

# **Ridgeway Petroleum Corp.**

**FORM 51-102F1**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**QUARTER ENDED SEPTEMBER 30, 2005**

November, 2005

### *Overview*

Ridgeway Petroleum Corp. ("Ridgeway" or the "Company") is principally engaged in the business of appraisal and 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. To date, the Company has spent approximately \$41,464,000 in acquiring, exploring and appraising the St. Johns Helium/CO<sub>2</sub> Project. The Company currently owns a 100% working interest in leases covering approximately 247,000 acres.

### *General*

Management's Discussion and Analysis relating to the consolidated financial statements for the nine months ended September 30, 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 been 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 potentially 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 liquid 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.

In February 2005, the Board of Directors of the Company announced the appointment of Barry D. Lasker as Director, 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 remained as a Director and Chairman of the Board until his sudden passing in July 2005. In late July, Mr. Rodney L. Eson was appointed Chairman of the Company.

As previously stated, the 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. In the second quarter, the plant design work was completed and several long lead time items went out to tender.

A key long term goal is the securing of gas contracts for the purchase of CO<sub>2</sub> in the enhanced oil recovery (EOR) 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 providing their current and long-term needs. With oil prices well above U.S.\$40 per barrel the incentive for additional CO<sub>2</sub> flooding is increasing and demand for CO<sub>2</sub> is growing by the day. Our most recent meetings with several EOR participants have been very encouraging, not only for Ridgeway but for the EOR industry in general.

In the longer term, the full field development plan contemplates the appraisal 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 or, potentially, into California.

In 2004, the Company completed the drilling of the 11-18 helium/CO<sub>2</sub> well. Initial test results reported that the deepest known productive zone has a helium content of approximately 0.575 percent. These results are significantly higher than the helium composition in either of the two wells previously tested in this zone. Notwithstanding the technical difficulties associated with this well, the initial results were positive. Further testing of the well will be deferred until such time as additional wells are drilled.

The Company had previously anticipated that, by now, Reliant Processing would have achieved their projected volume target of 500 liquid tons of CO<sub>2</sub> per day from their liquids plant. However, in July 2003, Reliant shut down production from the plant. In the second quarter of this year, 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. To date, this matter has not been arbitrated.

In October 2005, the Company announced that it had acquired additional leases totaling approximately 17,200 acres within the central field area of the St. Johns Helium and CO<sub>2</sub> Field, Apache County, Arizona. This acreage is strategically located along the crestal portion of the field, and, based on offsetting well control, is expected to contain thick sequences of gas bearing reservoirs. The addition of this acreage solidifies the Company's land position and is expected to facilitate future appraisal activity and Unit agreement negotiations.

In November 2005, the Company announced that it had retained the securities brokerage firm of Coker, Palmer, Phillips & Mullen ("CPPM") as the managing dealer of a proposed placement of U.S.\$10 million to U.S.\$20 million of Convertible Preference Shares of the Company.

CPPM has been retained on a "best efforts" basis. It is anticipated that the transaction will be done in the form of a private placement for accredited investors only. The terms and conditions of this proposed financing will be finalized upon the placement of these securities.

The proceeds of this placement would be used to implement the Company's strategic goal of becoming cash flow positive in 2006. The Company would continue with the design, construction and operation 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. Additional capital provided by this financing would be used to further appraise the extent of the St. Johns helium and CO<sub>2</sub> field thereby allowing the Company to seek out potential long term CO<sub>2</sub> gas contracts for delivery into either the Permian Basin or California.

Over the last few months, the Company has had extensive discussions with several third party groups regarding the development of the St. Johns field and has come to the conclusion that in order to maximize the value of the asset, it must go it alone to further define the size and productive capabilities of the Field.

With respect to the plant construction, the detailed plant design and costing are nearing completion and discussions with several groups regarding the purchase of our gaseous helium and liquid CO<sub>2</sub> product from the small plant have been initiated. It is anticipated that contracts for these products will be negotiated in the near future.

#### *Liquidity and Capital Resources*

At September 30, 2005, the Company had a working capital deficit of \$172,148.

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 dilution on existing shareholders.

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 \$9.6 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 \$2.1 million to date in 2005 through a combination of private placements and the exercise of common share purchase warrants.

In the first quarter of 2005, the Company completed a debenture placement of \$500,000. The debenture earned interest at 12% per annum and was for a term of four months. In addition, 125,000 shares of the Company were issued to the lender that were 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.

In the third quarter, the Company arranged interim unsecured debt financing of U.S.\$500,000 due March 31, 2006 and bearing interest at 10% per annum. These funds should provide the Company with sufficient liquidity to determine the ultimate capital and financing requirements for attaining the Company's goal of becoming cash flow positive in 2006.

In October 2005, the Company extended the expiry date to May 5, 2006, of 1,009,000 outstanding non-transferable share purchase warrants issued on November 5, 2004. Each warrant entitles the purchase of one common share of the Company at a price of \$1.00 per share.

### *Results of Operations*

#### *Nine Months Ended September 30, 2005 and 2004*

The Company incurred a net loss of \$1,968,191 for the nine months ended September 30, 2005 compared to a net loss of \$1,359,879 during the same period in 2004.

The increase in the loss in the current period is the result of a number of factors.

In 2004, the Company received proceeds from the settlement of a lawsuit.

In 2005, there were increases in interest and financing, legal, stock-based compensation, travel and wages and salaries. The reduction in promotion follows the development of a business plan that resulted in a curtailment of promotional activities.

Interest and financing includes the costs related to the debenture financing in the first quarter and the promissory note in the third quarter. Legal includes fees related to contractual reviews, assessments and other corporate activities. Wages and salaries reflect, in part, the addition of the new President and CEO. Stock-based compensation includes grants of options to new personnel

An additional factor influencing the results for both periods is the continuing 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 \$674,990 in 2005 compared to \$1,959,247 in the prior period, all of which were attributable to the St. Johns Helium/CO<sub>2</sub> Project. The drilling and testing of the 11-18 helium/CO<sub>2</sub> well described above accounts for the higher costs in 2004.

#### *Results of Operations*

##### *Quarter Ended September 30, 2005 and 2004*

During the quarter ended September 30, 2005, the Company incurred a net loss of \$460,871 compared to a net loss of \$391,781 during the same period in 2004.

The primary reasons for the increase in the loss in 2005 relates to increases in legal, stock-based compensation, wages and salaries and interest and financing partially offset by reductions in consulting fees and promotion.

Legal includes fees related to contractual reviews, assessments and other corporate activities. Stock-based compensation reflections the grant of options to the new Chairman of the Company. Wages and salaries reflect, in part, the addition of the new President and CEO partially offset by the appointment of a non-salaried Chairman following the passing of Walter Ruck in July. Interest and financing includes the costs related to the promissory note issued in the third quarter.

The reduction in consulting fees reflects the cessation of the monthly fee paid to Petrie Parkman who are continuing to provide services as the various negotiation processes conclude. The reduction in promotion follows the development of a business plan that resulted in a curtailment of promotional activities.

An additional factor influencing the results for both periods is the continuing fluctuation of the Canadian dollar relative to the United States dollar as noted above.

Resource property expenditures were \$121,018 in the period 2005 compared to \$281,669 in the prior period, all of which were attributable to the St. Johns Helium/CO<sub>2</sub> Project. The completion of the drilling and testing of the 11-18 helium/CO<sub>2</sub> well described above accounts for the higher costs in 2004.

Quarterly financial data for each of the eight most recently completed quarters is provided below. Variations from quarter to quarter reflect the timing of the revenues and expenses noted above with the largest variable being stock-based compensation.

	2005 Third	2005 Second	2005 First	2004 Fourth	2004 Third	2004 Second	2004 First	2003 Fourth
Revenues	\$4,416	\$1,068	\$145	\$8,969	\$599	\$100,351	\$957	\$893
Loss before discontinued items	\$460,871	\$904,095	\$603,225	\$818,362	\$391,781	\$306,624	\$661,774	\$390,135
Loss per common share	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01
Loss per fully diluted common share	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01
Net loss	\$460,871	\$904,095	\$603,225	\$818,362	\$391,781	\$306,624	\$661,774	\$390,135
Net loss per common share	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01
Net loss per fully diluted common share	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$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 November 15, 2005.

#### Share Capital

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

Issued and outstanding  
 Preference Shares  
 Common Shares

1,000  
 43,501,993

Warrants Outstanding

Number of Share Purchase Warrants	Exercise Price	Expiry Date
357,566	\$1.00	April 14, 2006
570,654	\$1.30	May 4, 2006
1,009,000	\$1.00	May 5, 2006
480,954	\$2.00	July 24, 2006

Options Outstanding

Number of Options	Exercise Price	Expiry Date
1,650,000	\$2.45	August 11, 2006
1,590,000	\$1.00	November 2, 2007
300,000	\$1.00	February 21, 2010
400,000	\$1.05	April 21, 2010
50,000	\$1.03	June 1, 2010
100,000	\$0.95	July 26, 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.