

Ridgeway Petroleum Corp.

FORM 51-102F1

MANAGEMENT'S DISCUSSION & ANALYSIS

QUARTER ENDED DECEMBER 31, 2004

April, 2005

Overview

Ridgeway Petroleum Corp. ("Ridgeway" or the "Company") is principally engaged in the business of development of its helium and carbon dioxide ("CO₂") project (the "St. Johns Helium/CO₂ Project") in eastern Arizona and western New Mexico. The Company has spent approximately \$40,789,000 to date in acquiring, exploring and developing the St. Johns Helium/CO₂ Project. The Company currently owns a 100% working interest in leases covering approximately 242,000 acres.

Pursuant to the normal course issuer bid announced in September 2001, the Company purchased 85,200 of its common shares at a cost of \$168,405 during the following twelve-month period. All shares purchased by the Company are being held by the Company to be dealt with at a later date.

General-Financial

Management's Discussion and Analysis relating to the consolidated financial statements for the year ended December 31, 2004 and 2003 follows. All financial data contained herein has been prepared in accordance with Canadian generally accepted accounting principles. The reporting currency is the Canadian dollar.

Since early 1997, the Company has completed a number of financings for gross proceeds of approximately \$33.9 million including proceeds from the subsequent exercise of common share purchase warrants issued in conjunction with such financings. In addition, a further \$2.3 million has raised through the exercise of incentive stock options.

To date, Ridgeway has expended most of the proceeds on the drilling of nineteen exploratory and delineation wells, including coring, casing, drill stem testing, completions and production testing as well as lease acquisition and maintenance and the completion of feasibility studies and resource evaluations regarding development of a commercial project.

The results of these activities have established that the Company's St. Johns Helium/CO₂ Project has significant gas in place and is a world class asset.

In the first quarter of 2003, the Company signed a fifteen year take or pay contract with Air Liquide for the purchase Ridgeway's helium once in production.

In late 2002, the Company signed an agreement with CIG Resources Company ("CIG"), a subsidiary of El Paso Corporation (NYSE-EP), to continue to explore and evaluate the commercial feasibility of the Company's CO₂ holdings. This Memorandum of Understanding lapsed in November 2004.

The Company is presently embarking on a number of initiatives with the overall objective of developing a sustainable cash flow that will initially be sufficient to cover lease rentals and corporate overhead.

The Company's key strategic goal for 2005/2006 is for the Company to become cash flow positive. With this in mind, the Board, in principle, has approved the design, construction and implementation of a helium and CO₂ plant with productive capacity of 25 million cubic feet of raw gas per day. The production from this plant will allow the Company to gain extensive data regarding well deliverability, gas composition and pressures while, at the same time, providing sufficient cash flow to cover expenses and corporate overhead.

A key long term goal is the securing of gas contracts for the purchase of CO₂ in the enhanced oil recovery arena, which the Company is actively pursuing. The Company has held meetings with a number of the key potential users of CO₂ with the objective of discussing their current and long-term needs. Recent meetings with several parties have been encouraging reflecting the positive outlook for oil prices.

The Project contemplates the development of the field including the drilling of additional wells, adding any necessary field compression and installing gathering pipelines, the construction and operation of the helium processing plant and related facilities and construction and operation of a CO₂ pipeline to customers in the Permian Basin of West Texas and in California.

In April 2004, the Company announced that the drilling related to its development /appraisal project was scheduled to commence. The development/appraisal project was to consist of drilling and completing a number of wells to establish more statistically persuasive data for gas composition, average well flow by zone, optimal drilling and completion procedures, and provide additional wells for delivery of crude CO₂ to the Reliant Processing Ltd. liquids plant located within the Project field.

In May 2004, the Company announced the completion of drilling of the 11-18 helium/CO₂ well in Apache County, Arizona.

In June 2004, the Company announced the initial test results of the lowermost zone in the 11-18 well. A gas compositional analysis of two samples acquired from the well reported the deepest known productive zone in the field, the Granite Wash, has a helium content of approximately 0.575 percent. These results are significantly higher than the helium composition in either of the previous two wells tested in this zone. The 10-22 well, located some eight miles to the south, tested a helium content ranging from 0.1 to 0.15 percent while the 9-21 well, located approximately 14 miles to the southeast, tested 0.138% in the same zone.

Subsequently, the Company tested one of the newly discovered and recently announced two zones above the Granite Wash, now called the Middle and Upper Granite Wash, respectively. A gas composition analysis of two samples reported that the newly discovered zone, the Middle Granite Wash, had a helium content of approximately 0.51 percent.

The upper two zones, the Amos Wash and the Fort Apache, have shown a helium content averaging 0.6 percent in earlier testing.

In a preliminary Granite Wash reservoir geological evaluation by George L. Scott III, a consulting geologist based in Roswell, New Mexico, it is estimated that the additional helium in place could exceed 50 billion cubic feet. This is as a result of the well's confirmation of better reservoir quality moving northwest in the field, with higher porosity and net thickness than suggested by earlier mapped trends, which incorrectly projected a thinning of net reservoir porosity. The 11-18 well data suggests that additional Granite Wash formation Helium/CO₂ gas

accumulations are stratigraphically feasible over an additional 10,000 acres within the northwestern half of the Company's St. Johns field.

An independent engineering report, prepared by William M. Cobb and Associates, Inc. in 1999, contained an estimate of 64 billion cubic feet of helium in place for the Amos Wash and the Fort Apache only. The Company notes however that these gas volume estimates are not for proven reserves and it is uncertain what portion of the gas in place can be economically recovered.

Technical difficulties and a shortage of readily available oilfield equipment have hampered the further testing of this well, particularly in the lowermost zone. While the problems are not insurmountable, it was determined that it would take a great deal of time and effort to resolve the issues. Notwithstanding the problems, the initial results were positive and the confirmation of flow potential would need to be resolved at a later time. This was the first of three planned wells, however due to the tight rig service sector at the time and some extensive drilling and completion complications the 11-18 well cost significantly more than had been anticipated. Of initial concern was the fact that we had water production from the Raven zone, a thin, highly porous, interval between the two main gas productive intervals. The production of water at this interval rendered the initial drilling design less than ideal and created complications with the planned completion procedures at this location. This new data, combined with the cost overruns that occurred, required the Company to revisit the drilling and completions procedure used on this well and in order to preserve our available capital resources we decided not to proceed with the drilling of further wells at that time. While we were disappointed with the water production from the Raven interval and the potential loss of some reserves we are pleased with the geological outcome of the well. The increase in reservoir thickness and helium content within the lower Granite Wash at this location has the potential to offset any losses mentioned previously and potentially add to the overall size of the St. Johns resource.

Previously, the Company had anticipated that Reliant Processing would achieve their projected volume target of 500 liquid tons of CO₂ per day over the next eighteen months from their liquids plant. However, as the plant has been shut down since July 2003 while Reliant determined how to modify their processing facilities to deal with a non-CO₂ element, it is now uncertain as to when volumes of this magnitude will be achieved.

In February 2005, the Board of Directors of the Company announced the appointment of Barry D. Lasker as President and CEO effective immediately. Mr. Lasker is located in Houston, Texas where a new office has been established. Mr. Lasker replaced Walter B. Ruck, who announced his intended resignation as President in December 2004 pending appointment of his successor. Mr. Ruck was the founding shareholder of the Company in 1980 and remains as Director and Chairman of the Board. Mr. Lasker is also serving as a Director of the Board.

The initial task of Mr. Lasker was the development of a business plan that will deliver both short term and long term growth. The Board of Directors approved the plan in mid-April. It is anticipated that the Company will embark upon a number of initiatives including the continuation of the drilling program that will collect the critical production, composition and volume data and possibly provide the basis for a small-scale gaseous helium plant. The objective is to develop a sustainable cash flow that will initially cover lease rentals and corporate overhead.

On a Corporate level, a review of the internal processes, needs and manpower requirements is underway to enable the Company to become more cost efficient. Any recommendations regarding potential changes will be included in the business plan.

On a shareholder relations level, several initiatives are being considered that will hopefully get the Company and its asset out to the mainstream investors throughout North America. It is the intention to start several road shows to potential investor groups and present the Company at several upcoming investor seminars and small capital company conferences.

While continuing to develop the Project, the Company's objective is to monetize this asset and thereby create value for our shareholders. As part of this process, in September 2003, the Company retained the investment banking firm of Petrie Parkman & Co. (Houston, Denver, London England) to render financial, valuation and other investment firm services to the Company. Since that time, the Company has been working very closely with Petrie Parkman in assessing a number of alternatives. Several potential transaction candidates have been identified and a number of meetings have been held in this regard. This ongoing process is extremely time consuming recognizing both the complexity and size of our Project.

Liquidity and Capital Resources

At December 31, 2004, the Company had a working capital deficiency of \$60,951.

Ridgeway has demonstrated the ability to raise the necessary capital, as it is required. As the Company does not believe its current share price reflects the value of the Company, each recent financing has been relatively modest in order to minimize the impact of the dilution on existing shareholders.

The Company has spent sufficient funds to establish size and value of the St. Johns Helium/CO₂ Project. The Company's main financial objective is to have adequate funds available to maintain the lease position and to pay the general and administrative expenses while efforts continue to monetize the asset.

The Company will continue to require additional funds. Ridgeway believes that it has access to sufficient equity capital to maintain the asset during this period. In addition, there are common share purchase warrants and incentive stock options outstanding, which when exercised, could provide funds of approximately \$10.9 million.

To date, all of the Company's fundings have been done in Canadian dollars. However, as the Company's major asset is located in the United States, the majority of its operations are conducted in U.S. dollars. This has resulted in the Company being exposed to the impact of a fluctuating Canadian dollar. Ultimately, it is the Company's objective to obtain U.S. funding and thereby reduce the foreign exchange exposure.

The Company has raised approximately \$5.4 million in 2003 and 2004 through a combination of the exercise of a number of employee stock options and common share purchase warrants, private placements and a Short Form Offering.

In the first quarter of 2005, the Company completed a debenture placement of \$500,000. The debenture will bear interest at 12% per annum and is for a term of four months. In addition, 125,000 shares of the Company were issued to the lender that are subject to a four-month hold period. Subsequently, the Company announced that the holders of the previously announced debenture and the Company had agreed to amend the debenture. The holders agreed to convert the debenture from a debt issue into common shares of Ridgeway at a value equal to \$0.80 per share. This amendment and the respective terms are subject to regulatory approval. Subsequently, the Company decided not to proceed with this amendment.

Also in the first quarter of 2005, the Company announced that it had arranged, subject to regulatory approval, a 1,430,266 unit private placement at \$0.80 per unit for aggregate proceeds of approximately \$1,144,213. Each unit comprises one share of the company and one quarter non-transferable share purchase warrant. Each whole warrant will entitle the holder to purchase one additional share of the Company at a price of \$1.00 per share for one year from the date of the closing of the private placement.

In late April 2005, the Company also announced that it had arranged, subject to regulatory approval, a 760,870 unit private placement at \$1.15 per unit for aggregate proceeds of approximately \$875,000. Each unit comprises one share of the Company and three quarters of one whole non-transferable share purchase warrant. Each whole warrant will entitle the holder to purchase one share of the Company at a price of \$1.30 per share for one year from the date of the closing of the private placement.

Changes in Accounting Policies including Initial Adoption

The Company retroactively adopted two new accounting standards on the date of required adoption, January 1, 2004.

The Company retroactively adopted the new accounting standard relating to asset retirement obligations. This new standard requires liability recognition for retirement obligations associated tangible long-lived assets, such as well sites. The obligations within the scope of this standard are those for which the Company faces a legal obligation for settlement (or has made promissory estoppel). The initial measurement of the asset retirement obligation is at fair value, defined as "the price that an entity would have to pay a willing third party of comparable credit rating to assume the liability in a current transaction other than in a forced or liquidation sale." The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Amortization of asset retirement costs are included in depletion expense on the consolidated statement of operations. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statement of operations. Actual expenditures incurred are charged against the accumulated obligation to the extent that a liability has been recorded. Upon adoption, all prior periods have been restated for this change in accounting policy. The change results in an increase in the net loss of \$19,785 for the year ended December 31, 2004 (2003--\$18,038). The effect of this change on the December 31, 2004 Consolidated Balance Sheet is an increase in Resource Properties, net of \$214,193 (2003--\$130,261) and an increase in the Deficit of \$107,985 (2003--88,200).

The Company retroactively adopted the new accounting standard relating to stock-based compensation. Under the new standard, the Company records compensation expense in the Consolidated Financial Statements for stock options granted to directors and employees using the fair value method. Fair values are determined using the Black-Scholes option-pricing model. The Company previously accounted for its stock-based compensation plans using the intrinsic-value method whereby no costs were recognized in the consolidated financial statements. Upon adoption of this new standard, all prior periods have been restated for this change in accounting policy. The effect of the new standard on the December 31, 2002 balance sheet for stock options granted during 2002 was to increase contributed surplus by \$1,034,292 and to increase the deficit by the same amount. The effect of the new standard on the December 31, 2003 balance sheet for stock options granted during 2003 was to increase contributed surplus by an additional 1,282,226 and to increase the deficit by the same amount. The effect of the new

standard on the results of operations for the year ended December 31, 2004 was to increase the loss and contributed surplus by a further \$798,100.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The grant-date fair value of the options granted during the quarter ended March 31, 2004 was \$1.24 per option with the following assumptions: risk free interest rate--2.5%, expected lives (years)--2.0, expected volatility--0.715. The grant-date fair value of the options granted during the quarter ended December 31, 2004 was \$0.30 per option with the following assumptions: risk free interest rate--3.25%, expected lives (years)--2.0, expected volatility--0.628.

Results of Operations

Year Ended December 31, 2004 and 2003

The Company incurred a net loss of \$2,178,541 for the year ended December 31, 2004 compared to a net loss of \$2,742,195 during the same period in 2003.

Excluding the stock-based compensation expense of \$798,100 in 2004 and \$1,282,226 in 2003, the respective losses are comparable. The stock-based compensation expense reflects the grant of stock options in each period. See "Changes in Accounting Policies including Initial Adoption" described above.

While the loss for each period is essentially the same, there are a number of other factors which essentially are offsetting.

On the positive side, there are reductions in the expenses of legal, travel and wages and salaries as well as proceeds received in the settlement of a lawsuit. In 2003, legal included fees related to contractual negotiations as well as private placements. Also in 2003, travel reflected the costs of the Company's effort to raise the profile of the Company, broaden the shareholder base and facilitate the raising of additional capital. These activities included a number of meetings and presentations to the investment community in both Europe and the United States. The decrease in wages and salaries resulted from a reduction in staffing levels partially offset by an assessment for employee benefits and other deductions related to a prior period in the U.S. operations.

Adversely impacting the current period is the shut down of the liquids plant described above partially offset by a reduction in the related depletion expense. The increase in other professional expense reflects, in part, the retention of Petrie Parkman & Co., an investment-banking firm also described above as well as the costs of engineering design work related to the project.

An additional factor influencing the results for both periods is the continued fluctuation of the Canadian dollar relative to the United States dollar. Over one half of the operating expenses and virtually all of the capital expenditures are paid in United States dollars which to date have been funded in Canadian dollars. After strengthening for several prior quarters, the Canadian dollar weakened in the first two quarters of 2004 and then rebounded in the third quarter.

Further losses will be incurred during this development stage of the St. Johns Helium/CO₂ Project. Profitability will not occur until the Project is further developed and Helium and/or CO₂ is flowing to markets.

Resource property expenditures were \$2,368,446 in 2004 compared to \$734,928 in the prior year, all of which were attributable to the St. Johns Helium/CO₂ Project. The drilling and testing of the 11-18 helium/CO₂ well described above accounts for the increase in expenditures in 2004.

Results of Operations
Year Ended December 31, 2003 and 2002

The Company incurred a net loss of \$2,742,195 for the year ended December 31, 2003 compared to a net loss of \$2,801,088 during the same period in 2002.

Excluding the stock-based compensation expense of \$1,282,226 in 2003 and \$1,034,292 in 2002, the loss in 2003 is less than the loss incurred in 2002. The stock-based compensation expense reflects the grant of stock options in each period. See "Changes in Accounting Policies including Initial Adoption" described above.

The primary reason for the decrease in the loss in 2003 relates to income tax expense. In 2002, this expense reflected an increase in income tax rates on the temporary differences between the accounting and tax basis of the Company's resource properties.

There are a number of other factors affecting each year which essentially are offsetting.

The results for the year include the revenues from the production and sale of crude CO₂ to the Reliant Processing liquids plant until its shutdown in July 2003. In the prior year, the liquids plant commenced operations in early July of 2002. While the plant was operational for approximately six months each year, volumes taken by the plant were lower in 2003 compared to 2002 as a result of reduced volume takes by Reliant. The related depletion expense is based on the unit of production method, using the estimated volumes of gas to be produced during the twenty-year contract to provide crude CO₂ to the liquids plant.

The increase in office and equipment reflects higher rental costs as a result of a renewed office lease and higher costs associated with mailings and preparation of reports to shareholders.

In 2002, land management services, legal and other professional included costs for the preparation of the proposed unitization agreement for the Arizona portion of the project lands.

In 2003, legal includes fees related to contractual negotiations, private placement and other funding activity as well as other corporate matters. Other professional reflects, in part, the retention of Petrie Parkman & Co., an investment-banking firm described above.

In 2003, the increase in travel reflects the Company's efforts to raise the profile of Ridgeway, broaden the shareholder base and facilitate the raising of additional capital. These activities included a number of meetings and presentations to the investment community in both Europe and the United States. In addition, there were a number of corporate meetings as the Company continued its process of developing strategic alternatives.

In 2003, the decrease in wages and salaries resulted from a reduction in staffing levels.

An additional factor influencing the results for both periods is the continued fluctuation of the Canadian dollar relative to the United States dollar. Over one half of the operating expenses and virtually all of the capital expenditures are paid in United States dollars which to date have

been funded in Canadian dollars. For the first time in several years, the Canadian dollar has strengthened rather than weakened on a period over period basis.

Resource property expenditures were \$734,928 in 2003 compared to \$755,810 in the prior year, all of which were attributable to the St. Johns Helium/CO₂ Project.

Quarterly financial data for each of the eight most recently completed quarters is provided below. Variations from quarter to quarter primarily reflect the retroactive adoption of accounting policies described above, particularly "stock-based compensation".

	2004 Fourth	2004 Third	2004 Second	2004 First	2003 Fourth	2003 Third	2003 Second	2003 First
Revenues	\$8,969	\$599	\$100,351	\$957	\$893	\$1,917	\$45,642	\$45,854
Loss before discontinued items	\$818,362	\$391,781	\$306,624	\$661,774	\$390,135	\$1,611,006	\$389,014	\$352,040
Loss per common share	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01	\$0.01
Loss per fully diluted common share	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01	\$0.01
Net loss	\$818,362	\$391,781	\$306,624	\$661,774	\$390,135	\$1,611,006	\$389,014	\$352,040
Net loss per common share	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01	\$0.01
Net loss per fully diluted common share	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01	\$0.01

Additional information related to Ridgeway is on SEDAR at www.sedar.com.

Outstanding Share Data

The following outstanding share data is as of April 25, 2005.

Share Capital

Authorized capital	
Preference Shares	25,000,000
Common Shares	100,000,000

Issued and outstanding
Preference Shares
Common Shares

1,000
42,741,121

Warrants Outstanding

Number of Share Purchase Warrants	Exercise Price	Expiry Date
105,500	\$2.25	May 16, 2005
89,500	\$2.25	June 17, 2005
403,332	\$2.45	September 5, 2005
480,954	\$2.00	July 24, 2006
1,019,000	\$1.00	November 7, 2005
357,566	\$1.00	April 14, 2006

Options Outstanding

Number of Options	Exercise Price	Expiry Date
100,000	\$2.95	May 23, 2005
1,745,000	\$2.45	August 11, 2006
1,645,000	\$1.00	November 2, 2007
300,000	\$1.00	February 21, 2010
400,000	\$1.05	April 21, 2010

Potential Risks and Uncertainties

The resource industry is highly competitive and, in addition, exposes the Company to a number of risks. Resource exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. It is also highly capital intensive and the ability to complete a development project may be dependent on the Company's ability to raise additional capital. In certain cases, this may be achieved only through joint ventures or other relationships, which would reduce the Company's ownership interest in the project. There is no assurance that development operations will prove successful.

In addition to the risks and uncertainties identified above, this Management's Discussion and Analysis contains several forward-looking statements, which are also subject to unknown and uncertain risks, uncertainties and other factors that could cause actual results to differ materially from any future results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof, and should be aware the Company is under no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.