

SECOND WAVE PETROLEUM LTD.

NOVEMBER 29, 2007

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 financial statements and notes of the Company for the nine months ended September 30, 2007 and the audited financial statements of the Company for the year ended December 31, 2006. This MD&A incorporates information up to and including November 29, 2007. 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. Additional 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 "operating netback". The term funds from operations contained within the MD&A should not be considered as an alternative to, or more meaningful than, funds 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 funds from operations 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 earnings per share. The Company presents operating netback whereby revenues and expenditures are stated on a barrel of oil equivalent (boe) unit of production. 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 2007 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, effective November 29, 2007, and the Company does not take any obligations to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

ALBERTA’S NEW ROYALTY FRAMEWORK

On October 25th 2007, the Government of Alberta announced “Alberta’s New Royalty Framework”. The proposed royalty regime is design to capture higher royalties in a higher price environment, while providing some royalty relief to lower productivity wells. Second Wave’s Alberta production consists primarily of lower productivity wells, with the exception of the Ferrier 3-12 well. Future royalties will depend on production rates and prices received. It is too early to determine the impact of the royalty regime.

THE COMPANY

Effective October 11, 2007 the Company changed its name from Waveform Energy Ltd. to Second Wave Petroleum Ltd. Second Wave is a junior oil and gas company whose shares trade publicly on the TSX Venture Exchange under the trading symbols “SCS.A” and “SCS.B” for the Class A and Class B shares respectively. The Company is focused on the acquisition, exploration and development of oil and natural

gas production in western Canada. Its principal properties are in the Tableland area of southeast Saskatchewan and Rowley and Ferrier areas of Alberta

PRINCIPAL PROPERTIES

Tableland

Second Wave currently owns 34,550 acres in the Tableland area of southeast Saskatchewan, consisting of 22,565 of crown lands and 11,985 acres of freehold lands. The Company's share of production is 38 API oil from 11 wells in the Ratcliffe zone. Average production was 108 BOED net for the three months ended September 30, 2007. In early May 2007, the Company acquired all of the issued and outstanding shares of another company, which increased its interest in Tableland production to 100%, before royalties. Production for the month of September was 100 BOED.

On March 23, 2007, Second Wave announced that it had entered into a Letter Agreement with a private oil and gas company ("Farmee") whereby the Farmee would have the right to earn a 70% working interest in the Company's non-producing land holdings in the Tableland area. During the third quarter, the Farmee drilled a 1258 meter long Bakken horizontal well to earn a 70% working interest (after payout) in one section. The Farmee may earn a 70% working interest in the remainder of Second Wave's Tableland non-producing land holdings, by drilling a second Bakken horizontal well from surface to the base of the Three Forks formation.

The Bakken horizontal well was completed and placed on production in October. Second Wave will receive a 5% GORR on the production from the Bakken well, until payout. The Farmee has advised that it will take several months for production to stabilize in the well.

Rowley

Second Wave has 2,720 gross (2,528 net) acres in the Rowley area of Alberta. The Company produces natural gas from two wells. The Company owns 100% working interest in one well which produces from the Mannville and Pekisko zones. The Company has a 70% working interest in a second well with production coming from the Mannville zone.

Average net production from the two wells amounted to 80 boed during the three months ended September 30, 2007. Production for the month of September was 32 boed. Production was curtailed due to third party plant capacity constraints that resulted in the shut-in of the 4-23 gas well, for the entire months of September and October. The 4-23 well was placed back on production November 19. Second Wave is working to solve the plant capacity issue, which would stabilize Rowley gas production.

Second Wave drilled an exploratory gas well at 2-14-31-20W4, which was flow-tested at a rate of 640 mcf/day. Plans are underway to tie-in the well, and commence production at an initial rate of 390 mcf/day (65 boe/d). The actual production start-date will depend on resolving third-party plant capacity constraints. The company holds a 100% working interest in 3-1/4 sections of petroleum and natural gas rights, on and adjacent to the discovery well. Geology and seismic data indicates potential for several follow-up wells to delineate pool size.

Ferrier

Second Wave has 1,920 (640 net) acres and 12 square miles of 3D seismic in the Ferrier area of Alberta. The Company produces natural gas from two wells producing from the Shunda and Ellerslie zones. Second Wave has a 37.5% non operated working interest in one well. Second Wave has a 25% non operated working interest (with a 15% gross overriding royalty on 25% of production) in a second well which will be converted to a 37.5% working interest after payout, which occurred in November.

Average net production from the two wells amounted to 57 boed for the three months ended September 30, 2007. Production for the month of September was 56 boed net from the two wells. Total Ferrier production is expected to increase to over 70 boed net to Second Wave, due to the pay-out of the 3-12 well. The Company has identified one potential location for drilling in the Shunda zone and one potential recompletion target in the Rock Creek zone.

Provost/Coronation

Subsequent to the end of the third quarter, Second Wave closed the acquisition of certain oil and gas assets in East Central Alberta and some minor non-operated interest in Southeast Saskatchewan, for a purchase price of \$8.9 million subject to certain adjustments. The assets consist of approximately 325 boe per day of primarily of mature, low decline rate, medium oil production. Total estimated Proved + Probable Reserves, effective March 31st, 2007, were estimated at 830 Mboe.

The acquisition has resulted in Second Wave creating a larger more diversified production base, to provide funds for future growth. Several low-risk infill drilling opportunities exist, in addition to workover and facility optimization potential, that will allow the Company to expand productive capacity at a reasonable capital cost to the Company.

ACQUISITION OF STONE CASTLE EXPLORATION LTD. (“Stone Castle”)

On May 7, 2007, the Company acquired all of the issued and outstanding share capital of Stone Castle Exploration Ltd. (“Stone Castle”), a private oil and gas company with properties jointly held with the Company in Saskatchewan. Shareholders in Stone Castle received units comprised of 0.5 Class A share of the Company and 0.5 warrant to acquire a Class A share. Each warrant is exercisable at \$0.20 per share until June 30, 2007, \$0.30 per share until December 31, 2007 and \$0.40 per share until expiry on December 31, 2008. On closing, the Company issued 6,192,500 common shares and 6,192,500 warrants from treasury. The Company also advanced funds to Stone Castle of \$1.6 million which were used to pay third party indebtedness of Stone Castle. The Company increased its loan to its secured lender by an additional \$1 million to \$9 million to partially fund the repayment of indebtedness of Stone Castle.

The acquisition provided the Company with approximately 37 boed of oil production and an additional 13,358 net acres, comprising of 7,444 of crown and 5,914 acres of freehold lands in Tableland, Saskatchewan.

SUMMARY FINANCIAL RESULTS

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Petroleum and Natural Gas Revenues	\$ 1,119,935	\$ 1,497,595	\$ 3,368,084	\$ 4,468,207
Funds (deficiency) from operations	\$ (446,392)	\$ 150,242	\$ (701,715)	\$ 1,098,251
Funds (deficiency) from operations per share	\$ (0.006)	\$ 0.005	\$ (0.008)	\$ 0.03
Net loss and comprehensive loss	\$ (1,101,822)	\$ (14,508,892)	\$ (1,906,199)	\$ (15,522,492)
Net loss and comprehensive loss per share	\$ (0.01)	\$ (0.45)	\$ (0.02)	\$ (0.49)
Total assets at end of period	\$ 22,804,559	\$ 20,656,533	\$ 22,804,559	\$ 20,656,533

PETROLEUM AND NATURAL GAS SALES AND PRODUCTION

Daily average production	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Oil (bbls/d)	107	132	98	189
Natural gas (mcf/d)	682	1,071	695	645
Natural gas liquids (bbls/d)	23	15	22	9
Total daily average production (boe/d)	244	325	235	306
Average Price Received				
Oil (per barrel)	\$ 67.60	\$ 70.31	\$ 64.93	\$ 64.45
Natural gas (per mcf)	\$ 5.16	\$ 5.41	\$ 6.57	\$ 5.44
Natural gas liquids (per barrel)	\$ 50.05	\$ 80.38	\$ 49.74	\$ 74.40
Petroleum and Natural Gas Revenues	\$ 1,119,935	\$ 1,497,595	\$ 3,368,084	\$ 4,468,207

Production for the three months ended September 30, 2007 totaled 244 boe per day comprised of 130 bbls per day of crude oil and NGL's and 114 boe per day of natural gas. This represents a decrease in total production of 24.9% from the same quarter of 2006 but when compared with the second quarter of 2007 total production remains unchanged. Total production for the nine months ended September 30, 2007 has declined 23.2 % from the same period of 2006 primarily reflecting declines at Tableland. Current production is approximately 570 BOED incorporating the acquisition of the Provost properties and payout of the Ferrier 3-12 well in November.

Revenues for the three months ended September 30, 2007 totaled \$1,119,935 representing a decrease of 25.2% from the same period of 2006 as the result of lower production volumes and lower prices received. Year to date, operating revenues totaled \$3,368,064, a decrease of 24.6%, also the result of lower production and pricing.

ROYALTIES

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Crown royalties	\$ 156,553	\$ 168,582	\$ 486,439	\$ 372,684
Freehold royalties	8,051	26,104	19,865	48,724
Gross overriding royalties	32,468	33,658	77,934	128,330
Total royalty expense	\$ 197,072	\$ 228,344	\$ 557,918	\$ 549,738
Average royalty rate	17.60%	15.55%	16.56%	12.44%

For the three months ended September 30, 2007 royalties as a percentage of revenue increased by 13.1% from 15.55% to 17.60%. For the nine months ended September 30, 2007 royalties as a percentage of revenue increased by 33.1% from the same period of the prior year. Average royalty rates increased as production revenues from Tableland in Saskatchewan benefited from crown royalty holidays resulting from deep horizontal well incentives while new production that was acquired in the second half of 2006 being subject to higher royalties.

OPERATING EXPENSE

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Operating costs	\$ 274,580	\$ 426,479	\$ 748,117	\$ 941,613
Operating costs per boe	\$ 12.25	\$ 14.25	\$ 11.64	\$ 11.29

Operating costs per boe decreased by 14.0% for the three months ended September 30, 2007 when compared with the same period from 2006. For the nine months ended September 30, 2007 operating costs per boe increased 3.0%. The increase in unit operating costs results from lower production volumes in the Tableland area, with the reduction in the third quarter is a result of cost reduction measures in Tableland taken in the first and second quarters.

OPERATING NETBACK

(\$/boe)	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Sales revenue	\$ 49.89	\$ 50.00	\$ 52.50	\$ 53.49
Royalties	\$ 8.78	\$ 7.64	\$ 8.70	\$ 6.58
Operating Expense	\$ 12.25	\$ 14.25	\$ 11.64	\$ 11.29
Netback	\$ 28.86	\$ 28.11	\$ 32.16	\$ 35.62

For the three ended September 30, 2007 operating netback increased by 2.5% compared with the same period from 2006. For the nine months ended September 30, 2007 operating netback decreased by 12.6% when compared with the same periods from 2006. The decrease in the nine month period was the result of a lower overall sales price and higher operating costs on a boe basis, in the third quarter period the Tableland cost reduction measures have become effective.

DEPLETION/DEPRECIATION AND ACCRETION EXPENSE

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Depreciation of office equipment	\$ 3,992	\$ 4,360	\$ 11,977	\$ 12,807
Accretion of asset retirement obligation	10,220	13,032	26,301	35,475
Accretion of convertible debentures	40,524	-	40,524	-
Depletion and depreciation of petroleum and natural gas properties	476,487	16,919,342	1,381,963	19,070,712
Total depletion, depreciation and accretion	\$ 531,223	\$ 16,936,734	\$ 1,460,765	\$ 19,118,994

Total depletion, depreciation and accretion expense declined significantly during the three and nine month periods ended September 30, 2007 compared to the same periods in 2006. The reduction primarily results from a \$15,648,176 provision for impairment which was recorded in the third quarter of 2006 against the Company's carrying value of petroleum and natural gas properties.

GENERAL AND ADMINISTRATIVE EXPENSE

Gross general and administrative expenses amounted to \$1,631,287 for the nine months and \$482,438 for the three months ended September 30, 2007 compared to \$1,382,808 and \$374,381 for the respectful periods in 2006. The increase principally results from higher legal fees offset in part by the lack of any overhead recovery during 2007 when only one well was drilled by the Company.

INCOME TAXES

As at September 30, 2007, the Company has available tax deductions of approximately \$19.7 million to use against income in future periods. The Company has claimed a valuation allowance of \$933,280 against these tax pools and has not recognized a future income tax asset to the extent that the amount of available tax pools exceeds the book value of the assets of the Company.

NET AND COMPREHENSIVE LOSS

For the three and nine month periods ended September 30, 2007 the Company has recognized net and comprehensive losses totaling \$1,101,822 and \$1,906,199. These losses represent significant reductions from losses of \$14,508,892 and \$15,522,492 incurred during the three and nine month periods ended September 30, 2006 respectively. The reduction in losses is primarily due to impairment write downs against petroleum and natural gas assets taken in the third quarter of 2006.

FUNDS FROM OPERATIONS

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Revenues, net of royalties	\$ 936,108	\$ 1,278,057	\$ 2,831,664	\$ 3,946,946
Operating costs	(274,580)	(426,479)	(748,117)	(941,613)
General and administrative costs	(482,438)	(374,381)	(1,631,287)	(1,382,808)
Interest cost	(569,716)	(326,955)	(1,098,209)	(524,274)
Asset retirement settlement	(55,766)	-	(55,766)	-
Funds from (used in) operations,	\$ (446,392)	\$ 150,242	\$ (701,715)	\$ 1,098,251
Change in non-cash working capital	(23,247)	103,080	99,969	846,016
Funds from (used in) operating activities	\$ (469,639)	\$ 253,322	\$ (601,746)	\$ 1,944,267

During the nine months ended September 30, 2007, the Company used funds from operations, before non cash working capital changes, of \$701,715 compared to funds from operations, before non cash working capital changes, of \$1,098,251 for the same period last year. The use of funds arose as a result of lower production volumes, higher overhead and impact of interest expense on debt that resulted from the acquisition of additional properties in April 2006.

CAPITAL EXPENDITURES

Set out below is the summary of capital expenditures incurred on property and equipment during the three and nine months ended September 30, 2007 and 2006. During the quarter the Company drilled an exploratory gas well in the Rowley area. Plans are underway to tie-in the well, the timing is subject to resolving third-party plant capacity constraints.

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Acquisition, net of Disposals	\$ 30,698	-	\$ 154,296	\$ 12,769,091
Geological and geophysical	4,470	222,706	16,561	397,961
Drilling and completion	893,219	1,123,539	1,098,876	7,016,201
Equipment and facilities	105,780	143,075	212,257	668,925
Other	-	1,360	-	48,523
Total expenditures	\$ 1,034,167	\$ 1,490,680	\$ 1,481,990	\$ 20,900,701

FINANCING ACTIVITIES, LIQUIDITY AND CAPITAL RESOURCES

During the quarter, the Company took significant steps forward in improving the liquidity and financial stability of the business. First the Company addressed the impending maturity of its credit facility through the issuance of a \$9,000,000 convertible debenture with the proceeds going to repay its existing facility in its entirety. The Company also completed a private placement for gross proceeds of approximately \$5,000,000. As a result of these two activities, the Company has a working capital surplus as at September 30, 2007 of \$4,396,388, a significant improvement from the Company's working capital deficiency of \$7,869,942 as at June 30, 2007. The improved financial position has provided the Company with the resources necessary to meet its flow through spending obligations for 2007 and continue to operate on a going concern basis.

The debenture bears interest at prime plus 2% per annum and is due on July 30, 2009 and is convertible into share of Second Wave at anytime, in whole or in part at a price of \$0.11 per share.

On September 12, 2007, the Company closed a private placement of 45.5 million units at \$0.11 per unit, comprising of 45.5 million Class A shares and 45.5 million of warrants to purchase Class A shares issued on a "flow-through" basis until December 31, 2008 at a price of \$0.12 per share. This private placement raised gross proceeds of \$5,005,000 on closing.

On January 15, 2007, the Company closed a private placement of 32 million units at \$0.125 per unit, comprising of 32 million Class A shares and 32 million of warrants to purchase Class A shares until December 31, 2008 at prices varying from \$0.125 per share to \$0.40 per share. This private placement raised gross proceeds of \$4,000,000 on closing. In addition, during 2007, to date, the Company issued 11,933,000 Class A shares on the exercise of warrants raising an additional equity of \$1,491,625 in the form of cash which was added to treasury.

Subsequent to the end of the quarter, the Corporation closed the acquisition of certain oil and natural gas assets and working capital from a private Company for proceeds of approximately \$8,900,000. In addition the Corporation posted a letter of credit in the amount of \$2,200,000 as security for potential contingent liabilities associated with the acquisition. Management has been advised by its legal counsel that they believe the claims relating to the contingent liabilities are without merit and resolution of the contingencies can be expected within the next 90 days. The asset consists of approximately 325 BOED of low decline mature production. The acquisition was obtained from a company which is a major stockholder; however the transaction was completed on the basis of fair market value and general market terms and conditions.

To facilitate the acquisition described above the Corporation established an \$8,000,000 credit facility with a Canadian chartered bank. The facility is comprised of a \$6,000,000 demand operating line to be reviewed annually, and a \$2,000,000 term loan due January 31, 2008. The facility bears interest at the bank's prime rate plus applicable margin and is secured by the assets of the Corporation.

EQUITY

Set out below is the Company's equity capital structure as at the dates indicated:

	November 29, 2007	September 30, 2007	December 31, 2006
Class A shares	129,369,131	127,744,131	32,118,631
Class B shares	935,616	935,616	935,616
Warrants to purchase Class A shares	81,834,500	81,859,500	-
Stock options - outstanding	9,191,666	5,825,000	1,645,333

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.

CONTRACTUAL OBLIGATIONS

The Company has entered into a lease for office space which expires on April 30, 2011 resulting in an annual rental commitment of approximately \$196,000.

During 2006, the Company incurred \$7 million through the issuance of flow through shares and has renounced \$7 million of exploration expenditures to investors. At September 30, 2007, the Company had incurred \$3,313,080 in eligible expenditures and was committed to incur the remaining \$3,687,000 of expenditures prior to December 31, 2007.

GOODWILL

The Company periodically assesses the carrying value of goodwill for impairment. The Company concluded that the carrying value of goodwill would be impaired by year end. Accordingly, the entire carrying value was written off by a charge against earnings during 2007.

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2007, the Corporation incurred an expenditure of \$297,609 (nine months ended September 30, 2006 - \$115,583) for legal services, disbursements and regulatory costs payable to a legal firm of which an officer is an associate and a director is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs. The Corporation incurred \$339,730 (nine months ended September 30, 2006 - \$25,000) for financing advisory fees payable to a Company of which a director of the Corporation is an officer, prior to his appointment as a director of

the Corporation. The Corporation paid \$37,696 (nine months ended September 30, 2006 - \$Nil) for services rendered (in connection with due diligence with respect to a corporate acquisition) to a company controlled by a director of the Corporation. The fees are included in general and administrative expense. The Corporation incurred \$128,870 (nine months ended September 30, 2006 - \$Nil) for financing fees payable to a Company which is a stock holder. All transactions were completed on the basis of fair market value and general market terms and conditions.

NEW ACCOUNTING POLICIES

The Company follows generally accepted accounting principles in Canada. Effective January 1, 2007, the Company has adopted the new Canadian accounting standards for financial instruments – recognition and measurement, presentation and disclosures, hedging and comprehensive income. There is no material impact as a result of the adoption of the new accounting standards on the Company's financial statements for the current period or prior period.

DISCLOSURE CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures for the preparation of financial and other reports. The Chief Executive Officer and the Acting Chief Financial Officer have concluded, based upon their evaluation, that the design and operation of these disclosure controls and procedures are adequate and effective in providing reasonable assurance that material information related to the Company, is made known to them by employees or third party consultants working for the Company. It should be noted that while the Company's Chief Executive Officer and Acting Chief Financial Officer believe that the disclosure controls and procedures will provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Acting Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The design of the internal control over financial reporting was assessed as of December 31, 2006. During this process, management identified certain material weaknesses in internal controls over financial reporting which are as follows:

- a) Due to the limited number of staff of Second Wave, it is not possible to achieve a proper segregation of duties; and

- b) Due to the limited number of staff, Second Wave does not have technical accounting expertise and knowledge to address all complex and non-routine financial transactions that may arise.

These weaknesses in Second Wave's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting by segregating duties as much as possible under the circumstances. In addition, outside third party consulting expertise is utilized to assist in dealing with complex accounting and technical issues that arise during preparation of quarterly and annual financial statements. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. No further material weaknesses other than those described above have been identified.

SELECTED QUARTERLY INFORMATION

	Three Months Ended			
	Sept. 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Gross revenue	\$ 1,133,180	\$ 1,208,420	\$ 1,047,982	\$ 1,251,787
Royalties	\$ 197,072	\$ 196,124	\$ 164,722	\$ 160,424
Revenue (net of royalties)	\$ 936,108	\$ 1,012,296	\$ 883,260	\$ 1,091,363
Operating expense	\$ 274,580	\$ 180,398	\$ 293,139	\$ 395,462
Net income (loss) and comprehensive income (loss)	\$ (1,101,822)	\$ (1,199,711)	\$ 395,334	\$ (3,640,410)
Net income (loss) and comprehensive income (loss) per share	\$ (0.01)	\$ (0.02)	\$ 0.01	\$ (0.13)
Daily average production (boe/d)	244	243	220	246

	Three Months Ended			
	Sept. 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Gross revenue	\$ 1,506,401	\$ 1,756,723	\$ 1,233,560	\$ 1,030,822
Royalties	\$ 228,344	\$ 226,381	\$ 95,013	\$ 52,227
Revenue (net of royalties)	\$ 1,278,057	\$ 1,530,342	\$ 1,138,547	\$ 978,595
Operating expense	\$ 426,479	\$ 258,364	\$ 256,770	\$ 186,519
Net income (loss) and comprehensive income (loss)	\$ (14,508,892)	\$ (492,643)	\$ (520,957)	\$ (9,544,583)
Net income (loss) and	\$ (0.44)	\$ (0.01)	\$ (0.02)	\$ (0.34)

comprehensive income (loss) per share				
Daily average production (boe/d)	235	392	238	194

The Company steadily increased its revenues until the second quarter of 2006 and thereafter the revenues have declined principally as a result of lower production levels. Substantially losses in the fourth quarter of 2005 and the third and fourth quarter of 2006 result from providing for impairment allowance against the carrying value of the petroleum and natural gas properties.

RISKS AND UNCERTAINTIES

The Company's business is subject to risks encountered in the oil and gas industry. The risks and uncertainties below are not the only issues facing the Company. Additional risks and uncertainties not presently known to Second Wave or that the Company currently considers immaterial may also impair the business and operations of Second Wave. If any of the following risks actually occur, the Company's business may be harmed and the financial condition and results of operations may suffer significantly.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling is unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company currently has a limited number of specific identified drilling prospects. The long-term commercial success of the Company depends on its ability to find, acquire, and develop and commercial produce oil and natural gas reserves. No assurance can be give that the Company will be able to locate additional drilling prospects. Substantial amounts may be expended on properties where reserves have yet to be proven.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a will does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological or mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and funds levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines or reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Insurance

The Company's involvement in the exploration for and development of oil and gas properties may result in the Company becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although the Company has obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company are in part determined by the borrowing base of the Company. A sustained material decline in prices from historical average process could limit or reduce the Company's borrowing base therefore reducing the bank credit available to the Company, and could require that a portion of any existing bank debt of the Company be repaid.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company will be affected by the difference between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets.

The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has a limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements; Liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operation will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Competition

The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and

enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to government and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results, operations or prospects.

Reserve Replacement

The Company's future oil and natural gas reserves, production, and funds to be derived there from are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators

The Company may not be the operator of certain oil and gas properties in which it acquires an interest. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators.

Corporate Matters

Certain of the directors and officers of the Company may also be directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the ABCA.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Additional Funding Requirements

The Company's funds from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's funds from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available on favorable terms.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other Companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependant on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established hereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Company's exploration and production facilities and other operations and activities will emit a small amount of greenhouse gases which may subject the Company to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for the various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those proposed in Alberta's Bill 32: Climate Change and Emissions Management may require the reduction of emissions or emissions intensity with the Company's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of the Company.

Tax Treatment of Flow-Through Shares

The tax treatment applicable with respect to oil and gas activities and Flow-Through shares constitutes a major factor when considering an investment in the Flow-Through shares. There is no guarantee that the taxation laws and regulations and the current administrative practices of both the federal and provincial tax authorities will not be amended or constructed in such a way that the tax consideration for a subscriber holding Class A Shares or Class B Shares will not be altered, and moreover there is no guarantee that there will not be any difference of opinion between the federal and provincial tax authorities with respect to the tax treatment of the Class A Shares or Class B Shares, the status of the Class A Shares or Class B Shares and the activities contemplated by the Company's exploration and development programs.

The Class A Shares and Class B Shares are designed for investors whose income is subject to high marginal tax rates. The right to deduct CEE accrued to the initial purchaser of Units and is not transferable. No guarantee can be given that Canadian tax laws will not be amended, that the amendments announced with respect to such laws will be adopted or that the current administrative practices of the tax authorities will not be modified. In addition, there is no guarantee that the projected tax deductions will be accepted by the Canada Revenue Agency. Consequently, the tax considerations for subscribers holding or selling Class A Shares or Class B Shares may be fundamentally altered.

There is no guarantee that an amount equal to the total proceeds or the sale of the Class A Shares and Class B Shares forming part of the Units will be expended on or prior to December 31, 2007 as Qualifying Expenditures. If the Company does not expend an amount equal to the proceeds from the sales of the Class A Shares and Class B Shares comprising of the Units so as to incur Qualifying Expenditures prior to December 31, 2007, the Company shall restate the amount of expenses that it has renounced in favor of the investors and the investors will be reassessed and will be requested to remit the tax benefits from which they would have benefited.

Financial Statements

Second Wave Petroleum Ltd.

Nine months ended September 30, 2007

SECOND WAVE PETROLEUM LTD.
BALANCE SHEETS
(unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,097,254	\$ 142,052
Restricted cash	500,000	-
Accounts receivable	622,147	1,241,300
Prepaid expenses	87,021	87,553
	<u>5,306,422</u>	<u>1,470,905</u>
Property and equipment (note 5)	17,498,137	15,478,823
	<u>\$ 22,804,559</u>	<u>\$ 16,949,728</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 910,034	\$ 1,804,347
Credit facility	-	10,000,000
	<u>910,034</u>	<u>11,804,347</u>
Convertible debenture (note 6)	8,525,058	-
Asset retirement obligations (note 7)	577,859	522,765
Shareholders' equity		
Share capital (note 8b)	40,660,003	33,379,327
Equity component of convertible debentures (note 6)	506,481	-
Warrants (note 8g)	1,900,900	-
Contributed surplus (note 8i)	1,087,012	699,878
Deficit	(31,362,788)	(29,456,589)
	<u>12,791,608</u>	<u>4,622,616</u>
Commitments (note 9)		
Subsequent events (note 14)		
	<u>\$ 22,804,559</u>	<u>\$ 16,949,728</u>

See accompanying notes to financial statements.

SECOND WAVE PETROLEUM LTD.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT

For nine months ended September 30, 2007 and 2006
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
REVENUE:				
Crude oil, natural gas, and natural gas liquids sales	\$ 1,119,935	\$ 1,497,595	\$ 3,368,084	\$ 4,468,207
Royalties	(197,072)	(228,344)	(557,918)	(549,738)
Interest and other income	13,245	8,806	21,498	28,477
	936,108	1,278,057	2,831,664	3,946,946
EXPENSES:				
Operating	274,580	426,479	748,117	941,613
General and administrative	482,438	374,381	1,631,287	1,382,808
Depletion, depreciation and accretion	490,699	16,936,734	1,420,241	19,118,994
Write-off of goodwill	-	2,841,890	368,522	2,841,890
Stock based compensation	86,038	91,510	387,133	300,859
Accretion of convertible debenture	40,524		40,524	
Financing charges (note 10)	586,201	326,955	1,494,589	524,274
	1,960,480	20,997,949	6,090,413	25,110,438
LOSS BEFORE INCOME TAXES	(1,024,372)	(19,719,892)	(3,258,749)	(21,163,492)
INCOME TAXES:				
Future income tax expense (reduction) (note 11)	77,450	(5,211,000)	(1,352,550)	(5,641,000)
NET LOSS AND COMPREHENSIVE LOSS	(1,101,822)	(14,508,892)	(1,906,199)	(15,522,492)
DEFICIT BEGINNING OF PERIOD	(30,260,966)	(11,307,287)	(29,456,589)	(10,293,687)
DEFICIT END OF PERIOD	\$ (31,362,788)	\$ (25,816,179)	\$ (31,362,788)	\$ (25,816,179)
Net loss and comprehensive loss per share – basic and diluted (note 8e)	\$ (0.01)	\$ (0.45)	\$ (0.02)	\$ (0.49)

See accompanying notes to financial statements.

SECOND WAVE PETROLEUM LTD.
STATEMENTS OF CASH FLOW

For nine months ended September 30, 2007 and 2006
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
OPERATIONS:				
Net loss and comprehensive loss	\$ (1,101,822)	\$ (14,508,892)	\$ (1,906,199)	\$ (15,522,492)
Add (deduct) items not involving cash:				
Depletion, depreciation and accretion	490,699	16,936,734	1,420,241	19,118,994
Accretion of convertible debentures	40,524	-	40,524	-
Write-off of goodwill	-	2,841,890	368,522	2,841,890
Stock based compensation	86,038	91,510	387,133	300,859
Extension fee (note 10)	16,485	-	396,380	-
Future income tax expense (reduction)	77,450	(5,211,000)	(1,352,550)	(5,641,000)
Asset retirement costs	(55,766)	-	(55,766)	-
	(446,392)	150,242	(701,715)	1,098,251
Change in non-cash working capital (note 13)	(23,247)	103,080	99,969	846,016
	(469,639)	253,322	(601,746)	1,944,267
FINANCING:				
Issue of share capital	5,005,000	20,000	10,496,625	9,270,346
Issuance costs	(258,114)	-	(489,584)	-
Repayment of notes receivable	-	488,835	-	477,253
Restricted cash	-	-	(500,000)	-
Loan advances (repayments)	-	-	(1,000,000)	18,100,000
Loan repayments	-	-	(1,600,000)	(8,100,000)
Change in non-cash working capital (note 13)	(64,371)	-	(32,540)	(34,347)
	4,682,515	508,835	6,874,501	19,713,252
INVESTMENTS:				
Property and equipment expenditures	(1,034,167)	(1,490,680)	(1,481,990)	(9,222,069)
Disposition of property and equipment	-	-	-	7,329,457
Acquisition of limited partnership units (note 4b)	-	-	-	(19,008,089)
Acquisition of Stone Castle (note 4a)	-	-	(150,534)	-
Change in non-cash working capital (note 13)	222,195	650,646	(685,029)	(4,236,383)
	(811,972)	(840,034)	(2,317,553)	(25,137,084)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,400,904	(77,877)	3,955,202	(3,479,565)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	696,350	1,251,860	142,052	4,653,548
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 4,097,254	\$ 1,173,983	\$ 4,097,254	\$ 1,173,983

See accompanying notes to financial statements.

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest received	\$ 13,245	\$ 8,806	\$ 21,498	\$ 28,477
Interest paid	374,126	326,955	902,619	524,247

SECOND WAVE PETROLEUM LTD.

NOTES TO THE FINANCIAL STATEMENTS

For nine months ended September 30, 2007 and 2006

1. Nature of business and future operations

Second Wave Petroleum Ltd. (the "Corporation") is incorporated under the laws of the province of Alberta. On October 10, 2007 the Corporation changed its name from "WaveForm Energy Ltd." to "Second Wave Petroleum Ltd." and its Class A and Class B shares now trade under the new symbols SCS.A and SCS.B respectively. The Corporation is engaged in the acquisition, development and exploration of petroleum and natural gas in Western Canada.

2. Basis of presentation and changes in accounting policies

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and following the same accounting policies as disclosed in the audited financial statements for the year ended December 31, 2006 except as disclosed in note 3. The disclosures provided herein are incremental to those included with the annual financial statements and do not include all of the disclosures required in the annual financial statements. These interim financial statements should be read in conjunction with the annual financial statements as at and for the year ended December 31, 2006. Certain period amounts have been reclassified to conform to current presentation.

3. Changes in accounting policies

Effective January 1, 2007, the Corporation has adopted the new Canadian accounting standards for financial instruments – recognition and measurement, presentation and disclosures, hedging and comprehensive income. There is no impact as a result of the adoption of the new Canadian accounting standards.

4. Acquisitions

(a) Acquisition of Stone Castle:

On May 7, 2007, the Corporation acquired all of the issued and outstanding shares of Stone Castle Exploration Ltd. ('Stone Castle') a private oil and gas company, for total consideration of \$1,042,830. Under the terms of the agreement the Corporation issued a total of 12,385,000 units valued at \$0.072 per unit to shareholders of Stone Castle. Each unit is comprised of 0.5 Class A common shares and 0.5 class A common share purchase warrants. A whole 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 \$0.40 per share until expiry on December 31, 2008. The acquisition has been recorded using the purchase method and the estimated fair value of the assets and liabilities acquired have been allocated as follows:

The purchase price consists of:	
Units consisting of 0.5 Class A shares and 0.5 warrants	\$ 891,720
Acquisition costs	151,110
	\$ 1,042,830
Fair value of assets and liabilities:	
Property and equipment	\$ 2,055,984
Future income taxes	770,000
Goodwill	368,522
Current assets	3,243
Loan	(1,600,000)
Asset retirement obligation	(209,279)
Accounts payable	(345,640)
	\$ 1,042,830

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS
For nine months ended September 30, 2007 and 2006

The accounts payable are a direct offset to the receivables held by the Corporation from Stone Castle. The amounts recorded on the acquisition are based on preliminary information available to management. The above amounts are subject to change if the preliminary information obtained by management changes. At June 30, 2007, the value of goodwill was determined to be impaired and was written off as a charge to income during the second quarter of 2007

(b) Acquisition of limited partnership:

Effective April 1 2006, the Corporation acquired all of the issued and outstanding partnership units of B&G Energy 2005 Limited Partnership, a partnership operating natural gas assets in the Ferrier and Rowley areas of Alberta, for cash consideration of \$18.5 million. Results of operations of the Partnership have been included with the Corporation's operations from the date of close, April 20, 2006. The partnership was wound up immediately after the last partner's units were acquired in the transaction.

The purchase price consists of:	
Cash	\$ 18,500,000
Acquisition costs	508,089
	\$ 19,008,089
The purchase price was allocated as follows::	
Property and equipment	\$ 22,873,699
Goodwill	2,841,890
Asset retirement obligation	(66,500)
Future income taxes	(6,641,000)
	\$ 19,008,089

5. Property and equipment

	September 30, 2007		
	Cost	Accumulated Depletion, Depreciation and amortization	Net Book Value
Petroleum and natural gas properties	\$ 55,505,053	\$ 38,058,965	\$ 17,446,088
Office equipment	103,988	51,939	52,049
	\$ 55,609,041	\$ 38,110,404	\$ 17,498,137

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS
For nine months ended September 30, 2007 and 2006

	December 31, 2006		
	Cost	Accumulated Depletion, Depreciation and amortization	Net Book Value
Petroleum and natural gas properties	\$ 52,091,798	\$ 36,677,002	\$ 15,414,796
Office equipment	103,988	39,961	64,027
	\$ 52,195,786	\$ 36,716,963	\$ 15,478,823

At September 30, 2007, undeveloped land and seismic costs amounting to \$1,782,151 (December 31, 2006 - \$868,796) have been excluded from the depletion calculation. Future development costs of \$1,080,000 (December 31, 2006 - \$1,080,000) were added to the depletion calculation. In 2007, no general and administrative costs (December 31, 2006 - \$58,125) have been capitalized.

6. Convertible debenture

The Corporation 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 Corporation, 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.

During the quarter the Corporation issued a secured convertible debenture ("the Debenture") in the amount of \$9,000,000. The Debenture bears interest at bank prime rate plus 2% per annum, has a fixed charge on all the assets of the Corporation and is due on July 30, 2009. Proceeds from the issuance of the debenture were used to repay the Corporation's existing credit facility. The Corporation 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 Corporation at a price of \$0.11 per share.

Convertible debenture	Equity Component	Debt Component
Debenture issued	\$ -	\$ 9,000,000
Equity portion	515,466	(515,466)
Issue costs (net of future taxes of \$3,850)	(8,985)	-
Accretion of non-cash interest expense	-	40,524
Balance, end of period	\$ 506,481	\$ 8,525,058

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS
 For nine months ended September 30, 2007 and 2006

7. Asset retirement obligation

The following table presents the reconciliation of the beginning and ending carrying amount of the Company's asset retirement obligation for the nine months ended September 30, 2007:

	September 30, 2007	December 31, 2006
Balance beginning of period	\$ 522,765	\$ 421,937
Liabilities settled	(55,766)	-
Accretion expense	26,301	32,544
Acquired on acquisition (note 4)	209,279	66,500
Liabilities incurred	35,548	1,784
Change in estimates	(160,268)	-
Balance end of period	\$ 577,859	\$ 522,765

The Corporation's asset retirement obligations result from net ownership interest in petroleum and natural gas assets. Total estimated future asset retirement costs of \$1,057,500 have been discounted using a credit adjusted risk free rate of 7.5%. An inflation rate of 1.5% has been applied to the estimated asset retirement costs. These obligations are to be settled based on the economic useful lives of the underlying assets, which currently extend up to 23 years into the future and will be funded from general corporate resources at the time of abandonment.

8. 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 Corporation 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.

SECOND WAVE PETROLEUM LTD.

NOTES TO THE FINANCIAL STATEMENTS

For nine months ended September 30, 2007 and 2006

8. Share capital (continued)

(b) Issued and outstanding:

Class A Shares	Nine months ended September 30, 2007		Year ended December 31, 2006	
	Number of Shares	Value	Number of Shares	Value
Balance beginning of period	32,118,631	\$ 28,261,895	27,461,264	\$ 20,578,468
Issued for cash (note 8c)	77,500,000	7,304,856	1,630,500	3,000,120
Warrants exercised (note 8g)	11,933,000	1,491,625	-	-
Transfer of carrying value on exercise of warrants (Valued at \$701,760)	-	261,691	-	-
Flow through shares issued for cash (note 8d)	-	-	2,916,700	7,000,080
Stock options exercised (note 8i)	-	-	110,167	73,933
Future tax effect of flow-through shares		(2,275,000)		(1,873,000)
Share issue costs (net of future income taxes of \$120,760 (2006 - \$267,000))		(295,384)		(517,706)
Issued on acquisition (note 8g)	6,192,500	792,888		
Balance end of period	127,744,131	\$ 35,542,571	32,118,631	\$ 28,261,895

Class B Shares	Nine months ended September 30, 2007		Year ended December 31, 2006	
	Number of Shares	Value	Number of Shares	Value
Balance beginning and end of period	935,616	\$ 5,117,432	935,616	\$ 5,117,432
Balance end of period – Class A and Class B shares	128,679,747	\$ 40,660,003	33,054,247	\$ 33,379,327

SECOND WAVE PETROLEUM LTD.

NOTES TO THE FINANCIAL STATEMENTS

For nine months ended September 30, 2007 and 2006

8. Share capital (continued)

(c) Issued for cash:

In January 2007, the Corporation issued 32,000,000 Units at \$0.125 per unit for gross proceeds of \$4,000,000 and in September 2007, the Corporation 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 Corporation used the Black-Scholes option pricing model to determine the values of the Class A share purchase warrants in connection with these issuances.

In March 2006, the Corporation issued 1,630,500 Class A shares at \$1.84 per share for gross proceeds of \$3,000,120.

(d) Flow-through shares:

In March 2006, the Corporation issued 2,916,700 Class A "flow through" shares at \$2.40 per share for gross proceeds of \$7,000,080. The Corporation 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 Corporation renounced for income tax purposes, \$7,000,080 to holders of Class A shares. As at September 30, 2007 the Corporation had incurred \$3,313,080 in eligible expenditures and is committed to incur the remaining \$3,687,000 of expenditures during the balance of 2007.

(e) Net loss and comprehensive loss per share:

The basic weighted average number of Class A and Class B shares outstanding for the nine months ended September 30, 2007 was 77,577,210 (September 30, 2006 – 31,909,767) and for the three months ended September 30, 2007 was 92,081,921 (September 30, 2006 – 31,898,370).

Diluted weighted average number of Class A and Class B shares outstanding as at September 30, 2007 was 86,966,791. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method. For this period the effects are antidilutive.

(f) Stock option plan:

The Corporation has a stock option plan for directors, officers, employees and consultants. The Corporation 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. The options vest one third immediately and one third on the first and second anniversary dates of the grant and expire in five years from the date of grant.

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS

For nine months ended September 30, 2007 and 2006

8. Share capital (continued)

(f) Stock option plan (continued):

	Nine months ended September 30, 2007		Year ended December 31, 2006	
	Number of options	Value	Number of options	Value
Outstanding, beginning of period	1,645,333	\$ 0.60	1,871,400	\$ 0.88
Granted	6,200,000	0.19	400,000	1.00
Forfeited	(2,020,333)	0.50	(515,900)	1.17
Exercised	-	-	(110,167)	0.50
Outstanding, end of period	5,825,000	\$ 0.27	1,645,333	\$ 0.60
Exercisable, end of period	2,224,994	\$ 0.35	1,203,662	\$ 0.61

Exercise Price	Options outstanding at September 30, 2007		Options exercisable at September 30, 2007	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$0.11	400,000	4.9	133,332	4.9
\$0.15	300,000	4.6	99,999	4.16
\$0.20	4,500,000	4.3	1,499,997	4.3
\$0.40	175,000	2.3	175,000	2.3
\$1.00	400,000	3.8	266,666	3.8
\$2.04	50,000	2.9	50,000	2.9
	5,825,000		2,224,994	

The weighted average fair value of all options granted during the nine months ended September 30, 2007 was \$0.20 (year ended December 31, 2006 - \$0.40).

The fair value of options granted during the nine months ended September 30, 2007 of \$673,418 (year ended December 31, 2006 - \$158,483) was calculated using a risk free rate of 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 upon the vesting period.

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS
For nine months ended September 30, 2007 and 2006

8. Share capital (continued)

(g) Warrants:

	Nine months ended September 30, 2007	
	Number of warrants	Value
Balance beginning of period	-	-
Issued with shares January 2007	32,000,000	\$ 701,760
Issued to brokers January 2007	1,600,000	35,088
Issued loan extension January 2007	3,500,000	124,530
Exercised (Issued with shares January 2007) March 2007	(613,000)	-
Transfer of carrying value on exercise of warrants in March 2007	-	(13,443)
Warrant issue costs January 2007 (Net of future Income taxes of \$13,158 (2006 - \$nil))	-	(33,607)
Issued loan extension May 2007	5,000,000	271,850
Issued Stone Castle's shareholders May 2007 (note 4)	6,192,500	98,832
Exercised (Issued with shares January 2007) April 2007	(11,320,000)	-
Transfer of carrying value on exercise of warrants in April 2007	-	(248,248)
Issued with shares September 2007	45,500,000	998,384
Warrant issue costs September 2007 (net of future income taxes of \$14,862)	-	(34,246)
Balance, end of period	81,859,500	\$ 1,900,900

All warrants issued by the Corporation have been valued using the Black-Scholes option pricing model applying the same assumptions disclosed in note 8f.

In January 2007, the Corporation 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 Corporation 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.

In January 2007, the Corporation 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 2007, the Corporation issued 12,385,500 units at \$0.144 per unit for gross proceeds of \$891,720 to the shareholders of Stone Castle Exploration Ltd. 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.

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS
For nine months ended September 30, 2007 and 2006

8. Share capital (continued)

(g) Warrants (continued):

In May 2007, as a result of the amalgamation of Stone Castle, the Corporation increased its debt facility by \$1 million to \$9 million and extended the repayment of the debt facility to December 31, 2007. As consideration for the increased loan and extension, the Corporation issued 5,000,000 warrants to purchase 5,000,000 Class A shares of the Corporation. The warrants have an exercise price of \$0.15 until the loan is repaid and thereafter at a price of \$0.175 per share until expiry on May 7, 2009.

In September 2007, the Corporation issued 45,500,000 Units at \$0.11 per unit for gross proceeds of \$5,005,000. The Units consisted 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 expiry 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 are being held in escrow. On January 7, 2005 when the shares of the Corporation were listed on the TSX Venture exchange, 10% of the escrowed shares were released. The remaining 90% have been released in 15% increments during consecutive 6 month periods following the listing. As of September 30, 2007, 911,094 Class A shares remain in escrow, with the remaining release date being January 11, 2008.

(i) Contributed surplus

A summary of change in the Corporation's contributed surplus balance for the year ended December 31, 2006 and nine months ended September 30, 2007 is as follows:

Balance – January 1, 2006	\$	221,674
Stock based compensation related to fair value of options granted		497,136
Options and warrants exercised		(18,932)
Balance – January 1, 2007		699,878
Stock based compensation related to fair value of options granted		387,134
Balance – September 30, 2007	\$	1,087,012

9. Commitments

As at September 30, 2007 the Corporation has an office rental commitment for annual rental payments of approximately \$196,000 which expires April 30, 2011.

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NOTES TO THE FINANCIAL STATEMENTS
For nine months ended September 30, 2007 and 2006

10. Financing expense

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest	\$ 363,817	\$ 326,955	\$ 892,310	\$ 524,274
Interest on flow through share obligation	205,899	-	205,899	-
Loan extension fee	16,485	-	396,380	-
	\$ 586,201	\$ 326,955	\$ 1,494,589	\$ 524,274

11. 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 Corporation's net loss before income taxes. This difference results from the following items:

	Nine months ended September 30, 2007
Net loss before income taxes	\$ (3,258,749)
Combined federal and provincial tax rate	32.12%
Computed "expected" income tax expense	(1,046,710)
Increase resulting from:	
Non-deductible items	367,730
Change in tax rate	(35,800)
Other	72,360
Valuation allowance	(710,130)
Future income tax reduction	\$ (1,352,550)

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

Property, and equipment	\$ 953,560
Share issuance costs	(642,050)
Non capital losses	(1,244,790)
Valuation allowance	933,280
Net future income tax asset (liability)	\$ -

The Corporation has accumulated non-capital losses for income tax purposes of approximately \$4,000,000 which are available against future taxable income. Unless sufficient taxable income is earned, these losses will expire as follows, approximately \$1,800,000 from 2006 and earlier expires before 2017 and approximately \$2,200,000 from 2007 will expire by 2027.

SECOND WAVE PETROLEUM LTD.
NOTES TO THE FINANCIAL STATEMENTS

For nine months ended September 30, 2007 and 2006

12. Related party transactions

During the nine months ended September 30, 2007, the Corporation incurred the following

- a) Legal services, disbursements and regulatory costs totaling \$297,609 (2006 - \$115,583) payable to a legal firm of which a director of the Corporation is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs.
- b) Financing and advisory fees of \$339,730 (2006 - \$25,000) payable to a Company of which a director of the Corporation is an officer, prior to his appointment as a director of the Corporation.
- c) Due diligence services totaling \$37,696 (2006 - \$Nil) for services rendered in connection with a corporate acquisition payable to a company controlled by a former director of the Corporation.
- d) Financing fees of \$128,870 (2006 - \$Nil) for financing fees paid to a Company which is a significant shareholder of the Corporation.

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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Decrease (increase) in non-cash working capital				
Accounts receivable	\$ 19,058	\$ 396,884	\$ 619,153	\$ (6,574,860)
Prepaid expenses	8,175	350,915	3,200	3,225,734
Accounts payable and accrued liabilities	107,344	5,927	(1,239,953)	(75,588)
Net Change in non-cash working capital	\$ 134,577	\$ 753,726	\$ (617,600)	\$ (3,424,714)
Relating to:				
Operations	\$ (23,247)	\$ 103,080	\$ 99,969	\$ 846,016
Financing	(64,371)	-	(32,540)	(34,347)
Investments	222,195	650,646	(685,029)	(4,236,383)
	\$ 134,577	\$ 753,726	\$ (617,600)	\$ (3,424,714)

SECOND WAVE PETROLEUM LTD.

NOTES TO THE FINANCIAL STATEMENTS

For nine months ended September 30, 2007 and 2006

14. Subsequent events

Subsequent to the end of the quarter, the Corporation closed the acquisition of certain oil and natural gas assets and working capital from a private Company for proceeds of approximately \$8,900,000. In addition the Corporation posted a letter of credit in the amount of \$2,200,000 as security for potential contingent liabilities associated with the acquisition. Management has been advised by its legal counsel that they believe the claims relating to the contingent liabilities are without merit and resolution of the contingencies can be expected within the next 90 days. The assets were acquired from a company who is a significant shareholder in the Corporation; however the transaction was completed on the basis of fair market value and general market terms and conditions.

To facilitate the acquisition described above the Corporation established an \$8,000,000 credit facility with a Canadian chartered bank. The facility is comprised of a \$6,000,000 demand operating line to be reviewed annually, and a \$2,000,000 term loan due January 31, 2008. The facility bears interest at the bank's prime rate plus applicable margin and is secured by the assets of the Corporation.

In November 1,600,000 broker warrants were exercised at a price of \$0.125 per unit for proceeds of \$200,000. In addition, 25,000 warrants from the January 2007 placement were exercised at a price of \$0.30 per share for proceeds of \$7,500.