

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Second Wave Petroleum Inc. ("Second Wave" or the "Company") should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2009 and the audited consolidated financial statements notes of the Company for the year ended December 31, 2008. This MD&A incorporates information up to and including May 27, 2009. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All of the amounts reported in this MD&A are in Canadian dollars, unless otherwise indicated. Certain other information with respect to the Company is available on SEDAR, at www.sedar.com and at the Company's website at www.secondwavepetroleum.com. Information can also be obtained by contacting the Company at Second Wave Petroleum Inc, Suite 1700, 520, 5th Ave. S.W., Calgary, Alberta, T2P 3R7.

NON-GAAP FINANCIAL MEASUREMENTS

The Company has used certain measures of financial reporting that are commonly used benchmarks within the oil and gas industry in this MD&A that are considered non-GAAP measures. The measures used in this document include "funds from operations", "funds from operations per share", 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. Further supplemental indicators of performance common to the oil and gas industry are the measurement of costs and expenses on a per barrel of oil equivalent (boe). These non-GAAP measures may not necessarily be comparable to similarly titled measures used by other entities and readers of this MD&A are cautioned in attempting to make such comparisons.

OTHER MEASUREMENTS

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("BOE") using 6,000 cubic feet (6 Mcf) of natural gas equal to one barrel of oil (6:1), unless otherwise stated. The BOE conversion ratio of 6 Mcf to 1 barrel is based on an energy equivalency conversion method 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 2009 and beyond. Existing or potential investors should not place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations they are based on will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific that contributes to the possibility that although the predictions, forecasts, projections and other forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in the presentation include general economics, business and market conditions; volatility of energy prices; fluctuations in interest rates; energy supply and demand; competition, access to future funding, timing and amount of capital expenditures, imprecision in estimated future productive

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

This management discussion and analysis is dated as at May 27, 2009.

Overview

(\$000s, except per share amounts)	Three months ended March 31,		
	2009	2008	% Change
Petroleum and natural gas sales	3,325	3,407	(2)
Royalties	(407)	(466)	(13)
Lease operating costs	(1,962)	(829)	137
Transportation	(99)	(54)	83
Operating netback⁽²⁾	857	2,058	(58)
General and administrative	(634)	(370)	71
Financing expenses	(250)	(71)	252
Funds from operations⁽¹⁾	(27)	1,617	(102)
Depletion, depreciation, and accretion	(2,182)	(1,060)	106
Stock-based compensation	(312)	(164)	90
Future income tax recovery	393	-	-
Accretion of convertible debenture	-	(13)	-
Net income (loss) and comprehensive income (loss)	(2,128)	380	(660)
Funds from operations per share ⁽¹⁾ :			
Basic (\$)	-	0.07	-
Diluted (\$)	-	0.07	-
Net income (loss) per share:			
Basic (\$)	(0.06)	0.02	(400)
Diluted (\$)	(0.06)	0.02	(400)
Average number of shares outstanding (000s):			
Basic	33,736	23,486	44
Diluted	33,736	24,716	36

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

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

As of the reporting date of May 27, 2009, Second Wave had 36,932,340 common shares outstanding.

(\$000s)	Three months ended March 31,		
	2009	2008	% Change
Cash flow from operating activities (GAAP)	323	1,440	(77)
Change in non-cash working capital (GAAP)	(350)	176	(299)
Funds from operations (non-GAAP)	(27)	1,617	(102)

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

Funds from operations (\$000s, except per share)	Three months ended March 31,		
	2009	2008	% Change
Funds from operations ⁽¹⁾	(27)	1,617	(102)
Basic (\$)	-	0.07	-
Diluted (\$)	-	0.07	-

(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. Management considers it an important measure as it demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

(2) Basic cash flow from (used in) operating activities (GAAP) per share for the three months ended March 31, 2009 was \$0.01 (2008: \$0.06), and fully diluted cash flow from (used in) operating activities (GAAP) per share for the three months ended March 31, 2009 was \$0.01 per share (2008: \$0.06).

Funds from operations for the three months ended March 31, 2009 totalled (\$27,000), or \$Nil per share, compared to \$1,617,000, or \$0.07 per share, for the same period in 2008. This decrease is mainly due to the decrease in commodity pricing during the quarter.

Net income (loss) and comprehensive income (loss) (\$000s, except per share)	Three months ended March 31,		
	2009	2008	% Change
Net income (loss) and comprehensive income (loss)	(2,128)	380	(660)
Basic (\$)	(0.06)	0.02	(400)
Diluted (\$)	(0.06)	0.02	(400)

Net income (loss) and comprehensive income (loss) for the three month period ended March 31, 2009 was \$2,182,000 or \$0.06 per share compared to \$380,000, or \$0.02 per share, for the same period in 2008.

Petroleum and natural gas sales

Sales volumes		Three months ended March 31,		
		2009	2008	% Change
Crude oil	<i>bbls/d</i>	510	334	53
Natural gas liquids	<i>bbls/d</i>	33	21	57
Natural gas	<i>mcf/d</i>	2,573	930	177
Total (6:1)	<i>boe/d</i>	972	510	91
Oil vs natural gas weighting (%)				
Oil and natural gas liquids		56	70	(20)
Natural gas		44	30	47
Total		100	100	-

Sales volumes, on a boe basis, averaged 972 boe per day during the first quarter of 2009, up 91% from the 510 boe per day average in the first quarter of 2008. The increase in sales volumes for both liquids and natural gas is a result of the acquisition of producing properties and the 2008 capital expenditure program.

Crude oil sales volumes increased 53% to 510 bbl/d in the three months ended March 31, 2009 from 334 bbl/d for the same period in 2008.

Natural gas sales volumes increased 177% during the first quarter 2009 as compared to the comparative period in 2008.

As a result of low commodity pricing, the Company shut-in approximately 110 boe/d of high operating cost production during the fourth quarter of 2008 and the first quarter of 2009. As at the date of this report all of this production remains shut-in and is not forecasted to be back on line in 2009.

During the first quarter the Company successfully drilled 2 gross (2 net) oil wells and 1 gross (1 net) gas well. Production from these three wells was not initiated until April 2009 so that the Company could take advantage of the Alberta government's recently announced Royalty Incentive Program.

Subsequent to the Company's first quarter 2009 successful drilling program, current production is approximately 1,050 boe/d.

Revenues (\$000s)	Three months ended March 31,		
	2009	2008	% Change
Crude oil	2,062	2,582	(20)
Natural gas liquids	123	142	(13)
Natural gas	1,140	683	67
Total	3,325	3,407	(2)

Gross revenue from the sale of petroleum and natural gas in the first quarter of 2009 totaled \$3,325,000, down by 2% from the same quarter last year. Although production volumes were higher this year, lower commodity prices resulted in lower gross revenues.

Crude oil revenue decreased 20% to \$2,062,000 in the first three months of 2009 from \$2,582,000 in the same period of 2008.

Overall natural gas sales were \$1,140,000 for the three months ended March 31, 2009, 67% higher than the \$683,000 received in the first quarter of 2008.

Due to uncertainties surrounding future commodity prices and resulting cash flow, in May 2009 the Company entered into various fixed price swap arrangements for both crude oil and natural gas.

Crude oil sales price derivatives:

Daily quantity per barrel (bbl)	Term of contract	Fixed price per bbl (Nymex)
300	May 1, 2009 – December 31, 2009	CDN\$66.65
300	January 1, 2010 – March 31, 2010	CDN\$71.85

Natural gas sales price derivatives:

Daily quantity per gigajoule (GJ)	Term of contract	Fixed price per GJ (AECO Monthly)
1,200	June 1, 2009 – October 31, 2009	CDN\$3.38
1,200	November 1, 2009 – March 31, 2010	CDN\$5.16
600	April 1, 2010 – October 31, 2010	CDN\$5.42

Revenues are expected to increase commencing in the second quarter of 2009 due to the production increases from the 2009 capital program, combined with higher crude oil prices.

Average Sales Prices ⁽¹⁾		Three months ended March 31,		
		2009	2008	% Change
Crude oil	\$/bbl	44.90	85.99	(48)
Natural gas liquids	\$/bbl	41.79	75.20	(44)
Natural gas	\$/mcf	4.92	8.16	(40)
Total (6:1)	\$/boe	38.02	74.28	(49)

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

Benchmark Pricing		Three months ended March 31,		
		2009	2008	% Change
WTI crude oil	(US\$/bbl)	42.98	97.87	(56)
WTI crude oil	(CDN\$/bbl)	53.73	98.16	(45)
AECO natural gas ⁽¹⁾	(CDN\$/mcf)	4.95	7.86	(37)
Exchange rate	(US\$/CDN\$)	1.25	1.00	25

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

The overall average price received from sale of oil and gas products in the first quarter of 2009 was down 49%, to \$38.02/boe, from the \$74.28/boe received during the first quarter last year. The majority of this decrease was as a result of the 48% decrease in the average crude oil price received for sales volumes in 2008.

During the third quarter of 2008 commodity prices commenced a steep decline and currently remain at significantly lower levels than the average pricing levels of 2008. As a result, based upon the current market conditions the Company's revenue will be negatively impacted during 2009.

Royalties

(\$000s)	Three months ended March 31,		
	2009	2008	% Change
Crown royalties	160	271	(41)
Freehold	236	160	48
Gross overriding	11	35	(69)
Total	407	466	(13)
Total royalties per boe ⁽¹⁾	4.65	10.16	(54)
Total as % of revenues	12%	14%	(14)

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

Total royalties decreased by 13% in the first quarter of 2009, totaling \$407,000 versus \$466,000 in the same period of 2008. Royalties as a percentage of working interest revenues amounted to 12% during the first quarter of 2009, compared to 14% during the same quarter last year.

Royalties per boe dropped materially in the current quarter, due mainly to the drop in commodity pricing.

On a total dollar basis, the decrease in royalty dollars is due to decreases in commodity prices year-over-year.

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

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

In response to a drop in commodity prices, and lower industry activity, on November 19, 2008, the Alberta government introduced a new 5 year transitional royalty regime with the objective of promoting the drilling of new wells. Under this program companies drilling new oil and natural gas wells (between 1,000 and 3,500 meters deep) will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates until January 1,

2014 (at which time the royalties revert to the “NRF”) or those outlined in the Royalty Framework. Wells qualifying for this program must be drilled during the period commencing on November 19, 2008 until December 31, 2013.

On March 3, 2009, the Alberta government announced a three-point incentive program to encourage additional activity in the oil and gas sector, of which only the first two aspects are relevant to oil and gas producers; i) drilling royalty credit, ii) new well incentive program, iii) reclamation and abandonment program for old well sites. A drilling royalty credit will offer \$200 in royalty credits per meter drilled on new conventional oil and natural gas wells spud and rig released between April 1, 2009 and April 1, 2010. The new well incentive program will reduce the royalty to a maximum 5% rate on any wellbore that has not produced between January 1 and April 1, 2009 for the period of the earlier of: i) the production of 50,000 barrels of oil production, ii) 500 million cubic feet (MMcfe) of gas production, or iii) 12 calendar months. Once this incentive expires, royalties will be based on either the transitional royalty rates or the NRF rates, as applicable.

The Company drilled 3 gross (3 net) wells in Alberta during the first quarter of 2009, all of which were successful and all of which did not commence production until subsequent to April 1, 2009. As a result, the Company expects to benefit from the 5% royalty rate on these wells. The Company intends to elect these wells to qualify for the transitional royalty regime.

Lease Operating Costs

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2009	2008	% Change
Lease operating costs	1,694	829	104
Workovers, repairs and maintenance	268	-	-
Total operating expenses	1,962	829	137
Lease operating cost per boe ⁽¹⁾	19.37	18.07	7
Workovers, repairs and maintenance per boe	3.06	-	-
Total operating costs per boe (\$) ⁽¹⁾	22.43	18.07	24

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

Total lease operating costs increased 104% from \$829,000 in the first quarter last year to \$1,694,000 in the first quarter of 2009. The absolute dollar increase is primarily due to the acquisition of Milagro adding additional volumes with higher average operating costs. The overall operating expenses in the quarter were additionally impacted by the mitigation of freezing issues due to winter conditions in Provost and Coronation, and repair and maintenance work completed in Provost. In Judy Creek, the Company expended \$125,000 (\$1.42 per boe corporately) in the quarter for maintenance at its 100% working interest oil battery and gas processing facility. These maintenance programs are not expected to occur quarterly and were required in anticipation of production from the Company’s first quarter drilling program.

On a boe basis, total operating costs increased 24% in the three months ended March 31, 2009 to \$22.43 per boe from \$18.07 per boe in the same period of 2008 primarily due to the additional properties having a higher average operating cost and additional repairs and maintenance work completed in the quarter.

When comparing the fourth quarter of 2008 to the first quarter of 2009, total operating costs per quarter have dropped by \$506,000 or 21%. During the first quarter the Company continued to improve its operating efficiencies by shutting in high operating cost production and reducing general operating expenditures. The Company expects operating costs per boe to be lower than the levels experienced in 2008 as additional production has been brought on stream in the core areas of Judy Creek and Provost while the volume of workovers have decreased.

Transportation

(\$000s, except per boe)	Three months ended March 31,		
	2009	2008	% Change
Transportation	99	54	83
Per boe (\$) ⁽¹⁾	1.13	1.18	(4)

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

Transportation costs for the three months ended March 31, 2009 amounted to \$99,000 with transportation costs for the comparative period in 2008, amounting to \$54,000.

On a boe basis, transportation costs decreased 4% in the three months ended March 31, 2009 to \$1.13 per boe from \$1.18 per boe in the same period of 2008. The increase in absolute amount is a result of increased volumes due to acquisitions and capital expenditures additions.

Operating Netback

(\$/boe)	Three months ended March 31,		
	2009	2008	% Change
Petroleum and natural gas sales	38.02	74.28	(49)
Royalties	(4.65)	(10.16)	(54)
Net revenues	33.37	64.12	(48)
Lease operating costs	(22.43)	(18.07)	24
Transportation	(1.13)	(1.18)	(4)
Operating netback ⁽¹⁾	9.81	44.87	(78)

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

Operating netbacks were significantly lower for the three months ended March 31, 2009, when compared to the prior year period, due mainly to the decrease in commodity prices.

Irrespective that Second Wave expects to achieve reductions in lease operating expenses, netbacks are expected to remain lower than those experienced in 2008, due to the current lower commodity price environment.

General and Administrative

(\$000s, except per boe)	Three months ended March 31,		
	2009	2008	% Change
General and administrative ("G&A")	806	499	62
Capitalized G&A	(172)	(129)	33
Net G&A expenses	634	370	71
Per boe (\$) ⁽¹⁾	7.24	8.08	(10)

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

General and administrative expenses, net of capitalized G&A, increased 71% in the current quarter, to \$634,000 from \$370,000 in the same period last year. Aggregate G&A costs increased 62% mainly due to the increase in personnel from 7 to 11, consulting fees and severance costs in the quarter of \$84,000 (\$0.96/boe). On a boe basis, general and

administrative expenses, net of capitalized G&A, were 10% lower in the comparative quarter due to the increase in production volumes.

In comparison to the fourth quarter of 2008 general and administrative expenses increased by 33% or \$157,000 from \$477,000 to \$634,000. The above noted severance costs in the first quarter made up the majority of this variance and is considered a one time expenditure

G&A costs per unit typically trended downward throughout 2008 from \$8.08/boe in the first quarter, \$12.94/boe in the second quarter, \$9.62/boe in the third quarter, and \$4.97/boe in the fourth quarter. Although the Company's G&A per boe has decreased when compared with 2008, due to the recent drop in commodity prices, the Company has taken initiatives to further reduce its G&A levels in 2009. Subsequent to year end the Company has reduced the number of employees as its capital program has been reduced due to commodity prices. Additional G&A expenses such as software rentals and consultants have also been reduced in 2009 to match reductions in the Company's capital program. Management continues to monitor G&A expenses and will continue to make adjustments as required.

General and administrative expenses of \$172,000 were capitalized during the first quarter of 2009 (2008 – \$129,000).

Stock-Based Compensation

Stock-based compensation expense, net of capitalized stock-based compensation, for the three months ended March 31, 2009 was \$312,000, as compared to \$164,000 in the comparative period of 2008. The increase in stock-based compensation expense is due to the overall increase in personnel and stock option grants. Stock-based compensation expenses of \$Nil were capitalized during the quarter (2008 – \$100,000) due to a recovery of previously capitalized stock based compensation for forfeited options during the quarter.

Financing Expenses

<i>(\$000s, except per boe)</i>	Three months ended March 31,		
	2009	2008	% Change
Interest on short term debt	133	40	233
Interest on long term debt	117	-	-
Interest on convertible debenture	-	31	-
Total	250	71	252
Per boe (\$)	2.86	1.55	85

Financing expenses increased by 252% from \$71,000 in 2008 to \$250,000 in the first quarter of 2009 mainly as a result of increased levels of debt during the first quarter of 2009 as compared to the prior years comparative.

Given the global credit crisis and the higher borrowing costs charged by lenders, our borrowing costs are expected to increase in 2009. Although the bank's prime lending rate is currently 2.5%, down from approximately 5.25% at this time last year, the expected increase in rate premiums offsets the drop in prime interest rates. As Company debt levels are higher than they were at this time in 2008, we expect an aggregate increase in financing costs. Recent amendments to the Company's financing arrangements with its principal lender results in an expected annualized borrowing rate of approximately 6.3% for the majority of the Company's debt.

Depletion, Depreciation and Accretion

(\$000s, except per boe)	Three months ended March 31,		
	2009	2008	% Change
Depletion	2,063	1,011	104
Depreciation	4	4	-
Accretion	115	45	156
Total	2,182	1,060	106
Per boe (\$) ⁽¹⁾	24.95	23.11	8

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

Depletion, depreciation and accretion expense increased 106% in the first three months of 2009 to \$2,182,000 from \$1,060,000 in the same period of 2008. This increase in absolute dollar amount is a result of acquisitions and expenditures incurred from Second Wave's development program.

Income Taxes

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

Income taxes are comprised of two components: current and future income taxes. The expected 2009 income tax rate as a percentage of pre-tax income is 29.2%.

Capital Expenditures

During the quarter ended March 31, 2009, \$4,903,000 (2008 - \$1,527,000) was expended on capital additions as summarized below:

Capital Expenditures (\$000s)	Three months ended March 31,		
	2009	2008	% Change
Land and acquisitions	101	198	(49)
Geological and geophysical	22	22	-
Drilling and completion	3,330	1,090	206
Facilities and equipment	1,278	88	1,352
Capitalized G&A	172	129	33
Total cash portion	4,903	1,527	221
Non-cash portion			
Capitalized stock-based compensation	-	100	-
Asset retirement obligation reduction from property sales	(21)	-	-
Total capital expenditures	4,882	1,627	200

In the first quarter of 2009, the Company drilled 3 gross wells (3 net) which included 2 gross (2 net) oil wells and 1 gross (1 net) gas well for a 100% 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 during the quarter.

Drilling Results (wells drilled)	Three months ended March 31, 2009		
	gross	net	working interest %
Productive	3	3.0	100
Dry and abandoned	-	-	-
Total	3	3.0	100

Liquidity and Capital Resources

The oil and gas business is inherently risky and capital intensive and can require significant capital and cash resources to expand by growing reserves, production and cashflow. 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.

Recent market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. As at March 31, 2009, the Company had a working capital deficiency of \$1,861,064 and had drawn \$17,091,472 on its \$18,000,000 demand revolving operating line and incurred a net loss of \$2,127,990.. Subsequent to period end, the senior lender re-determined the borrowing base and maintained the facility at \$18,000,000 but assigned \$5,500,000 of this total as a term loan due September 30, 2009 at which time the senior lender will again re-determine the borrowing base. As the available lending limits under the facility are based on the senior lender's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be available as at September 30, 2009. To help manage its liquidity, management has reduced capital expenditures and continues to monitor additional financing opportunities to fund future prospects and commitments. No additional financing agreements have been signed nor can it be assured that further such agreements will be reached, however management believes that the action being taken will mitigate the conditions and events that give rise to liquidity risk. Based on its current forecasts of production volumes and commodity pricing, the Company currently expects that sufficient liquidity will be available to meet its obligations in 2009, however the Company failed to meet certain of its financial debt covenants on its loan agreements as at March 31, 2009. The Company received waivers from its lenders on the issue. Further declines in commodity prices could adversely impact Management's assessment of its ability to meet liquidity requirements in 2009.

Management believes that as a result of increases in production and the reduction of lease operating costs from the capital program, in combination with current future strip commodity prices, that the independent reserves evaluation at the semi-annual borrowing base review, will justify the increase in the revolving borrowing base back to approximately \$18,000,000.

Nevertheless, there are risks involved with management's expectation that the borrowing base will be increased in the fall of 2009. Production volumes could drop, future commodity prices and thus netbacks could decrease, and global credit conditions could further deteriorate. In order to plan for these risks, the Company is scheduling its capital program in context with current market environment.

Second Wave has budgeted \$6,000,000 of capital expenditures for 2009, of which approximately \$4,900,000 was expended in the first quarter of 2009. The Company expects to rely on internally generated cash flows to finance the remainder of the capital program and as such the program could be reduced or expanded as the business environment dictates during the second half of 2009.

In addition to the above noted loans the Company also has a related party term loan of \$7,500,000 which matures in May 2010. Although the Company believes that this loan will be renegotiated or extended at that time, there is no certainty of that occurring or the potential costs associated with that type of agreement.

To secure adequate capital resources, the Company may raise funds during the year and/or dispose of certain non-core assets. Although the Company has a significant inventory of low risk prospects to develop, in light of the volatility of commodity prices, the impact of the global credit crisis, current market conditions suggest that the sale of equity at a reasonable price in relation to the Company's net asset value could be challenging. Management will

be working with the related party regarding the term loan that currently is scheduled to mature in May 2010 to renegotiate the repayment terms. Given the current market and expected oversupply of oil and gas properties available for acquisition, we believe that prices seen for asset acquisitions and dispositions will remain depressed for some time. Given these circumstances, as one of management's goals is to increase the size of the Company and cash flows, the Company also intends to continue to evaluate corporate acquisitions and/or mergers.

On February 17, 2009, the Company closed a private placement equity financing for aggregate gross proceeds of approximately \$3,980,000. A total of 6,015,131 common shares were issued by the Company on a "flow through" basis. The Company's major shareholder subscribed for 5,757,575 flow through shares at \$0.66 per share for proceeds of \$3,800,000 while management subscribed for 257,556 flow through shares at \$0.70 per share for proceeds of \$180,289. Under the terms of the subscription agreement, the Company is required to incur and renounce \$3,800,000 of eligible Canadian Development Expenditures on or before February 28, 2011 and an additional \$180,289 of eligible Canadian Exploration Expenditures on or before December 31, 2010. As at March 31, 2009, the Company incurred the entire amount of its \$180,289 commitment on qualifying Canadian Exploration Expenditures, and the Company incurred approximately \$2,763,000 of its \$3,800,000 commitment on qualifying eligible Canadian Development Expenditures. The Company has approximately \$1,037,000 remaining to be incurred on eligible Canadian Development Expenditures prior to February 28, 2011.

Quarterly Financial Summary

	2009	2008			2007			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<i>(\$000's except per boe and per share amounts)</i>								
Average production (boe/d)	972	1,042	933	783	504	451	244	243
Petroleum and natural gas sales	3,325	4,688	7,197	6,326	3,407	2,494	1,120	1,203
Royalties	(408)	(560)	(905)	(871)	(466)	(338)	(197)	(280)
Operating expenses	(1,962)	(2,468)	(2,588)	(1,558)	(829)	(1,047)	(246)	(153)
Transportation expenses	(98)	(163)	(90)	(77)	(54)	(50)	(29)	(27)
Operating netback (per boe) ⁽¹⁾	9.81	15.61	42.10	54.58	44.87	25.51	28.86	37.40
Funds from operations ⁽²⁾	(27)	1,069	2,249	2,596	1,617	(345)	(446)	18
Per share - basic	-	0.03	0.07	0.09	0.07	(0.03)	(0.06)	-
Per share - diluted	-	0.03	0.07	0.09	0.07	(0.02)	(0.06)	-
Net income (loss)	(2,128)	(1,587)	665	296	380	(1,640)	(1,102)	(1,200)
Per share - basic	(0.06)	(0.05)	0.02	0.01	0.01	(0.13)	(0.14)	(0.19)
Per share - diluted	(0.06)	(0.05)	0.02	0.01	0.01	(0.11)	(0.10)	(0.15)
Capital expenditures								
Cash	4,903	7,256	8,920	3,953	1,527	12,627	1,034	52
Non-cash	(21)	334	3,830	22,801	100	80	36	2,056
Total	4,882	7,590	12,750	26,754	1,627	12,707	1,070	2,108

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

(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. Management considers it an important measure as it demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

International Financial Reporting Standards (“IFRS”):

In 2008, the CICA confirmed that public entities will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting effective January 1, 2011. The Company continues to monitor, assess and develop its implementation plan for the convergence of Canadian GAAP to IFRS.

Financial Statements of
Second Wave Petroleum Inc.
Three Months Ended March 31, 2009

Second Wave Petroleum Inc.
Balance Sheets
(unaudited)

	As at March 31, 2009	As at December 31, 2008
ASSETS		
Current assets:		
Cash	\$ 2,400,000	\$ -
Accounts receivable	2,376,732	2,341,161
Prepaid expenses	843,220	626,775
	5,619,952	2,967,936
Property and equipment (note 4)	73,496,060	70,680,994
	\$ 79,116,012	\$ 73,648,930
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,481,016	\$ 5,278,977
Loans payable (note 5)	17,091,472	15,675,606
	24,572,488	20,954,583
Loans payable (note 5)	7,389,863	7,365,205
Asset retirement obligation (note 6)	6,251,214	6,156,862
	38,213,565	34,476,650
Shareholders' equity		
Share capital (note 7b)	35,573,148	32,043,284
Warrants (note 7e)	3,199,698	3,199,698
Contributed surplus (note 7f)	4,503,438	4,175,145
Deficit	(2,373,837)	(245,847)
	40,902,447	39,172,280
Contingencies and commitments (note 8)		
Future operations (note 13)		
Subsequent events (note 14)		
	\$ 79,116,012	\$ 73,648,930

See accompanying notes to financial statements.

Second Wave Petroleum Inc.

Statements of Income (Loss), Comprehensive Income (Loss) and Deficit

For the three months ended March 31, 2009 and 2008

(unaudited)

	2009	2008
REVENUE		
Crude oil, natural gas, and natural gas liquids sales	\$ 3,325,340	\$ 3,406,859
Royalties	(407,479)	(465,921)
	<u>2,917,861</u>	<u>2,940,938</u>
EXPENSES		
Operating	1,962,262	829,278
Transportation	98,846	54,170
General and administrative	634,233	369,889
Depletion, depreciation and accretion	2,182,442	1,059,729
Financing	249,506	71,132
Stock based compensation	312,062	164,452
Accretion of convertible debenture	-	12,683
	<u>5,439,351</u>	<u>2,561,333</u>
Income (loss) before income taxes	(2,521,490)	379,605
Income taxes		
Future income tax recovery	393,500	-
	<u>(2,127,990)</u>	<u>379,605</u>
Net income (loss) and comprehensive income (loss)	(2,127,990)	379,605
Deficit, beginning of period	(245,847)	(33,003,382)
	<u>(2,373,837)</u>	<u>(32,623,777)</u>
Deficit, end of period	\$ (2,373,837)	\$ (32,623,777)
Net income (loss) per share-basic and diluted (note 7h)	\$ (0.06)	\$ 0.02

See accompanying notes to financial statements.

Second Wave Petroleum Inc.
Statements of Cash Flow
For the three months ended March 31, 2009 and 2008
(unaudited)

	2009	2008
Cash provided by (used in):		
OPERATIONS:		
Net income (loss) and comprehensive income (loss)	\$ (2,127,990)	\$ 379,605
Add (deduct) items not involving cash:		
Depletion, depreciation and accretion	2,182,442	1,059,729
Stock based compensation	312,062	164,452
Future income tax recovery	(393,500)	-
Accretion of convertible debenture	-	12,683
	<u>(26,986)</u>	<u>1,616,469</u>
Changes in non-cash working capital (note 10)	350,517	(176,361)
	<u>323,531</u>	<u>1,440,108</u>
FINANCING:		
Issue of shares and warrants	3,980,289	1,080,880
Share and warrant issuance costs	(19,901)	(10,337)
Changes in loans payable	1,440,524	(5,050,752)
Repurchase and cancellation of shares	(20,792)	-
Issue of shares on exercise of warrants	-	4,702,136
Changes in non-cash working capital (note 10)	(46,771)	8,883
	<u>5,333,349</u>	<u>730,810</u>
INVESTING:		
Property and equipment expenditures	(5,001,744)	(1,527,082)
Property and equipment dispositions	98,587	-
Change in non-cash working capital (note 10)	1,646,277	(643,836)
	<u>(3,256,880)</u>	<u>(2,170,918)</u>
Increase in cash	2,400,000	-
Cash, beginning of period	-	-
Cash, end of period	\$ 2,400,000	\$ -

See accompanying notes to financial statements.

Supplementary Cash Flow Information

Interest paid	\$ 223,245	\$ 59,802
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Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

1. Nature of business:

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

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

2. Basis of presentation:

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and followed the same accounting policies as the audited financial statements for the year ended December 31, 2008. 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, 2008.

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

3. Significant accounting policies:

(a) Changes in accounting policies

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3064, Goodwill and intangible assets. This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Adoption of this new accounting standard did not result in any changes to Second Wave’s financial statements or note disclosures.

(b) Accounting pronouncements:

In 2008, the CICA confirmed that for public entities International Financial Reporting Standards (“IFRS”) will become Canadian GAAP for interim and annual reporting effective January 1, 2011. The Company continues to monitor, assess and develop its implementation plan for the convergence of Canadian GAAP to IFRS.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

3. Significant accounting policies (continued):

(c) Reclassifications:

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

4. Property and equipment:

March 31, 2009			
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$117,466,276	\$44,016,884	\$73,449,392
Office equipment	131,128	84,460	46,668
	\$117,597,404	\$44,101,344	\$ 73,496,060

December 31, 2008			
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$112,584,610	\$41,953,884	\$70,630,726
Office equipment	131,128	80,860	50,268
	\$112,715,738	\$42,034,745	\$70,680,994

As at March 31, 2009, \$8,068,288 (December 31, 2008 - \$8,055,232) of undeveloped land costs have been excluded from the depletion base. Future development costs of \$7,334,000 (December 31, 2008 - \$7,484,000) were included in the calculation of depletion. In 2009, \$172,403 (December 31, 2008 - \$663,469) of general and administrative costs and \$Nil (December 31, 2008 - \$661,118) of stock based compensation have been capitalized.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

5. Loans payable:

	March 31, 2009	December 31, 2008
Cheques issued in excess of bank balance	741,472	\$ 2,475,606
Revolving operating loan facility (note 5a)	16,350,000	13,200,000
Term loan payable (note 5b)	7,389,863	7,365,205
Balance, end of period	24,481,335	\$ 23,040,811
Current portion	17,091,472	15,675,606
Long term portion	7,389,863	7,365,205
	24,481,335	\$23,040,811

(a) Revolving operating loan facility:

On May 7, 2009, the Company executed a commitment letter with its senior lender for a new \$18,000,000 facility. The new facility consists of a \$12,500,000 demand revolving operating line and a \$5,500,000 non-revolving term loan. The revolving line bears interest at the lender's prime rate plus 1.5% while the non-revolving portion bears interest at the lender's prime rate plus 5%. The debt facility has the first security charge on all of the assets of the Company. A re-determination of the borrowing base for the facility will occur on or before September 30, 2009. The facility also includes a letter of guarantee posted for potential contingent liabilities in connection with a previous asset acquisition.

Consistent with terms under Second Wave's previous senior credit facility, Second Wave is required to meet certain covenants including providing certain financial and engineering information on a timely basis. The Company is also required to maintain a 1:1 working capital ratio as defined in the agreement. As at March 31, 2009, the Company was in not in compliance with its working capital debt covenant, and has received a waiver of the breach from its primary lender.

As at December 31, 2008 the Company's facility was comprised of an \$18,000,000 demand revolving operating line with a Canadian financial institution. The line was subject to annual review, bore interest at the lender's prime rate plus 0.4% and was secured by the assets of the Company. The facility also includes a letter of guarantee posted for potential contingent liabilities in connection with a previous asset acquisition.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

5. 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 second secured by assets of the Company. Unamortized loan service fees amounting to \$110,137 (December 31, 2008 – \$134,795) were offset against the \$7,500,000 principal amount of the loan outstanding.

Second Wave is required to meet certain covenants including providing certain financial information on a timely basis. The Company is required to maintain a 1:1.1 working capital ratio and maintain a net debt to EBITDA ratio of no higher than 3 to 1, both as defined in the agreement. As at March 31, 2009, the Company was not in compliance of its working capital and net debt to EBITDA covenants, and has received a waiver from its lender for these issues.

6. Asset retirement obligation:

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas properties. A credit adjusted risk free rate of 7.5% and an inflation rate of 2% (2008 - 2%) were used to calculate the fair value of the asset retirement obligation. Undiscounted estimated cash flow of \$8,246,000 (2008 - \$8,382,000) are required to settle the obligation at estimated dates in the future ranging from 2009 to 2025.

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 6,156,862	\$ 2,374,826
Liabilities incurred	-	101,238
Liability dispositions	(21,490)	-
Accretion expense	115,842	398,583
Acquired on asset acquisitions	-	57,589
Acquired on business acquisitions	-	3,456,964
Changes in accounting estimates	-	(19,796)
Abandonments	-	(212,542)
Balance, end of period	\$ 6,251,214	\$ 6,156,862

7. Share capital:

(a) Authorized:

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

Second Wave Petroleum Inc.
Notes to the Financial Statements
For the three months ended March 31, 2009 and 2008
(unaudited)

7. Share capital (continued):

(b) Issued and outstanding:

	March 31, 2009	
Common Shares	Number of Shares	Amount
Balance, beginning of period	30,953,709	32,043,284
Issued for cash (note 7c)	6,015,131	3,980,289
Share issue costs	-	(19,901)
Future tax effect of flow-through shares	-	(393,500)
Shares repurchased and cancelled under the normal course issuer bid (note 7g)	(36,500)	(37,024)
Balance, end of period	36,932,340	35,573,148

(c) Issued for cash:

On February 17, 2009, the Company closed a private placement equity financing for aggregate gross proceeds of \$3,980,289. A total of 6,015,131 common shares were issued by the Company on a “flow through” basis. The Company’s major shareholder subscribed for 5,757,575 flow through shares at \$0.66 per share for proceeds of \$3,800,000 while management subscribed for 257,556 flow through shares at \$0.70 per share for proceeds of \$180,289. Under the terms of the subscription agreement the Company is required to incur and renounce to subscribers \$3,800,000 of eligible Canadian Development Expenditures on or before February 28, 2011 and an additional \$180,289 of eligible Canadian Exploration Expenditures on or before December 31, 2010.

(d) Stock option plan:

The Company has a stock option plan for directors, officers, employees and consultants. The Company may grant up to 10% of the aggregate number of common shares outstanding and no one optionee is permitted to hold more than 5% of the total options granted. Options vest as to one third on the each of the first, second and third anniversary dates. All options expire five years from the date of grant.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

7. Share capital (continued):

	March 31, 2009		December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,507,500	\$ 2.64	1,267,500	\$ 2.30
Granted	1,587,000	0.69	1,752,500	2.76
Cancelled	(522,500)	2.66	-	-
Exercised	-	-	(10,000)	1.20
Forfeited	(285,000)	2.29	(502,500)	2.20
Balance, end of period	3,287,000	\$ 1.72	2,507,500	\$ 2.64
Exercisable – end of period	545,002	\$ 2.72	380,000	\$ 2.84

March 31, 2009	Options outstanding		Options exercisable	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
Exercise Price				
\$0.46	80,000	4.96	-	-
\$0.70	1,507,000	4.89	-	-
\$2.00	660,000	3.44	353,335	3.20
\$2.40	265,000	3.79	88,334	3.79
\$2.60	190,000	3.91	63,333	3.91
\$2.80	200,000	4.18	-	-
\$3.33	345,000	4.29	-	-
\$10.00	40,000	2.27	40,000	2.27
	3,287,000		545,002	

The weighted average price per option granted in 2009 was \$0.69 (2008 - \$2.76).

The fair value of options granted during the period ended March 31, 2009 was \$462,120 (December 31, 2008 – \$3,426,900), was calculated using a risk free rate of 1.95%, dividend yield of 0%, volatility factor of 75%, and expected life of 5 years. The value of the options was recorded as stock based compensation expense, with an offsetting amount to contributed surplus based on the vesting terms. During 2009, \$Nil (2008 – \$661,118) of stock based compensation has been capitalized.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

7. Share capital (continued):

In February 2009, the Company cancelled all of the 522,500 previously granted and outstanding stock options to all of its non-executive employees, and concurrently granted a total of 392,000 stock options to replace the cancelled options. The cancelled options had exercise prices ranging between \$0.90 and \$3.33 per option, and were replaced with options having an exercise price of \$0.70 per option. For stock based compensation purposes, the cancellation and re-issue of the options was treated as a modification of the existing stock option grants.

(e) Warrants:

March 31, 2009			
	Number of Warrants		Amount
Balance, beginning and end of period	3,489,509	\$	3,199,698

Outstanding Warrant Expiry Table	Number of Warrants	Exercise Price	Warrant Expiry Date
Issued on May 2008 acquisition of Milagro Energy Inc.	498,020	\$4.00	May 8, 2009
January 2008 private placement	600,489	\$2.00	January 17, 2010
May 2008 private placement	2,400,000	\$3.125	May 8, 2010
	3,498,509	\$3.06	

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

On May 8, 2009, all of the remaining 498,020 warrants related to the acquisition of Milagro Energy Inc. expired unexercised.

(f) Contributed surplus:

A summary of changes in the Company's contributed surplus balance for the period ended March 31, 2009 and December 31, 2008 is as follows:

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

7. Share capital (continued):

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 4,175,145	\$ 1,265,096
Stock based compensation related to fair value of options granted	312,061	1,875,467
Expiry of warrants	-	895,014
Shares repurchased and cancelled	16,232	41,226
Stock options exercised	-	(6,666)
Conversion of convertible debenture	-	105,008
Balance, end of period	\$ 4,503,438	\$ 4,175,145

(g) Shares repurchased and cancelled:

In October 2008, the Company received approval from the TSX Venture Exchange to purchase and cancel up to a maximum of 1,559,000 shares under its normal course issuer bid. The issuer bid terminates on October 6, 2009.

In 2009, the Company purchased and cancelled 36,500 shares for total consideration of \$20,792. The amount was recorded as a \$37,024 reduction to share capital and a \$16,232 increase to contributed surplus.

(h) Per share data:

The basic weighted average number of shares outstanding during the period ended March 31, 2009 was 33,736,437 (March 31, 2008 – 23,483,140).

Diluted weighted average number of shares outstanding during the periods ended March 31, 2009 was 33,736,437 (March 31, 2008 – 24,715,873). During the periods ended March 31, 2009 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.

8. Contingencies and commitments:

- (a) In connection with an asset acquisition that closed in October 2007, the Company has an outstanding letter of guarantee in the amount of \$320,539 as security for a contingent liability associated with the acquisition. The claim is for entitlement ahead of the Company's acquisition of assets from the receiver. The Trial Justice had found that the Plaintiffs were entitled to the guarantee, however the Company appealed the ruling on the basis that it greatly extended and was inconsistent with current law. The appeal was heard on March 11, 2009 and the Appeal Court's decision was released on May 14, 2009. The Court's decision, although in favor of the Company is expected to result in a payment of approximately \$33,000 to the plaintiffs, and as a result this amount has been accrued for at March 31, 2009.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

8. Contingencies and commitments:

- (b) In connection with a proposed asset acquisition, the Company has committed to acquire certain oil and natural gas assets in 2009 for \$800,000.
- (c) In connection with the flow through equity offering in February 2009 (note 7c), the Company was committed to incur a total of \$3,980,289 on qualifying flow through expenditures. As at March 31, 2009, the Company incurred the entire amount of its \$180,289 commitment on qualifying Canadian Exploration Expenditures, and the Company incurred approximately \$2,763,000 of its \$3,800,000 commitment on qualifying eligible Canadian Development Expenditures. The Company has approximately \$1,037,000 remaining to be incurred on eligible Canadian Development Expenditures prior to February 28, 2011.
- (d) In connection with a flow through equity agreement entered into during 2006, the Company was required under the income tax act to expend amounts renounced to subscribers prior to December 31, 2007. The Company was temporarily delayed and did not complete activities related to \$982,906 in expenditures until February 2008. The Company has advised the Canada Revenue Agency (“CRA”), of the circumstances, paid appropriate interest and penalties and does not intend to re-file. In the event that the CRA reassesses the Company’s, the Company could be liable for indemnities to flow through subscribers relating to the delayed expenditures for approximately \$383,000.

9. Related party transactions:

- (a) During the period ended March 31, 2009, the Company incurred \$91,644 (2008 – \$31,475) for financing expenses paid to the Company’s major shareholder.
- (b) During the period ended March 31, 2009, the Company incurred \$588,000 (2008 – \$Nil) for drilling and well services from companies who are under common control and significant influence by Second Wave’s major shareholder.

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

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

10. Changes in non-cash working capital:

	Three months ended March 31,	
	2009	2008
Decrease (increase) in non-cash working capital		
Accounts receivable	\$ (35,571)	\$ (82,484)
Prepaid expenses	(216,445)	(430,203)
Accounts payable and accrued liabilities	2,202,039	(298,627)
Net change in non-cash working capital	\$ 1,950,023	\$ (811,314)
Relating to:		
Operations	\$ 350,517	\$ (176,361)
Financing	(46,771)	8,883
Investing	1,646,277	(643,836)
	\$ 1,950,023	\$ (811,314)

11. Financial risk management:

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

- Credit risk
- Liquidity risk
- Market risk

There have not been any changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2008, except as noted below:

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.

At March 31, 2009, the majority of Second Wave's loans payable is on a revolving reserve based credit facility that has been recently reviewed by the senior lender and its related party term loan matures on May 8, 2010. As at March 31, 2009, the Company was in breach of certain of its debt covenants which are discussed in note 5. The Company has received waivers from its lenders on the issue.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

12. 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, loans payable, and working capital which at March 31, 2009 totaled \$67,244,846 (December 31, 2008 – \$64,524,132). 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 operating and loan facility is based on petroleum and natural gas reserves and financial covenants, which are discussed in note 5. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

There have been no significant changes in the Company's objectives, policies and processes around capital.

13. Future operations:

Recent market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. As at March 31, 2009, the Company had a working capital deficiency of \$1,861,064 and had drawn \$17,091,472 on its \$18,000,000 demand revolving operating line, and incurred a net loss of \$2,127,990. Subsequent to period end, the senior lender re-determined the borrowing base and maintained the facility at \$18,000,000 but assigned \$5,500,000 of this total as a term loan due September 30, 2009 at which time the senior lender will again re-determine the borrowing base. As the available lending limits under the facility are based on the senior lender's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of the facility that will be available as at September 30, 2009. To help manage its liquidity, management has reduced capital expenditures and continues to monitor additional financing opportunities to fund future prospects and commitments. No additional financing agreements have been signed nor can it be assured that further such agreements will be reached, however management believes that the actions being taken will mitigate the conditions and events that give rise to liquidity risk. Based on its current forecasts of production volumes, commodity pricing, the Company currently expects that sufficient liquidity will be available to meet its obligations in 2009, however the Company failed to meet certain of its financial debt covenants on its loan agreements as at March 31, 2009. The Company received waivers from its lenders on the issue. Further declines in commodity prices could adversely impact the Company's ability to meet its liquidity requirements in 2009.

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Notes to the Financial Statements

For the three months ended March 31, 2009 and 2008

(unaudited)

13. Future operations (continued):

The accompanying financial statements have been prepared assuming the Company will continue to operate as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded assets amounts and the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and these reclassifications and adjustments could be material.

14. Subsequent events:

On May 1, 2009, the Company entered into the following crude oil and natural gas fixed price swap contracts:

Crude oil risk management contracts:

Daily quantity per barrel (bbl)	Term of contract	Fixed price per bbl (Nymex)
300	May 1, 2009 – December 31, 2009	CDN\$66.65
300	January 1, 2010 – March 31, 2010	CDN\$71.85

Natural gas risk management contracts:

Daily quantity per giga-jule (GJ)	Term of contract	Fixed price per GJ (AECO monthly)
1,200	June 1, 2009 – October 31, 2009	CDN\$3.38
1,200	November 1, 2009 – March 31, 2010	CDN\$5.16
600	April 1, 2010 – October 31, 2010	CDN\$5.42