

# **Ridgeway Petroleum Corp.**

**FORM 51-102F1**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**QUARTER ENDED June 30, 2006**

August, 2006

### *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" or the "Project") in eastern Arizona and western New Mexico. To date, the Company has spent approximately \$41,830,775 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 200,000 acres and continuously manages its lease position to optimize its land position within the Project.

### *General*

Management's Discussion and Analysis relating to the consolidated financial statements for the quarter ended June 30, 2006 and 2005 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 equity 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.

In February 2005, the Board of Directors of the Company announced the appointment of Barry D. Lasker as Director, President and CEO. 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, Rodney L. Eson was appointed Chairman of the Company.

While continuing to appraise the Project, the Company's long term objective is to maximize the value of 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. to render financial, valuation and other investment firm services to the Company. Since that time, the Company worked very closely with Petrie Parkman in assessing a number of alternatives. Several potential transaction candidates were identified and a number of meetings were held in this regard. This process was extremely time consuming recognizing both the complexity and size of our Project. Over the last year, the Company 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. As a result of this change in strategy, Petrie Parkman is no longer being retained. The Company will continue to selectively explore partnership opportunities which could assist in achieving the longer term objective of full field development described below.

On the development side, the key strategic goal for 2006/2007 is for the Company to become cash flow positive. With this in mind, the Board, in principle, 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 and the extent of the field while providing sufficient cash flow to cover expenses and corporate overhead. At the same time, the required drilling program would be expected to establish 2 to 3 trillion cubic feet of recoverable gas that would underpin a resource base capable of providing approximately 250 million cubic feet per day of CO<sub>2</sub> to enhanced oil recovery ("EOR") projects in the Permian Basin of West Texas or, potentially, into California.

At the field level, a technical review of our 2006 proposed well locations and a drilling plan have been completed. In March 2006, the Company announced that it has closed the purchase of an air drilling rig capable of drilling to basement. The rig is currently in Nowata, Oklahoma where it has been upgraded to satisfy the specific drilling requirements of the St. Johns Field. In addition, the Company has also completed the purchase of 90 joints of drill pipe that will be used for the upcoming drilling program. The purchase of this rig is an important step towards accelerating the proposed 12 well drilling program that is expected to begin later this year. With the current tightness in the drilling and service industries, the purchase of this rig will enable the Company to be more aggressive in the size and timing of this year's drilling program. It will also be a more cost effective operation in the long run due to the lower day rates and mobilization and demobilization charges associated with the direct ownership of the drilling rig.

In the first quarter of 2006, the Company reapplied for several leases covering approximately 63,000 acres that had reached their ten year expiry date. While the Company is confident it will be successful in reacquiring many of these leases, there were a number of groups involved in this process. The results of the applications are expected later in the third quarter. While there is a risk of losing some leases, the Company still controls an overwhelming land position within the Field.

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> Project. 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.

Over the past several months, there have been discussions with pipeline companies regarding the possible construction of a pipeline into the Permian Basin. While nothing definitive has occurred to date, discussions are continuing. Also on the pipeline front, a firm of consulting engineers has recently completed a screening study for the design and installation of a carbon dioxide pipeline that would deliver up to 500mmcfpd of gas to the Permian Basin.

A key long term goal is the securing of gas contracts for the sale of CO<sub>2</sub> in the 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.

In the longer term, the full field development plan contemplates the continuing appraisal of the field including the drilling of additional wells, adding any necessary field compression and installing gathering pipelines, the construction and operation of a full scale helium processing plant and related facilities and construction and operation of a CO<sub>2</sub> pipeline to customers in the Permian Basin or, potentially, into California.

In May 2006, the Company announced that it had executed final settlement documents with Reliant Holdings, Ltd regarding a contractual dispute filed by Reliant in the second quarter of 2005. Both parties have agreed to dismiss all claims and counterclaims against each other. In the second quarter of 2005, the Company was notified by Reliant of their intent to arbitrate a contractual dispute between the two organizations pursuant to which Reliant was claiming unliquidated damages. The Company believed this claim was without merit and instructed its U.S. counsel to vigorously defend the matter. During April 2006, Reliant and the Company negotiated a settlement agreement whereby Ridgeway has agreed to make available to Reliant alternative production zones from the Company's current wells, or by May 2007, to drill a new well at a mutually agreed location that could potentially be used as a replacement to the original well and be made available to Reliant to process the gas stream through the Reliant plant. In return, Reliant agreed to amend the original 1999 agreement between the parties which includes among other things an increase in pricing paid by Reliant, and should Reliant require more than 100 tons per day of liquid CO<sub>2</sub>, a completely new agreement will be negotiated.

Over the past several months the Company has been pursuing several funding alternatives to enable the drilling of up to 15 wells later this year and next year. The process has been very time consuming and has involved detailed data collection and due diligence. The level of due diligence required by potential investor groups has taken longer than expected. However we remain optimistic that a meaningful financing can be completed in the near term. In the mean time we have continued with the well planning process, archeological surveys and permit approvals that will allow us to begin our drilling program as soon as possible after funding has been achieved. We are also continuing the negotiation with state and federal representatives for the completion of field wide Unit agreements.

### *Liquidity and Capital Resources*

At June 30, 2006, the Company had a working capital deficit of \$2,566,547. The increase in prepaid expense and deposits in the period reflects the funds paid to the State of Arizona in connection with the reapplication of leases noted above.

While Ridgeway has demonstrated the ability to raise the necessary capital in the past, it is critical that additional capital be raised immediately in order for the Company to continue. Without this new capital, the Company will be unable to meet its obligations.

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 provided 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 2006/2007. By agreement dated March 31, 2006 the U.S.\$500,000 unsecured debt financing has been extended for a period of up to 3 months and will require 3 monthly payments of U.S.\$166,667 in each of April, May and June 2006. To date, one payment has been made.

In November 2005, the Company announced that it has 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 was 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, when completed, will be used to implement the Company's strategic goal of becoming cash flow positive in 2007 as described above

In December 2005, the Company announced a senior secured note placement of U.S.\$2,000,000. The note bears interest at 1 1/2% per month, has a twelve month term and will mature on December 23, 2006. The note is secured by a floating charge on the assets of a wholly-owned subsidiary. The Company has the right to repay the note prior to maturity without penalty. 1,000,000 non-transferable warrants of the Company ("Warrants") were granted to the lender. Each Warrant entitles the holder to purchase one share of the Company at a price of Cdn\$0.50 per share until the maturity date of the note. The Company also paid a finder's fee of U.S.\$100,000 and 60,000 Warrants in connection with this financing. It is anticipated that this interim financing will be repaid from the proceeds of the placement described above.

This interim financing will allow the Company to continue with the previously announced U.S.\$20 million financing. To date, the Company has made presentations to various interested parties and several parties have expressed an interest in participating. It is anticipated that the larger financing will now be completed in the third quarter of 2006.

In May 2006, Company announced that, through CPPM, it had authorized a leading New York-based financial institution, on a 120 day exclusive basis, to proceed with an accelerated due diligence investigation and to seek internal credit approval for a currently contemplated U.S.\$100,000,000 multiple advance, senior secured four year credit facility (the "Facility") with initial availability of U.S.\$10,000,000 for the Company's subsidiary, Ridgeway Arizona Oil Corp., with an anticipated closing late in the second quarter of 2006. Should this financing proceed, the proposed placement of U.S.\$10 to 20 million described above will be terminated.

The Company expects that the terms for the Facility will be substantially similar to those set out in the summary of indicative terms and conditions provided by the potential lender. However, the summary of indicative terms and conditions was intended for discussion purposes only, based upon then existing market conditions and subject to change. Included in the authorization among other terms, conditions and other provisions is the Company's agreement to issue, at Closing, warrants to purchase, at a price of \$0.50 per share for 2 years, that number of common shares of the Company as is equal to 40% of the number of such common shares outstanding on a fully diluted basis. Any commitment in respect of the Facility will be subject to the Company completing a minimum U.S.\$2,500,000 equity financing, standard industry conditions including satisfactory due diligence reviews and regulatory approval, and other conditions which the potential lender deems appropriate.

With respect to the equity financing noted, in May 2006, the Company announced that it had retained the securities brokerage firm of Research Capital Corporation to act as lead agent, on an agency best-efforts basis, for a proposed placement of \$7.5 million, with a minimum of U.S.\$2.5 million which is a condition precedent to the currently contemplated U.S.\$100 million multiple advance, senior secured four year credit facility previously announced earlier in May 2006. The Company has retained the option to increase the size of the proposed placement by an additional \$2.5 million. The anticipated closing date for this proposed private placement is the third quarter of 2006 and prior to the anticipated closing date for the aforementioned credit facility. It is anticipated that the financing will be done in the form of a private placement to accredited investors. The terms and conditions of this proposed financing will be finalized upon the placement of these securities.

*Results of Operations*  
*Six Months Ended June 30, 2006 and 2005*

The Company incurred a net loss of \$1,334,155 for the six months ended June 30, 2006 compared to a net loss of \$1,507,320 during the same period in 2005.

On the positive side, there are reductions in stock-based compensation and consulting fees. The decrease in consulting fees reflects the termination of the contract with Petrie Parkman following the Company's 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 Project. Also, the prior period included the costs of an updated reservoir evaluation and the fees for consulting services provided by a director.

Increases in interest and financing, legal and wages and salaries and travel partially off set the reductions noted above. Interest and financing includes the costs related to the debt financings completed in the second and fourth quarters of 2005. Legal includes fees related to arbitration and contractual reviews. Wages and salaries include severance arrangements and salary increases partially offset by the appointment of a non-salaried Chairman following the passing of Walter B. Ruck in July 2005.

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 primarily been funded in Canadian dollars. Over the past three years, the Canadian dollar has gradually strengthened.

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 \$330,793 in 2006 compared to \$553,972 in the prior period, all of which were attributable to the St. Johns Helium/CO<sub>2</sub> Project. As noted above, the Company acquired a drilling rig for \$359,478 in 2006.

*Results of Operations*  
*Quarter Ended June 30, 2006 and 2005*

The Company incurred a net loss of \$749,941 for the quarter ended June 30, 2006 compared to a net loss of \$904,095 during the same period in 2005.

The factors affecting the results for the quarter are essentially the same as those noted above for the six month period.

Resource property expenditures were \$207,233 in 2006 compared to \$265,733 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 reflect the timing of the expenses noted above with the largest variable being stock-based compensation. The Company received the proceeds from the settlement of a lawsuit in the second quarter of 2004.

	2006 Second	2006 First	2005 Fourth	2005 Third	2005 Second	2005 First	2004 Fourth	2004 Third
Revenues	\$869	\$2,782	\$1,619	\$4,416	\$1,068	\$145	\$8,969	\$599
Loss before discontinued items	\$749,941	\$584,214	\$525,748	\$460,871	\$904,095	\$603,225	\$818,362	\$391,781
Loss per common share	\$0.02	\$0.01	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01
Loss per fully diluted common share	\$0.02	\$0.01	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01
Net loss	\$749,941	\$584,214	\$525,748	\$460,871	\$904,095	\$603,225	\$818,362	\$391,781
Net loss per common share	\$0.02	\$0.01	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01
Net loss per fully diluted common share	\$0.02	\$0.01	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$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 August 24, 2006.

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
357,566	\$1.00	April 13, 2007
570,654	\$1.30	May 4, 2007
1,009,000	\$1.00	November 3, 2006
1,060,000	\$0.50	December 23, 2006

Options Outstanding

Number of Options	Exercise Price	Expiry Date
1,465,000	\$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
260,000	\$0.60	December 28, 2010
100,000	\$0.40	March 14, 2007

***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.