

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 interim unaudited consolidated financial statements for the three and six months ended June 30, 2008 and the audited financial statements and notes of the Company for the year ended December 31, 2007. This MD&A incorporates information up to and including August 28, 2008. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All of the amounts reported in this MD&A are in Canadian dollars, unless otherwise indicated. Certain other information with respect to the Company is available on SEDAR, at www.sedar.com and at the Company's website at www.secondwavepetroleum.com. Information can also be obtained by contacting the Company at Second Wave Petroleum 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", and "netback". The term funds from operations contained within the MD&A should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP. The Company believes that funds from operations is a useful supplementary measure as investors may use this information to analyze operating performance, leverage and liquidity. Funds from operations, as disclosed within this MD&A, represents cash flow from operating activities before changes in non-cash working capital. The Company presents funds from operations per share whereby per share amounts are calculated consistent with the calculation of net loss and comprehensive loss per share. The Company believes that the term netback contained within the MD&A is also a useful supplementary measure as investors may use this information to analyze field level operating performance of the Company's oil and gas properties. These non-GAAP measures may not necessarily be comparable to similarly titled measures used by other entities and readers of this MD&A are cautioned in attempting to make such comparisons.

OTHER MEASUREMENTS

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

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

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

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

This management discussion and analysis is dated as at August 28, 2008.

Overview

	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
<i>(\$000s, except share amounts)</i>						
Petroleum and natural gas sales	6,326	1,203	426	9,733	2,248	333
Royalties	(803)	(196)	310	(1,269)	(361)	252
Lease operating costs	(1,558)	(153)	918	(2,388)	(426)	461
Transportation	(77)	(27)	185	(131)	(48)	173
Operating netback⁽³⁾	3,888	827	370	5,945	1,413	321
Realized loss on financial derivatives	(211)	-	-	(211)	-	-
Other income	-	5	-	-	8	-
General and administrative	(922)	(621)	48	(1,291)	(1,149)	12
Financing expenses	(159)	(193)	(18)	(230)	(528)	(56)
Funds from operations⁽¹⁾	2,596	18	-	4,213	(256)	-
Unrealized loss on financial derivatives	(494)	-	-	(494)	-	-
Depletion, depreciation and accretion	(1,558)	(487)	220	(2,618)	(929)	182
Write-off of goodwill	-	(368)	-	-	(368)	-
Future income taxes	-	(25)	-	-	1,430	-
Non-cash portion of financing expense	-	(272)	-	-	(380)	-
Accretion of convertible debenture	-	-	-	(13)	-	-
Stock-based compensation	(282)	(65)	334	(446)	(301)	48
Net income (loss) before non-controlling interest	262	(1,200)	122	642	(804)	180
Non-controlling interest in loss of Milagro	34	-	-	34	-	-
Net income (loss) and comprehensive income (loss)	296	(1,200)	125	676	(804)	184
Funds from operations per share ⁽¹⁾ :						
Basic (\$)	0.09	-	-	0.16	(0.08)	300
Diluted (\$)	0.09	-	-	0.15	(0.08)	288
Net income (loss) and comprehensive income (loss) per share:						
Basic (\$)	0.01	(0.19)	105	0.03	(0.11)	127
Diluted (\$)	0.01	(0.19)	105	0.02	(0.11)	118
Average number of shares outstanding (000s):						
Basic ²	28,564	6,279	355	25,978	7,021	270
Diluted ²	30,105	6,279	379	28,347	7,021	304

- (1) Funds from operations is a non-GAAP measure that does not have a standardized meaning as prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other oil and gas companies. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.
- (2) On May 26, 2008, the Company exercised its right to convert all of its Class B shares into Class A shares, whereby for each Class B share outstanding 10 Class A shares were issued. On June 25, 2008, shareholders approved the consolidation of the Class A shares of the company on a one for ten (1:10) basis, the cancellation of Class B shares, and the re-designation of the Class A shares into Common shares. Share amounts have been retroactively adjusted to reflect the share consolidation.
- (3) Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.

As of the reporting date of August 28, 2008, Second Wave had 31,113,811 shares outstanding.

	Three months ended June 30,			Six months ended June 30,		
	2008	2007	% Change	2008	2007	% Change
<i>(\$000s)</i>						
Cash flow from (used in) operating activities (GAAP)	(651)	84	875	789	(132)	698
Change in non-cash working capital (GAAP)	3,247	(67)	-	3,424	(124)	-
Funds from operations (non-GAAP)	2,596	18	-	4,213	(256)	-

Funds from Operations and Net Income (Loss) and Comprehensive Net Income (Loss)

(\$000s, except per share)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Funds from operations	2,596	18	-	4,213	(256)	-
Per share:						
Basic (\$)	0.09	-	-	0.16	(0.04)	500
Diluted (\$)	0.09	-	-	0.16	(0.04)	500

Funds from operations for the three months ended June 30, 2008 totaled \$2,596,000 or \$0.09 per share, compared to \$18,000 for the same period in 2007. This increase is primarily due to the additional production volumes from a property acquisition that occurred in the third quarter of 2007 and the Milagro Energy Inc. acquisition in May 2008.

For the six months ended June 30, 2008, funds from operations were \$4,213,000 or \$0.16 per share, compared to a loss of \$(256,000) for the same period of 2007.

(\$000s, except per share)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Net income (loss) and comprehensive income (loss)	296	(1,200)	125	676	(804)	184
Per share:						
Basic (\$)	0.01	(0.19)	105	0.03	(0.11)	127
Diluted (\$)	0.01	(0.19)	105	0.02	(0.11)	118

Net income and comprehensive income for the three month period ended June 30, 2008 was \$296,000 or \$0.01 per share compared to a loss of \$(1,200,000), or \$(0.19) per share, for the same period in 2007. Almost all metrics improved during the three months ended June 30, 2008 when compared with the second quarter of 2007 resulting in a significant increase in income before income taxes of \$1,496,000 period over period.

For the six months ended June 30, 2008, net income and comprehensive income was \$676,000 or \$0.02 per share, 184% higher compared to the net loss and comprehensive loss for the first half of 2007. Net income and comprehensive loss from the comparative period of 2007 included a \$1,430,000 net income tax recovery partially offset by a writedown of oil and gas assets.

Petroleum and natural gas sales

Sales volumes		Three months ended			Six months ended		
		2008	2007	June 30, %	2008	2007	June 30, %
Natural gas	<i>mcf/d</i>	2,012	723	178	1,466	702	109
Oil and natural gas liquids	<i>bbl/d</i>	448	122	267	399	114	250
Combined (6:1)	<i>boe/d</i>	783	243	222	643	231	178

Sales volumes, on a boe basis, averaged 783 boe per day during the second quarter of 2008, up 222% from the 243 boe per day average in the second quarter of 2007, and up by 55% over the first quarter of 2008. The increase in sales volumes for both liquids and natural gas is primarily the result of the acquisition of producing properties that occurred in the third quarter of 2007 and the Milagro acquisition in May 2008. Second Wave has included Milagro sales volumes in its results subsequent to the May 8, 2008 date of acquisition. Actual production volumes for the month of June were approximately 925 boe/d.

Other operational activities, including various workover programs and new wells brought on production in the Provost and Rowley areas, have also contributed to the increase in volumes during the period.

Oil and natural gas liquids (“NGL”) sales volumes increased 267% to 448 bbl/d in the three months ended June 30, 2008 from 122 bbl/d for the same period in 2007.

Natural gas sales volumes increased 178% during the second quarter 2008 as compared to the comparative period in 2007.

With the anticipated addition of production from the 2008 capital program, management expects sales volumes for the remainder of 2008 to increase over the average levels experienced during the first half of the year.

For the first half of the year, sales volumes averaged 643 boe/d, an increase of 178% from the 231 boe/d achieved in the comparable period of 2007. As a result of the acquisition in October 2007, the 2008 versus 2007 year to date comparison is not representative of the full year impact.

Revenues (\$000s)	Three months ended			Six months ended		
	2008	2007	Change	2008	2007	Change
Natural gas	1,785	493	262	2,468	973	154
Oil	4,241	612	593	6,823	1,076	534
Natural gas liquids	300	98	206	442	199	122
Total oil and gas	6,326	1,203	426	9,733	2,248	333

Gross revenue from the sale of petroleum and natural gas in the second quarter of 2008 totaled \$6,326,000 up by 426% from the same quarter last year, and up 86% from the first quarter of 2008. Increase in total revenues was a result of increased production volumes from acquisitions, an extensive workover program, new wells on production and higher product prices year-over-year.

Oil and natural gas liquids revenue rose 540% to \$4,541,000 in the three months ended June 30, 2008 from \$710,000 in the same period of 2007.

In January 2008, Second Wave entered into a costless collar to hedge 100 bbl of oil per day from April 1, 2008 to October 31, 2008 at prices between US\$80 - \$101/bbl. As a result of the hedging activity, during the second quarter Second Wave realized a loss of \$211,000 (\$2.97/boe) and recognized an unrealized loss of \$494,000 (\$4.22/boe) for the period of July 1 to October 31, 2008. Although the current WTI oil price is above the ceiling of US\$101 per bbl, Second Wave does not expect that this hedge will materially affect its cash flow for 2008 due to the small amount of production that has been hedged. Based on current downward trend of the market price of oil on August 28, 2008, compared to the report date of June 30, 2008, we expect our overall exposure to be reduced by approximately \$200,000.

Overall natural gas sales were \$1,785,000 for the three months ended June 30, 2008, 262% higher than the \$493,000 received in the second quarter of 2007, and up 161% from the first quarter of 2008.

Revenues for the six month period ended June 30, 2008, were \$9,733,000, a 333% increase over the \$2,248,000 in the comparable period of 2007.

Average Sales Prices ⁽¹⁾		Three months ended			Six months ended		
		2008	2007	Change	2008	2007	Change
Natural gas	\$/mcf	9.75	7.49	30	9.25	7.66	21
Oil	\$/bbl	114.49	65.39	75	101.72	63.38	60
Natural gas liquids	\$/bbl	81.67	55.62	47	79.45	53.54	48
Combined (6:1)	\$/boe	88.82	54.47	63	83.12	53.69	55

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

Benchmark Pricing	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
AECO natural gas (Cdn\$/mcf) ¹	9.44	7.14	32	8.32	7.30	14
WTI crude oil (US\$/bbl)	123.95	64.94	91	110.91	61.46	80
WTI crude oil (Cdn\$/bbl)	124.81	71.31	75	112.02	69.75	61
Exchange rate (US\$/Cdn\$)	1.0070	1.0981	(8)	1.0100	1.1349	(11)

(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 second quarter of 2008 was up 63%, to \$88.82/boe, from the \$54.47/boe received during the second quarter last year.

Oil prices continued to remain strong during the second quarter of 2008, with Second Wave's oil price averaging 75% higher than the second quarter last year. Market factors contribute to the rise in continuing worldwide high oil prices. In order to reduce the risk of a price decrease and its impact on the cash flows and the 2008 capital program, Second Wave hedged 100 bbls/d of oil in a costless collar between \$US 80.00 to US\$101.00 for the period of April 1, to October 31, 2008.

Natural gas prices have strengthened in the second quarter of 2008 up 30% to \$9.75 versus the \$7.49 in the comparative period of 2007.

Royalties

(\$000s)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Crown royalties	468	160	193	739	302	145
Freehold	238	7	-	398	12	-
Gross overriding	97	29	234	132	46	187
Total	803	196	310	1,269	361	252
As % of oil and gas revenues	13%	16%	(19)	13%	16%	(19)

Total royalties increased significantly in the second quarter of 2008, totaling \$803,000 versus \$196,000 in the same period of 2007. Royalties as a percentage of working interest revenues amounted to 13% during the second quarter of 2008, compared to 16% during the same quarter last year. The absolute dollar increase in royalties is attributed to the increase in production in the period as a result of acquisitions and additional volumes achieved through workover programs and new wells brought on in the period from the Company's capital program.

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

Lease Operating Costs

(\$000s, except per boe)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Lease operating costs	1,558	154	912	2,388	426	461
Per boe (\$)	21.88	6.97	214	20.39	10.17	100

Lease operating costs increased 912% from \$154,000 in the second quarter last year to \$1,558,000 in the second quarter of 2008.

Overall operating costs per unit were higher in the second quarter this year, impacted by the acquisition of higher operating cost properties in October 2007 and from the Milagro acquisition. Repair and maintenance and workover costs of \$378,000 or \$3.23/boe were required on these properties in the second quarter. The properties acquired have experienced high operating costs in the past, and will require capital improvements to continue to improve efficiencies. The Company is taking steps in 2008 to improve field operating efficiencies and has budgeted in excess of \$1,000,000 for certain capital expenditures and facility improvements, mainly in the Provost area to be incurred throughout 2008. The company expects to complete its capital improvements in the Provost area during the third quarter of 2008.

On a boe basis, lease operating costs increased 214% in the three months ended June 30, 2008 to \$21.88 per boe from \$6.97 per boe in the same period of 2007.

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

For the six month period ended June 30, 2008 and 2007, lease operating costs increased by 461% from the comparable period of 2007. On a boe basis, lease operating costs increased 100% from 2007, due to the amount of repairs and maintenance and workovers required on the acquired properties.

Transportation

(\$000s, except per boe)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Transportation	77	27	185	131	48	173
Per boe (\$)	1.08	1.22	(11)	1.12	1.15	(3)

Transportation costs for the three months ended June 30, 2008 amounted to \$77,000 with the transportation costs for the comparative period in 2007, amounting to \$27,000.

On a boe basis, transportation costs decreased 11% in the three months ended June 30, 2008 to \$1.08 per boe from \$1.22 per boe in the same period of 2007. The increase in absolute amount and per boe amount is a result of the acquisition of properties that occurred in October 2007 and the Milagro acquisition.

For the six months ended June 30, 2008 and 2007, transportation costs were \$131,000 and \$48,000 respectively.

Operating Netback

(\$/boe)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
			Change			Change
Petroleum and natural gas sales	88.82	54.47	63	83.12	53.69	55
Royalties	(11.28)	(8.87)	27	(10.84)	(8.60)	26
Lease operating costs	(21.88)	(6.97)	214	(20.39)	(10.17)	100
Transportation	(1.08)	(1.22)	(11)	(1.12)	(1.15)	(3)
Operating netback⁽¹⁾	54.58	37.40	46	50.77	33.77	50

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

Operating netbacks were significantly higher for the three months ended June 30, 2008, when compared to the prior year period, due mainly to the increase in commodity prices. Higher sales revenues were only partially offset by higher royalties and lease operating costs. Second Wave expects netbacks to remain high in the near term due to the current commodity price environment for crude oil.

Operating netbacks were higher for the six months ended June 30, 2008, when compared to the prior year period, due mainly to the significant increase in commodity prices. Higher sales revenues were offset by higher royalties and lease operating costs.

General and Administrative (“G&A”)

(\$000s, except per boe)	Three months ended			Six Months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
			Change			Change
G&A expenses	1,027	621	65	1,526	1,149	33
Capitalized G&A expenses	(105)	-	-	(235)	-	-
Net G&A expenses	922	621	48	1,291	1,149	12
Per boe (\$)	12.94	31.06	(58)	11.03	34.63	(68)
Per boe (\$) Excluding non-recurring restructuring charges	9.27	31.06	(70)	8.80	34.63	(75)

General and administrative expenses, net of capitalized G&A, increased 48% in the second quarter of this year, to \$922,000 from \$621,000 in the same period last year. The overall increase in G&A expenses in the quarter is related to an increase in personnel from 7 to 12 employees and non-recurring corporate restructuring charges including \$100,000 (\$1.41/boe) of legal fees and severance costs of \$161,000 (\$2.26/boe). On a boe basis, general and administrative expenses, net of capitalized G&A, were 58% lower during the second quarter this year as production volumes were higher than the second quarter last year.

Management expects that G&A costs on a per unit basis will continue to trend downward as a result of increased production volumes from both the acquisition of Milagro during the second quarter of 2008, and the benefits of Second Wave’s capital program for the remainder of the year.

For the six months ended June 30, 2008, general and administrative expenses, net of capitalized G&A, increased 12% from those of the comparative period last year.

Stock-Based Compensation

Stock-based compensation expense, net of capitalized stock-based compensation, for the three months ended June 30, 2008 was \$399,000, as compared to stock-based compensation expense of \$65,000 in the comparative period of 2007. The increase in stock-based compensation expense is due to the overall increase in personnel. Stock-based compensation expenses of \$117,000 were capitalized during the second quarter of 2008 (2007 – Nil).

For the six months ended June 30, 2008 and 2007, stock-based compensation expense, net of capitalized stock-based compensation, was \$663,000 and \$301,000 respectively. Stock-based compensation expenses of \$217,000 were capitalized during the six months ended June 30, 2008 (2007 – Nil).

Financing Expenses

(\$000s, except per boe)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Interest on current portion of debt	79	187	(58)	119	520	(77)
Interest on convertible debenture	-	-	-	31	-	-
Interest on long term portion of debt	80	-	-	80	-	-
Total cash component	159	187	(58)	230	520	(56)
Non cash component						
Loan extension fees - warrants	-	272	-	-	380	-
Total financing expenses	159	459	(65)	230	900	(74)
Per boe (\$)	2.23	21.05	(89)	1.97	21.69	(91)

Financing expenses decreased by 65% from \$459,000 in 2007 to \$159,000 in the second quarter of 2008. The majority of the decrease related to lower debt levels in 2008 and loan extension and other lender fees on the Company's debt facilities expenses in 2007.

For the six months ended June 30, 2008, financing expenses decreased by 74% to \$230,000 as compared with \$900,000 in 2007.

With the acquisition of Milagro Energy Inc. and commencement of the Company's drilling program during the second quarter of 2008, the Company expects to utilize its outstanding credit facilities and incur higher debt carrying costs throughout the remainder of the year.

Depletion, Depreciation and Accretion

(\$000s, except per boe)	Three months ended			Six months ended		
	2008	2007	June 30, %	2008	2007	June 30, %
Depletion	1,473	476	209	2,484	905	174
Depreciation	4	4	-	8	8	-
Accretion of asset retirement obligations	81	7	-	126	16	688
Total	1,558	487	220	2,618	929	182
Per boe (\$)	21.88	21.55	2	22.36	22.19	1

Depletion, depreciation and accretion expense increased 220% in the second quarter of 2008 to \$1,558,000 from \$487,000 in the same period of 2007. This increase in absolute dollar amount is a result of the increased production impacts from the property acquisition in October 2007 and the Milagro acquisition. On a boe basis depletion, depreciation and accretion expense increased by 2% to \$21.88/boe compared to \$21.55/boe in the same period of 2007.

Depletion, depreciation and accretion expense increased 182% in the six month period ended June 30, 2008 to \$2,618,000 from \$929,000 in the same period of 2007. On a boe basis depletion, depreciation and accretion expense increased by 1% to \$22.36/boe compared to \$22.19/boe in the same period of 2007.

Accretion of Convertible Debenture

Accretion of convertible debenture was \$13,000 during the six months ended June 30, 2008 and nil during the comparative period in 2007. As the Company entered into the convertible debenture during the third quarter of 2007, the comparable balance for 2007 was nil.

Income Taxes

The income tax provision for the three months ended June 30 was Nil, compared to an expense of \$25,000 in the comparative period of 2007.

The income tax provision for the six months ended June 30 was Nil, compared to a recovery of \$1,430,000 in the comparative period of 2007. The 2007 recovery was a result of reversal of a valuation allowance as at December 31, 2006.

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

Capital Expenditures

During the quarter ended June 30, 2008, \$4,070,000 (2007 - \$52,000), and for the six months ended June 30, 2008 \$5,696,000 (2007 - \$448,000) was expended on capital additions as summarized below:

Capital Expenditures (\$000s)	Three months ended June 30, %			Six months ended June 30, %		
	2008	2007	Change	2008	2007	Change
Land and acquisitions	409	65	529	607	124	390
Geological and geophysical	107	11	873	128	12	967
Drilling and completion	2,467	33	-	3,556	206	-
Facilities and equipment	865	(57)	-	948	106	794
Other	-	-	-	5	-	-
Capitalized G&A	105	-	-	235	-	-
Total cash portion	3,953	52	-	5,479	448	-
Non-cash portion						
Capitalized stock-based compensation	117	-	-	217	-	-
Total capital expenditures	4,070	52	-	5,696	448	-

The increase in capital expenditures in the three months ended June 30, 2008 was the result of the execution of the 2008 capital program including the drilling of 3 gross wells (3.0 net) of which included 1.0 (1.0 net) gas well, 1.0 (1.0 net) oil well and 1.0 (1.0 net) D&A well for a 67% success rate. Additional capital expenditures related to the equipping and tie-in portion of the successful wells and costs associated with the equipping and tie-in's of wells previously drilled were also incurred in the quarter.

For the six months ended June 30, 2008, Second Wave has drilled 4 gross wells (3.65 net), which included 1.0 (net) gas well, 1.0 (1.0 net) oil well and 2.0 (1.65 net) D&A wells for a 55% success rate.

Liquidity and Capital Resources

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

Second Wave has budgeted \$20,400,000 of capital expenditures for 2008 and expects to rely on internally generated cash flows and available lines of credit to fund its capital program.

Financing activities from raising equity during the first half of 2008 resulted in cash inflows of \$15,679,000. Cash inflows from financing activities were used to repay debt and for the company's investment activities which utilized \$5,967,000 of cash resources, principally on drilling and completion work, and the acquisition of Milagro Energy Inc. As a result of the activities in the first half of 2008, the company's unused line of credit increased from \$400,000 as at December 31, 2007, to \$14,979,000 as at June 30, 2008.

The previously disclosed conversion of the \$9,000,000 Convertible debenture by Brookfield Bridge Lending Fund Inc. ("Brookfield"), together with their exercise of \$4,700,000 in warrants during January resulted in the issuance of 11,960,682 common shares to Brookfield which together with their previous holdings resulted in them owning approximately 58% of the then issued and outstanding common shares of Second Wave.

On January 17, 2008, Second Wave closed a private placement to members of management and directors of Second Wave. In aggregate, Second Wave issued 600,489 Units, for aggregate proceeds of \$1,100,000.

In order to finance the acquisition of Milagro, Second Wave closed an equity private placement for 4,000,000 Units at \$2.50 per Unit for gross proceeds of \$10,000,000 and entered into a \$7,500,000 secured revolving facility agreement, both with Brookfield. Each Unit was comprised of one Common Share and 0.6 Common Share purchase warrant. Each warrant is exercisable for two years from the closing date at a price of \$3.125 per warrant. The facility bears interest at the bank's prime rate plus 2%, and has a two year term. Proceeds from these activities were used upon closing the acquisition of Milagro to repay its outstanding term facility and convertible debentures. As at August 28, 2008, Brookfield owns approximately 61% of the issued and outstanding common shares of Second Wave.

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

As a result of monies raised in 2007 and 2008, as at August 28, 2008, the Company was committed to incur additional exploration expenditures of \$1,300,000 and has flow through warrants outstanding which upon exercise by the warrant holders could add an additional \$1,729,000 of flow through obligation. Within its 2008 capital program the company has budgeted for exploration projects to cover the maximum flow through liability from these financings of \$3,029,000.

Quarterly Financial Summary

	2008		2007				2006	
(\$000's except per boe and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average production (boe/d)	783	504	451	244	243	220	267	325
Petroleum and natural gas sales	6,326	3,407	2,494	1,120	1,203	1,045	1,248	1,498
Royalties	(803)	(466)	(338)	(197)	(196)	(165)	(161)	(228)
Operating expenses	(1,558)	(829)	(1,047)	(275)	(153)	(273)	(372)	(426)
Operating netback (per boe) ⁽¹⁾	54.58	44.87	25.51	28.86	37.40	29.72	28.31	28.11
Funds from operations ⁽²⁾	2,596	1,617	(344)	(446)	18	(273)	(86)	150
Per share - basic	0.09	0.07	(0.03)	(0.06)	-	(0.05)	(0.03)	0.05
Per share - diluted	0.09	0.07	(0.03)	(0.06)	-	(0.05)	(0.03)	0.05
Net income (loss)	296	380	(1,640)	(1,102)	(1,200)	395	(3,641)	(14,509)
Per share - basic	0.01	0.01	(0.13)	(0.10)	(0.19)	0.07	(1.13)	(4.48)
Per share - diluted	0.01	0.01	(0.13)	(0.10)	(0.19)	0.05	(1.13)	(4.48)
Capital expenditures	4,070	1,627	14,303	1,034	52	396	1,506	1,491

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

⁽²⁾ Funds from operations is a non-GAAP measure that does not have a standardized meaning as prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other oil and gas companies. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.

Consolidated Financial Statements of

Second Wave Petroleum Inc.

Three and Six Months Ended June 30, 2008

Second Wave Petroleum Inc.

Consolidated Balance Sheets

As at June 30, 2008 and December 31, 2007

Unaudited

	As at June 30, 2008	As at December 31, 2007
ASSETS		
Current assets:		
Accounts receivable	\$ 3,964,594	\$ 1,982,292
Prepaid expenses	480,495	134,400
	4,445,089	2,116,692
Property and equipment (note 5)	62,161,605	29,000,831
	\$ 66,606,694	\$ 31,117,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,807,521	\$ 2,889,217
Financial derivatives contract (note 15)	493,544	-
Loans payable (note 6)	2,959,625	5,551,042
	10,260,690	8,440,259
Loans payable (note 6)	7,500,000	-
Convertible debenture (note 7)	-	8,585,844
Asset retirement obligation (note 9)	5,086,994	2,374,826
	22,847,684	19,400,929
Non-controlling interest	4,886,139	-
Shareholders' equity:		
Share capital (note 10)	32,104,652	40,991,342
Warrants (note 10g)	4,065,805	1,957,057
Contributed surplus (note 10i)	2,026,211	1,265,096
Equity component of convertible debenture (note 7)	-	506,481
Retained earnings (deficit)	676,203	(33,003,382)
	38,872,871	11,716,594
Nature of business (note 1)		
Contingencies (note 11)		
Subsequent events (note 17)		
	\$ 66,606,694	\$ 31,117,523

See accompanying notes to consolidated financial statements.

Second Wave Petroleum Inc.

Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit)

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues				
Petroleum and natural gas sales	\$ 6,325,760	\$ 1,202,949	\$ 9,732,618	\$ 2,248,149
Royalties	(803,011)	(196,124)	(1,269,009)	(360,846)
Realized loss on financial derivatives	(211,352)	-	(211,352)	-
Unrealized loss on financial derivatives (note 15)	(493,544)	-	(493,544)	-
	4,817,853	1,006,825	7,758,713	1,887,303
Expenses				
Lease operating costs	1,558,358	154,208	2,387,635	425,786
Transportation	77,023	26,190	131,193	47,751
General and administrative	921,783	621,101	1,291,672	1,148,849
Depletion, depreciation and accretion	1,558,259	487,385	2,617,988	929,542
Stock-based compensation	281,516	64,682	445,968	301,095
Financing expense (note 12)	158,798	459,448	229,853	900,135
Accretion of convertible debenture	-	-	12,683	-
Write-off goodwill	-	368,522	-	368,522
	4,555,737	2,181,536	7,116,992	4,121,680
Income (loss) before income taxes	262,116	(1,174,711)	641,721	(2,234,377)
Income tax expense (recovery) (note 8)	-	25,000	-	(1,430,000)
Income (loss) before non-controlling interest	262,116	(1,199,711)	641,721	(804,377)
Non-controlling interest in loss of Milagro	34,482	-	34,482	-
Net income (loss) and comprehensive income (loss)	296,598	(1,199,711)	676,203	(804,377)
Deficit – beginning of period	(32,623,777)	(29,061,255)	(33,003,382)	(29,456,589)
Restatement of stated capital (note 10j)	33,003,382	-	33,003,382	-
Retained earnings (deficit) – end of period	\$ 676,203	\$ (30,260,966)	\$ 676,203	\$ (30,260,966)
Net income (loss) and comprehensive income (loss) per share:				
Basic	\$ 0.01	\$ (0.19)	\$ 0.03	\$ (0.11)
Diluted	\$ 0.01	\$ (0.19)	\$ 0.02	\$ (0.11)
Average number of shares outstanding ¹ :				
Basic	28,563,517	6,279,429	25,978,048	7,020,464
Diluted	30,105,191	6,279,429	28,346,828	7,020,464

¹ On May 26, 2008, the Company exercised its right to convert all of its Class B shares into Class A shares, whereby for each Class B share outstanding 10 Class A shares were issued. On June 25, 2008, shareholders approved the consolidation of the Class A shares of the company on a one for ten basis, the cancellation of Class B shares, and the redesignation of the Class A shares into Common shares. Share numbers have been retroactively adjusted to reflect the share consolidation.

Second Wave Petroleum Inc.

Consolidated Statements of Cash Flow

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cash flow from operating activities:				
Net income (loss) and comprehensive income (loss)	\$ 296,598	\$ (1,199,711)	\$ 676,203	\$ (804,377)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depletion, depreciation and accretion	1,558,259	487,385	2,617,988	929,542
Stock-based compensation	281,516	64,682	445,968	301,095
Unrealized loss on financial derivatives	493,544	-	493,544	-
Non-controlling interest in Milagro loss	(34,482)	-	(34,482)	-
Accretion of convertible debenture (note 7)	-	-	12,683	-
Write off goodwill	-	368,522	-	368,522
Financing expenses	-	271,850	-	379,895
Future income tax expense (recovery)	-	25,000	-	(1,430,000)
	2,595,435	17,728	4,211,904	(255,323)
Change in non-cash working capital	(3,246,536)	67,031	(3,422,897)	123,216
	(651,101)	84,759	789,007	(132,107)
Cash flow used in investing activities:				
Expenditures on property and equipment	(3,952,500)	(51,941)	(5,479,582)	(447,826)
Corporate acquisitions (note 4)	(487,245)	(150,534)	(487,245)	(150,534)
Change in non-cash working capital	3,770,343	(237,924)	3,126,507	(907,223)
	(669,402)	(440,399)	(2,840,320)	(1,505,583)
Cash flow from financing activities:				
Issuance of shares and warrants	10,192,596	1,415,000	15,975,612	5,491,625
Share and warrant issue costs	(286,747)	-	(297,084)	(231,469)
Exercise of stock options	12,337	-	12,337	-
Loan advances	7,500,000	1,000,000	7,500,000	(1,000,000)
Loan repayments	(15,491,179)	(1,600,000)	(20,541,931)	(1,600,000)
Restricted cash	-	(500,000)	-	(500,000)
Change in non-cash working capital	(606,504)	208,456	(597,621)	31,831
	1,320,503	523,456	2,051,313	2,191,987
Increase in cash and cash equivalents	-	167,816	-	554,297
Cash and cash equivalents - beginning of period	-	528,533	-	142,052
Cash and cash equivalents - end of period	\$ -	\$ 696,349	\$ -	\$ 696,349

See accompanying notes to financial statements.

Supplementary Cash Flow Information

Interest received	\$ 41	\$ 5,471	\$ 118	\$ 8,253
Interest paid	355,256	193,068	415,058	528,493

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

1. Nature of business

The accompanying unaudited interim consolidated financial statements, include the accounts of Second Wave Petroleum Inc. (“Second Wave” or “the Company”), its wholly-owned subsidiary, Second Wave Holdings Ltd (“Holdings”), and its 86% owned subsidiary, Milagro Energy Inc. (“Milagro”). On June 25, 2008, the Company’s changed its name from Second Wave Petroleum Ltd. to Second Wave Petroleum Inc. Second Wave, Holdings and Milagro are incorporated under the laws of the province of Alberta. The Company’s common shares trade under the symbols 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and followed the same accounting policies as the audited financial statements for the year ended December 31, 2007. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. These interim financial statements should be read in conjunction with the financial statements and footnotes as at and for the year ended December 31, 2007.

3. Changes in Accounting Policies

(a) Accounting changes:

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

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

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

(b) Basis of presentation:

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

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

4. Acquisitions

(a) Acquisition of Milagro Energy Inc.

During the quarter ended June 30, 2008, the Company acquired a total of 86.4% of the outstanding shares of Milagro Energy Inc. (“Milagro”) for total consideration of \$2,142,640. On May 8, May 23, June 6, and June 24, 2008, the Company acquired 68.8%, 6.2%, 8.4%, and 3.0% of the outstanding shares of Milagro respectively for a total of 86.4%. Subsequent to the period end on July 16, July 30, and August 28, the Company acquired an additional 1.9%, 0.6% and 1.7% for a total of 90.6%. As the offer for Milagro was accepted by the holders of more than 90% of the Milagro shares, the Company intends to immediately exercise its right to acquire the remaining Milagro shares pursuant to the compulsory acquisition provisions of the Business Corporations Act (Alberta).

Under the terms of the agreement, during the period ended June 30, 2008 the Company issued a total of 4,575,755 Class A shares and 4,575,755 Class A share purchase warrants for the shares of Milagro tendered into the offer. Each whole warrant was exercisable into one Class A share of the Company at \$0.40 per warrant until they expire on May 8, 2009. As a result of a 1 for 10 share consolidation that occurred on June 24, 2008, the resulting 431,514 warrants are exercisable into common shares at \$4.00 per warrant. 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 1 Class A share and 1 warrant	\$ 1,454,912
Acquisition costs	687,728
	<hr/>
	\$ 2,142,640
Fair value of assets and liabilities:	
Property and equipment	\$ 30,021,475
Current assets (including cash of \$200,483)	1,307,106
Accounts payable	(3,728,226)
Debt	(17,950,514)
Asset retirement obligation	(2,586,580)
Non-controlling interest	(4,920,621)
	<hr/>
	\$ 2,142,640

The Company has not finalized the valuation of the assets and liabilities, therefore the allocation of the purchase price is subject to revision.

An additional 260,714 Class A shares of Second Wave valued at \$73,000 were issued to executive management of Milagro for severance.

Milagro’s results are included in the results of the Company subsequent to May 8, 2008 which is the date that it acquired control of Milagro.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

4. Acquisitions (continued)

(b) Acquisition of Stone Castle Exploration Ltd:

On May 7, 2007, the Company acquired all of the issued and outstanding shares of Stone Castle Exploration Ltd. ('Stone Castle') for total consideration of \$1,042,830. Under the terms of the agreement the Company issued a total of 12,385,000 units valued at \$0.084 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 was 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	\$	1,037,426
Acquisition costs		151,110
	\$	1,188,536
Fair value of assets and liabilities:		
Property and equipment	\$	2,055,984
Future income taxes		770,000
Goodwill		514,228
Current assets		3,243
Loan		(1,600,000)
Asset retirement obligation		(209,279)
Accounts payable		(345,640)
	\$	1,188,536

The accounts payable are a direct offset to the receivables held by the Company from Stone Castle. During 2007, the value of goodwill was determined to be impaired and was written off as a charge to income.

5. Property and equipment

	June 30, 2008		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$ 103,505,017	\$ 41,402,002	\$ 62,103,015
Office equipment	129,150	70,560	58,590
	\$ 103,634,167	\$ 41,472,562	\$ 62,161,605

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

5. Property and equipment (continued)

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

At June 30, 2008, \$7,607,000 (December 31, 2007 - \$1,025,025) of undeveloped land costs have been excluded from the depletion base. Future development costs of \$7,663,000 (December 31, 2007 - \$2,185,375) were included in the calculation of depletion. In 2008, \$217,000 of stock based compensation (December 31, 2007 - \$Nil) and \$235,000 (December 31, 2007 - \$Nil) of general and administrative costs have been capitalized.

6. Loans payable

	June 30, 2008	December 31, 2007
Cheques issued in excess of balance in accounts	\$ 259,625	\$ 216,892
Revolving operating loan facility (note 6a)	2,700,000	3,334,150
Term loan payable (note 6b)	7,500,000	-
Non-revolving term loan payable (note 6c)	-	2,000,000
Balance, end of period	\$ 10,459,625	\$ 5,551,042
Current portion	2,959,625	5,551,042
Long term portion	7,500,000	-
	\$ 10,459,625	\$ 5,551,042

(a) Revolving operating loan facility

On May 8, 2008, the Company increased its credit facility from \$6,000,000 to \$18,000,000 with a Canadian chartered bank. The facility is a demand revolving operating line which is reviewed annually and includes a \$320,539 letter of guarantee that was posted for potential contingent liabilities in connection with an asset acquisition. The operating line bears interest at the bank's prime rate plus 0.4% and is secured by the assets of the Company. The letter of guarantee has a one year term and includes a fee of 2% per annum.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

6. Loans payable (continued)

(b) Term loan payable

In connection with the acquisition of Milagro Energy Inc. on May 8, 2008, the Company obtained a \$7,500,000 credit facility from its major shareholder. The loan is due on May 8, 2010 and bears interest at the bank's prime rate plus 2%, and is secured by assets of the Company.

(c) Non-revolving term loan

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

7. Convertible debenture

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

Convertible debenture	June 30, 2008		December 31, 2007	
	Equity Component	Debt Component	Equity Component	Debt Component
Beginning of year	\$ 506,481	\$ 8,585,844	\$ -	\$ -
Conversion of debenture	(506,481)	(8,493,519)	-	-
Transfer of excess of carrying amount of debenture to contributed surplus	-	(105,008)	-	-
Debenture issued	-	-	-	9,000,000
Equity portion	-	-	515,466	(515,466)
Issue costs (net of future income taxes of \$3,850)	-	-	(8,985)	-
Accretion of non-cash interest expense	-	12,683	-	101,310
End of period	\$ -	\$ -	\$ 506,481	\$ 8,585,844

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

Second Wave Petroleum Inc

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

7. Convertible debenture (continued)

On January 17, 2008, Brookfield Bridge Lending Fund Inc. the debenture holder exercised its option to convert its \$9,000,000 convertible debenture into 81,818,182 Class A Shares of Second Wave (8,181,818 post one for ten consolidation).

8. Future income taxes

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

	Six Months Ended June 30,	
	2008	2007
Net income (loss) and comprehensive income (loss) before income taxes	\$ 676,203	\$ (2,234,377)
Combined federal and provincial tax rate	29.71%	32.12%
Calculated "expected" income tax expense	201,000	(718,000)
Increase (decrease) resulting from:		
Non-deductible items	137,000	333,000
Change in tax rate	(78,000)	(62,000)
Valuation allowance	(260,000)	(983,000)
Future income tax recovery	\$ -	\$ (1,430,000)

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

	June 30,	
	2008	2007
Property, plant and equipment	\$ 1,890,000	\$ 802,000
Share issuance costs and other	539,000	(613,000)
Non capital losses	6,152,000	(843,000)
Valuation allowance	(8,581,000)	654,000
Net future income tax asset (liability)	\$ -	\$ -

The Company has accumulated non-capital losses for income tax purposes of approximately \$24,300,000 which are available against future taxable income. Unless sufficient taxable income is earned, these losses will expire between in 2011 and 2027.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

9. Asset retirement obligation

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas assets. A credit adjusted risk free rate of 7.5% and an inflation rate of 2% (2007 - 2%) were used to calculate the fair value of the asset retirement obligation. Undiscounted estimated cash flows of \$7,486,000 (2007 - \$3,475,000) are required to settle the obligations at estimated dates in the future ranging from 2008 to 2025.

	June 30, 2008	December 31, 2007
Beginning of year	\$ 2,374,826	\$ 522,765
Liabilities incurred	-	115,948
Accretion expense	125,588	54,991
Acquired on business acquisitions (note 4)	2,586,580	209,279
Acquired on asset acquisition	-	1,766,750
Changes in accounting estimates	-	(239,141)
Abandonments	-	(55,766)
End of period	\$ 5,086,994	\$ 2,374,826

10. Share capital

(a) Authorized:

The authorized share capital currently consists of an unlimited number of common shares. On May 26, 2008, the Company exercised its right to convert all of its Class B shares into Class A shares, whereby for each Class B share outstanding 10 Class A shares were issued. On June 25, 2008, shareholders approved the consolidation of the Class A shares of the company on a one for ten basis, the cancellation of Class B shares, and the redesignation of the Class A shares into Common shares. Share numbers have been retroactively adjusted to reflect the share consolidation.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

(b) Issued and outstanding:

Common Shares	June 30, 2008		December 31, 2007	
	Number of Shares	Value	Number of Shares	Value
Beginning of year	12,956,913	\$ 35,873,910	3,211,863	\$ 28,261,895
Issued for cash (note 10c)	600,489	1,080,880	7,750,000	7,266,393
Issued on conversion of convertible debenture (note 7)	8,181,818	9,000,000	-	-
Issued on private placement to related party (note 10c)	4,000,000	10,000,000	-	-
Black Scholes value transferred to warrants	-	(2,931,556)	-	-
Issued on corporate acquisitions (note 4)	457,575	1,295,581	619,250	891,720
Warrants exercised (note 10g)	3,779,013	4,702,732	1,195,800	1,499,125
Transfer of carrying value on exercise of warrants (note 10g)	-	1,055,136	-	290,938
Flow through shares issued on exercise of warrants (note 10d)	160,000	192,000	20,000	24,000
Exchange of Class B shares	935,616	5,117,432	-	-
Stock options exercised	10,000	19,003	-	-
Reduction of stated capital (note 10j)	-	(33,003,382)	-	-
Broker warrants exercised (note 10g)	-	-	160,000	200,000
Future tax effect of flow-through shares	-	-	-	(2,282,200)
Share issue costs (net of future income taxes of Nil (2007 - \$128,040))	-	(297,084)	-	(277,961)
End of period	31,081,424	\$ 32,104,652	12,956,913	\$ 35,873,910
Class B Shares				
Beginning of year	93,562	\$ 5,117,432	93,562	\$ 5,117,432
Transfer to Common shares	(93,562)	(5,117,432)	-	-
End of period	-	-	93,562	5,117,432
End of period - Common shares	31,081,424	\$ 32,104,652	13,050,475	\$ 40,991,342

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

(c) Issued for cash:

On May 8, 2008, the Company issued 4,000,000 Units at \$2.50 per unit for gross proceeds of \$10,000,000 to Brookfield Bridge Lending Fund Inc, the majority shareholder. Each unit consisted of one share and 0.6 share purchase warrant exercisable at \$3.125 per warrant. The Company used the Black-Scholes option pricing model to determine the values of the share purchase warrants in connection with the issuance. The Black-Scholes value of the warrants was \$2,673,823.

On January 17, 2008, the Company issued 600,489 Units at \$1.80 per unit for gross proceeds of \$1,080,880. Each Unit consisted of one flow through share and one share purchase warrant. The Company used the Black-Scholes option pricing model to determine the values of the share purchase warrants in connection with the issuance. The Black-Scholes value of the warrants was \$257,730. In connection with the private placement, Second Wave is committed to expend \$1,080,880 in eligible flow through expenditures prior to December 31, 2009.

On January 15, 2007, the Company issued 3,200,000 Units at \$1.25 per unit for gross proceeds of \$4,000,000 and in September 2007, the Company issued an additional 4,550,000 Units at \$1.10 per unit for gross proceeds of \$5,005,000. In both placements the Units consisted of one share and one share purchase warrant. The Company used the Black-Scholes option pricing model to determine the values of the share purchase warrants in connection with these issuances. The Black-Scholes value of the warrants was \$1,738,607.

(d) Flow-through shares issued:

During the second quarter of 2008, 160,000 shares of the Company were issued on exercise of \$1.20 flow through warrants. The Company is committed to spend 100% of the funds on qualifying exploration and development expenditures prior to December 31, 2009.

In November 2007, 20,000 shares of the Company were issued on exercise of \$1.20 flow through warrants. The Company is committed to spend 100% of the funds on qualifying exploration and development expenditures prior to December 31, 2008.

(e) Per share data:

The basic weighted average number of shares outstanding during the three and six month periods ended June 30, 2008 was 28,563,517 and 25,978,048 respectively. During the three and six month periods ended June 30, 2007, all warrants and options would have an anti-dilutive effect on the loss per share as the Company was in a loss position.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

Diluted weighted average number of shares outstanding during the three and six month periods ended June 30, 2008 was 30,105,191 and 28,346,828 respectively. During the three and six month periods ended June 30, 2007 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 options and warrants is calculated using the treasury stock method.

(f) Stock option plan:

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

	June 30, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of year	1,267,500	\$ 2.30	164,533	\$ 6.00
Granted	1,272,500	3.20	1,330,000	2.00
Exercised	(10,000)	1.20	-	-
Forfeited	(60,000)	1.50	(227,033)	3.90
Outstanding – end of period	2,470,000	\$ 2.80	1,267,500	\$ 2.30
Exercisable – end of period	344,167	\$2.80	244,168	\$3.10

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

Exercise Price	Options outstanding		Options exercisable	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$1.10	6,667	4.16	6,667	4.16
\$1.50	16,667	3.82	13,333	3.82
\$2.00	1,116,666	4.13	280,000	3.54
\$2.40	395,000	4.54	-	-
\$2.60	222,500	4.66	-	-
\$3.90	655,000	4.93	-	-
\$4.00	15,000	1.52	15,000	1.52
\$10.00	40,000	3.02	26,667	3.02
\$20.04	2,500	2.11	2,500	2.11
	2,470,000		344,167	

The weighted average grant date fair value of all options granted in 2008 was \$3.20 (2007 - \$1.25).

The fair value of options granted during the six month period ended June 30, 2008 of \$2,586,001 (2007 - \$653,488) was calculated using a risk free rate of approximately 4%, dividend yield of 0%, volatility factor of 75%, and an expected life of 5 years. The value of the options was recorded as stock based compensation expense, with an offsetting amount to contributed surplus based on the vesting terms.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

(g) Warrants:

The number of warrants have been retroactively adjusted to reflect the one for ten consolidation.

	June 30, 2008		December 31, 2007	
	Number of Warrants	Value	Number of Warrants	Value
Beginning of year	8,163,450	\$ 1,957,057	-	\$ -
Issued with shares, net of share issuance costs of Nil (2007 - \$103,490 and future taxes of \$31,054)	3,000,489	2,931,553	7,910,000	1,662,796
Issued on corporate acquisitions (note 4)	431,504	232,331	619,250	145,706
Warrants exercised	(2,929,013)	-	(1,195,800)	-
Loan extension warrants exercised	(850,000)	-	-	-
Flow through warrants exercised	(160,000)	-	(20,000)	-
Issued to brokers	-	-	160,000	38,463
Broker warrants exercised	-	-	(160,000)	-
Issued on loan extensions	-	-	850,000	401,030
Transfer of carrying value on exercise of warrants	-	(1,055,136)	-	(290,938)
End of period	7,656,430	\$ 4,065,805	8,163,450	\$ 1,957,057

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

On May 8, 2008, the Company issued 4,000,000 Units at \$2.50 per unit for gross proceeds of \$10,000,000. Each unit consisted of one share and 0.6 share purchase warrant exercisable at \$3.125 per warrant. The resulting 2,400,000 warrants expire on May 8, 2010. The Company used the Black-Scholes option pricing model to determine the values of the Class A share purchase warrants in connection with the issuance. The Black-Scholes value of the warrants was \$2,809,200.

In connection with the acquisition of Milagro Energy Inc. on May 8, May 26, June 6, and June 24, 2008, the Company issued an aggregate of 431,504 warrants exercisable at \$4.00 per warrant that expire on May 8, 2009. The Company used the Black-Scholes option pricing model to determine the values of the share purchase warrants in connection with the issuance. The Black-Scholes aggregate value of the warrants was \$232,331.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

On January 15, 2008, the holder of 2,928,864 of these warrants exercised its warrants and elected not to take the related flow through deductions. If all remaining flow through warrants that arose from the September 2007 private placement are exercised, the Company could be committed to expend an additional \$1,729,000 of eligible expenditures.

On January 17, 2008, the Company issued 600,489 Units at \$1.80 per unit for gross proceeds of \$1,080,880. Each Unit consisted of one flow through share and one share purchase warrant exercisable at \$2.00 per warrant. The Company used the Black-Scholes option pricing model to determine the values of the share purchase warrants in connection with the issuance. The Black-Scholes value of the warrants was \$257,730.

On January 15, 2007, the Company issued 3,200,000 Units at \$1.25 per unit for gross proceeds of \$4,000,000. The Units were comprised of one share and one warrant. Each warrant was exercisable into one share at a price of \$1.25 per share until March 31, 2007 (extended to April 3, 2007), thereafter at \$2.00 per share until June 30, 2007, thereafter at \$3.00 per share until December 31, 2007, and thereafter at \$4.00 per share until expiry on December 31, 2008. In connection with the financing, the Company also issued 160,000 broker warrants to the financing agent. Each broker warrant was exercisable into one unit comprised of one share and one warrant at a price of \$1.25 per unit, with each warrant then being exercisable under the same terms as the non-broker warrants. Upon exercise of the brokers warrants, an additional 160,000 warrants were issued to the brokers.

On January 15, 2007, the Company issued 350,000 warrants to its lender as consideration for the loan extension. Each warrant was exercisable into one share at a price of \$1.25 per share, before the Facility is fully paid, \$1.75 upon full repayment of the Facility, until expiry on January 15, 2009. These warrants were exercised during the first quarter of 2008.

On May 7, 2007, the Company issued 1,238,500 units at \$0.84 per unit for total consideration \$1,037,426 to the shareholders of Stone Castle. The units consisted of 0.5 share and 0.5 warrant. Each warrant was exercisable into one share at a price of \$2.00 per share until June 30, 2007, thereafter at \$3.00 per share until December 31, 2007 and thereafter at \$4.00 per share until expiry on December 31, 2008.

In May 7, 2007, as a result of the acquisition of Stone Castle, the Company increased its debt facility with its principal lender by \$1,000,000 and extended the repayment of the debt facility to December 31, 2007. As consideration for the increased loan and extension, the Company issued 500,000 warrants to purchase 500,000 shares to its lender. The warrants had an exercise price of \$1.50 and were exercised in January 2008.

On September 11, 2007, the Company issued 4,550,000 Units at \$1.10 per unit for gross proceeds of \$5,005,000. Each unit consisted of a share and a flow through warrant exercisable at \$1.20 until they expire on December 31, 2008.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

10. Share capital (continued)

(h) Escrowed shares

Pursuant to an Escrow Agreement dated October 28, 2004 a total of 617,900 shares of certain officers, directors, employees, and principal shareholders were being held in escrow. On January 7, 2005 when the shares of the Company were listed on the TSX Venture Exchange, 10% of the escrowed shares were released. The remaining 90% were released in 15% increments during consecutive 6 month periods following the listing. As of December 31, 2007, 91,109 shares were in escrow, and were released on January 11, 2008.

(i) Contributed surplus

A summary of change in the Company's contributed surplus balance for the six months ended June 30, 2008 and year ended December 31, 2007 is as follows:

	June 30, 2008	December 31, 2007
Beginning of year	\$1,265,096	\$ 699,878
Stock based compensation related to fair value of options granted	662,773	565,218
Conversion of convertible debenture	105,008	-
Stock options exercised	(6,666)	-
End of period	\$2,026,211	\$ 1,265,096

(j) Reduction of stated capital

On June 24, 2008, shareholders of the Company voted to reduce the Company's stated capital account by \$33,003,382. The reduction of the stated capital was offset by a corresponding elimination of the Company's deficit.

11. Contingencies

In connection with an asset acquisition that closed in October 2007, the Company currently has an outstanding letter of credit in the amount of \$320,539 as security for potential contingent liabilities associated with the acquisition. Settlement of potential contingent liabilities will be treated as purchase price adjustments in the period of settlement.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

12. Financing expense

	Three months ended		Six months ended	
	2008	June 30, 2007	2008	June 30, 2007
Interest on current debt	\$ 79,240	193,069	\$ 118,820	528,493
Interest on long term debt	79,558	-	79,558	-
convertible debenture interest	-	-	31,475	-
Loan extension fees	-	271,850	-	379,895
	\$ 158,798	464,919	\$ 229,853	908,388

13. Related party transactions

During the period ended June 30, 2008, the Company has entered into to the following related party transactions:

- Legal services, disbursements and regulatory costs totaling \$231,892 (2007 - \$239,583) payable to a legal firm of which a former director and officer of the Company is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs.
- Financing and advisory fees of \$Nil, (2007 - \$268,400) payable to a Company of which a former director of the Company is an officer.
- Payments of \$581,372 (2007 - \$Nil) for financing related expenses were paid to Brookfield Bridge Lending Fund Inc. ("Brookfield"), a company which is a significant shareholder of the Company (see notes 6(b) and 10(c)). As at August 28, 2008, Brookfield owned 18,889,545 shares or 61% of the outstanding Commons shares of Second Wave.

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

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

14. Changes in non-cash working capital

	Three months ended		Six months ended	
	2008	June 30, 2007	2008	June 30, 2007
Decrease (increase) in non-cash working capital				
Accounts receivable	\$ (514,978)	527,134	\$ (597,462)	600,095
Prepaid expenses	157,229	(27,106)	(272,974)	(4,975)
Accounts payable and accrued liabilities	440,446	(462,465)	(23,575)	(1,347,286)
Net change in non-cash working capital	\$ 82,697	37,563	\$ (894,011)	(752,176)
Relating to:				
Operations	\$ (3,246,536)	67,031	\$ (3,422,897)	123,216
Financing	(606,504)	208,456	(597,621)	31,831
Investments	3,770,343	(237,724)	3,126,507	(907,223)
	\$ 82,697	37,563	\$ (894,011)	(752,176)

15. Financial instruments

In January 2008, Second Wave entered into a costless collar on a portion of its oil production for the period from April 1, 2008 to October 31, 2008. During 2007, the Company did not undertake any financial instrument activities with respect to its crude oil, natural gas liquids, and natural gas sales. The Company was exposed to fluctuations in commodity prices.

Volume (bbl/d)	Remaining Term	Costless Collar (WTI) per bbl	Fair market value
100	July 1 – October 31, 2008	US \$80.00 – \$101.00	\$ (493,544)

16. Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

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

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

16. Financial Risk Management (continued)

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

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

Credit Risk

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

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

The Company's credit risk is limited to the carrying value of its accounts receivable, which are primarily due from entities involved in the oil and gas industry. At June 30, 2008, the Company had no material accounts receivable deemed uncollectible, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the periods ended June 30, 2008 and December 31, 2007.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

16. Financial Risk Management (continued)

Liquidity Risk

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

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

The financial liabilities on its balance sheet consist of accounts payable and bank debt. Accounts payable consist of invoices payable to trade suppliers relating to capital expenditure program, field operations and office expenses. At June 30, 2008, Second Wave's bank debt is on a revolving reserve based credit facility that is reviewed annually by the lender.

Market risk

Market risk is the risk that changes in market prices, such as changes in foreign exchange rates, commodity prices and interest rates will effect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

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

(i) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use a financial derivative contract as indicated in Note 15.

(ii) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency, however the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place at June 30, 2008.

Second Wave Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

Unaudited

16. Financial Risk Management (continued)

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's debts that have a floating interest rate. The Company had no interest rate swaps or hedges as at and during the period ended June 30, 2008.

Fair value of financial instruments

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

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

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

Capital management

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

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

17. Subsequent events

On July 16, July 30, and August 28, 2008, Second Wave acquired an additional 3,266,560, 935,365, and 2,900,333 shares representing an additional 1.9%, 0.6%, and 1.7% respectively of Milagro Energy Inc. ("Milagro"). As at August 28, 2008 Second Wave owns 90.6% of Milagro. As the offer for Milagro was accepted by the holders of more than 90% of the Milagro shares, the Company intends to immediately exercise its right to acquire the remaining Milagro shares pursuant to the compulsory acquisition provisions of the Business Corporations Act (Alberta).