

# **Ridgeway Petroleum Corp.**

**FORM 51-102F1**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**QUARTER ENDED MARCH 31, 2005**

May, 2005

### *Overview*

Ridgeway Petroleum Corp. ("Ridgeway" or the "Company") is principally engaged in the business of development of its helium and carbon dioxide ("CO<sub>2</sub>") project (the "St. Johns Helium/CO<sub>2</sub> Project") in eastern Arizona and western New Mexico. The Company has spent approximately \$41,003,400 to date in acquiring, exploring and developing the St. Johns Helium/CO<sub>2</sub> 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 quarter ended March 31, 2005 and 2004 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 \$36.0 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/CO<sub>2</sub> 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 of Ridgeway's helium once in production.

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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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/CO<sub>2</sub> 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/CO<sub>2</sub> 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 CO<sub>2</sub> 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-CO<sub>2</sub> element, it is now uncertain as to when volumes of this magnitude will be achieved. Subsequent to the quarter end, the Company was notified by Reliant of their intent to arbitrate a contractual dispute between the two organizations pursuant to which Reliant is claiming unliquidated damages. The Company believes this claim is without merit and has instructed its U.S. counsel to vigorously defend the matter.

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.

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 maximize the value of the 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 March 31, 2005, the Company had a working capital deficiency of \$687,682.

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/CO<sub>2</sub> 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 maximize the value of this 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 \$2.0 million to date in 2005 through a combination of the exercise of common share purchase warrants and private placements.

In the first quarter of 2005, the Company completed a debenture placement of \$500,000. The debenture bears 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. In the second quarter, the Company repaid the debenture, prior to its maturity, from the proceeds of a private placement.

In the second quarter of 2005, the Company completed a 1,430,266 unit private placement at \$0.80 per unit for aggregate proceeds of approximately \$1,144,213. Each unit comprised 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.

Also in the second quarter of 2005, the Company completed another private placement of 760,872 units at a price of \$1.15 per unit for aggregate proceeds of approximately \$875,000. Each unit comprised 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.

### *Results of Operations*

#### *Quarter Ended March 31, 2005 and 2004*

The Company incurred a net loss of \$603,225 for the quarter ended March 31, 2005 compared to a net loss of \$661,774 during the same period in 2004.

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 stock-based compensation and promotion. As noted above, the focus during the first quarter was the development of a business plan that resulted in a curtailment of promotion activities.

Adversely impacting the current quarter was an increase in the expenses of interest and financing, legal and transfer agent and stock exchange fees. Interest and financing includes the costs related to the debenture financing in the quarter. Legal includes fees related to the financings as well as contractual reviews. Transfer agent and stock exchange fees also includes fees related to the financings.

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.

Further losses will be incurred during this development stage of the St. Johns Helium/CO<sub>2</sub> Project. Profitability will not occur until the Project is further developed and Helium and/or CO<sub>2</sub> is flowing to markets.

Resource property expenditures were \$288,239 in 2005 compared to \$312,930 in the prior period, all of which were attributable to the St. Johns Helium/CO<sub>2</sub> Project.

*Results of Operations*  
*Quarter Ended March 31, 2004 and 2003*

The Company incurred a net loss of \$661,774 for the quarter ended March 31, 2004 compared to a net loss of \$352,040 during the same period in 2003.

The primary reason for the increase in the loss in 2004 relates to the stock-based compensation expense of \$310,000 reflecting the grant of stock options in this quarter.

There are a number of other factors which essentially are offsetting.

Adversely impacting the current quarter is the shut down of the liquids plant described above along with a corresponding reduction in depletion expense. The increase in other professional expense reflects, in part, the retention of Petrie Parkman & Co., an investment banking firm also described above.

On the positive side, there are reductions in the expenses of legal, travel, promotion and wages and salaries. In 2003, the increase in promotion and travel reflected the Company's efforts to raise the profile of the 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 2003, legal included fees related to contractual negotiations as well as private placements. The decrease in wages and salaries reflected 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 continued to strengthen rather than weaken on a period over period basis.

Resource property expenditures were \$312,930 in the period 2004 compared to \$345,256 in the prior period, all of which were attributable to the St. Johns Helium/CO<sub>2</sub> Project.

Quarterly financial data for each of the eight most recently completed quarters is provided below. Variations from quarter to quarter primarily reflect stock-based compensation expenses for the grant of stock options.

	2005 First	2004 Fourth	2004 Third	2004 Second	2004 First	2003 Fourth	2003 Third	2003 Second
Revenues	\$145	\$8,969	\$599	\$100,351	\$957	\$893	\$1,917	\$45,642
Loss before discontinued items	\$603,225	\$818,362	\$391,781	\$306,624	\$661,774	\$390,135	\$1,611,006	\$389,014
Loss per common share	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01
Loss per fully diluted common share	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01
Net loss	\$603,225	\$818,362	\$391,781	\$306,624	\$661,774	\$390,135	\$1,611,006	\$389,014
Net loss per common share	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01
Net loss per fully diluted common share	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.04	\$0.01

Additional information related to Ridgeway is on SEDAR at [www.sedar.com](http://www.sedar.com).

*Outstanding Share Data*

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

Share Capital

Authorized capital	
Preference Shares	25,000,000
Common Shares	100,000,000
Issued and outstanding	
Preference Shares	1,000
Common Shares	43,501,993

## Warrants Outstanding

Number of Share Purchase Warrants	Exercise Price	Expiry Date
89,500	\$2.25	June 17, 2005
403,332	\$2.45	September 5, 2005
480,954	\$2.00	July 24, 2006
1,009,000	\$1.00	November 7, 2005
357,566	\$1.00	April 14, 2006
570,654	\$1.30	May 4, 2006

## Options Outstanding

Number of Options	Exercise Price	Expiry Date
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.