

# **Ridgeway Petroleum Corp.**

**INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**  
June 30, 2006

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

	June 30 2006	December 31 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 104,416	\$ 2,353,764
Accounts receivable	3,248	2,224
Prepaid expenses and deposits	555,453	140,831
	663,117	2,496,819
Deferred charges, net (Note 9)	63,824	128,563
Office furniture, equipment and automotive, net	38,604	42,943
Drilling equipment	359,478	-
Resource properties, net (Note 3)	41,883,407	41,552,614
	\$ 43,008,430	\$ 44,220,939
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 699,568	\$ 360,746
Secured Note/Promissory Note (Note 9)	2,530,096	2,757,500
	3,229,664	3,118,246
Asset retirement obligation (Note 4)	237,539	227,311
Future income tax liability (Note 6)	8,396,456	8,396,456
<b>Shareholders' Equity</b>		
Equity instruments (Note 5)	66,532,693	66,532,693
Contributed surplus (Note 5)	3,670,805	3,670,805
Deficit	(38,890,322)	(37,556,167)
Common shares acquired, at cost (Note 5)	(168,405)	(168,405)
	31,144,771	32,478,926
	\$ 43,008,430	\$ 44,220,939

*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**

	<b>Six months ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenues</b>		
Interest and other income	<b>\$ 3,651</b>	<b>\$ 1,213</b>
	<b>3,651</b>	<b>1,213</b>
<b>Expenses</b>		
Accretion of asset retirement obligation ( <i>Notes 2 and 4</i> )	<b>10,228</b>	9,384
Consulting fees	<b>155,975</b>	389,944
Depreciation and depletion	<b>4,339</b>	5,381
Foreign currency translation (gain)	<b>(17,469)</b>	5,124
Insurance	<b>15,259</b>	17,236
Interest and financing ( <i>Note 9</i> )	<b>371,687</b>	115,596
Land management services	<b>18,643</b>	14,284
Legal	<b>155,108</b>	138,486
Office and equipment	<b>79,693</b>	93,458
Other	<b>6,792</b>	12,917
Promotion	<b>12,017</b>	14,349
Stock-based compensation ( <i>Note 5</i> )	<b>-</b>	393,040
Transfer agent and stock exchange fees	<b>29,951</b>	42,939
Travel	<b>31,688</b>	24,229
Wages and salaries	<b>463,895</b>	232,166
	<b>1,337,806</b>	1,508,533
<b>Loss for the period</b>	<b>(1,334,155)</b>	(1,507,320)
<b>Deficit, beginning of period</b>	<b>(37,556,167)</b>	(35,062,228)
<b>Deficit, end of period</b>	<b>\$(38,890,322)</b>	\$(36,569,548)
<b>Loss per share-Basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>

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

	Quarter ended June 30	
	2006	2005
<b>Revenues</b>		
Interest and other income	\$ 869	\$ 1,068
	<b>869</b>	<b>1,068</b>
<b>Expenses</b>		
Accretion of asset retirement obligation (Notes 2 and 4)	5,114	4,692
Consulting fees	89,405	219,781
Depreciation and depletion	2,169	2,690
Foreign currency translation (gain)	(38,632)	3,324
Insurance	7,779	9,411
Interest and financing (Note 9)	184,214	79,262
Land management services	7,624	6,566
Legal	65,911	79,036
Office and equipment	49,742	56,528
Other	4,749	9,592
Promotion	7,744	11,117
Stock-based compensation (Note 5)	-	235,690
Transfer agent and stock exchange fees	21,575	24,694
Travel	11,317	16,843
Wages and salaries	332,099	145,937
	<b>750,810</b>	<b>905,163</b>
<b>Loss for the period</b>	<b>(749,941)</b>	<b>(904,095)</b>
<b>Deficit, beginning of period</b>	<b>(38,140,381)</b>	<b>(35,665,453)</b>
<b>Deficit, end of period</b>	<b>\$(38,890,322)</b>	<b>\$(36,569,548)</b>
<b>Loss per share-Basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**RIDGEWAY PETROLEUM CORP.**

	<b>Six months ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash (used in) provided by operating activities</b>		
Net loss for the period	<b>\$ (1,334,155)</b>	\$ (1,507,320)
Items not affecting cash		
Accretion of asset retirement obligation	<b>10,228</b>	9,384
Amortization of debenture discount and deferred charges	<b>140,369</b>	100,000
Stock-based compensation	-	393,040
Depreciation and depletion	<b>4,339</b>	5,381
	<b>(1,179,219)</b>	(999,515)
Changes in non-cash working capital	<b>(100,242)</b>	(8,236)
<b>Cash (used in) provided by operating activities</b>	<b>(1,279,461)</b>	(1,007,751)
<b>Cash provided by (used in) investing activities</b>		
Property expenditures	<b>(330,793)</b>	(553,972)
Acquisition of drilling equipment	<b>(359,478)</b>	-
Office furniture and equipment expenditures	-	(3,788)
Changes in non-cash working capital	<b>21,170</b>	(164,392)
<b>Cash provided by (used in) investing activities</b>	<b>(669,101)</b>	(722,152)
<b>Cash provided by (used in) financing activities</b>		
Issuance of equity instruments for cash, net of issue expenses	-	2,076,644
Issuance of short term borrowings	-	500,000
Repayment of short term borrowings	<b>(186,034)</b>	(500,000)
Changes in non-cash working capital	<b>(114,752)</b>	-
<b>Cash provided by (used in) financing activities</b>	<b>(300,786)</b>	2,076,644
<b>Increase (decrease) in cash</b>	<b>(2,249,348)</b>	346,741
<b>Cash, beginning of period</b>	<b>2,353,764</b>	22,286
<b>Cash, end of period</b>	<b>\$ 104,416</b>	\$ 369,027

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

	Quarter ended June 30	
	2006	2005
<b>Cash (used in) provided by operating activities</b>		
Net loss for the period	\$ (749,941)	\$ (904,095)
Items not affecting cash		
Accretion of asset retirement obligation	5,114	4,692
Amortization of debenture discount and deferred charges	70,143	75,000
Stock-based compensation	-	235,690
Depreciation and depletion	2,169	2,690
	<b>(672,515)</b>	<b>(586,023)</b>
Changes in non-cash working capital	<b>268,723</b>	<b>(771,264)</b>
<b>Cash (used in) provided by operating activities</b>	<b>(403,792)</b>	<b>(1,357,287)</b>
<b>Cash provided by (used in) investing activities</b>		
Property expenditures	(207,233)	(265,733)
Acquisition of drilling equipment	(20,034)	-
Office furniture and equipment expenditures	-	(3,788)
Changes in non-cash working capital	(982)	(15,788)
<b>Cash provided by (used in) investing activities</b>	<b>(228,249)</b>	<b>(285,309)</b>
<b>Cash provided by (used in) financing activities</b>		
Issuance of equity instruments for cash, net of issue expenses	-	1,976,644
Repayment of short term borrowings	(186,034)	(500,000)
Changes in non-cash working capital	5,325	-
<b>Cash provided by (used in) financing activities</b>	<b>(180,709)</b>	<b>1,476,644</b>
<b>Increase (decrease) in cash</b>	<b>(812,750)</b>	<b>(165,952)</b>
<b>Cash, beginning of period</b>	<b>917,166</b>	<b>534,979</b>
<b>Cash, end of period</b>	<b>\$ 104,416</b>	<b>\$ 369,027</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

**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 \$41,830,775 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 six months ended June 30, 2006 was \$1,334,155 and the cash used in operating activities was \$1,279,461. The working capital deficit was \$2,566,547 at June 30, 2006. 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. 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.

These financial statements have been prepared on the going concern assumption, which, in the opinion of management, is appropriate. The 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.

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 and are within the framework of the Company's accounting policies.

**2 Summary of significant accounting policies**

These financial statements are presented in Canadian dollars unless otherwise stated 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, fair values of equity instruments and the resource property impairment review. Actual results could differ from those estimated.

**RIDGEWAY PETROLEUM CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2006**

**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 Phoenix Energy Inc. (formerly 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. The drilling equipment will be depreciated by the unit-of-production method based on the estimated utilization days reduced by the estimated salvage value.

**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. The carrying value of the Company's resource properties is subject to an annual assessment for potential impairment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2006**

**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 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.

**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. 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.

**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 period, which was used for purposes of the computation of per share data, was 43,416,800 (2005-42,028,600).

**RIDGEWAY PETROLEUM CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

**3 Resource properties, net**

	June 30	
	2006	2005
Balance, beginning of period	<b>\$41,552,614</b>	\$40,841,853
Add: Expenditures	<b>330,793</b>	553,972
Balance, end of period	<b>\$41,883,407</b>	\$41,395,825

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 \$6,365,000 of lease acquisition and rental costs (2005 - \$6,013,000). Also included in resource property costs are asset retirement costs of \$214,193 (2005--\$214,193).

**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.

	June 30	
	2006	2005
Balance, beginning of period	<b>\$ 227,311</b>	\$ 208,543
Add: Accretion expense	<b>10,228</b>	9,348
Balance, end of period	<b>\$ 237,539</b>	\$ 217,891

The total undiscounted amount of estimated cash flows required to settle the obligations is \$903,896 (2005--\$903,896), 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**  
**June 30, 2006**

**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

	June 30, 2006		June 30, 2005	
	Number	Amount	Number	Amount
<b>Common shares</b>				
Balance, beginning of period	<b>43,501,993</b>	<b>\$ 66,273,325</b>	41,175,855	\$ 64,222,051
Issued				
Warrants--cash	-	-	10,000	10,000
--assigned value				500
Private Placements, net	-	-	2,191,138	1,940,774
Bonus shares--Debenture (Note 9)	-	-	125,000	100,000
Balance, end of period	<b>43,501,993</b>	<b>66,273,325</b>	43,501,993	66,273,325
<b>Warrants</b>				
Balance, beginning of period	<b>3,478,174</b>	<b>259,368</b>	2,098,286	104,915
Exercised			(10,000)	(500)
Private Placements			928,220	25,870
Expired (transferred to Contributed Surplus)			(195,000)	(9,750)
Balance, end of period	<b>3,478,174</b>	<b>259,368</b>	2,821,506	120,535
Total equity instruments		<b>\$ 66,532,693</b>		<b>\$ 66,393,860</b>

**RIDGEWAY PETROLEUM CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2006**

At June 30, 2006, common share purchase warrants to purchase 3,478,174 common shares at exercise prices ranging from \$0.50 to \$2.00 were outstanding. 2,549,954 of these warrants expire in 2006 and the balance expire in 2007. 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 June 30, 2006:

	<b>Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of period	4,350,000	\$1.53
Expired	(275,000)	1.79
Balance, end of period	4,075,000	\$1.51

Exercise Price (\$)	<b>Outstanding Stock Options</b>	
	Number of Options	Weighted Average Remaining Contractual Life (Months)
0.60	260,000	54
0.95	100,000	49
1.00	1,465,000	16
1.00	300,000	44
1.03	50,000	47
1.05	400,000	46
2.45	1,500,000	2
	4,075,000	19.3

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

The following table summarizes the information about currently exercisable stock options to purchase common shares at June 30, 2005:

	<b>Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of period	4,015,000	\$1.96
Granted	750,000	1.00
Cancelled	(425,000)	3.16
Expired	(200,000)	2.92
Balance, end of period	4,140,000	\$1.62

**6**     ***Income taxes***

At December 31, 2005, the Company and its subsidiaries has unrecognized future tax deductions aggregating approximately \$17.4 million (of which approximately \$5.6 million relates to U.S. subsidiaries). The potential benefit of these deductions has not been recognized in these financial statements. The Canadian non-capital losses of approximately \$9.3 million expire over various years up to 2015; 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

**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 June 30, 2006, the Company had a net loss of \$1,334,155. Approximately \$502,338 of this net loss pertains to the U.S. operations.

	<b>June 30, 2006</b>		
	<b>Canada</b>	<b>U.S.A.</b>	<b>Total</b>
Office furniture, equipment and automotive	\$ 75,813	\$ 100,561	\$ 176,374
Less: Accumulated depreciation	(65,766)	(72,004)	(137,770)
Drilling equipment	-	359,478	359,478
Resource properties	-	42,044,968	42,044,968
Less: Accumulated depletion	-	(161,561)	(161,561)
Corporate assets	65,668	597,449	663,117
Deferred charges, net	63,824	-	63,824
<b>Total assets</b>	<b>\$ 139,539</b>	<b>\$ 42,868,891</b>	<b>\$ 43,008,430</b>
Capital expenditures	\$ -	\$ 690,271	\$ 690,271

For the year ended December 31, 2005, the Company had a net loss of \$2,493,939. Approximately \$617,936 of this net loss pertains to the U.S. operations.

	<b>December 31, 2005</b>		
	<b>Canada</b>	<b>U.S.A.</b>	<b>Total</b>
Office furniture, equipment and automotive	\$ 75,813	\$ 100,561	\$ 176,374
Less: Accumulated depreciation	(64,646)	(68,785)	(133,431)
Resource properties	-	41,714,175	41,714,175
Less: Accumulated depletion	-	(161,561)	(161,561)
Corporate assets	2,374,731	122,088	2,496,819
Deferred charges, net	128,563	-	128,563
<b>Total assets</b>	<b>\$ 2,514,461</b>	<b>\$ 41,706,478</b>	<b>\$ 44,220,939</b>
Capital expenditures	\$ 3,788	\$ 710,761	\$ 714,549

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

**8 Financial instruments**

The Company's financial assets and liabilities that are included in the consolidated balance sheet comprise cash and cash equivalents, 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 Secured note/Promissory note/Debenture**

	<b>June 30 2006</b>
Promissory note (U.S.\$500,000) (a)	<b>\$ 372,066</b>
Secured note (U.S.\$2,000,000) (b)	<b>2,232,400</b>
Note discount	<b>(74,370)</b>
Balance, end of period	<b>\$ 2,530,096</b>

During the first quarter of 2005, the Company issued a \$500,000 debenture bearing interest at 12% per annum with a maturity date of June 30, 2005. The debenture was secured by a floating charge on the assets of the Company. A debenture discount, reflecting the 125,000 bonus shares issued in connection with the placement and having an estimated fair value of \$100,000, was amortized over the four month term of the debenture. The amortized amount is included in interest and financing expense.

(a) During the third quarter of 2005, the Company issued a U.S.\$500,000 unsecured promissory note bearing interest at 10% per annum due March 31, 2006. By agreement dated March 31, 2006, the due date has been extended for a period of up to three months and will require three monthly payments of U.S.\$166,667 by June 30, 2006. To June 30, 2006, one payment had been made.

(b) During the fourth quarter of 2005, the Company issued a senior secured note placement of US\$2,000,000. The note bears interest at 1 1/2% per month, has a twelve month term and matures 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. A note discount, reflecting the 1,000,000 warrants issued in connection with the placement and having an estimated fair value of \$150,000, is being amortized over the term of the note. The amortized amount is included in interest and financing expense.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2006**

The Company also paid a finder's fee of US\$100,000 plus costs of US\$3,670 and 60,000 Warrants having an estimated fair value of \$9,000 in connection with this financing. The finder's fee and related costs are recorded as deferred charges. These deferred charges are being amortized over the term of the note and are included in interest and financing expense. The fair value of each warrant issued was estimated on the date of grant using the Black-Scholes pricing model. The fair value of the warrants issued was \$0.15 per warrant using the following assumptions: risk free interest rate--3.8%, expected life (years)--1.0, expected volatility--0.72.

**11 Comparative amounts**

Certain amounts relating to 2005 have been reclassified with conform with the presentation adopted in 2006.

**RIDGEWAY PETROLEUM CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

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

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