

Ridgeway Petroleum Corp.

**CONSOLIDATED
FINANCIAL STATEMENTS**
December 31, 2004

REPORT OF MANAGEMENT

The accompanying Consolidated Financial Statements of Ridgeway Petroleum Corp. are the responsibility of Management.

Management has prepared the Consolidated Financial Statements in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in this report and ensured that it is consistent with information in the Consolidated Financial Statements.

Ridgeway Petroleum Corp. maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfils its responsibilities for financial reporting.

The Audit Committee is appointed by the Board and is composed of a majority of Directors who are independent of the Company. The Audit Committee meets regularly with management, and periodically with the external auditors, to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the Consolidated Financial Statements and the external auditors' report. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

PricewaterhouseCoopers LLP, the external auditors, have audited the Consolidated Financial Statements in accordance with auditing standards generally accepted in Canada on behalf of the shareholders. PricewaterhouseCoopers LLP have full and free access to the Audit Committee.

Signed

“Barry D. Lasker”
President and Chief Executive Officer

“J. Bruce Petrie”
Chief Financial Officer

April 22, 2005

April 22, 2005

Auditors' Report

To the Shareholders of
Ridgeway Petroleum Corp.

We have audited the consolidated balance sheets of Ridgeway Petroleum Corp. as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

RIDGEWAY PETROLEUM CORP.**CONSOLIDATED BALANCE SHEET**

	December 31	
	2004	2003 (restated-Note 2)
Assets		
Current assets		
Cash	\$ 22,286	\$ 1,550,968
Accounts receivable	3,032	7,617
Prepaid expenses and deposits	151,292	304,686
	176,610	1,863,271
Office furniture and equipment and automotive, at cost	172,586	172,586
Less: Accumulated depreciation (Note 2)	(122,288)	(107,702)
	50,298	64,884
Resource properties, net (Note 3)	40,841,853	38,389,475
	\$ 41,068,761	\$ 40,317,630
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 237,561	134,591
Asset retirement obligation (Notes 2 and 4)	208,543	218,461
Future income tax liability (Note 6)	8,396,456	8,396,456
Shareholders' Equity		
Equity instruments (Note 5)	64,326,966	62,302,446
Contributed surplus (Note 5)	3,129,868	2,317,768
Deficit	(35,062,228)	(32,883,687)
Common shares acquired, at cost (Note 5)	(168,405)	(168,405)
	32,226,201	31,568,122
	\$ 41,068,761	\$ 40,317,630
<i>Ability to continue operations (Note 1)</i>		

Approved by the Board “K. B. Sparks” Director “B. D. Lasker” Director
K. B. Sparks B. D. Lasker

RIDGEWAY PETROLEUM CORP.**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT**

	Year ended December 31	
	2004	2003
		(restated-Note 2)
Revenues		
Production of crude carbon dioxide, net of royalties	\$ -	\$ 87,662
Proceeds received on settlement of legal matters	100,000	-
Interest and other income	10,876	6,644
	110,876	94,306
Expenses		
Accounting and audit	30,752	27,300
Accretion of asset retirement obligation (Notes 2 and 4)	19,785	18,038
Consulting fees	616,537	400,474
Depreciation and depletion	14,586	88,111
Foreign currency translation (gain)	(56,486)	76,707
Insurance	41,045	35,122
Land management services	32,404	22,126
Legal	112,473	156,539
Office and equipment	175,458	184,539
Other	10,608	10,388
Promotion	58,951	49,958
Stock-based compensation (Note 5)	798,100	1,282,226
Transfer agent and stock exchange fees	54,566	52,337
Travel	19,063	78,813
Wages and salaries	361,575	382,600
	2,289,417	2,865,278
Loss for the year before income taxes	(2,178,541)	(2,770,972)
Income taxes-future income tax provision (Note 6)	-	(28,777)
Net loss for the year	(2,178,541)	(2,742,195)
Deficit, beginning of year	(32,883,687)	(30,141,492)
Deficit, end of year	\$(35,062,228)	\$(32,883,687)
Loss per share-basic and diluted	\$ (0.05)	\$ (0.07)

RIDGEWAY PETROLEUM CORP.**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year ended December 31	
	2004	2003
		(restated-Note2)
Cash (used in) provided by operating activities		
Net loss for the year	\$ (2,178,541)	\$ (2,742,195)
Items not affecting cash		
Accretion of asset retirement obligation	19,785	18,038
Stock-based compensation	798,100	1,282,226
Depreciation and depletion	14,586	88,111
Income taxes	-	(28,777)
	(1,346,070)	(1,382,597)
Asset retirement obligation settlement	(113,635)	-
Changes in non-cash working capital	99,696	(20,851)
	(1,360,009)	(1,403,448)
Cash (used in) provided by operating activities	(1,360,009)	(1,403,448)
Cash provided by (used in) investing activities		
Property expenditures	(2,368,446)	(734,928)
Purchase of office furniture and equipment	-	(599)
Changes in non-cash working capital	161,253	-
	(2,207,193)	(735,527)
Cash provided by (used in) investing activities	(2,207,193)	(735,527)
Cash provided by (used in) financing activities		
Issuance of equity instruments for cash, net of issue expenses	2,038,520	3,380,123
	2,038,520	3,380,123
Cash provided by (used in) financing activities	2,038,520	3,380,123
Increase (decrease) in cash	(1,528,682)	1,241,148
Cash, beginning of year	1,550,968	309,820
Cash, end of year	\$ 22,286	\$ 1,550,968

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004

1 *Ability to continue operations*

The Company operates in Canada and the United States and is engaged in the business of development of its helium and carbon dioxide project in eastern Arizona and western New Mexico. The Company has spent approximately \$40,789,000 to date in acquiring, exploring and developing the project. As disclosed in the Consolidated Statements of Operations and Deficit and Cash Flows respectively, the net loss for the year ended December 31, 2004 was \$2,178,541 and the cash used in operating activities was \$1,360,009. Continuation of operations and realization of the capitalized cost of resource properties are dependent upon the Company obtaining long term contracts for carbon dioxide, constructing the appropriate facilities and obtaining additional external financing and achieving profitable operations. Management is focussed on the activities necessary to achieve these objectives including the holding of a number of meetings with key potential users of carbon dioxide for enhanced oil recovery purposes, primarily in California. The securing of long term contracts for carbon dioxide is the critical step in this process. If these contracts are not obtained, the Company may not be able to fully realize its assets.

In response to the measurement uncertainty surrounding the carrying value of the Company's resource properties, management performed a comprehensive impairment review as of December 31, 2004. As part of this review, independent professional reservoir engineers were engaged to evaluate the resource properties and to compute various estimated cash flow scenarios. As a result of this impairment review, the Company concluded that the carrying value of the resource properties is recoverable and that no impairment exists.

An assumption underlying the preparation of financial statements in accordance with generally accepted accounting principles is that the enterprise will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future and do not reflect the adjustments that would otherwise be necessary if the going concern assumption was not appropriate. These financial statements have been prepared on the going concern assumption, which, in the opinion of management, is appropriate.

The objectivity and integrity of data in these financial statements, including estimates and judgements relating to matters not concluded by year end, are the responsibility of management of the Company. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's accounting policies.

2 *Summary of significant accounting policies*

These financial statements are presented in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Specific estimates made by management include asset retirement obligations and the resource property impairment review. Actual results could differ from those estimated.

RIDGEWAY PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Principles of consolidation

The consolidated financial statements of the Company include the accounts of Ridgeway Petroleum Corp. and its wholly-owned subsidiary Ridgeway Petroleum (Florida), Inc. ("RF").

The consolidated financial statements of RF include the results of its wholly-owned subsidiary, Arizona Resources Industries, Inc. and its wholly-owned subsidiaries, Ridgeway Arizona Oil Corp. and Ridgeway Industries, Inc.

Foreign currency translation

The operations of the Company's foreign subsidiaries are classified as fully integrated. Assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Expenses are translated at average exchange rates prevailing during the period with the exception of write-downs, which are translated at historical rates. Exchange gains or losses are included in earnings.

Depreciation

Office furniture and equipment are depreciated using the declining balance method at a rate of 20% per year. Automotive is depreciated using the declining balance method at a rate of 30% per year.

Revenue recognition

Revenue from the production of crude carbon dioxide is recognized at the time title passes to the purchaser.

Cash and cash equivalents

Cash and cash equivalents include short-term investments with a maturity of three months or less when purchased.

Resource properties

Direct expenditures are initially capitalized, net of recoveries, and written off if no reserves are found. Other costs are expensed until development commences. Commencing July 1, 2002, these capitalized costs were depleted using the unit of production method, based on the estimated volumes of gas to be produced during the twenty-year contract to provide crude carbon dioxide for a liquids plant located within the field until the plant ceased operations in July 2003. It is uncertain when the plant will resume operations. The carrying value of the Company's resource properties is subject to an annual assessment for potential impairment (see Note 1).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

Asset retirement obligation

Effective 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 with 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 is 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 was an increase in Resource Properties, net of \$214,193 (2003--\$130,261) and an increase in the Deficit of \$107,985 (2003--\$88,200).

Income taxes

Income taxes are recorded using the liability method of accounting. Under this method, future income tax liabilities are determined by applying the tax rate at the end of the accounting period to the temporary differences between the accounting and tax bases of the Company's assets and liabilities. The future benefit of current and past tax losses is recognized whenever it is more likely than not that the Company will be able to generate sufficient future taxable income to utilize the tax losses before they expire.

Stock-based compensation

The Company periodically grants stock options to directors and employees of the Company. Effective January 1, 2004, 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 (see Note 5).

Per share data

The diluted per share information is calculated using the treasury stock method. The treasury stock method assumes the notional exercise of all in-the-money stock options and warrants and that all notional proceeds to the Company are used to repurchase the Company's common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive. The weighted average number of shares outstanding during the year, which was used for purposes of the computation of per share data, was 39,915,600 (2003-38,209,800).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3 Resource properties, net

	December 31	
	2004	2003
Balance, beginning of year	\$ 38,389,475	\$ 37,722,843
Add: Expenditures	2,368,446	734,928
Revision of asset retirement obligation estimate	83,932	-
Deduct: Depletion for the year	-	(68,296)
Balance, end of year	\$ 40,841,853	\$ 38,389,475

Resource property expenditures were incurred on the Company's Arizona and New Mexico leases. Of the expenditures, approximately \$20 million comprise resource property costs which are without tax basis. The balance of the expenditures comprises primarily drilling costs and include approximately \$5,490,000 of lease acquisition and rental costs (2003 - 4,827,000). Also included in resource property costs are asset retirement costs of \$214,193 (2003--\$130,261).

4 Asset retirement obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of resource properties.

	December 31	
	2004	2003
Balance, beginning of year	\$ 218,461	\$ 200,423
Add: Accretion expense	19,785	18,038
Revision of asset retirement obligation estimate	83,932	-
Deduct: Liabilities settled	(113,635)	-
Balance, end of year	\$ 208,543	\$ 218,461

The total undiscounted amount of estimated cash flows required to settle the obligations is \$903,896 (2003--\$504,808), which has been discounted using a credit-adjusted risk free rate of 9%. Most of these obligations are expected to be settled over the next twenty years and will be funded from general Company resources at the time of retirement.

RIDGEWAY PETROLEUM CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2004**5 Equity instruments**

- (a) Authorized
 25,000,000 preference shares of no par value
 100,000,000 common shares of no par value

- (b) Issued and outstanding

	December 31, 2004		December 31, 2003	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of year	39,444,901	\$ 62,255,279	37,546,569	\$ 58,920,823
Issued				
Warrants--cash	65,000	152,750	70,000	156,000
--assigned value		3,250		1,500
Incentive stock options	166,000	292,300	470,000	597,500
Private Placements, net Short Form Offering	1,499,954	1,518,472	608,332	1,287,580
Document Offering ("SFODO")	-	-	750,000	1,482,750
SFODO expenses		-		(190,874)
Balance, end of year	41,175,855	64,222,051	39,444,901	62,255,279
Warrants				
Balance, beginning of year	943,332	47,167	55,000	2,750
Exercised	(65,000)	(3,250)	(30,000)	(1,500)
Expired (transferred to Contributed surplus)	(280,000)	(14,000)	(25,000)	(1,250)
Private Placements	1,499,954	74,998	598,322	29,917
SFODO	-	-	345,000	17,250
Balance, end of year	2,098,286	104,915	943,332	47,167
Total equity instruments		\$ 64,326,966		\$ 62,302,446

RIDGEWAY PETROLEUM CORP.

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At December 31, 2004, common share purchase warrants to purchase 2,098,286 common shares at exercise prices ranging from \$1.00 to \$2.45 were outstanding. 1,617,332 of these warrants expire in 2005 and the balance expire in 2006. During the twelve months ended September 30, 2002, the Company acquired 85,200 of its common shares, pursuant to a normal course issuer bid, at a cost of \$168,405.

(c) Stock options

The following tables summarize the information about currently exercisable stock options to purchase common shares at December 31, 2004:

	Stock Options	Weighted Average Exercise Price
Balance, beginning of year	3,800,000	\$2.31
Granted	1,895,000	1.30
Exercised	(166,000)	1.76
Expired	(1,514,000)	2.04
Balance, end of year	4,015,000	\$1.96

Exercise Price (\$)	Outstanding Stock Options	
	Number of Options	Weighted Average Remaining Contractual Life (Months)
1.00	1,645,000	34
2.45	1,745,000	19
2.90	100,000	1
2.95	200,000	5
3.00	75,000	6
3.30	250,000	13
	4,015,000	23.6

RIDGEWAY PETROLEUM CORP.

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The following table summarizes the information about currently exercisable stock options to purchase common shares at December 31, 2003:

	Stock Options	Weighted Average Exercise Price
Balance, beginning of year	3,615,000	\$2.33
Granted	1,745,000	2.45
Exercised	(470,000)	1.25
Expired	(1,090,000)	3.05
Balance, end of year	3,800,000	\$2.31

As described in Note 2, the Company records stock-based compensation expense in the consolidated financial statements for stock options granted to directors and employees using the fair value method effective January 1, 2004. 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6 Income taxes

At December 31, 2004, the Company and its subsidiaries had unrecognized non-capital losses and oil and gas tax deductions aggregating approximately \$15.0 million (of which approximately \$5.2 million relates to U.S. subsidiaries). The potential benefit of these losses has not been recognized in these financial statements. The Canadian non-capital losses of approximately \$8.4 million expire over various years up to 2012; the losses of the U.S. subsidiaries are available to be utilized over the next twenty years, and the oil and gas tax deductions have unlimited carryforwards. Substantially all of the Company's future income tax liability is related to temporary differences between the accounting and tax bases of the Company's resource properties.

The provision for income taxes reflects an effective rate which differs for the expected income tax rate of 36.07% (2003--38.94%). The primary differences are as follows:

	December 31	
	2004	2003
Loss for the year before income taxes	\$ (2,178,541)	\$ (2,770,972)
Expected tax at combined federal, provincial and state rates	\$ (785,800)	\$ (1,079,016)
Stock-based compensation	287,875	499,299
Tax benefit of accounting losses not recognized	517,432	534,413
Other	(19,507)	16,527
Provision per financial statements	\$ -	\$ (28,777)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7 Segmented information

The Company operates in Canada and the United States and is engaged in the business of development of its helium and carbon dioxide project in eastern Arizona and western New Mexico.

For the year ended December 31, 2004, the Company had a net loss of \$2,178,541. Approximately \$590,649 of this net loss pertains to the U.S. operations.

	December 31, 2004		
	Canada	U.S.A.	Total
Office furniture and equipment and automotive	\$ 72,025	\$ 100,561	\$ 172,586
Less: Accumulated depreciation	(62,326)	(59,962)	(122,288)
Resource properties	-	41,003,414	41,003,414
Less: Accumulated depletion	-	(161,561)	(161,561)
Corporate assets	6,682	169,928	176,610
Total assets	\$ 16,381	\$ 41,052,380	\$ 41,068,761
Capital expenditures	\$ -	\$ 2,368,446	\$ 2,368,446

For the year ended December 31, 2003, the Company had a net loss of \$2,742,195. Approximately \$607,578 of this net loss and all of the production revenues pertain to the U.S. operations.

	December 31, 2003		
	Canada	U.S.A.	Total
Office furniture and equipment and automotive	\$ 72,025	\$ 100,561	\$ 172,586
Less: Accumulated depreciation	(59,906)	(47,796)	(107,702)
Resource properties	-	38,551,036	38,551,036
Less: Accumulated depletion	-	(161,561)	(161,561)

RIDGEWAY PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Corporate assets	1,301,147	562,124	1,863,271
Total assets	<u>\$ 1,313,266</u>	<u>\$ 39,004,364</u>	<u>\$ 40,317,630</u>
Capital expenditures	<u>\$ 599</u>	<u>\$ 734,928</u>	<u>\$ 735,527</u>

8 Financial instruments

The Company's financial assets and liabilities that are included in the consolidated balance sheet comprise cash, accounts receivable and current liabilities. The fair values of the financial assets and liabilities that are included in the consolidated balance sheet approximate their carrying amount.

9 Commitments

The Company has the following financial commitments for the rental of office space: 2005--\$66,714, 2006--\$67,890 and 2007--\$40,340.

10 Comparative amounts

Certain amounts relating to 2003 have been restated to conform with the presentation adopted in 2004.

11 Subsequent events

Subsequent to the year-end, the Company announced a debenture placement of \$500,000. The debenture bears interest at 12% per annum and matures on June 30, 2005. A bonus of 125,000 shares of the Company were issued to the lender. The Company also announced that it had completed a private placement of 1,430,266 units at a price of \$0.80 per unit for aggregate proceeds of approximately \$1,144,213. Each unit comprised one share of the Company and one quarter of one whole 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.

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.

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The Company also announced the grant of 700,000 incentive stock options entitling the purchase, for period of five years, of up to 700,000 shares of the Company at prices ranging from \$1.00 to \$1.05 per share.