



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

For the three and six months ended June 30, 2010

Dated: August 26, 2010

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 audited financial statements and accompanying notes for the years ended December 31, 2009 and December 31, 2008. This MD&A incorporates information up to and including August 26, 2010. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All of the amounts reported in this MD&A are in Canadian dollars, unless otherwise indicated. Certain other information with respect to the Company is available on SEDAR at www.sedar.com and at the Company's website at www.secondwavepetroleum.com. Information can also be obtained by contacting the Company at Second Wave Petroleum Inc, Suite 1700, 520, 5th Ave. S.W., Calgary, Alberta, T2P 3R7.

NON-GAAP FINANCIAL MEASUREMENTS

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

OTHER MEASUREMENTS

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

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in the MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to reserves, crude oil and natural gas prices, well productivity, operating costs, general and administrative costs, taxation rates, interest rates, and capital expenditure plans for 2010 and beyond.

Existing or potential investors should not place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations they are based on will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific that contributes to the possibility that although the predictions, forecasts, projections and other forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking

statements contained in the presentation include general economics, business and market conditions; volatility of energy prices; fluctuations in interest rates; energy supply and demand; competition, access to future funding, timing and amount of capital expenditures, imprecision in estimated future productive capacity, well productivity, operating cost adjustments; cost overruns; and such other risks and uncertainties described from time to time. Existing or potential investors are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this document are made as of the date of this report. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

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

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

This MD&A is dated as at August 26, 2010.

Abbreviations

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

Selected Financial Information

(\$000s, except share and per boe amounts)	Three months ended June 30, 2010			Three months ended March 31, 2010	
	2010	2009	% Change	2010	% Change *
Per boe					
Petroleum and natural gas sales	49.80	42.30	18	55.42	(10)
Royalties	(6.43)	(3.86)	67	(6.82)	(6)
Lease operating costs	(17.75)	(26.24)	(32)	(21.18)	(16)
Transportation	(1.48)	(1.18)	25	(1.44)	3
Operating netback	24.14	11.02	119	25.98	(7)
Net capital expenditures	15,548	1,992	681	18,946	(18)
Net debt (excluding ARO)	24,103	18,347	32	10,971	120
Cash flow from operating activities	3,472	916	279	542	541
Cash flow from operating activities per share	0.05	0.02	150	0.01	400
Net loss	(1,578)	(4,138)	(62)	(423)	273
Net loss per share	(0.02)	(0.11)	(82)	(0.01)	100
Production volumes					
Oil (bbl/d)	898	509	76	672	34
Natural gas liquids (bbl/d)	45	38	18	43	5
Natural gas (mcf/d)	2,845	2,638	8	2,952	(4)
Combined (6:1)	1,417	987	44	1,206	17
Crude oil and liquids weighting (%)	67	55	22	59	14

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

Overview

	Three months ended June 30, 2010			Six months ended June 30, 2010		
	2010	2009	% Change	2010	2009	% Change
<i>(\$000s, except share amounts)</i>						
Petroleum and natural gas sales	6,423	3,798	69	12,438	7,124	75
Royalties	(829)	(347)	139	(1,569)	(754)	108
Lease operating costs	(2,289)	(2,355)	(3)	(4,588)	(4,318)	6
Transportation	(191)	(106)	80	(347)	(205)	69
Operating netback⁽²⁾	3,114	990	215	5,934	1,847	221
General and administrative	(877)	(552)	59	(1,374)	(1,186)	16
Financing expenses	(247)	(345)	(28)	(415)	(594)	(30)
Realized gain (loss) on financial derivatives	511	(120)	(526)	265	(120)	(321)
Amortization of loan commitment fees	10	-	-	49	-	-
Loss on sale of marketable securities	3	-	-	11	-	-
Other	(3)	-	-	(9)	-	-
Asset retirement expenditures	(5)	(37)	(86)	(106)	(38)	179
Funds from operations⁽¹⁾	2,506	(64)	-	4,355	(91)	-
Depletion, depreciation and accretion	(3,612)	(2,321)	56	(6,551)	(4,504)	45
Unrealized gain (loss) on financial derivatives	(108)	(1,479)	(93)	917	(1,479)	(162)
Future income taxes	-	-	-	-	394	-
Stock based compensation	(338)	(311)	9	(733)	(624)	17
Accretion of convertible debenture	(18)	-	-	(35)	-	-
Amortization of loan commitment fees	(10)	-	-	(49)	-	-
Loss on sale of marketable securities	(3)	-	-	(11)	-	-
Asset retirement expenditures	5	37	(86)	106	38	179
Net loss and comprehensive loss	(1,578)	(4,138)	(62)	(2,001)	(6,266)	(68)
Funds from operations per share ⁽¹⁾						
Basic (\$)	0.04	-	-	0.06	-	-
Diluted (\$)	0.04	-	-	0.06	-	-
Cash flow from operating activities per share:						
Basic (\$)	0.05	0.02	150	0.06	0.03	100
Diluted (\$)	0.05	0.02	150	0.06	0.03	100
Net loss and comprehensive loss per share:						
Basic (\$)	(0.02)	(0.11)	(82)	(0.03)	(0.18)	(83)
Diluted (\$)	(0.02)	(0.11)	(82)	(0.03)	(0.18)	(83)
Average number of shares outstanding (000s):						
Basic	70,802	37,052	91	68,423	35,403	93
Diluted	70,802	37,052	91	68,423	35,403	93

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

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

As of the reporting date of August 26, 2010, Second Wave had 82,867,628 shares outstanding.

	Three months ended June 30, 2010			Six months ended June 30, 2010		
	2010	2009	% Change	2010	2009	% Change
<i>(\$000s)</i>						
Cash flow from operating activities (GAAP)	3,472	916	279	4,014	1,239	224
Change in non-cash working capital (GAAP)	(966)	(980)	(1)	341	(1,330)	126
Funds from operations (non-GAAP)	2,506	(64)	-	4,355	(91)	-

Funds from Operations, Cash flow from operating activities, and Net Loss

(\$000s, except per share)	Three months ended June 30, 2010			Six months ended June 30, 2010		
	2010	2009	Change %	2010	2009	Change %
Funds from operations⁽¹⁾	2,506	(64)	-	4,355	(91)	-
Per share:						
Basic (\$)	0.04	-	-	0.06	-	-
Diluted (\$)	0.04	-	-	0.06	-	-
Cash flow from operating activities	3,472	916	279	4,014	1,239	224
Per share:						
Basic (\$)	0.05	0.02	150	0.06	0.04	50
Diluted (\$)	0.05	0.02	150	0.06	0.04	50

(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.

Funds from operations for the three and six months ended June 30, 2010 totalled \$2,506,000 and \$0.04 or \$4,355,000 and \$0.06 per share respectively, compared to (\$64,000) and (\$91,000), or \$Nil and \$Nil per share, respectively for the same periods in 2009. The increase in funds from operations is due to higher sales revenue, lower operating costs and a realized gain on financial derivatives, partly offset by higher royalties and general and administration costs over the respective periods.

Cash flow from operating activities for the three and six months ended June 30, 2010 increased to \$3,472,000 and \$4,014,000 from \$916,000 and \$1,239,000 respectively in the 2009 comparative period. The increase is primarily due to the increase in sales volumes and commodity pricing over the respective periods.

(\$000s, except per share)	Three months ended June 30, 2010			Six months ended June 30, 2010		
	2010	2009	Change %	2010	2009	Change %
Net loss and comprehensive loss	(1,578)	(4,138)	(62)	(2,001)	(6,266)	(68)
Per share:						
Basic (\$)	(0.02)	(0.11)	(82)	(0.03)	(0.18)	(83)
Diluted (\$)	(0.02)	(0.11)	(82)	(0.03)	(0.18)	(83)

Net loss and comprehensive loss for the three month period ended June 30, 2010 was \$1,578,000 or \$0.02 per share compared to a net loss and comprehensive loss of \$4,138,000, or \$0.11 per share, for the same period in 2009.

For the six months ended June 30, 2010, net loss and comprehensive loss was \$2,001,000 or \$0.03 per share, compared to the net loss and comprehensive loss for the comparable period in 2009 of \$6,266,000 or \$0.18 per share. Almost all metrics were higher during 2010 as compared with 2009, driven mainly by the impact of higher commodity pricing received during 2010 and increased sales volumes.

Petroleum and natural gas sales

Sales volumes		Three months ended June 30, 2010			Six months ended June 30, 2010		
		2010	2009	Change %	2010	2009	Change %
Crude oil	<i>bbl/d</i>	898	509	76	786	510	54
Natural gas liquids	<i>bbl/d</i>	45	38	18	44	36	22
Natural gas	<i>mcf/d</i>	2,845	2,637	8	2,898	2,605	11
Combined (6:1)	<i>boe/d</i>	1,417	987	44	1,312	979	34

Commodity weighting (%)							
Oil and liquids		67	55	22	63	56	13
Natural gas		33	45	(27)	37	44	(16)
Total		100	100	-	100	100	-

Sales volumes, on a boe basis, averaged 1,417 boe/d during the second quarter of 2010, up 44% from the 987 boe/d average in the second quarter of 2009. Average quarterly sales volumes increased by 17% from the first quarter 2010 volume of 1,206 boe/d with the Company disposing 130 boe/d of non-core property production on January 11, 2010.

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

For the six months ended in 2010, sales volumes averaged 1,312 boe/d, an increase of 34% from the 979 boe/d achieved in the comparable period of 2009, with an increased oil and liquids weighting moving from 56% to 63% for 2010.

The Company continues to have a greater percentage of its production derived from crude oil as opposed to natural gas. The Company possesses a large inventory of crude oil drilling projects and as such the Company expects to continue to target oil weighted prospects exclusively until the natural gas pricing environment improves significantly. With capital expenditures targeting oil prospects the Company's production weighting towards oil and liquids has increased by 22% in the current quarter versus last year's comparable quarter.

Although second quarter 2010 average sales volumes increased by 17% from the first quarter of 2010, management expects that average sales volumes for the remainder of 2010 will continue to increase as the Company is executing a significant capital program during 2010. During the first six months of 2010, the Company drilled 11 (10.6 net) wells, comprised of 9 (8.4 net) horizontal and 2 (2.0 net) vertical wells, with 8 (8.0 net) horizontal and 2 (2.0 net) vertical wells being drilled at Judy Creek.

Subsequent to the Company's first quarter 2010 successful drilling program and the 130 boe/d disposition in January 2010, the Company achieved an average monthly production rate of 1,464 boe/d for June 2010 which represents a 22% increase from the first quarter of 2010 average rate.

Revenues (\$000s)		Three months ended June 30, 2010			Six months ended June 30, 2010		
		2010	2009	Change %	2010	2009	Change %
Crude oil		5,168	2,791	85	9,529	4,853	96
Natural gas liquids		262	161	63	501	285	76
Natural gas		993	846	17	2,408	1,986	21
Total oil and gas		6,423	3,798	69	12,438	7,124	75

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

Gross revenues from P&NG sales in the second quarter of 2010 totalled \$6,423,000, up by 69% from the comparable period last year. Revenues, as compared with the comparative periods, were impacted mainly by the increase in oil and liquids sales volumes, and the relative increase in the Company's weighting towards the higher priced oil and liquids, as compared with lower priced natural gas.

For the six month period, P&NG sales revenues were \$12,438,000, an increase of 75% from the \$7,124,000 received in the comparable period of 2009. Although average sales volumes were higher in 2010, the significant increase in gross revenues in the period were primarily driven by a 30% increase, per boe, in realized commodity pricing from the comparative 2009 period.

Total revenues are expected to continue increasing with increased sales volumes expected as the year progresses as a result of the 2010 capital program.

Financial derivatives

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

The Company entered into certain fixed price crude oil and natural gas contracts. As at June 30, 2010, the summary of contracts and their respective remaining fair market values based on third party estimates are as follows:

Daily quantity	Term of contract	Price	Fair market value at June 30, 2010 (liability)/asset
Oil (bbls)		Fixed per bbl (WTI)	
300	July 1, 2010 – September 30, 2010	CDN\$86.90	\$ 176,996
			\$ 176,996
Gas (GJs)		Fixed per GJ (AECO Monthly)	
600	April 1, 2010 – October 31, 2010	CDN\$5.42	\$ 114,837
1,200	July 1, 2010 – September 30, 2010	CDN\$5.46	180,802
1,800			\$ 295,639
		Total	\$ 472,635

Natural gas pricing experienced since entering into the above noted contracts has been volatile and the lower prices the Company receives has been partially offset by the realized gains from the contracts in place. Crude oil pricing has strengthened in 2010; however it has recently weakened to around US\$72.00/bbl WTI.

During the second quarter of 2010, the Company recorded \$108,000 (2009 - \$1,479,000) of unrealized losses and \$512,000 (2009 - \$120,231 losses) of realized gains as a result of these contracts.

On July 20, 2010, the Company entered into the following fixed price crude oil contracts:

Daily quantity	Term of contract	Price
Oil (bbls)		Fixed per bbl (WTI)
750	October 1, 2010 – December 31, 2010	CDN\$82.50
500	January 1, 2011 – March 31, 2011	CDN\$83.80

Average Sales Prices ⁽¹⁾		Three months ended			Six months ended		
		June 30, 2010			June 30, 2010		
		2010	2009	Change	2010	2009	Change
Oil	\$/bbl	63.21	60.26	5	67.02	52.62	27
Natural gas liquids	\$/bbl	64.52	46.37	39	63.47	44.27	43
Natural gas	\$/mcf	3.83	3.52	9	4.59	4.21	9
Combined (6:1)	\$/boe	49.80	42.30	18	52.37	40.19	30

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

Benchmark Pricing		Three months ended			Six months ended		
		June 30,			June 30,		
		2010	2009	Change	2010	2009	Change
WTI crude oil (US\$/bbl)		77.99	59.62	31	78.39	51.46	52
WTI crude oil (Cdn\$/bbl)		80.40	69.33	16	80.81	62.00	30
AECO natural gas (Cdn\$/mcf) ⁽¹⁾		3.89	3.46	12	4.42	4.21	5
Exchange rate (US\$/Cdn\$)		0.97	0.86	13	0.97	0.83	17

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

During the third quarter of 2008 world oil prices and spot prices for natural gas commenced a steep decline and remained at low levels during most of 2009 however crude oil pricing has recovered in 2010. The pricing that the Company receives from the sale of its commodities are outside the control of the Company (see discussion of financial derivative contracts above). As a result the average price received in the current quarter versus last years' comparative was up by 18%. During the second quarter of 2010 crude oil prices have remained strong as compared with price year pricing. Recently, however they have recently weakened to around US\$72.00/bbl WTI while natural gas pricing continues to remain weak. Consistent with 2009, Second Wave's continues to focus its capital expenditures on oil prospects.

On a percentage basis, the benchmark WTI crude oil price as compared with comparative periods has increased more than the percentage increase experienced by the Company. During 2010, the differential between light and heavier grade crude oil has widened. As the majority of Second Wave's crude oil production is considered medium grade API, the price received in comparison to WTI has widened. A recent major third party cross-border pipeline leak has temporarily bottlenecked the supply of Canadian crude oil in Canada, which has driven the differential wider.

Royalties

(\$000s)	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	Change	2010	2009	Change
Crown royalties	473	85	456	876	245	258
Freehold	181	212	(15)	436	448	(3)
Gross overriding	175	50	-	257	61	321
Total	829	347	139	1,569	754	108
Per boe ⁽¹⁾	6.43	3.86	67	6.61	4.25	56
As % of oil and gas revenues	13%	9%	44	13%	11%	18

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

Total royalties increased in the second quarter of 2010, totalling \$829,000 versus \$347,000 in the same period of 2009. Royalties as a percentage of revenues amounted to 13% during the second quarter of 2010, compared to 9% during the same quarter last year.

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

Total royalties for the six months ended June 30, 2010 were \$1,569,000 compared to \$754,000 for the same period of 2009. The increase is due to the increase in volumes and higher commodity prices received in 2010. Royalties as a percentage of oil and gas revenues were also up year-over-year due mainly to higher commodity pricing and production rates partially offset by the new well incentive program.

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

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

In response to a drop in commodity prices and lower industry activity, on November 19, 2008, the Alberta government introduced a new 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 NRF. Wells qualifying for this program must be drilled during the period commencing on November 19, 2008 until December 31, 2013.

On March 3, 2009, the Alberta government announced a three-point incentive program to encourage additional activity in the oil and gas sector, of which only the first two aspects are relevant to oil and gas producers; i) drilling royalty credit, ii) new well incentive program, and iii) reclamation and abandonment program for old well sites. A drilling royalty credit will offer \$200 in royalty credits per meter drilled on new conventional oil and natural gas wells spud and rig released between April 1, 2009 and April 1, 2011. The new well incentive program reduced the royalty to a maximum 5% rate on any wellbore that has not produced between January 1 and April 1, 2009 for the period of the earlier of: i) the production of 50,000 barrels of oil 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.

In May 2010, the Alberta Government released the modifications to the province's Crown Royalty framework with the purpose to encourage new energy investment throughout Alberta. The following initiatives outlined are significant to Second Wave:

- The oil royalty curves were flattened and capped at 40%; previously the maximum was 50%. Changes are effective January 1, 2011.
- The gas royalty curves were flattened and capped at 36%; previously the maximum was 50%. Changes are effective January 1, 2011.
- The new well royalty rate of 5% for horizontal oil wells that have a depth of 2,500 meters to 3,000 meters is extended from twelve months to twenty four months of production or up to a maximum of 60,000 boe of production. For horizontal oil wells spud on or after May 1, 2010.
- The new well royalty program with a maximum royalty of 5% on all new conventional oil and gas wells up to 50,000 boe of cumulative production is to become a permanent program.
- Effective January 1, 2011, no Alberta drilled wells will be allowed to select the transitional royalty program.

The Company drilled 11 gross (10.6 net) wells and 8 gross (7.3 net) wells in Alberta during the first half of 2010 and 2009 respectively, all of which were successful and all of which did not commence production until subsequent to April 1, 2009. As a result, the Company is benefiting from the 5% royalty rate on these wells. The Company elected these wells to qualify for the transitional royalty regime.

At June 30, 2010, the Company has earned \$9,002,000 in drilling incentive credits including the 11 gross (10.6 net) wells drilled in Alberta in 2010 earning \$6,807,000 in drilling credits. As of June 30, 2010, the Company utilized \$611,000 of the drilling credits earned. Of the drilling credits available at June 30, 2010, approximately \$5,400,000 were earned in the period prior to March 31, 2010 (year 1 credits) and \$2,600,000 were earned subsequent to April 1, 2010 (year 2 credits). At this time the Company is not able to fully utilize the drilling incentive credits as the amount of crown royalty payments are currently not sufficient to draw against the amount of drilling credits from the program. The Company will continue to explore its options to utilize the incentive credits through the crown program.

Lease Operating Costs

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

(\$000s, except per boe)	Three months ended			Six months ended		
	2010	2009	June 30, %	2010	2009	June 30, %
Lease operating costs	2,289	2,355	(3)	4,588	4,318	6
Per boe (\$) ⁽¹⁾	17.75	26.24	(32)	19.32	24.36	21

(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 decreased 3% from \$2,355,000 in the second quarter last year to \$2,289,000 in the second quarter of 2010, however on a per boe basis lease operating costs decreased by 32% from \$26.24/boe to \$17.75/boe during the same period. The decrease in operating costs on a per boe basis is primarily due to economies of scale being achieved at Company operated facilities.

When comparing the first and second quarters of 2010, irrespective that production increased in the current quarter, total operating costs have remained relatively flat, which given the increase in sales volumes has translated to a 16% reduction on a per boe basis. During 2010, the Company continued to improve its operating efficiencies as additional production has been brought on stream in its core areas of Judy Creek and Battle Creek. The Company would expect to see continued improvement on its operating costs on a per boe basis in the near term as incremental volumes are processed at its Judy Creek facilities.

Quarterly Lease Operating Cost Summary

(\$000's except per boe amounts)	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Operating expenses	2,289	2,299	2,081	2,224	2,356	1,962	2,468	2,588
Per Boe	17.75	21.18	22.41	24.42	26.24	22.43	25.75	30.13

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

During 2010, the Company invested \$6,700,000 in facilities and infrastructure in its Judy Creek core area. These facility investments were designed to accommodate the development of the Company's Pekisko G pool in 2010, 2011 and beyond. As a result of these capital expenditures the fluid capacity for the battery was increased from 4,000 bbl/d to 12,000 bbl/d with an expansion of this capacity to 24,000 bbl/d planned in the fourth quarter of 2010. Currently the Company is producing 5,000 bbl/d of fluids in Judy Creek with sufficient capacity for the remainder of the 2010 and 2011 drilling program. The Company has also initiated a project to run electrical power into the Judy Creek field which will serve to reduce capital expenditures on new drilling projects and improve operating

efficiencies in the field on a long term basis. The electrification of the field and battery is expected to be completed by early 2011.

During the first quarter of 2010, the Company started a pilot CO2 flood in its Battle Creek area, and as a result the Company expects area operating costs in Battle Creek to be high in 2010 and into 2011 until a full response from the CO2 flood is attained. However, based on successful drilling activities to date in Judy Creek, the Company expects that corporate operating costs will continue to trend downwards over the next couple of quarters.

For the six months ended June 30, 2010, aggregate lease operating costs increased by 6% from the comparable period of 2009. On a year-to-date per boe basis, lease operating costs were 21% lower than those experienced in 2009.

Transportation

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

(\$000s, except per boe)	Three months ended			Six months ended		
	2010	2009	June 30, %	2010	2009	June 30, %
Transportation	191	106	80	347	205	69
Per boe (\$) ⁽¹⁾	1.48	1.18	25	1.46	1.16	26

- (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.

On a boe basis, transportation costs increased 25% in the three months ended June 30, 2010 to \$1.48 per boe from \$1.18 per boe in the same period of 2009. The increase in absolute amount is a result of increased volumes in the Judy Creek area adding clean oil trucking costs. Transportation costs on an absolute and per boe basis for the six month period ended June 30, 2010 were up by similar amounts.

Operating Netback

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

(\$/boe)	Three months ended			Six months ended		
	2010	2009	June 30, %	2010	2009	June 30, %
Petroleum and natural gas sales	49.80	42.30	18	52.37	40.19	30
Royalties	(6.43)	(3.86)	67	(6.61)	(4.25)	56
Lease operating costs	(17.75)	(26.24)	(32)	(19.32)	(24.36)	(21)
Transportation	(1.48)	(1.18)	25	(1.46)	(1.16)	26
Operating netback ⁽¹⁾	24.14	11.02	119	24.98	10.42	140

- (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 netback improved during the second quarter of 2010 as compared with 2009, due mainly to lower operating costs and higher commodity pricing in the current quarter. Operating netback was significantly higher for six months ended June 30, 2010, when compared to the prior year, primarily due to the increase in average commodity prices and improved operating costs efficiencies.

On a quarter-over-quarter basis, operating netbacks decreased by 7% from \$25.98/boe in the first quarter of 2010 to \$24.14/boe in the second quarter. Although the Company's lease operating expenses dropped by \$3.43/boe in the current quarter, this positive impact was offset by a \$5.62/boe decrease in realized commodity pricing.

Notwithstanding the recent pullback of crude oil pricing, and the heavier crude oil differentials, management expects 2010 operating netbacks to be better than those experienced in 2009. With the continued development of the Judy Creek field and the related improvements to operational efficiencies, management is expecting that lease operating expenses per boe will continue to decrease in 2010. During the second quarter, operating costs in Judy Creek were below the corporate average at \$17.00 per boe and as such management expects that as more capital is invested in Judy Creek the corporate operating cost on a per unit basis will continue to trend downwards to the unit costs seen in Judy Creek.

General and Administrative (“G&A”)

(\$000s, except per boe)	Three months ended			Six months ended		
	2010	2009	Change %	2010	2009	Change %
G&A expenses	1,252	709	77	1,921	1,515	27
Capitalized G&A expenses	(375)	(157)	139	(547)	(329)	66
Net G&A expenses	877	552	59	1,374	1,186	16
Per boe (\$) ⁽¹⁾	6.80	6.15	11	5.78	6.69	(14)

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

G&A expenses, net of capitalized G&A, increased 59% in the current quarter to \$877,000 from \$552,000 in the same period last year. Aggregate G&A costs increased 77% mainly due to 2009 bonus program costs of \$504,000 and increased staff levels. On a per boe basis, G&A expenses, net of capitalized G&A, were 11% higher in the comparative quarter. The increased costs related to the increased staff levels required to co-ordinate the 2010 capital program and bonus program costs were offset by higher produced volumes in the quarter.

Excluding the one-time impact of the 2009 bonus program, net 2Q G&A costs were \$533,000 or \$4.13 per boe representing a decrease of 21% on a boe basis from the comparative quarter of 2009. Net G&A associated with the 2009 bonus program in the second quarter was \$344,000.

G&A expenses of \$375,000 were capitalized during the second quarter of 2010, which is higher than the 2009 comparative as a result of a portion of the bonus program being capitalized. A total of \$160,000 or 31% of the 2009 bonus program was capitalized in the quarter.

For the six months ended June 30, 2010, G&A expenses, net of capitalized G&A, increased 16% from those of the comparative period, however on a per boe basis the decrease was 14%.

In comparison to the first quarter of 2010, net G&A expenses increased by 76% or \$380,000 from \$497,000 to \$877,000. The increase is primarily due to increased staff levels and 2009 bonus program costs.

Stock-Based Compensation

Stock-based compensation expense, net of capitalized stock-based compensation, for the three months ended June 30, 2010 was \$338,000, as compared to \$312,000 in the comparative period of 2009. The increase in stock-based compensation expense is due to the timing of stock option grants, and the amounts capitalized in each period. Stock-based compensation expenses of \$246,000 were capitalized during the quarter, as compared with \$137,000 capitalized in the comparative 2009 quarter.

For the six months ended June 30, 2010 and 2009, stock-based compensation expense, net of capitalized stock-based compensation, was \$734,000 and \$624,000 respectively. Stock-based compensation expenses of \$473,000 and \$137,000 were capitalized during the six months ended June 30, 2010 and 2009 respectively.

Financing Expenses

(\$000s, except per boe)	Three months ended			Six months ended		
	2010	2009	June 30, %	2010	2009	June 30, %
Interest on current portion of debt	143	308	(54)	211	441	(52)
Interest on convertible debenture	80	-	-	159	-	-
Interest on long term portion of debt	-	35	-	-	152	-
Finance charges on flow through share obligations	24	-	-	45	-	-
Total financing expenses	247	344	(28)	415	594	(30)
Per boe (\$)	1.92	3.84	(50)	1.75	3.35	(48)

Financing expenses decreased by 28% to \$247,000 in the second quarter of 2010 when compared to the same period in 2009, mainly as a result of lower debt levels carried throughout the quarter.

Given the 2008 global credit crisis and the higher borrowing costs charged by lenders, the Company's borrowing costs increased significantly in 2009 from historical levels. Although the Company's lending rate is currently at approximately 3.5%, down from approximately 5.25% at this time last year, the increase in rate premiums has offset the drop in prime interest rates. The Company's 2010 average debt levels decreased from 2009, which has also contributed to the decrease in financing costs.

For the six months ended June 30, 2010, financing expenses decreased by 30% to \$415,000 as compared with \$594,000 in 2009.

Depletion, Depreciation and Accretion

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

(\$000s, except per boe)	Three months ended			Six months ended		
	2010	2009	June 30, %	2010	2009	June 30, %
Depletion	3,480	2,200	58	6,296	4,263	48
Depreciation	10	3	233	18	7	157
Accretion of asset retirement obligations	122	118	3	237	234	1
Total	3,612	2,321	56	6,551	4,504	45
Per boe (\$) ⁽¹⁾	28.01	25.85	8	27.58	25.41	9

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

Depletion, depreciation and accretion expense increased 56% in the second quarter of 2010 to \$3,612,000 from \$2,321,000 in the same period of 2009. This increase in absolute dollar amount is a result of expenditures incurred from Second Wave's exploration and development program. A total of \$6,595,000 was incurred on facilities to expand and upgrade facilities during 2009 with an additional \$9,537,000 spent in 2010. These expenditures were required for the anticipated increases in production throughputs from the Company's capital program. Although management expects additional pipeline tie-ins and facility work will be required in 2010 and beyond, the impact should be lower on depletion in future periods.

Depletion, depreciation and accretion expense increased 45% in the six months ended June 30, 2010 to \$6,551,000 from \$4,504,000 in the same period of 2009, for the same reasons discussed above.

Accretion of Convertible Debenture

Accretion of convertible debenture was \$18,000 and \$35,000 during the three and six months ended June 30, 2010 as compared with \$Nil and \$Nil respectively during the comparative period in 2009. On August 26, 2010, the Company exercised its right to require conversion of the \$4,000,000 convertible debenture and issued 3,333,333 common shares to the debenture holder.

Income Taxes

The future income tax recovery for the three months ended June 30, 2010 was \$Nil, compared to \$Nil in the comparative period of 2009.

The future income tax recovery for the six months ended June 30, 2010 was \$Nil, compared to \$393,000 in the comparative period of 2009.

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

Capital Expenditures

During the quarter ended June 30, 2010, \$15,548,000 was incurred on capital expenditures as compared with \$1,992,000 in the comparative quarter in 2009. For the six months ended June 30, 2010, \$34,493,000 was expended on capital additions as compared with \$6,895,000 during the 2009 comparative as summarized below:

Capital Expenditures (\$000s)	Three months ended June 30, %			Six months ended June 30, %		
	2010	2009	Change	2010	2009	Change
Land and acquisitions	5,147	219	-	6,398	321	-
Geological and geophysical	34	18	89	1,331	40	-
Drilling and completion	7,040	535	-	20,654	3,864	435
Facilities and equipment	2,924	1,063	175	10,939	2,341	367
Dispositions	-	-	-	(5,471)	-	-
Other	28	-	-	95	-	-
Capitalized G&A	375	157	139	547	329	66
Total cash portion	15,548	1,992	681	34,493	6,895	400
Non-cash portion						
Capitalized stock-based compensation	246	137	80	473	137	245
Asset retirement obligations additions from drilling and acquisitions	148	65	128	283	65	335
Asset retirement obligations reductions from property sales	-	(31)	-	(1,110)	(52)	-
Total non-cash	394	171	130	(354)	150	(336)
Total capital expenditures	15,942	2,163	637	34,139	7,045	385

Drilling results (2010)	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Gross	Net	Working interest %	Gross	Net	Working interest %
Crude oil wells	2	2	100	11	10.6	96.7
Natural gas wells	-	-	-	-	-	-
Dry and abandoned	-	-	-	-	-	-
Total wells	2	2	100	11	10.6	96.7

Drilling results (2009)	Three months ended June 30, 2009			Six months ended June 30, 2009		
	Gross	Net	Working interest	Gross	Net	Working interest
			%			%
Crude oil wells	-	-	-	3	3	100
Natural gas wells	-	-	-	-	-	-
Dry and abandoned	-	-	-	-	-	-
Total wells	-	-	-	3	3	100

The increase in capital expenditures in the three months ended June 30, 2010 was the result of a drilling program in the second quarter of 2010 which included the drilling of 2 gross (2.0 net) wells all of which targeted oil at a 100% success rate, as compared to drilling no wells in the 2009 comparative quarter.

For the six months ended June 30, 2010, Second Wave has drilled 11 gross (10.6 net) wells, all of which were targeting oil for a 100% success rate, as compared with 3 gross (3 net) wells in the 2009 comparative period.

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 cash flow. As at June 30, 2010, the Company had a working capital deficiency of \$8,292,000, had drawn \$11,972,000 of its available \$30,000,000 in debt facilities, and for the six months ended June 30, 2010, the Company incurred a net loss of \$2,001,000. Given the nature of the oil and gas business, and the size of Second Wave, the Company must be able to continue to secure sufficient financial resources to achieve its growth objectives. As with the nature of junior oil and gas producers, the Company continues to monitor additional financing opportunities to fund future prospects and commitments. Based on its current forecasts of production volumes and commodity pricing, the Company currently expects that sufficient liquidity will be available to meet its obligations for the next twelve months.

As at August 26, 2010, the Company has bank lines totaling \$30,000,000, a 50% increase from the \$20,000,000 of lines at December 31, 2010. On May 18, 2010, the Company executed an agreement with a new lender for a revolving operating demand loan of \$30,000,000.

On August 26, 2010, the Company exercised its right to require conversion of the \$4,000,000 convertible debenture. The conversion resulted in the issuance of 3,333,333 common shares of the Company and the payment of approximately \$255,000 of make-whole interest to the debenture holder.

On July 20, 2010, the Company closed an equity financing of 6,670,000 common shares at \$3.00 per share and 2,000,000 flow-through common shares at \$3.55 per share for gross proceeds of \$27,110,000.

During the first quarter of 2010, the Company disposed of its interest in non-core properties for proceeds of \$8,920,000 and closed equity financings for an additional \$20,000,000 to facilitate the acceleration of its capital program at Judy Creek. On January 11, 2010, the Company disposed of certain non-core oil and gas properties producing approximately 130 boe/d for total consideration of approximately \$8,920,000, comprised of \$5,432,000 cash plus \$3,488,000 of value in common shares of the purchaser. The properties were disposed of at \$68,615 per producing boe. The common shares were considered to be held-for-trading, and proceeds of \$3,477,426 were received for all of the shares disposed of prior to the end of April 2010. As a result of the disposition of the shares, the Company recorded a total loss on sale of approximately \$11,000.

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

Quarterly Financial Summary

	2010		2009				2008	
(\$000's except per boe and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average production (boe/d)	1,417	1,206	1,009	990	987	972	1,042	933
Petroleum and natural gas sales	6,423	6,015	4,522	4,006	3,799	3,325	4,688	7,197
Royalties	(829)	(740)	(662)	(342)	(346)	(408)	(560)	(905)
Operating expenses	(2,289)	(2,299)	(2,081)	(2,224)	(2,356)	(1,962)	(2,468)	(2,588)
Transportation expenses	(191)	(156)	(86)	(98)	(107)	(98)	(163)	(90)
Operating netback	3,114	2,820	1,693	1,342	990	857	1,497	3,614
Operating netback (per boe) ⁽¹⁾	24.14	25.98	18.24	14.74	11.02	9.81	15.61	42.10
Cash flow from operating activities	3,472	542	688	(547)	916	324	2,510	2,545
Per share – basic	0.05	0.01	0.01	(0.01)	0.03	0.01	0.08	0.05
Per share - diluted	0.05	0.01	0.01	(0.01)	0.03	0.01	0.08	0.04
Funds from operations ⁽²⁾	2,506	1,849	802	333	(64)	(27)	1,069	2,249
Per share - basic	0.04	0.03	0.01	0.01	-	-	0.03	0.07
Per share - diluted	0.04	0.03	0.01	0.01	-	-	0.03	0.07
Net income (loss)	(1,578)	(423)	1,329	(1,645)	(4,138)	(2,128)	(1,587)	665
Per share - basic	(0.02)	(0.01)	0.02	(0.03)	(0.11)	(0.06)	(0.05)	0.02
Per share - diluted	(0.02)	(0.01)	0.02	(0.03)	(0.11)	(0.06)	(0.05)	0.02
Total assets	114,783	111,168	91,640	77,348	75,607	79,116	73,649	69,699
Capital expenditures								
Cash	15,549	18,945	13,373	3,846	1,992	4,903	7,256	8,920
Non-cash	394	(4,237)	214	500	171	(21)	334	249
Total	15,942	14,708	13,587	4,346	2,163	4,882	7,590	9,169
Net debt (excludes ARO)	24,103	10,971	15,662	22,414	19,827	26,342	25,352	19,623
Long term financial liabilities	3,890	3,862	3,835	3,807	3,779	7,390	7,365	7,340

⁽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 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 ability to generate the cash flow necessary to fund future growth through capital investment.

International Financial Reporting Standards (“IFRS”):

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

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

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

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

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

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

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

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

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

Additional information

Additional information relating to Second Wave, including its most recently filed Annual Information Form, may be found on our website at www.secondwavepetroleum.com or on SEDAR at www.sedar.com.

Financial Statements of
Second Wave Petroleum Inc.

Three and Six Months Ended June 30, 2010 and 2009

Second Wave Petroleum Inc.

Balance Sheets (unaudited)

	As at June 30, 2010	As at December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 50,000	\$ -
Accounts receivable	3,404,958	2,633,152
Prepaid expenses	306,312	225,253
Financial derivative contracts (note 11)	472,635	-
Future income tax asset	-	2,519,000
	4,233,905	5,377,405
Property and equipment (note 3)	110,598,668	86,262,363
	\$ 114,832,573	\$ 91,639,768
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,475,733	\$ 12,521,773
Loans payable (note 4)	11,971,874	4,238,450
Financial derivatives contracts (note 11)	-	444,182
Asset retirement obligation (note 6)	500,000	200,000
	24,947,607	17,404,405
Convertible debenture (note 5)	3,889,637	3,834,907
Asset retirement obligation (note 6)	5,908,195	6,905,005
	34,745,439	28,144,317
Shareholders' equity:		
Share capital (note 7b)	78,718,162	61,106,682
Warrants (note 7e)	-	2,931,553
Contributed surplus (note 7f)	10,057,289	6,144,552
Equity component of convertible debenture (note 5)	140,729	140,729
Deficit	(8,829,046)	(6,828,065)
	80,087,134	63,495,451
Contingencies and commitments (note 8)		
Subsequent events (note 13)		
	\$ 114,832,573	\$ 91,639,768

See accompanying notes to financial statements.

Second Wave Petroleum Inc.

Statements of Loss, Comprehensive Loss and Deficit
For the three and six months ended June 30, 2010 and 2009
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues				
Crude oil, natural gas, and natural gas liquids sales	\$6,422,877	\$ 3,798,475	\$12,438,312	\$ 7,123,815
Royalties	(829,335)	(346,707)	(1,569,153)	(754,186)
Realized gain (loss) on financial derivatives	511,530	(120,231)	264,951	(120,231)
Unrealized gain (loss) on financial derivatives (note 11)	(108,017)	(1,479,242)	916,817	(1,479,242)
	5,997,055	1,852,295	12,050,927	4,770,156
Expenses				
Operating	2,289,090	2,355,288	4,587,983	4,317,550
Transportation	190,819	106,027	347,301	204,873
General and administrative	876,957	551,882	1,373,648	1,186,115
Depletion, depreciation and accretion	3,612,178	2,321,194	6,551,096	4,503,636
Stock based compensation	338,445	311,754	733,575	623,816
Financing	247,171	344,501	414,720	594,007
Accretion of convertible debenture	17,544	-	34,894	-
Other	2,636	-	8,691	-
	7,574,840	5,990,646	14,051,908	11,429,997
Loss before income taxes	(1,577,785)	(4,138,351)	(2,000,981)	(6,659,841)
Income taxes				
Future income tax recovery	-	-	-	393,500
Net loss and comprehensive loss	(1,577,785)	(4,138,351)	(2,000,981)	(6,266,341)
Deficit – beginning of period	(7,251,261)	(2,373,837)	(6,828,065)	(245,847)
Deficit – end of period	\$ (8,829,046)	\$ (6,512,188)	\$ (8,829,046)	\$ (6,512,188)
Net loss per share: basic and diluted (note 7g)	\$(0.02)	\$ (0.11)	\$(0.03)	\$ (0.18)

See accompanying notes to financial statements.

Second Wave Petroleum Inc.

Statements of Cash Flow

For the three and six months ended June 30, 2010 and 2009

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Operating:				
Net loss	\$ (1,577,785)	\$ (4,138,351)	\$ (2,000,981)	\$ (6,266,341)
Add (deduct) items not involving cash:				
Depletion, depreciation and accretion	3,612,178	2,321,194	6,551,096	4,503,636
Stock based compensation	338,445	311,754	733,575	623,816
Amortization of loan commitment fees	9,972	-	48,991	-
Loss on sale of marketable securities	3,286	-	11,071	-
Unrealized loss (gain) on financial derivatives	108,017	1,479,242	(916,817)	1,479,242
Accretion of convertible debenture	17,544	-	34,894	-
Abandonment costs incurred	(5,425)	(37,672)	(106,333)	(37,672)
Future income tax recovery	-	-	-	(393,500)
	2,506,232	(63,833)	4,355,496	(90,819)
Change in non-cash working capital (note 10)	965,826	979,872	(341,255)	1,330,389
	3,472,058	916,039	4,014,241	1,239,570
Financing:				
Issuance of shares	-	10,644,000	20,000,000	14,624,289
Issuance of shares on exercise of warrants	-	-	886,040	-
Share and warrant issue costs	(4,942)	(734,021)	(1,067,803)	(753,922)
Exercise of stock options	53,100	-	86,934	-
Loan advances	11,971,874	-	7,704,269	-
Loan repayments	-	(9,122,504)	-	(7,681,980)
Repurchase and cancellation of shares	-	-	-	(20,793)
Change in non-cash working capital (note 10)	-	147,922	(55,000)	101,151
	12,020,032	935,397	27,554,440	6,268,745
Investing:				
Expenditures on property and equipment	(15,547,804)	(1,991,885)	(39,964,489)	(6,895,041)
Property and equipment dispositions	-	-	5,471,031	-
Proceeds on sale of marketable securities	192,692	-	3,477,427	-
Change in non-cash working capital (note 10)	(7,979,952)	(2,259,551)	(502,650)	(613,274)
	(23,335,064)	(4,251,436)	(31,518,681)	(7,508,315)
Increase (decrease) in cash and cash equivalents	(7,842,974)	(2,400,000)	50,000	-
Cash and cash equivalents - beginning of period	7,892,974	2,400,000	-	-
Cash and cash equivalents - end of period	\$ 50,000	\$ -	\$ 50,000	\$ -
Supplementary Cash Flow Information				
Interest paid	\$ 214,138	\$ 427,082	\$ 322,154	\$ 650,327

See accompanying notes to financial statements.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

1. Nature of business:

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

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

2. Basis of presentation

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and followed the same accounting policies as the audited financial statements for the year ended December 31, 2009. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. These interim financial statements should be read in conjunction with the financial statements as at and for the year ended December 31, 2009.

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

3. Property and equipment

	June 30, 2010		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties	\$168,110,337	\$57,631,884	\$110,478,453
Office equipment	233,175	112,960	120,215
	\$168,343,512	\$57,744,844	\$110,598,668

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

3. Property and equipment (continued)

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

As at June 30, 2010, \$14,403,000 (December 31, 2009 - \$8,798,000) of undeveloped land costs have been excluded from the depletion base. Future development costs of \$29,110,000 (December 31, 2009 - \$10,560,000) were included in the calculation of depletion. For the three and six months ended June 30, 2010, \$374,872 and \$546,943 (2009 - \$156,923 and \$329,326) of general and administrative costs and \$246,397 and \$472,918 (2009 - \$136,631 and \$136,631) of stock based compensation have been capitalized.

On January 11, 2010, the Company disposed of certain oil properties for total consideration of approximately \$8,920,000, comprised of \$5,432,000 cash plus \$3,488,497 of common shares of the purchaser. The common shares are considered to be held-for-trading, and proceeds of \$3,477,427 were received for these shares disposed. There was no gain or loss on the disposition of these properties.

4. Loans payable

	June 30, 2010	December 31, 2009
Cheques issued in excess of bank balance	\$ 2,071,874	\$ 717,605
Revolving operating loan facility (note 4a)	9,900,000	3,520,845
Balance, end of period	\$ 11,971,874	\$ 4,238,450
Current portion	\$ 11,971,874	\$ 4,238,450
Long term portion	-	-
	\$ 11,971,874	\$ 4,238,450

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

4. Loans payable (continued)

(a) Revolving operating and development loan facilities:

The Company has a \$30,000,000 demand revolving operating credit facility with a Canadian chartered bank (senior lender). The facility provides that advances may be made by way of direct advances, bankers' acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin. The applicable margin charged by the bank is dependent upon the Company's net debt to trailing cash flow ratio. The bankers' acceptances bear interest at the applicable banker's acceptance rate plus an explicit stamping fee based upon the Company's net debt to trailing cash flow ratio. The credit facilities are secured by a first fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to a semi-annual review by the bank with the next scheduled review to be prior to November 1, 2010. In addition, the Company has issued letters of guarantee totaling \$513,490, which is a reduction to the balance available from the credit facility.

Second Wave is required to meet certain covenants including providing certain financial information on a timely basis. The Company is also required to maintain a working capital ratio of not less than 1:1 as defined in the agreement, which includes the undrawn portion of the facility. As at June 30, 2010 the Company was in compliance with its financial debt covenants.

5. Convertible debenture

	June 30, 2010		December 31, 2009	
	Equity Component	Debt Component	Equity Component	Debt Component
Convertible debenture				
Balance, beginning of period	\$ 140,729	\$ 3,834,907	\$ -	\$ -
Debenture issued	-	-	-	4,000,000
Commitment fee amortization	-	19,836	-	(59,836)
Equity portion	-	-	140,729	(140,729)
Accretion of non-cash interest expense	-	34,894	-	35,472
Balance, end of period	\$ 140,729	\$ 3,889,637	\$ 140,729	\$ 3,834,907

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

5. Convertible debenture (continued)

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

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

6. Asset retirement obligation

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas properties. A credit adjusted risk free rate of 9.0% (2009 - 9.0%) and an inflation rate of 2% (2009 - 2%) were used to calculate the fair value of the asset retirement obligation. Undiscounted estimated cash flow of \$8,128,000 (2009 - \$8,858,000) are required to settle the obligation at estimated dates in the future ranging from 2010 to 2026.

	June 30, 2010	December 31, 2009
Balance, beginning of period	\$ 7,105,005	\$ 6,156,862
Liabilities incurred	283,495	150,330
Liabilities disposed	(1,110,468)	(52,390)
Accretion expense	236,496	507,936
Changes in accounting estimates	-	379,939
Abandonments	(106,333)	(37,672)
Balance, end of period	\$ 6,408,195	\$ 7,105,005
Current portion	\$ 500,000	\$ 200,000
Long term portion	5,908,195	6,905,005
Total	\$ 6,408,195	\$ 7,105,005

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

7. Share capital

(a) Authorized:

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

(b) Issued and outstanding:

	June 30, 2010	
Common Shares	Number of Shares	Amount
Balance, beginning of period	60,287,940	\$ 61,106,682
Issued for cash (note 7c)	10,576,355	20,972,974
Share issue costs	-	(1,067,803)
Future tax effect of flow-through shares	-	(2,519,000)
Black-scholes value transferred from warrants (note 7e)	-	190,144
Black-scholes value transferred on option exercise (note 7e)	-	35,165
Balance, end of period	70,864,295	\$ 78,718,162

(c) Issued for cash:

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

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

On February 19, May 26 and June 23, 2010, 48,334, 30,000 and 28,334 stock options respectively were exercised at \$0.70 per option. On June 2, 2010, 26,667 stock options were exercised at \$0.46 per option.

(d) Stock option plan:

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

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

7. Share capital (continued)

	June 30, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,051,500	\$ 1.59	2,507,500	\$ 2.84
Granted	870,000	3.03	2,989,500	1.08
Cancelled	-	-	(522,500)	2.66
Repriced	-	-	392,000	0.70
Exercised	(133,335)	0.65	-	-
Forfeited	-	-	(315,000)	2.15
Balance, end of period	5,788,165	\$ 1.83	5,051,500	\$ 1.59
Exercisable – end of period	1,487,339	\$ 2.16	880,004	\$ 2.68

June 30, 2010	Options outstanding		Options exercisable	
	Exercise Price	Number	Number	Weighted Average Remaining Life (years)
		Weighted Average Remaining Life (years)		
\$0.46 - \$0.90	2,254,665	3.79	389,002	3.64
\$1.30 - \$2.00	1,623,500	3.51	506,668	2.11
\$2.11 - \$3.35	1,870,000	3.73	551,671	2.77
\$10.00	40,000	1.02	40,000	1.02
	5,788,165		1,487,339	

The weighted average price per option granted in 2010 was \$3.03 (2009 - \$0.69).

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

7. Share capital (continued)

The fair value of the 870,000 options granted during the period ended June 30, 2010 was \$1,650,890 and was calculated using a risk free rate of between 2.72% and 3.05%, dividend yield of 0%, volatility factor of 75%, and expected life of 5 years. The value of the options was recorded as stock based compensation expense, with an offsetting amount to contributed surplus based on the vesting terms. During the three and six month periods ended June 30, 2010, \$246,397 and \$472,918 (2009 – \$136,631 and \$136,631) of stock based compensation has been capitalized.

(e) Warrants:

	June 30, 2010	
	Number of Warrants	Amount
Balance, beginning of period	3,000,489	\$ 2,931,553
Warrant exercise	(443,020)	(190,144)
Warrant expiry	(2,557,469)	(2,741,409)
Balance, end of period	-	\$ -

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

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

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

(f) Contributed surplus:

A summary of changes in the Company's contributed surplus balance for the period ended June 30, 2010 and December 31, 2009 is as follows:

	June 30, 2010	December 31, 2009
Balance, beginning of period	\$ 6,144,552	\$ 4,175,145
Stock based compensation related to fair value of options granted	1,206,493	1,685,031
Expiry of warrants	2,741,409	268,145
Shares repurchased and cancelled	-	16,231
Stock options exercised	(35,165)	-
Balance, end of period	\$ 10,057,289	\$ 6,144,552

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

7. Share capital (continued)

(g) Per share data:

The basic weighted average number of shares outstanding during the three and six month periods ended June 30, 2010 was 70,802,151 and 68,422,992 (June 30, 2009 – 37,051,845 and 35,403,300) respectively.

Diluted weighted average number of shares outstanding during the three and six month periods ended June 30, 2010 was 70,802,151 and 68,422,992 (2009 – 37,051,845 and 35,403,300) respectively. During the periods ending June 30, 2010 all options would have an anti-dilutive effect on the loss per share as the Company was in a loss position. The dilutive effect of outstanding warrants and options is calculated using the treasury stock method.

8. Contingencies and commitments

- (a) In connection with the 2009 flow-through equity offerings, the Company is committed to incur \$9,176,289 on qualifying flow-through Canadian Exploration Expenditures (“CEE”) and \$3,800,000 on qualifying Canadian Development Expenditures (“CDE”) prior to December 31, 2010. As of June 30, 2010 the Company has a balance of \$3,025,169 remaining to incur related to the CEE flow-through commitments. The Company incurred all of its CDE commitments prior to December 31, 2009.
- (b) In connection with a flow-through equity agreement during 2006, the Company was required under the income tax act to expend amounts renounced to subscribers prior to December 31, 2007. Due to weather related issues, the Company was temporarily delayed and did not complete activities related to \$982,906 in expenditures until February 2008. The Company has advised the Canada Revenue Agency (“CRA”), of the circumstances, paid appropriate interest and penalties and does not intend to re-file the flow-through renunciations to subscribers. In the event that the CRA reassessed the Company’s treatment, the Company could potentially be liable for indemnities to flow-through subscribers relating to the delayed expenditures for approximately \$383,333.
- (c) The Company has the following office rental commitments, which expire April 30, 2011:

2010	\$	180,279
2011		124,686

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

9. Related party transactions

- (a) During the three and six month periods ended June 30, 2010, the Company incurred \$59,836 and \$119,014 (2009 – \$160,600 and \$252,200) respectively for financing expenses and commitment fees paid to the Company's major shareholder. As at June 30, 2010 and December 31, 2009, no amounts were payable to the Company's major shareholder.
- (b) During the three and six month periods ended June 30, 2010, the Company incurred \$797,040 and \$1,305,865 (2009 – \$176,300 and \$764,300) for drilling and well services from companies who are under common control and significant influence by Second Wave's major shareholder. As at June 30, 2010 and December 31, 2009, amounts payable for related party drilling and well servicing was \$516,213 and \$1,094,509 respectively.

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

10. Changes in non-cash working capital

	Three months ended		Six months ended	
	2010	June 30, 2009	2010	June 30, 2009
Decrease (increase) in non-cash working capital				
Accounts receivable	\$ 673,196	\$ 513,480	\$ (771,806)	\$ 477,909
Prepaid expenses	(32,648)	553,854	(81,059)	337,409
Accounts payable and accrued liabilities	(7,654,674)	(2,199,091)	(46,040)	2,948
Net change in non-cash working capital	\$ (7,014,126)	\$ (1,131,757)	\$ (898,905)	\$ 818,266
Relating to:				
Operations	\$ 965,826	\$ 979,872	\$ (341,255)	\$ 1,330,389
Investing	(7,979,952)	(2,259,551)	(502,650)	(613,274)
Financing	-	147,922	(55,000)	101,151
	\$ (7,014,126)	\$ (1,131,757)	\$ (898,905)	\$ 818,266

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

11. Financial risk management

The following table includes all the financial instruments carried at in the balance sheet at June 30, 2010:

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Financial derivative contracts	-	472,635	-	472,635
	\$ -	\$ 472,635	\$ -	\$472,635

There have been no transfers between levels during the three and six month periods ended June 30, 2010.

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

- a. Credit risk
- b. Liquidity risk
- c. Market risk

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

Liquidity risk

At June 30, 2010, the Company had \$11,971,874 outstanding on its revolving reserve based credit facility with its senior lender for \$30,000,000. The revolving credit facility was reviewed by the senior lender in May 2010. The next review is expected to occur prior to November 1, 2010.

Market risk - Commodity price risk

During 2009 and 2010, the Company has attempted to mitigate commodity price risk through the use of financial derivative contracts as indicated below. If commodity prices were \$1.00 per barrel and \$0.10 per mcf higher, with all other variables held constant, net loss for the three and six months ended June 30, 2010 would have been approximately \$112,000 and \$203,000 lower due to higher revenues.

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

11. Financial risk management (continued)

The Company had the following fixed price crude oil and natural gas contracts outstanding as at June 30, 2010:

Daily quantity	Term of contract	Price	Fair value
Oil (bbls)		Fixed per bbl (WTI)	
300	July 1, 2010 – September 30, 2010	CDN\$86.90	\$ 176,996
300			\$ 176,996
Gas (GJs)		Fixed per GJ (AECO Monthly)	
600	April 1, 2010 – October 31, 2010	CDN\$5.42	\$ 114,837
1,200	July 1, 2010 – September 30, 2010	CDN\$5.46	180,802
1,800			\$ 295,639
		Total	\$ 472,635

12. Capital management

The Company considers its capital structure to include shareholders' equity, loans payable, convertible debenture, and working capital which at June 30, 2010 totaled \$104,190,473 (December 31, 2009 – \$79,357,358).

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

13. Subsequent events

- On July 20, 2010, the Company closed an equity financing of 6,670,000 common shares at \$3.00 per share and 2,000,000 flow-through common shares at \$3.55 per share for gross proceeds of \$27,110,000.
- On July 20, 2010, the Company entered into the following fixed price crude oil contracts:

Daily quantity	Term of contract	Price
Oil (bbls)		Fixed per bbl (WTI)
750	October 1, 2010 – December 31, 2010	CDN\$82.50
500	January 1, 2011 – March 31, 2011	CDN\$83.80

Second Wave Petroleum Inc.

Notes to the Financial Statements

For the three and six months ended June 30, 2010 and 2009

(unaudited)

13. Subsequent events (continued)

- (c) On August 26, 2010 the Company forced conversion of the \$4,000,000 convertible debenture. As a result of the conversion, the Company issued 3,333,333 common shares of the Company to settle the debenture.