performance common to the oil and gas industry are the measurement of costs and expenses on a per barrel of oil equivalent (boe). 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 primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. 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 2010 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 estimated 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 of this report. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Examples of forward-looking information in this document include, but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- The expected increase in the 2010 commodity production rates and related expected downward trend in operating costs and G&A expenses on a per boe basis over the next few quarters as a result of the 2010 capital program; this is subject to the risk and uncertainty that actual 2010 production rates, and related new well operating costs may differ materially from what is currently anticipated.
- The expected increase in operating netbacks per boe in 2010 as a result of actual improved pricing for crude oil to date, and current future strip pricing for crude oil for the rest of the year. Further expected lower operating costs per boe as outlined above is expected to contribute to a higher operating netback. This is subject to the risk and uncertainty that oil pricing will remain strong during 2010, and not differ materially from what is currently anticipated.

This MD&A is dated as at May 21, 2010.

Abbreviations

Crude oil and natural gas liquids		Natural gas and natural gas liquids	
bbbl	barrel	mcf	thousand cubic feet
boe	barrel of oil equivalent	mcf/d	thousand cubic feet per day
bbbl/d	barrels per day	gj	gigajoule
boe/d	barrels of oil equivalent per day	NGL	natural gas liquids
WTI	West Texas intermediate		

Selected Financial Information

(\$000s, except share and per boe amounts)	Three months ended March 31,			Three months ended December 31,	
	2010	2009	% Change	2009	% Change *
Per boe					
Petroleum and natural gas sales	55.42	38.02	46	48.71	14
Royalties	(6.82)	(4.65)	47	(7.13)	(5)
Lease operating costs	(21.18)	(22.43)	(6)	(22.41)	(5)
Transportation	(1.44)	(1.13)	27	(0.93)	55
Operating netback	25.98	9.81	165	18.24	42
Net capital expenditures	18,946	4,903	286	13,373	42
Net debt (excluding ARO)	10,971	26,342	(58)	15,662	(29)
Cash flow from operating activities	542	323	68	507	7
Cash flow from operating activities per share	0.01	0.01	-	0.01	-
Net income (loss)	(423)	(2,128)	80	1,329	(132)
Net income (loss) per share	(0.01)	(0.06)	83	0.02	(150)
Production volumes					
Oil (bbl/d)	672	510	32	498	35
Natural gas liquids (bbl/d)	43	33	30	50	(14)
Natural gas (mcf/d)	2,952	2,573	15	2,765	7
Combined (6:1)	1,206	972	24	1,009	20
Crude oil and liquids weighting (%)	59	56	5	54	9

* % change represents the change from the first quarter of 2010 as compared with the fourth quarter of 2009

Overview

<i>(\$000s, except per share amounts)</i>	Three months ended March 31,		
	2010	2009	% Change
Petroleum and natural gas sales	6,015	3,325	81
Royalties	(740)	(407)	82
Lease operating costs	(2,299)	(1,962)	17
Transportation	(156)	(99)	58
Operating netback⁽²⁾	2,820	857	229
General and administrative	(497)	(634)	(22)
Financing expenses	(168)	(250)	(33)
Realized loss on financial derivatives	(247)	-	-
Amortization of loan commitment fees	39	-	-
Loss on sale of investments	8	-	-
Other expenses	(6)	-	-
Asset retirement expenditures	(101)	-	-
Funds from operations⁽¹⁾	1,849	(27)	6,948
Depletion, depreciation, and accretion	(2,939)	(2,182)	35
Unrealized gain on financial derivatives	1,025	-	-
Stock-based compensation	(395)	(312)	27
Future income tax recovery	-	393	-
Accretion of convertible debenture	(17)	-	-
Amortization of loan commitment fees	(39)	-	-
Loss on sale of investments	(8)	-	-
Asset retirement expenditures	101	-	-
Net loss and comprehensive loss	(423)	(2,128)	80
Funds from operations per share ⁽¹⁾ :			
Basic (\$)	0.03	-	-
Diluted (\$)	0.03	-	-
Cash flow from operations per share			
Basic (\$)	0.01	0.01	-
Diluted (\$)	0.01	0.01	-
Net loss per share:			
Basic (\$)	(0.01)	(0.06)	83
Diluted (\$)	(0.01)	(0.06)	83
Average number of shares outstanding (000s):			
Basic	66,017	33,736	96
Diluted	66,017	33,736	96

(1) Funds from operations and funds from operations per share are non-GAAP measures that do 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. Management considers them to be important measures as they demonstrate the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

(2) Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

As of the reporting date of May 21, 2010, Second Wave had 70,779,924 common shares outstanding.

<i>(\$000s)</i>	Three months ended March 31,		
	2010	2009	% Change
Cash flow from operating activities (GAAP)	542	323	68
Change in non-cash working capital (GAAP)	1,307	(350)	473
Funds from operations (non-GAAP)	1,849	(27)	6,948

Funds from Operations and Net Loss and Comprehensive Net Loss

Funds from operations <i>(\$000s, except per share)</i>	Three months ended March 31,		
	2010	2009	% Change
Funds from operations ⁽¹⁾	1,849	(27)	6,948
Per share:			
Basic (\$)	0.03	-	-
Diluted (\$)	0.03	-	-
Cash flow from operating activities	542	323	68
Per share			
Basic (\$)	0.01	0.01	-
Diluted (\$)	0.01	0.01	-

(1) Funds from operations and funds from operations per share are non-GAAP measures that do 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. Management considers them to be important measures as they demonstrate the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

Funds from operations for the three months ended March 31, 2010 totalled \$1,849,000 or \$0.03 per share, compared to (\$27,000), or \$Nil per share, for the same period in 2009. Cash flow from operating activities for the three months ended March 31, 2010 increased to \$542,000 from \$323,000 in the 2009 comparative period. The increase is mainly due to the increase in sales volumes and commodity pricing during the current quarter.

Net loss and comprehensive loss <i>(\$000s, except per share)</i>	Three months ended March 31,		
	2010	2009	% Change
Net loss and comprehensive loss	(423)	(2,128)	80
Basic (\$)	(0.01)	(0.06)	83
Diluted (\$)	(0.01)	(0.06)	83

Net loss and comprehensive loss for the three month period ended March 31, 2010 was \$423,000 or \$0.01 per share compared to \$2,182,000 or \$0.06 per share, for the same period in 2009.

Petroleum and natural gas sales

Sales volumes		Three months ended March 31,		
		2010	2009	% Change
Crude oil	<i>bbls/d</i>	672	510	32
Natural gas liquids	<i>bbls/d</i>	43	33	30
Natural gas	<i>mcf/d</i>	2,952	2,573	15
Total (6:1)	<i>boe/d</i>	1,206	972	24
Oil vs natural gas weighting (%)				
Oil and natural gas liquids		59	56	5
Natural gas		41	44	(7)
Total		100	100	-

Sales volumes, on a boe basis, averaged 1,206 boe per day during the first quarter of 2010, up 24% from the 972 boe per day average in the first quarter of 2009. Average quarterly sales volumes increased by 20% from the fourth quarter 2009 volume of 1,009 boe/d with the Company disposing 130 boe/d of non-core property production on January 11, 2010.

On January 11, 2010, the Company disposed of certain non-core oil and gas properties producing approximately 130 boe/d for total consideration of approximately \$8,920,000, comprised of \$5,432,000 cash plus \$3,488,000 of value in common shares of the purchaser. The properties were disposed of at \$68,615 per producing boe/d.

The Company continues to have a greater percentage of its production derived from oil as opposed to natural gas. Given the current low commodity price environment for natural gas, the Company expects to continue to target oil weighted prospects. Notwithstanding, all of the Company's oil prospects are expected to produce associated solution gas, the Company's oil weighting is expected to gradually increase from 59% to 63% during 2010.

Although first quarter 2010 average sales volumes increased by 20% from the fourth quarter of 2009, management expects that average sales volumes for the second quarter of 2010 will also substantially increase. The Company embarked on a significant capital program during the fourth quarter of 2009, continuing into 2010. During the first quarter of 2010, the Company drilled 9 (8.4 net) wells, comprised of 7.0 (6.4 net) horizontal and 2 (2.0 net) vertical wells, with 6 (6.0 net) horizontal and 2 (2.0 net) vertical wells being drilled at Judy Creek. As at March 31, 2010, 4 (4.0 net) of the 9 (8.4 net) wells had been completed, equipped and tied-in for production to Company owned facilities, with the remaining 5 (4.4 net) wells brought on stream during the first week of April 2010.

Subsequent to the Company's first quarter 2010 successful drilling program and the 130 boe/d disposition in January 2010, the Company achieved an average monthly production rate of 1,410 boe/d for March 2010 which represents a 40% increase from the fourth quarter of 2009 average rate.

Quarterly sales volume summary

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Boe/d	1,206	1,009	990	987	972	1,042	933	783

Revenues (\$000s)	Three months ended March 31,		
	2010	2009	% Change
Crude oil	4,362	2,062	112
Natural gas liquids	238	123	93
Natural gas	1,415	1,140	24
Total	6,015	3,325	81

Second Wave's petroleum and natural gas ("P&NG") sales may vary significantly from period-to-period as a result of changes in commodity pricing and/or sales volumes. The Company takes approximately 95% of its working interest production "in-kind" and it is marketed and sold through various commodity purchasers. Crude oil is marketed under various short term evergreen contracts with major North American Companies and/or marketers. Natural gas sales are also marketed under a short term contract and sold under both "spot" and monthly contracts with a major North American Company.

Gross revenue from the sale of P&NG in the first quarter of 2010 totaled \$6,015,000, up by 81% from the same quarter last year. Both production volumes and commodity prices were higher this year as compared with last year.

Crude oil revenue increased 112% to \$4,362,000 in the first three months of 2010 from \$2,062,000 in the same period of 2009.

Overall natural gas sales were \$1,415,000 for the three months ended March 31, 2010, 24% higher than the \$1,140,000 received in the first quarter of 2009.

Financial derivatives

The Company does not enter into financial derivative contracts of a speculative nature. The Company will from time to time enter into financial derivative contracts to mitigate commodity price risk as a measure to protect its cash flow. Currently the Company has approximately 50% of its sales volumes hedged under financial derivative contracts. It is the current intention of management to continue to hedge up to 50% of sales under short term financial derivative contracts.

The Company entered into certain fixed price crude oil and natural gas contracts. As at March 31, 2010, the summary of contracts and their respective remaining fair market values based on third party estimates are as follows:

Daily quantity	Term of contract	Price	Fair market value at March 31, 2010 (liability)/asset
Oil (bbls)		Fixed per bbl (WTI)	
500	April 1, 2010 – June 30, 2010	CDN\$85.15	\$ (38,698)
300	July 1, 2010 – September 30, 2010	CDN\$86.90	417
			\$ (38,281)
Gas (GJs)		Fixed per GJ (AECO Monthly)	
600	April 1, 2010 – October 31, 2010	CDN\$5.42	\$ 226,382
1,200	April 1, 2010 – June 30, 2010	CDN\$5.36	193,206
1,200	July 1, 2010 – September 30, 2010	CDN\$5.46	199,345
			\$ 618,933
		Total	\$ 580,652

Commodity pricing on natural gas experienced since entering into the contracts has been volatile. Crude oil pricing strengthened, however it has recently weakened to around US\$70.00/bbl WTI. Natural gas pricing strengthened late in 2009, but has since dropped considerably.

During the first quarter of 2010, the Company recorded \$1,025,000 (2009 - \$nil) of unrealized gains and \$247,000 (2009 - \$nil) of realized losses as a result of these contracts. Results were impacted by a \$71.85/bbl financial derivative contract for 300 bbls/d during the first quarter of 2010. Although this contract expired on March 31, 2010 it was responsible for the majority of the realized loss during the current quarter.

Revenues are expected to increase commencing in the second quarter of 2010 due to the sales volumes increases from the 2010 capital program, combined with experienced higher crude oil prices.

Average Sales Prices ⁽¹⁾		Three months ended March 31,		
		2010	2009	% Change
Crude oil	<i>\$/bbl</i>	72.17	44.90	61
Natural gas liquids	<i>\$/bbl</i>	62.39	41.79	49
Natural gas	<i>\$/mcf</i>	5.33	4.92	8
Total (6:1)	<i>\$/boe</i>	55.42	38.02	46

(1) Average sales prices do not include the impact of hedging activities

Benchmark Pricing		Three months ended March 31,		
		2010	2009	% Change
WTI crude oil	<i>(US\$/bbl)</i>	78.71	42.98	83
WTI crude oil	<i>(CDN\$/bbl)</i>	81.86	53.73	52
AECO natural gas ⁽¹⁾	<i>(CDN\$/mcf)</i>	4.95	4.95	-
Exchange rate	<i>(US\$/CDN\$)</i>	1.04	1.25	(17)

(1) The AECO natural gas price reported is the average daily spot price

The overall average price received from sale of oil and gas products in the first quarter of 2010 was up 46%, to \$55.42/boe, from the \$38.02/boe received during the first quarter last year. The majority of this increase was as a result of the 61% increase in the average crude oil price received for sales volumes in 2010.

During the third quarter of 2008 world oil prices and spot prices for natural gas commenced a steep decline and remained at low levels during most of 2009. The pricing that the Company receives from the sale of its commodities are outside the control of the Company (see discussion of financial derivative contracts above). As a result the average price received in the current quarter versus last years' comparative was up by 46%. During the second quarter of 2010 crude oil prices have remained strong however they have recently weakened to around US\$70.00/bbl WTI. Natural gas pricing continues to remain weak. Consistent with 2009, Second Wave's continues to focus its capital expenditures on oil prospects.

Royalties

(\$000s)	Three months ended March 31,		
	2010	2009	% Change
Crown royalties	368	160	130
Freehold	290	236	23
Gross overriding	82	11	645
Total	740	407	82
Total royalties per boe ⁽¹⁾	6.82	4.65	47
Total as % of revenues	12%	12%	-

(1) Royalties per boe is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it provides supplemental disclosure of the Company's performance on one of its important costs.

Total royalties increased by 82% in the first quarter of 2010, totaling \$740,000 versus \$407,000 in the same period of 2009. Royalties as a percentage of working interest revenues amounted to 12% during the first quarter of 2010, consistent with that of the comparative 2009 quarter.

The increase in royalties per boe in the current quarter is primarily due from the impact of higher commodity pricing in the comparative year on the royalty calculation. Although there has been a significant increase in pricing, the impact on the royalty has been somewhat negated by the transitional royalty program and the 5% royalty rate for the new well incentive program.

On a total dollar basis, the increase in royalty dollars is due to increases in volumes and commodity prices year-over-year.

On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" (the "NRF") containing the government's proposals for Alberta's new royalty regime, which became the foundation for the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*. The NRF and applicable new legislation became effective on January 1, 2009, and establishes new increased royalty rates for petroleum and natural gas in Alberta.

Implementation of the NRF had a negligible impact on Second Wave's existing production due to low levels of commodity pricing and individual low well productivity.

In response to a drop in commodity prices and lower industry activity on November 19, 2008 the Alberta government introduced a new five year transitional royalty regime with the objective of promoting the drilling of new wells. Under this program companies drilling new oil and natural gas wells (between 1,000 and 3,500 meters deep) will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates until January 1, 2014 (at which time the royalties revert to the NRF) or those outlined in the NRF. Wells qualifying for this program must be drilled during the period commencing on November 19, 2008 until December 31, 2013.

On March 3, 2009, the Alberta government announced a three-point incentive program to encourage additional activity in the oil and gas sector, of which only the first two aspects are relevant to oil and gas producers; i) drilling royalty credit, ii) new well incentive program, and iii) reclamation and abandonment program for old well sites. A drilling royalty credit will offer \$200 in royalty credits per meter drilled on new conventional oil and natural gas wells spud and rig released between April 1, 2009 and April 1, 2010. The new well incentive program reduced the royalty to a maximum 5% rate on any wellbore that has not produced between January 1 and April 1, 2009 for the

period of the earlier of: i) the production of 50,000 barrels of oil, ii) 500 million cubic feet (MMcfe) of gas production, or iii) 12 calendar months. Once this incentive expires, royalties will be based on either the transitional royalty rates or the NRF rates, as applicable.

On March 11, 2010, the Alberta Government announced that it will make additional modifications to the province's Crown Royalty framework. The Alberta Government sponsored Competitiveness Review recommended various items to be implemented, with the final changes to be confirmed and announced by May 31, 2010.

The proposed changes include:

- The current maximum 5% royalty rate for the first twelve months of production up to a maximum of 50,000 bbls of oil or 500,000 mcf of natural gas is proposed to become a permanent incentive. This incentive is currently scheduled to end on March 31, 2011.
- The maximum royalty rate for crude oil wells is proposed to be reduced to 40% from the current 50% rate. The change is proposed to become effective January 1, 2011.
- The maximum royalty rate for natural gas wells is proposed to be reduced to 36% from the current 50% rate. The change is proposed to become effective January 1, 2011.
- Effective January 1, 2011, no Alberta drilled wells will be allowed to select the transitional royalty program.

The Company drilled 9 gross (8.625 net) wells and 8 gross (7.25 net) wells in Alberta during 2010 and 2009 respectively, all of which were successful and all of which did not commence production until subsequent to April 1, 2009. As a result, the Company is benefiting from the 5% royalty rate on these wells. The Company elected these wells to qualify for the transitional royalty regime.

Of the 9 and 8 wells drilled in Alberta in 2010 and 2009, 17 gross (15.875 net) were drilled subsequent to April 1, 2009 and are eligible for both the 5% crown royalty rate and the drilling incentive credit. At March 31, 2010, the Company has earned \$6,387,000 in drilling incentive credits including the 9 gross (8.625 net) wells drilled in Alberta in Q1 2010 earning \$4,192,000 in drilling credits. As of March 31, 2010, the Company utilized \$232,000 of the drilling credits earned. At this time the Company is not able to fully utilize the drilling incentive credits as the amount of crown royalty payments are currently not sufficient to draw against the amount of drilling credits from the program. The Company will continue to explore its options to utilize the incentive credits through the crown program.

Lease Operating Costs

Lease operating costs include all costs relating to the operation of producing crude oil and natural gas properties. Typical costs include: contract labor, chemicals and supplies, repairs and maintenance, utilities, and gathering and processing fees. Work-overs performed on producing wells are also considered to be operating costs, in situations where there are no enhancements to the equipment and related operations. Work-overs would typically include bottom-hole pump replacement, down-hole sand clean-outs, and replacement or repair of other worn equipment. As the majority of Second Wave's wells are oil wells, work-overs are a material component of operating costs. This is in contrast to certain competitors of the Company that are mainly natural gas producers, whose work-over costs would be less frequent due to an absence of down-hole moving parts.

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2010	2009	% Change
Total operating costs	2,299	1,962	17
Lease operating cost per boe ⁽¹⁾	21.18	22.43	(6)

(1) Lease operating cost per boe is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it provides supplemental disclosure of the Company's performance on one of its important costs.

Total lease operating costs increased 17% from \$1,962,000 in the first quarter last year to \$2,299,000 in the first quarter of 2010, however on a per boe basis lease operating costs decreased by 6% from \$22.43/boe to \$21.18/boe during the same period. The increase in operating costs on an absolute dollar basis is primarily due to the associated increase in

volumes in the quarter. Field efficiencies in the Judy Creek core area generated by the improved volumes through the processing facilities resulted in reducing the total costs on a per boe basis.

During the first quarter of 2010 continued successful development of the Judy Creek area, with up to an additional 15 wells to be drilled in 2010, will provide additional production, and should result in a continued downward trend in lease operating costs.

When comparing the fourth quarter of 2009 to the first quarter of 2010, total operating costs per quarter have increased by \$218,000 or 10%, which given increases in sales volumes, translated to a 5% reduction on a per boe basis. During the first quarter the Company continued to improve its operating efficiencies as additional production has been brought on stream in the core area of Judy Creek.

Quarterly LOE Summary

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<i>(\$000's except per boe and per share amounts)</i>								
Operating expenses	2,299	2,081	2,224	2,356	1,962	2,468	2,588	1,558
Per boe	21.18	22.41	24.42	26.24	22.43	25.75	30.13	21.88

The Company took control of the assets of Milagro Energy Inc. on May 8, 2008. When acquired, Milagro's properties had high operating costs and were undercapitalized. To restore these assets to acceptable operating standards, Second Wave invested funds on repairs and maintenance activities, thereby incurring costs on a total dollar and boe basis commencing in the second quarter of 2008. Through optimizations, realized operating efficiencies and the shutting-in of higher operating cost wells, the Company has achieved improvements on a cost per boe basis. With the continued development of the Judy Creek and Battle Creek areas, these costs are expected to continue to improve on per boe basis as greater efficiencies are maintained and fixed costs are allocated over a larger production base.

During the quarter the Company invested \$5.8 million in facilities and infrastructure in its Judy Creek core area. These facility investments were designed to accommodate the development of the Company's Pekisko G pool in 2010 and 2011. As a result of these capital expenditures the fluid capacity for the battery was increased from 4,000 bbl/d to 12,000 bbl/d with the ability to expand this capacity to 24,000 bbl/d with an additional investment of \$1.8 million. Currently the Company is producing 4,000 bbl/d of fluids in Judy Creek with sufficient capacity for the remainder of the 2010 and 2011 drilling program. The Company has also initiated a project to run electrical power into the Judy Creek field which will serve to reduce capital expenditures on new drilling projects and improve operating efficiencies in the field on a long term basis. The electrification of the field and battery is expected to be completed by the end of 2010.

Transportation

The Company incurs transportation costs for the crude oil and natural gas it produces once the commodity enters a feeder or main pipeline to the title transfer point.

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2010	2009	% Change
Transportation	156	99	58
Per boe (\$) ⁽¹⁾	1.44	1.13	27

(1) Transportation costs per boe is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it provides supplemental disclosure of the Company's performance on one of its costs.

Transportation costs for the three months ended March 31, 2010 amounted to \$156,000 with transportation costs for the comparative period in 2009 amounting to \$99,000.

On a boe basis, transportation costs increased 27% in the three months ended March 31, 2010 to \$1.44 per boe from \$1.13 per boe in the same period of 2009. The increase in absolute amount is a result of increased volumes in the Judy Creek area adding clean oil trucking costs.

Operating Netback

Operating netback is the amount of directly attributable net cash flow derived from field operations of the Company's crude oil and natural gas wells. The table below displays the operating netback on a per boe basis.

<i>(\$/boe)</i>	Three months ended March 31,		
	2010	2009	
Petroleum and natural gas sales	55.42	38.02	46
Royalties	(6.82)	(4.65)	47
Net revenues	48.60	33.37	46
Lease operating costs	(21.18)	(22.43)	(6)
Transportation	(1.44)	(1.13)	27
Operating netback ⁽¹⁾	25.98	9.81	165

⁽¹⁾ Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it demonstrates the Company's 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, 2010, when compared to the prior year period, due mainly to the increase in commodity prices.

Notwithstanding the recent deterioration of crude oil pricing, management expects 2010 operating netbacks to be better than those experienced in 2009. With the continued development of the Judy Creek field and the related operational efficiencies, management is expecting that lease operating expenses per boe will decrease. As operating costs in Judy Creek were approximately \$17 per boe in April 2010, management anticipates that as Judy Creek's operating costs are lower than the corporate average, as this area's production increases with further development, area and corporate average rates will decrease accordingly.

General and Administrative

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2010	2009	% Change
General and administrative ("G&A")	669	806	(17)
Capitalized G&A	(172)	(172)	-
Net G&A expenses	497	634	(22)
Per boe <i>(\$)</i> ⁽¹⁾	4.58	7.24	(37)

⁽¹⁾ G&A per boe is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it provides supplemental disclosure of the Company's performance on one of its important costs.

G&A expenses, net of capitalized G&A, decreased 22% in the current quarter, to \$497,000 from \$634,000 in the same period last year. Aggregate G&A costs decreased 17% mainly due to the first quarter of 2009 impacts including; geophysical consulting fees and severance costs in the quarter of \$84,000, and higher audit and accounting professional fees of \$35,000. On a boe basis, G&A expenses, net of capitalized G&A, were 37% lower in the comparative quarter due to the increase in production volumes, and overall lower G&A costs.

G&A expenses of \$172,000 were capitalized during the first quarter of 2010 consistent with that capitalized in the 2009 comparative.

Management is expecting to add additional staff in 2010 due to the expansion of its capital program which will increase the aggregate amount of G&A costs. Nevertheless management expects that G&A per boe will trend downwards in 2010, as a result of increased production volumes from successful drilling operations.

In comparison to the fourth quarter of 2009, general and administrative expenses decreased by 19% or \$117,000 from \$614,000 to \$497,000. The decrease is primarily due to annual audit and engineering reserve report fees incurred in the fourth quarter of 2009 for \$110,000.

Stock-Based Compensation

Stock-based compensation expense, net of capitalized stock-based compensation, for the three months ended March 31, 2010 was \$395,000, as compared to \$312,000 in the comparative period of 2009. The increase in stock-based compensation expense is due to the overall increase in personnel and stock option grants. Stock-based compensation expenses of \$227,000 were capitalized during the quarter as compared with \$nil in comparable 2009 quarter. Capitalized stock based compensation was lower in 2009 mainly due to a recovery of previously capitalized stock based compensation for forfeited options during the quarter.

Financing Expenses

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2010	2009	% Change
Interest on short term debt	68	133	(49)
Interest on long term debt	-	117	-
Interest on convertible debenture	79	-	-
Interest on flow through	21	-	-
Total	168	250	(33)
Per boe (\$)	1.55	2.86	(46)

Financing expenses decreased by 33% from \$250,000 in 2009 to \$168,000 in the first quarter of 2010 mainly as a result of lower levels of debt during the current quarter as compared with the 2009 comparative.

Given the global credit crisis and the higher borrowing costs charged by lenders, the Company's borrowing costs increased significantly in 2009. Although the bank's prime lending rate is currently 2.25%, down from approximately 5.25% at this time last year, the increase in rate premiums has offset the drop in prime interest rates. The Company's 2010 average debt levels decreased from 2009, which has led to the decrease in financing costs.

As a result of the flow through equity financings in 2009, a portion of which was not expended prior to December 31, 2009, the Company is incurring Part 12.6 tax to the Canada Revenue Agency. This tax is effectively a financing charge on unexpended flow through obligations. As at December 31, 2009 and March 31, 2010, the Company had approximately \$6,899,000 and \$3,600,000 respectively of flow through expenditures remaining to be expended. The Company's capital program is designed to meet these flow through obligations prior to December 31, 2010.

Depletion, Depreciation and Accretion

Depletion and depreciation rates are a useful measure for evaluating finding and development costs on proved reserves, as the rate generally considers all incurred acquisition, exploration and development capital costs in addition to future development costs associated with proved non-producing reserves. A limitation with the calculation is that it does not immediately include probable reserves captured from ongoing, successful capital expenditures, similar to those that occurred during the first quarter of 2010 with the Company's development of its Judy Creek oil resource play.

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2010	2009	% Change
Depletion	2,816	2,063	37
Depreciation	8	4	100
Accretion	115	115	-
Total	2,939	2,182	35
Per boe (\$)⁽¹⁾	27.08	24.95	9

(1) Depletion, depreciation and accretion per boe is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. Management considers it an important measure as it provides supplemental disclosure of the Company's performance on one of its important non cash costs.

Depletion, depreciation and accretion expense increased 35% in the first quarter of 2010 to \$2,939,000 from \$2,182,000 in the same period of 2009. This increase in absolute dollar amount is a result of expenditures incurred from Second Wave's exploration and development program. A total of \$6,595,000 was incurred to expand and upgrade facilities and pipeline infrastructure during 2009, and an additional \$8,014,000 during the first quarter of 2010. These expenditures were required for the anticipated increases in production throughputs from the Company's capital program. Although management expects additional pipeline tie-ins and facility work will be required in 2010 and beyond, the impact should be lower on depletion in future periods.

Depletion, depreciation and accretion expense increased 35% in the first three months of 2010 to \$2,939,000 from \$2,182,000 in the same period of 2009. This increase in absolute dollar amount is a result of expenditures incurred from Second Wave's development program.

Accretion of Convertible Debenture

Accretion of convertible debenture was \$17,000 during the period ended March 31, 2010 and \$nil during the comparative period in 2009.

Income Taxes

The income tax recovery for the first quarter ended March 31 was \$nil, compared to a recovery of \$393,000 in the comparative period of 2009. The 2009 recovery was a result of reversal of a valuation allowance as at December 31, 2008 created by the tax impact of flow through shares issued during 2008.

Income taxes are comprised of two components: current and future income taxes. The expected 2010 income tax rate as a percentage of pre-tax income is 28.07%.

Capital Expenditures

During the quarter ended March 31, 2010, \$18,946,000 was expended on capital additions as compared with \$4,903,000 in the comparative quarter in 2009 as summarized below:

Capital Expenditures (\$000s)	Three months ended March 31,		
	2010	2009	% Change
Land and acquisitions	1,252	101	1,140
Geological and geophysical	1,297	22	5,795
Drilling and completion	13,615	3,429	297
Facilities and equipment	8,014	1,278	527
Office furniture and equipment	67	-	-
Capitalized G&A	172	172	-
Total additions	24,417	5,002	388
Property dispositions	(5,471)	(99)	5,426
Net cash additions	18,946	4,903	286
Non-cash portion			
Capitalized stock-based compensation	227	-	-
Asset retirement obligations incurred on drilling activities	135	-	-
Asset retirement obligation reduction from property sales	(1,110)	(21)	5,186
Non cash proceeds of disposition of assets	(3,489)	-	-
Total non-cash	(4,237)	(21)	20,076
Total capital expenditures	14,709	4,882	201

In the first quarter of 2010, the Company drilled 9 gross (8.6 net) oil wells for a 100% success rate incurring \$10.0 million for drilling, completion and surface equipment on six horizontal wells in the Judy Creek area, \$4.8 million for two vertical Judy Creek drills, conversion of five wells to water injection and exploration drilling in the Milo area. The Company's expenditures also include \$1 million for the Battle Creek CO2 pilot program with the remaining \$5.8 million related to the H2O handling, pipeline and facility requirements for the current and further development of the Judy Creek area.

On January 11, 2010, the Company disposed of certain non-core oil and gas properties producing approximately 130 boe/d for total consideration of approximately \$8,920,000, comprised of \$5,432,000 cash plus \$3,488,000 of value in common shares of the purchaser. The properties were disposed of at \$68,615 per producing boe/d. The common shares are considered to be held-for-trading, and proceeds of \$3,284,735 were received for shares disposed of prior to the end of March 2010. All of the remaining shares were disposed of prior to the end of April 2010 for additional net proceeds of \$192,691. As a result of the disposition of the shares, the Company will record a total loss on sale of approximately \$11,000.

Drilling Results (2010)	Three months ended March 31, 2010		
	gross	net	working interest %
Crude Oil	9	8.6	95.8
Natural Gas	-	-	-
Dry and abandoned	-	-	-
Total	9	8.6	95.8

Drilling Results (2009)	Three months ended March 31, 2009		
	gross	net	working interest %
Crude Oil	3	3.0	100
Natural Gas	-	-	-
Dry and abandoned	-	-	-
Total	3	3.0	100

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. As at March 31, 2010, the Company had a working capital deficiency of \$7,609,000, had drawn \$nil of its available \$20,000,000 in debt facilities, and for the year ended December 31, 2009, the Company incurred a net loss of \$6,582,000. Given the nature of the oil and gas business, and the size of Second Wave, the Company must be able to continue to secure sufficient financial resources to achieve its growth objectives. As with the nature of junior oil and gas producers, the Company continues to monitor additional financing opportunities to fund future prospects and commitments. Based on its current forecasts of production volumes, and commodity pricing, the Company currently expects that sufficient liquidity will be available to meet its obligations for the next twelve months.

As at May 21, 2010, the Company has bank lines totaling \$30,000,000, a 50% increase from the \$20,000,000 of lines at December 31, 2010. On May 18, 2010, the Company executed an agreement with a new lender for a revolving operating demand loan of \$30,000,000.

During the first quarter of 2010, the Company disposed of its interest in non-core properties for proceeds of \$8,920,000 and closed equity financings for an additional \$20,000,000 to facilitate the acceleration of its capital program at Judy Creek. On January 11, 2010, the Company disposed of certain non-core oil and gas properties producing approximately 130 boe/d for total consideration of approximately \$8,920,000, comprised of \$5,432,000 cash plus \$3,488,000 of value in common shares of the purchaser. The properties were disposed of at \$68,615 per producing boe. The common shares are considered to be held-for-trading, and proceeds of \$3,284,735 were received for shares disposed of prior to the end of March 2010. All of the remaining shares were disposed of prior to the end of April 2010 for additional net proceeds of \$192,691. As a result of the disposition of the shares, the Company will record a total loss on sale of approximately \$11,000.

On January 22, 2010, the Company entered into the following fixed price crude oil and natural gas contracts:

Daily quantity	Term of contract	Price
Gas (GJs)		Fixed per GJ (AECO Monthly)
1,200	April 1, 2010 – June 30, 2010	CDN\$5.36
1,200	July 1, 2010 – September 30, 2010	CDN\$5.46

On February 12, 2010, the Company closed a private placement equity financing of 5,000,000 common shares with its majority shareholder for aggregate gross proceeds of \$10,000,000 and through a public offering by prospectus, the Company raised an additional \$10,000,000 through the issuance of 5,000,000 common shares. The proceeds of the financing were used to fund ongoing exploration and development programs.

Quarterly Financial Summary

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<i>(\$000's except per boe and per share amounts)</i>								
Average production (boe/d)	1,206	1,009	990	987	972	1,042	933	783
Petroleum and natural gas sales	6,015	4,522	4,006	3,799	3,325	4,688	7,197	6,326
Royalties	(740)	(662)	(342)	(346)	(408)	(560)	(905)	(871)
Operating expenses	(2,299)	(2,081)	(2,224)	(2,356)	(1,962)	(2,468)	(2,588)	(1,558)
Transportation expenses	(156)	(86)	(98)	(107)	(98)	(163)	(90)	(77)
Operating netback	2,820	1,693	1,342	990	857	1,497	3,614	3,820
Operating netback (per boe) ⁽¹⁾	25.98	18.24	14.74	11.02	9.81	15.61	42.10	54.58
Cash flow from (used in operating activities)	542	507	(481)	1,006	348	2,510	2,545	(651)
Per share - basic	0.01	0.01	(0.01)	0.03	0.01	0.08	0.05	(0.02)
Per share - diluted	0.01	0.01	(0.01)	0.03	0.01	0.08	0.04	(0.02)
Funds from (used in) operations ⁽²⁾	1,849	802	399	26	(2)	1,133	2,249	2,596
Per share - basic	0.03	0.01	0.01	-	-	0.04	0.07	0.09
Per share - diluted	0.03	0.01	0.01	-	-	0.02	0.07	0.09
Net income (loss)	(423)	1,329	(1,645)	(4,138)	(2,128)	(1,587)	665	296
Per share - basic	(0.01)	0.02	(0.03)	(0.11)	(0.06)	(0.05)	0.02	0.01
Per share - diluted	(0.01)	0.02	(0.03)	(0.11)	(0.06)	(0.05)	0.02	0.01
Total assets	111,168	89,121	77,348	75,607	79,116	73,649	69,699	66,607
Capital expenditures								
Cash	18,945	13,373	3,846	1,992	4,903	7,256	8,920	3,953
Non-cash	(4,237)	214	500	171	(21)	334	3,830	22,801
Total	14,708	13,587	4,346	2,163	4,882	7,590	12,750	26,754
Net debt (excludes ARO)	10,971	15,662	22,414	19,827	26,342	25,352	19,623	13,316
Long term financial liabilities	3,862	3,835	3,807	3,779	7,390	7,365	7,340	7,500

(1) Operating netback and operating netback per boe are non GAAP measures that do not have a standardized meaning as prescribed by GAAP. Management considers them to be important measures as they demonstrate the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

(2) Funds from operations and funds from operations per share are non-GAAP measures that do not have a standardized meaning as prescribed by GAAP and they therefore are unlikely to be comparable to similar measures presented by other oil and gas companies. Management considers them to be important measures as they demonstrate the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

International Financial Reporting Standards ("IFRS"):

On February 13, 2008, the Canadian Accounting Standards Board confirmed that public entities will be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for interim and annual reporting purposes effective January 1, 2011.

We will commence reporting financial statements in accordance with IFRS on January 1, 2011, including comparative results, pursuant to the decision made by the CICA. As such, the Company will maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

During 2009 the Company commenced the process of evaluating and planning the implementation of a comprehensive enterprise wide project to manage the transition to IFRS with reporting to both senior management and the Audit Committee. The project has focused on key impact areas including:

- financial reporting,
- systems and processes,
- communication, and
- training

The project is being managed by an in-house team of accounting professionals, who have engaged in IFRS education programs and continue to develop the Company's adoption to IFRS. The Company's auditors will be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

Management has not yet finalized its accounting policies and as such is unable to quantify the impact on the financial statements of adopting IFRS. In addition, due to the anticipated changes to IFRS and International Accounting Standards prior to Second Wave's adoption of IFRS, management's plan is subject to change based on new facts and circumstances that arise after the date of this MD&A. It has been determined that accounting for property and equipment will be impacted by the conversion to IFRS, including accounting for and assessing depletion and impairment.

In July 2009, the International Accounting Standards Board ("IASB") issued an amendment to IFRS 1 "First Time Adoption of International Reporting Standards". The amendment allows full cost accounting entities to elect, at the time of adoption, to measure exploration and evaluation assets of the amount determined under Canadian GAAP. The amendment will also permit full cost accounting entities to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Company's reserve volumes or reserve values as of the date of conversion. This exemption will relieve the Company from retrospective application of IFRS for its oil and gas assets. The Company currently anticipates that this exemption will be used, however, this will not be determined until the impact analysis and evaluation phase of the conversion project is complete.

It has been determined that accounting for property and equipment will be impacted by the conversion to IFRS, including accounting for and assessing depletion and impairment.

During the project and related transition we will monitor ongoing changes and adjust our transition plans accordingly. Our transition status is currently on track with our implementation schedule.

The Company has made no additional material progress on its IFRS implementation since April 29, 2010, which was the date of the filing of the Company's results for the year ended December 31, 2009.

Financial Statements of
Second Wave Petroleum Inc.
Three Months Ended March 31, 2010

Second Wave Petroleum Inc.
Balance Sheets
(unaudited)

	As at March 31, 2010	As at December 31, 2009
ASSETS		
Current assets:		
Cash	\$ 7,892,974	\$ -
Accounts receivable	4,078,154	2,633,152
Prepaid and other (note 11)	469,642	225,253
Financial derivative contracts (note 11)	580,652	-
Future income tax asset	-	2,519,000
	13,021,422	5,377,405
Property and equipment (note 3)	98,146,935	86,262,363
	\$ 111,168,357	\$ 91,639,768
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 20,130,407	\$ 12,521,773
Loans payable (note 4)	-	4,238,450
Financial derivative contracts	-	444,182
Asset retirement obligation (note 6)	500,000	200,000
	20,630,407	17,404,405
Convertible debenture (note 5)	3,862,121	3,834,907
Asset retirement obligation (note 6)	5,643,909	6,905,005
	30,136,437	28,144,317
Shareholders' equity		
Share capital (note 7b)	78,646,438	61,106,682
Warrants (note 7e)	2,673,823	2,931,553
Contributed surplus (note 7f)	6,822,191	6,144,552
Equity component of convertible debenture (note 5)	140,729	140,729
Deficit	(7,251,261)	(6,828,065)
	81,031,920	63,495,451
Contingencies and commitments (note 8)		
Subsequent events (note 13)		
	\$ 111,168,357	\$ 91,639,768

See accompanying notes to financial statements.

Second Wave Petroleum Inc.
Statements of Loss, Comprehensive Loss and Deficit
For the three months ended March 31, 2010 and 2009
(unaudited)

	2010	2009
REVENUE		
Crude oil, natural gas, and natural gas liquids sales	\$ 6,015,434	\$ 3,325,340
Royalties	(739,817)	(407,479)
Unrealized gain on financial derivative contracts	1,024,834	-
Realized loss on financial derivative contracts	(246,579)	-
	6,053,872	2,917,861
EXPENSES		
Operating	2,298,893	1,962,262
Transportation	156,482	98,846
General and administrative	496,691	634,233
Depletion, depreciation and accretion	2,938,918	2,182,442
Financing	167,549	249,506
Stock based compensation	395,130	312,062
Accretion of convertible debenture	17,350	-
Other	6,055	-
	6,477,068	5,439,351
Loss before income taxes	(423,196)	(2,521,490)
Income taxes		
Future income tax recovery	-	393,500
Net loss and comprehensive loss	(423,196)	(2,127,990)
Deficit, beginning of period	(6,828,065)	(245,847)
Deficit, end of period	\$ (7,251,261)	\$ (2,373,837)
Net loss per share-basic and diluted (note 7g)	\$ (0.01)	\$ (0.06)

See accompanying notes to financial statements.

Second Wave Petroleum Inc.
Statements of Cash Flow
For the three months ended March 31, 2010 and 2009
(unaudited)

	2010	2009
Cash provided by (used in):		
OPERATIONS:		
Net loss	\$ (423,196)	\$ (2,127,990)
Add (deduct) items not involving cash:		
Depletion, depreciation and accretion	2,938,918	2,182,442
Stock based compensation	395,130	312,062
Amortization of loan commitment fees	39,019	-
Loss on sale of marketable securities	7,785	-
Unrealized gain on financial derivatives	(1,024,834)	-
Accretion of convertible debenture	17,350	-
Future income tax recovery	-	(393,500)
Expenditures on asset retirement obligation	(100,908)	-
	1,849,264	(26,986)
Changes in non-cash working capital (note 10)	(1,307,081)	350,517
	542,183	323,531
FINANCING:		
Issue of shares and warrants	20,000,000	3,980,289
Share and warrant issuance costs	(1,062,861)	(19,901)
Advance (repayment) of loans payable	(4,267,605)	1,440,524
Issue of shares on exercise of warrants	886,040	-
Issue of shares on exercise of stock options	33,834	-
Repurchase and cancellation of shares	-	(20,792)
Changes in non-cash working capital (note 10)	(55,000)	(46,771)
	15,534,408	5,333,349
INVESTING:		
Property and equipment expenditures	(24,416,685)	(5,001,744)
Property and equipment dispositions	5,471,031	98,587
Proceeds on sale of marketable securities	3,284,735	-
Change in non-cash working capital (note 10)	7,477,302	1,646,277
	(8,183,617)	(3,256,880)
Increase in cash	7,892,974	2,400,000
Cash, beginning of period	-	-
Cash, end of period	\$ 7,892,974	\$ 2,400,000

See accompanying notes to financial statements.

Supplementary Cash Flow Information

Interest paid	\$ 108,016	\$ 223,245
---------------	------------	------------

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

1. Nature of business:

Second Wave Petroleum Inc. (“Second Wave” or “the Company”) is the continuing corporation following the amalgamation of Second Wave and its wholly owned subsidiary, Milagro Energy Inc., under the *Business Corporations Act* (Alberta) on January 1, 2009.

The Company’s common shares trade under the symbol “SCS” on the TSX Venture Exchange. The Company is engaged in the acquisition, development and exploration of petroleum and natural gas in Western Canada.

2. Basis of presentation

These interim 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, 2009. 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 as at and for the year ended December 31, 2009.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Property and equipment

	March 31, 2010		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	152,196,298	54,150,884	98,045,414
Office equipment	204,881	103,360	101,521
	152,401,179	54,254,244	98,146,935

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

3. Property and equipment (continued)

	December 31, 2009		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$137,554,716	\$51,334,884	\$86,219,832
Office equipment	137,891	95,360	42,531
	\$137,692,607	\$51,430,244	\$86,262,363

As at March 31, 2010, \$9,483,062 (December 31, 2009 - \$8,798,000) of undeveloped land costs have been excluded from the depletion base. Future development costs of \$8,409,843 (December 31, 2009 - \$10,560,000) were included in the calculation of depletion. For the three months ended March 31, 2010, \$172,071 (2009 - \$172,403) of general and administrative costs and \$226,522 (2009 - \$nil) of stock based compensation have been capitalized.

On January 11, 2010, the Company disposed of certain oil properties for total consideration of approximately \$8,920,000, comprised of \$5,432,000 cash plus \$3,488,000 of common shares of the purchaser. The common shares are considered to be held-for-trading, and proceeds of \$3,284,735 were received for shares disposed of prior to the end of March 2010. All of the remaining common shares were disposed of prior to the end of April 2010 for additional net proceeds of \$192,691. There was no gain or loss on the disposition of these properties.

4. Loans payable

	March 31, 2010	December 31, 2009
Cheques issued in excess of bank balance	\$ -	\$ 717,605
Revolving operating loan facility (note 4a)	-	3,520,845
Balance, end of period	\$ -	\$ 4,238,450
Current portion	\$ -	\$ 4,238,450
Long term portion	-	-
	\$ -	\$ 4,238,450

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

4. Loans payable (continued)

(a) Revolving operating and development loan facilities:

At March 31, 2010, the Company had a \$20,000,000 facility with its senior lender consisting of a \$15,000,000 demand revolving operating line and a \$5,000,000 demand revolving development line. The operating line bears interest at the lender's prime rate plus 1.5% while the development line bears interest at the lender's prime rate plus 1.75%. The debt facilities have the first security charge on all of the assets of the Company. No amounts of either the revolving or development line were outstanding as at March 31, 2010.

Second Wave is required to meet certain covenants including providing certain financial information on a timely basis. The Company is also required to maintain a working capital ratio of not less than 1:1 as defined in the agreement, which includes the undrawn portion of the facility. As at March 31, 2010 the Company was in compliance with its financial debt covenants.

5. Convertible debenture

	March 31, 2010		December 31, 2009	
	Equity Component	Debt Component	Equity Component	Debt Component
Convertible debenture				
Balance, beginning of period	\$ 140,729	\$ 3,834,907	\$ -	\$ -
Debenture issued	-	-	-	4,000,000
Commitment fee amortization	-	9,864	-	(59,836)
Equity portion	-	-	140,729	(140,729)
Accretion of non-cash interest expense	-	17,350	-	35,472
Balance, end of period	\$ 140,729	\$ 3,862,121	\$ 140,729	\$ 3,834,907

Concurrently with the equity offering that closed on June 30, 2009, the Company issued a \$4,000,000 convertible debenture (the "Debenture") to its major shareholder to repay \$4,000,000 of a \$7,500,000 term loan that was due May 8, 2010. The Debenture bears interest at a fixed rate of 7% per annum, matures on June 30, 2011, and is convertible at the holder's option at any time into common shares of the Company at a conversion price of \$1.20 per share. The Company does not have the right to repay the Debenture prior to its maturity, however it can force the early conversion after June 30, 2010, into 3,333,333 common shares if the share price exceeds \$1.80 per share for a thirty day period with a minimum share trading volume. Should the Company force early conversion, it would be required to pay interest to the maturity date of the Debenture. The Debenture is subordinate to the Company's senior lender and is secured by assets of the Company.

The equity portion of the Debenture was calculated using the residual valuation approach, where the liability component is valued and the difference between the proceeds of the Debenture and the fair value of the liability is assigned to the equity component. A market interest rate of 9.0% was used in the calculation.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

6. Asset retirement obligation

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas properties. A credit adjusted risk free rate of 9.0% (2009 - 9.0%) and an inflation rate of 2% (2009 - 2%) were used to calculate the fair value of the asset retirement obligation. Undiscounted estimated cash flow of \$7,811,000 (2009 - \$8,858,000) are required to settle the obligation at estimated dates in the future ranging from 2010 to 2026.

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 7,105,005	\$ 6,156,862
Liabilities incurred	135,362	150,330
Liabilities disposed	(1,110,468)	(52,390)
Accretion expense	114,918	507,936
Changes in accounting estimates	-	379,939
Abandonments	(100,908)	(37,672)
Balance, end of period	\$ 6,143,909	\$ 7,105,005
Current portion	\$ 500,000	\$ 200,000
Long term portion	5,643,909	6,905,005
Total	\$ 6,143,909	\$ 7,105,005

7. Share capital

(a) Authorized:

The authorized share capital consists of an unlimited number of common shares.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

7. Share capital (continued)

- (b) Issued and outstanding:

	March 31, 2010	
Common Shares	Number of Shares	Amount
Balance, beginning of period	60,287,940	61,106,682
Issued for cash (note 7c)	10,491,354	20,919,874
Share issue costs	-	(1,062,861)
Future tax effect of flow-through shares	-	(2,519,000)
Black-scholes value transferred from warrants (note 7e)	-	190,144
Black-scholes value transferred on option exercise (note 7e)	-	11,599
Balance, end of period	70,779,294	78,646,438

- (c) Issued for cash:

On January 15, 2010, 443,020 warrants were exercised for gross proceeds of \$886,040.

On February 12, 2010, the Company closed a private placement equity financing of 5,000,000 common shares with its majority shareholder for aggregate gross proceeds of \$10,000,000 and through a public offering by prospectus, the Company raised an additional \$10,000,000 through the issuance of 5,000,000 common shares.

On February 19, 2010, 48,334 stock options were exercised at \$0.70 per option.

- (d) 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 common shares outstanding and no one optionee is permitted to hold more than 5% of the total options granted. Options vest as to one third on the each of the first, second and third anniversary dates. All options expire five years from the date of grant.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

7. Share capital (continued)

	March 31, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,051,500	\$ 1.59	2,507,500	\$ 2.84
Granted	160,000	2.11	2,989,500	1.08
Cancelled	-	-	(522,500)	2.66
Repriced	-	-	392,000	0.70
Exercised	(48,334)	0.70	-	-
Forfeited	-	-	(315,000)	2.15
Balance, end of period	5,163,166	\$ 1.61	5,051,500	\$ 1.59
Exercisable – end of period	1,510,673	\$ 2.04	880,004	\$ 2.68

Exercise Price	March 31, 2010		Options exercisable	
	Options outstanding	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$0.46	80,000	3.96	26,667	3.96
\$0.70	1,438,666	3.89	447,336	3.89
\$0.90	821,000	4.31	-	-
\$1.30	160,000	4.60	-	-
\$1.45	15,000	4.63	-	-
\$1.80	788,500	4.68	-	-
\$2.00	660,000	2.44	506,668	2.36
\$2.11	160,000	4.79	-	-
\$2.40	265,000	2.79	181,666	2.79
\$2.60	190,000	2.91	126,667	2.91
\$2.80	200,000	3.18	66,667	3.18
\$3.33	345,000	3.29	115,002	3.29
\$10.00	40,000	1.27	40,000	1.27
	5,163,166		1,510,673	

The weighted average price per option granted in 2010 was \$2.11 (2009 - \$0.69).

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

7. Share capital (continued)

The fair value of the 160,000 options granted during the period ended March 31, 2010 was \$211,085 and was calculated using a risk free rate of 2.72%, dividend yield of 0%, volatility factor of 75%, and 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. During the period ended March 31, 2010, \$226,522 (2009 – \$Nil) of stock based compensation has been capitalized.

(e) Warrants:

	March 31, 2010		
	Number of Warrants		Amount
Balance, beginning of period	3,000,489	\$	2,931,553
Warrant exercise	(443,020)		(190,144)
Warrant expiry	(157,469)		(67,586)
Balance, end of period	2,400,000	\$	2,673,823

Outstanding Warrants	Number of Warrants	Exercise Price	Warrant Expiry Date
May 2008 private placement	2,400,000	\$3.125	May 8, 2010

On January 15, 2010, 443,020 warrants were exercised for gross proceeds of \$886,040 and 157,469 warrants expired.

On May 8, 2010, the remaining 2,400,000 warrants expired unexercised.

All warrants issued by the Company have been valued using the Black-Scholes option pricing model calculated using a risk free rates of between 3% and 4%, dividend yield of 0%, volatility factor of 75%, and expected life equal to the life of warrant.

(f) Contributed surplus:

A summary of changes in the Company's contributed surplus balance for the period ended March 31, 2010 and December 31, 2009 is as follows:

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

7. Share capital (continued)

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 6,144,552	\$ 4,175,145
Stock based compensation related to fair value of options granted	621,652	1,685,031
Expiry of warrants	67,586	268,145
Shares repurchased and cancelled	-	16,231
Stock options exercised	(11,599)	-
Balance, end of period	\$ 6,822,191	\$ 6,144,552

(g) Per share data:

The basic weighted average number of shares outstanding during the period ended March 31, 2010 was 66,017,398 (March 31, 2009 – 33,736,437).

Diluted weighted average number of shares outstanding during the period ended March 31, 2010 was 66,017,398 (March 31, 2009 – 33,736,437). During the period ended March 31, 2010 all warrants and options would have an anti-dilutive effect on the loss per share as the Company was in a loss position. The dilutive effect of outstanding warrants and options is calculated using the treasury stock method.

8. Contingencies and commitments

- (a) In connection with the 2009 flow-through equity offerings, the Company is committed to incur \$9,176,289 on qualifying flow through Canadian Exploration Expenditures (“CEE”) and \$3,800,000 on qualifying Canadian Development Expenditures (“CDE”) prior to December 31, 2010. As of March 31, 2010 the Company has a balance of \$3,554,635 remaining to incur related to the CEE flow-through commitments. The Company incurred all of its CDE commitments prior to December 31, 2009.
- (b) In connection with a flow-through equity agreement during 2006, the Company was required under the income tax act to expend amounts renounced to subscribers prior to December 31, 2007. Due to weather related issues, the Company was temporarily delayed and did not complete activities related to \$982,906 in expenditures until February 2008. The Company has advised the Canada Revenue Agency (“CRA”), of the circumstances, paid appropriate interest and penalties and does not intend to re-file the flow through renunciations to subscribers. In the event that the CRA reassessed the Company’s treatment, the Company could potentially be liable for indemnities to flow through subscribers relating to the delayed expenditures for approximately \$383,333.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009
(unaudited)

8. Contingencies and commitments (continued)

(c) The Company has the following office rental commitments, which expire April 30, 2011:

2010	\$	146,812
2011		65,250

9. Related party transactions

During the period ended March 31, 2010, the Company entered into the following related party transactions:

- (a) During the period ended March 31, 2010, the Company incurred \$78,904 (2009 – \$91,644) for financing expenses and commitment fees paid to the Company's major shareholder. As at March 31, 2010 and December 31, 2009, no amounts were payable to the Company's major shareholder.
- (b) During the period ended March 31, 2010, the Company incurred \$508,825 (2009 – \$587,657) for drilling and well services from companies who are under common control and significant influence by Second Wave's major shareholder. As at March 31, 2010 and December 31, 2009, amounts payable for related party drilling and well servicing was \$399,039 and \$1,094,509 respectively.

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

10. Changes in non-cash working capital

	Three months ended March 31,	
	2010	2009
Decrease (increase) in non-cash working capital		
Accounts receivable	\$ (1,445,002)	\$ (35,571)
Prepaid expenses	(48,411)	(216,445)
Accounts payable and accrued liabilities	7,608,634	2,202,039
Net change in non-cash working capital	\$ 6,115,221	\$ 1,950,023
Relating to:		
Operating	\$ (1,307,081)	\$ 350,517
Financing	(55,000)	(46,771)
Investing	7,477,302	1,646,277
	\$ 6,115,221	\$ 1,950,023

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009

(unaudited)

11. Financial risk management

The following table includes all the fair value measurements recognized in the balance sheet at March 31, 2010:

	March 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash	7,892,974	-	-	\$7,894,974
Held for trading securities	195,978	-	-	195,978
Derivative contracts	-	580,652	-	580,652
	8,088,952	580,652	-	8,669,604

The held for trading securities of \$195,978 are included in “Prepays and other” on the Company’s balance sheet as at March 31, 2010. There have been no transfers between levels during the three month period ended March 31, 2010.

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

- Credit risk
- Liquidity risk
- Market risk

There have not been any significant changes to the Company’s exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2009, except as noted below:

Liquidity risk

At March 31, 2010, the Company had no amounts outstanding on its revolving reserve based credit facility with its senior lender. The revolving credit facility was reviewed by the senior lender in April 2010. On May 18, 2010, the Company executed an agreement with a new lender for a revolving operating demand loan of \$30,000,000. The next review is expected to occur prior to May 31, 2011.

Market risk - Commodity price risk

During 2009 and 2010, the Company has attempted to mitigate commodity price risk through the use of financial derivative contracts as indicated below. If commodity prices were \$1.00 per barrel and \$0.10 per mcf higher, with all other variables held constant, net loss for the three months ended March 31, 2010 would have been \$90,829 lower due to higher revenues.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2010 and 2009
(unaudited)

11. Financial risk management (continued)

The Company had the following fixed price crude oil and natural gas contracts outstanding as at March 31, 2010:

Daily quantity	Term of contract	Price	Fair value
Oil (bbls)		Fixed per bbl (WTI)	
500	April 1, 2010 – June 30, 2010	CDN\$85.15	\$ (38,698)
300	July 1, 2010 – September 30, 2010	CDN\$86.90	417
800			\$ (38,281)
Gas (GJs)		Fixed per GJ (AECO Monthly)	
600	April 1, 2010 – October 31, 2010	CDN\$5.42	\$ 226,382
1,200	April 1, 2010 – June 30, 2010	CDN\$5.36	193,206
1,200	July 1, 2010 – September 30, 2010	CDN\$5.46	199,345
3,000			\$ 618,933
		Total	\$ 580,652

12. Capital management

The Company considers its capital structure to include shareholders' equity, loans payable, convertible debenture, and working capital which at March 31, 2010 totaled \$92,503,026 (December 31, 2009 – \$79,357,358).

There have been no significant changes in the Company's objectives, policies and processes for managing capital since December 31, 2009.

13. Subsequent events

On May 18, 2010, the Company executed an agreement with a new lender for a revolving operating demand loan of \$30,000,000.