

# **Ridgeway Petroleum Corp.**

**INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**  
March 31, 2005

**RIDGEWAY PETROLEUM CORP.****CONSOLIDATED BALANCE SHEET**

	March 31 2005	December 31 2004
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 534,979	\$ 22,286
Accounts receivable	3,865	3,032
Prepaid expenses and deposits	144,316	151,292
	<b>683,160</b>	176,610
<b>Office furniture and equipment and automotive, at cost</b>	<b>172,586</b>	172,586
Less: Accumulated depreciation (Note 2)	(124,979)	(122,288)
	<b>47,607</b>	50,298
<b>Resource properties, net (Note 3)</b>	<b>41,130,092</b>	40,841,853
	<b>\$ 41,860,859</b>	\$ 41,068,761
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 143,980	\$ 237,561
Subscription proceeds received	801,862	-
Debenture (Note 9)	425,000	-
	<b>1,370,842</b>	237,561
<b>Asset retirement obligation (Notes 2 and 4)</b>	<b>213,235</b>	208,543
<b>Future income tax liability (Note 6)</b>	<b>8,396,456</b>	8,396,456
<b>Shareholders' Equity</b>		
<b>Equity instruments (Note 5)</b>	<b>64,426,966</b>	64,326,966
<b>Contributed surplus (Note 5)</b>	<b>3,287,218</b>	3,129,868
<b>Deficit</b>	<b>(35,665,453)</b>	(35,062,228)
<b>Common shares acquired, at cost (Note 5)</b>	<b>(168,405)</b>	(168,405)
	<b>31,880,326</b>	32,226,201
	<b>\$ 41,860,859</b>	\$ 41,068,761

*Ability to continue operations (Note 1)*

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**

	Quarter ended March 31	
	2005	2004
<b>Revenues</b>		
Interest and other income	145	957
	<b>145</b>	<b>957</b>
<b>Expenses</b>		
Accretion of asset retirement obligation (Notes 2 and 4)	4,692	4,982
Consulting fees	170,163	169,012
Depreciation and depletion	2,691	3,645
Foreign currency translation (gain)	1,800	(20,103)
Insurance	7,825	8,873
Interest and financing (Note 9)	36,334	-
Land management services	7,718	8,473
Legal	59,450	22,018
Office and equipment	36,930	34,442
Other	3,325	1,288
Promotion	3,232	19,846
Stock-based compensation (Note 5)	157,350	310,000
Transfer agent and stock exchange fees	18,245	7,922
Travel	7,386	4,236
Wages and salaries	86,229	88,097
	<b>603,370</b>	<b>662,731</b>
<b>Loss for the period</b>	<b>(603,225)</b>	<b>(661,774)</b>
<b>Deficit, beginning of period</b>	<b>(35,062,228)</b>	<b>(32,883,687)</b>
<b>Deficit, end of period</b>	<b>\$(35,665,453)</b>	<b>\$(33,545,461)</b>
<b>Loss per share-Basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>

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

	Quarter ended March 31	
	2005	2004
<b>Cash (used in) provided by operating activities</b>		
Net loss for the period	\$ (603,225)	\$ (661,774)
Items not affecting cash		
Accretion of asset retirement obligation	4,692	4,982
Stock-based compensation	157,350	310,000
Depreciation and depletion	2,691	3,645
	(438,492)	(343,147)
Asset retirement obligation settlement	-	(113,635)
Changes in non-cash working capital	1,288,028	(113,153)
<b>Cash (used in) provided by operating activities</b>	<b>849,536</b>	<b>(569,935)</b>
<b>Cash provided by (used in) investing activities</b>		
Property expenditures	(288,239)	(312,930)
Changes in non-cash working capital	(148,604)	-
<b>Cash provided by (used in) investing activities</b>	<b>(436,843)</b>	<b>(312,930)</b>
<b>Cash provided by (used in) financing activities</b>		
Issuance of equity instruments for cash, net of issue expenses	100,000	380,250
<b>Cash provided by (used in) financing activities</b>	<b>100,000</b>	<b>380,250</b>
<b>Increase (decrease) in cash</b>	<b>512,693</b>	<b>(502,615)</b>
<b>Cash, beginning of period</b>	<b>22,286</b>	<b>1,550,968</b>
<b>Cash, end of period</b>	<b>\$ 534,979</b>	<b>\$ 1,048,353</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2005**

**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 \$41,292,000 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 quarter was \$603,225 and the cash provided by operating activities was \$849,536. 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.

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 quarter 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. Actual results could differ from those estimated.

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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 includes 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 being 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. Any impairment loss is the difference between the carrying value of the properties and its net recoverable amount (undiscounted).

**Asset retirement obligation**

The Company provides for asset retirement obligations. Liabilities are recognized for retirement obligations associated with tangible long-lived assets, such as well sites. The obligations 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.

**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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2005**

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. 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 41,174,000 (2003-37,574,700).

**3 Resource properties**

	March 31	
	2005	2004
Balance, beginning of period	<b>\$40,841,853</b>	\$38,389,475
Add: Expenditures	<b>288,239</b>	312,930
Balance, end of period	<b>\$41,130,092</b>	\$38,702,405

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 comprise primarily drilling costs and include approximately \$5,761,000 of lease acquisition and rental costs (2003 - 5,124,000). Also included in resource property costs are asset retirement costs of \$214,193 (2004--\$130,261).

**RIDGEWAY PETROLEUM CORP.**

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**March 31, 2005**

**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.

	March 31	
	2005	2004
Balance, beginning of period	\$ 208,543	\$ 218,461
Add: Accretion expense	4,692	4,982
Deduct: Liabilities settled	-	(113,635)
Balance, end of period	\$ 213,235	\$ 109,808

The total undiscounted amount of estimated cash flows required to settle the obligations is \$903,896 (2004--\$504,808), which has been discounted using a credit-adjusted risk free rate of 9%. Most of these obligations are not expected to be paid for many years in the future and will be funded from general Company resources at the time of retirement.

**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

	March 31, 2005		March 31, 2004	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of period	41,175,855	\$ 64,222,051	39,444,901	\$ 62,255,279
Issued				
Warrants--cash	-	-	65,000	152,750
--assigned value				3,250
Bonus shares--Debenture (Note 9)	125,000	100,000		
Incentive stock options	-	-	130,000	227,500
Balance, end of period	41,300,855	64,322,051	39,639,901	62,638,779

**RIDGEWAY PETROLEUM CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2005**

Warrants				
Balance, beginning of period	<b>2,098,286</b>	<b>104,915</b>	943,332	47,167
Exercised	-	-	(65,000)	(3,250)
Expired	-	-	-	-
Balance, end of period	<b>2,098,286</b>	<b>104,915</b>	878,332	43,917
Total equity instruments		<b>\$ 64,426,966</b>		<b>\$ 62,682,696</b>

At March 31, 2005, 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 March 31, 2005:

	<b>Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of period	4,015,000	\$1.96
Granted	300,000	1.00
Cancelled	(100,000)	2.95
Expired	(100,000)	2.90
Balance, end of period	4,115,000	\$1.84

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Exercise Price (\$)	Outstanding Stock Options	
	Number of Options	Weighted Average Remaining Contractual Life (Months)
1.00	1,645,000	31
1.00	300,000	59
2.45	1,745,000	16
2.95	100,000	2
3.00	75,000	3
3.30	250,000	10
	<b>4,115,000</b>	<b>24.4</b>

The following table summarizes the information about currently exercisable stock options to purchase common shares at March 31, 2004:

	Stock Options	Weighted Average Exercise Price
Balance, beginning of period	3,800,000	\$2.31
Granted	250,000	3.30
Exercised	(130,000)	1.75
Expired	(365,000)	2.81
Balance, end of period	<b>3,555,000</b>	<b>\$2.35</b>

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. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate--3.1%, expected lives (years)--3.0, expected volatility--0.724. The grant-date fair value of the options granted during the period ended March 31, 2005 was \$0.52 per option.

**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.

**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 quarter ended March 31, 2005, the Company had a net loss of \$603,225. Approximately \$143,796 of this net loss pertains to the U.S. operations.

	<b>Canada</b>	<b>March 31, 2005 U.S.A.</b>	<b>Total</b>
Office furniture and equipment and automotive	\$ 72,025	\$ 100,561	\$ 172,586
Less: Accumulated depreciation	(62,811)	(62,168)	(124,979)
Resource properties	-	41,291,653	41,291,653
Less: Accumulated depletion	-	(161,561)	(161,561)
Corporate assets	546,748	136,412	683,160
Total assets	\$ 555,962	\$ 41,304,897	\$ 41,860,859
Capital expenditures	\$ -	\$ 288,239	\$ 288,239

**RIDGEWAY PETROLEUM CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	<b>December 31, 2004</b>		
	<b>Canada</b>	<b>U.S.A.</b>	<b>Total</b>
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
<b>Total assets</b>	<b>\$ 16,381</b>	<b>\$ 41,052,380</b>	<b>\$ 41,068,761</b>
Capital expenditures	\$ -	\$ 2,368,446	\$ 2,368,446

**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 Debenture**

The Company has issued a \$500,000 debenture bearing interest at 12% per annum with a maturity date of June 30, 2005. The debenture discount reflects the 125,000 bonus shares issued in connection with the placement having a deemed value of \$100,000 which is being amortized over the four month term of the debenture. The amortized amount is included in interest and financing expenses.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2005**

**10 Comparative amounts**

Certain amounts relating to 2004 have been restated to conform with the presentation adopted in 2005.

**11 Subsequent events**

Subsequent to the quarter-end, 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 completed a 760,872 unit private placement at \$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.

The Company also announced the grant of 400,000 incentive stock options entitling the purchase, for a period of five years, of up to 400,000 shares of the Company at a price of \$1.05 per share.

The Company has been notified by Reliant Holdings, Ltd. 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.

***Auditor review of interim financial statements***

These Interim Consolidated Financial Statements have NOT been reviewed by an auditor.