



RIDGELINE ENERGY SERVICES INC.

FORM 51-102F1

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS
ENDED DECEMBER 31, 2008**

FEBRUARY 27, 2009

The following discussion and analysis, prepared as of February 27, 2009, should be read in conjunction with the interim financial statements for the three and nine month periods ended December 31, 2008, and related notes attached thereto (the “Financial Statements”), which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties that could cause actual results to vary considerably from these statements.

Additional information relating to Ridgeline Energy Services Inc. is available on SEDAR at www.sedar.com.

RIDGELINE ENERGY SERVICES INC.

DESCRIPTION OF BUSINESS

Ridgeline Energy Services Inc. (“Ridgeline” or the “Corporation”) provides a range of wellsite technical services to the energy industry in western Canada through its two wholly owned subsidiaries, Ridgeline Production Services Inc. (“RPS”) and Bio-Synergy Resources Inc. (“Bio-Synergy”).

RPS (formerly SDA Technologies Ltd.) provides well testing and data collection, and underground utility locate services to the energy industry. RPS’s well testing services include surface and downhole data recording, production flow testing, fluid level measurement, and bottomhole pressure surveys. Conventional oil and gas and coal-bed methane (“CBM”) gas producers from time to time conduct such tests on their wells to determine production rates and satisfy certain regulatory requirements. RPS supplies the equipment and expertise necessary to collect test data on the surface at the wellhead or subsurface from within the wellbore in accordance with prescribed test procedures. RPS’s utility locate services mark the locations of pipelines, cables, and other underground facilities at worksites where excavation work is planned. Such services are frequently used by oil and gas producers and their subcontractors and suppliers, as it is required practice to perform a utility locate anytime the ground at a worksite will be disturbed to a depth of more than 30 centimetres.

Bio-Synergy, which was acquired by Ridgeline on December 28, 2006, provides environmental consulting, project management and soil remediation services to upstream, midstream, and downstream operators in the energy industry. The energy industry requires such services to comply with environmental standards currently mandated by regulatory bodies such as the Canadian Standards Association (CSA), Alberta Environment (AENV) and the Alberta Energy and Utilities Board (AEUB), as well as to address historical contamination concerns caused by previous oilfield exploration, production, transportation, and abandonment operations. Previous oilfield activity has created a significant market for environmental services to clean up old worksites, as relatively few precautions were taken historically by the industry to limit contaminant introduction into the environment. Bio-Synergy supplies the knowledge and capability required to help energy industry operators assess and resolve worksite contamination issues and comply with modern environmental standards.

Ridgeline is a reporting issuer in Alberta, British Columbia and Ontario, and trades on the TSX Venture Exchange under the symbol RLE.

FISCAL QUARTER IN REVIEW

The third quarter of fiscal 2009, ended December 31, 2008, was another period of high activity and significant growth for Ridgeline. The Corporation earned the highest quarterly revenue in its history – for the second consecutive quarter – and the highest pre-tax profit in its history, due to the continued expansion of its environmental services business, Bio-Synergy. However, despite its record growth in the last 2 quarters, the immediate outlook for Ridgeline demands caution. The environmental services business, which has to date been quite resistant to the global economic slowdown affecting so many sectors, is now facing potential impact as its oil and gas industry customers seek to tighten budgets across all areas of their operations.

During the quarter, Bio-Synergy continued to operate at full capacity or beyond, due to a large backlog of work carried over from the second quarter and continued strong demand from customers seeking to complete their planned environmental projects for calendar 2008. As in the previous quarter, this situation produced greatly increased revenues, but also some significant challenges. The sustained high activity level over the second and third quarters severely tested the volume limits of Bio-Synergy's people, processes, and information systems, with a resulting negative impact to operating efficiency: while Bio-Synergy's revenue for the third quarter increased by 174% over the previous year quarter, pre-tax profit increased by only 38%. Management is actively addressing the challenge to upgrade the Corporation's business infrastructure to facilitate continued growth and profitability into the future.

RPS's utility locate business continued to gain traction during the quarter, with revenues increasing to \$148,688, a 63% increase from the previous quarter. Management is monitoring customer demand with the intention of adding more work crews if warranted.

RPS's well testing business continued to suffer from weak demand, generating revenues of only \$33,349 for the quarter. As a result of its poor performance and poor outlook for the foreseeable future, a decision was made to exit this line of business upon completion of projects currently in progress, which is expected before the end of March 2009.

Bio-Synergy's near-term prospects have started to become more uncertain as commodity prices and general economic outlook in the energy industry continue to deteriorate. Calendar 2009 environmental budgets in the oil and gas industry are now generally coming under pressure, and some customers have signalled that revisions are forthcoming. Bio-Synergy is taking measures now to ensure it is well positioned to weather any reduction in demand that may occur.

Bio-Synergy's market potential over the mid- to long-term, however, remains compelling. Many oil and gas producers have a large backlog of worksites requiring environmental assessment and/or remediation of contaminated soils in order to comply with current environmental laws and standards. Over the next several years the number of upstream and midstream worksites and facilities requiring environmental assessment and/or remediation prior to abandonment is expected to further increase, as the western Canadian basin matures.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Three and nine months ended December 31, 2008 compared to the three and nine months ended December 31, 2007

REVENUES AND COST OF SALES

Ridgeline's revenues for the three and nine months ended December 31, 2008 were \$4,269,669 and \$8,900,749 – an increase of 178% and 102%, respectively – compared to revenues of \$1,534,313 and \$4,411,755 for the comparable periods in the previous year. The increase reflects the rapid expansion of Bio-Synergy's environmental services business and to a lesser degree, the continued development of RPS's utility locate business.

Bio-Synergy contributed \$4,197,007 and \$8,664,695 to revenues for the three and nine months ended December 31, 2008 compared to \$1,532,536 and \$4,370,165 for the same periods in the previous year.

RPS generated revenues of \$182,037 and \$345,429 for the three and nine months ended December 31, 2008, of which \$148,688 and \$239,951 respectively, were from utility locate services. Utility locate revenues for the nine month period include \$109,375 of intercompany revenue earned from Bio-Synergy, which is eliminated in the consolidated statements of Ridgeline.

Gross margins for the three and nine months ended December 31, 2008 were 22.4% and 23.4%, down from 32.3% and 30.1% for the comparable periods in the previous year. The decline in gross margins is attributable to the following:

- Provision of 3rd party services: Under the terms of recent contracts with two of Bio-Synergy's largest customers, various required subcontract services are provided by the customer's selected 3rd party suppliers, but are coordinated and invoiced by Bio-Synergy. Bio-Synergy earns a specified margin for managing and billing these 3rd party services; however, this margin is significantly less than what is typically earned on other revenue. As sales resulting from these contracts have increased, the proportion of total revenues represented by 3rd party services has also increased, with the resultant downward impact on gross margins. This effect will remain as long as Bio-Synergy continues to earn 3rd party services revenues under these or similar future contracts.
- Workload exceeding capacity: To satisfy customer demand during the quarter, Bio-Synergy had to sustain operations at greater than full capacity through most of the period. This required increased overtime hours and increased use of subcontractors and rented equipment to complete customer projects, with a resultant increase in costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the three and nine months ended December 31, 2008 totalled \$673,629 and \$1,715,514, compared to \$439,368 and \$1,245,373 for the comparable periods in the previous year. Bio-Synergy contributed \$510,612 and \$1,364,997 to selling, general and administrative expenses for the current year three and nine month periods, compared to \$240,216 and \$921,897 for the same periods in the previous year. This increase is attributable to the addition of administrative employees and the expansion of office space and telecommunications services that were required to support revenue growth since the previous

year. The increase also reflects the inclusion of an accrual for audit fees in professional fees for the current year periods, which was not included in the previous year comparable periods.

NET INCOME

Net income (loss) before tax for the three and nine months ended December 31, 2008 was \$281,097 and \$357,567, compared to \$62,665 and \$58,001 for the comparable periods in the previous year. The increase in pre-tax profits is attributable to the following:

- The substantial increase in revenues for Bio-Synergy, the effect of which is partially offset by the decline in gross margins, and
- A reduction in losses for RPS, as a result of cost-saving measures and the development of the line locate business.

Bio-Synergy contributed \$362,851 and \$566,140 to net income before tax for the three and nine months ended December 31, 2008, compared to \$263,720 and \$365,997 for the previous year comparable periods.

RPS contributed (\$81,754) and (\$216,310) to net income before tax for the three and nine months, compared to (\$201,054) and (\$307,996) for the previous year comparable periods. As part of the continuing effort to return RPS to profitability, RPS's oil and gas well testing and data collection business will be discontinued by the end of the fiscal year.

SUMMARY OF QUARTERLY RESULTS

The following table provides summary financial results for each of Ridgeline's eight most recently completed quarters.

Demand for Bio-Synergy's services is generally strongest in the summer/fall months of the second and third quarters and weakest during the annual spring break-up of the first quarter. RPS offsets this seasonal pattern somewhat, as production services activity is generally highest during the fall/winter months of the third and fourth quarter. RPS's operations are also affected by spring break-up, however, so the first quarter is generally the weakest for both of Ridgeline's business units.

The fourth quarter net incomes shown below are disproportionately affected by the following adjustments which were not accrued in the prior quarters of each year:

	<u>Q4 2008</u>	<u>Q4 2007</u>
Audit fees	\$ 65,000	\$ 50,000
Income tax (recovery)	<u>(78,000)</u>	<u>(141,420)</u>
	(\$ 13,000)	(\$ 91,420)

	3 Months Ended Dec 31, 2008 Q3	3 Months Ended Sep 30, 2008 Q2	3 Months Ended Jun 30, 2008 Q1	3 Months Ended Mar 31, 2008 Q4	3 Months Ended Dec 31, 2007 Q3	3 Months Ended Sep 30, 2007 Q2	3 Months Ended Jun 30, 2007 Q1	3 Months Ended Mar 31, 2007 Q4
Total revenues	\$ 4,269,669	\$ 3,116,688	\$ 1,523,485	\$ 1,382,804	\$ 1,532,976	\$ 2,121,456	\$ 757,324	\$ 1,163,264
Net income (loss) before extraordinary items	190,097	96,781	(49,311)	43,535	62,665	210,973	(215,637)	117,033
Net income (loss)	190,097	96,781	(49,311)	43,535	62,665	210,973	(215,637)	117,033
Net income (loss) per share – basic	0.01	0.00	(0.00)	0.00	0.00	0.01	(0.01)	(0.00)
Net income (loss) per share – diluted	0.01	0.00	(0.00)	0.00	0.00	0.01	(0.01)	(0.00)

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations for the three and nine months ended December 31, 2008 was \$251,021 and (\$439,027), compared to \$362,140 and \$256,534 for the comparable periods in the previous year. The decline in cash flow reflects cash used to finance the rapid growth in accounts receivable produced by the 178% and 102% increase in revenues over the previous year comparable periods.

Ridgeline's cash balance (net of bank indebtedness) at December 31, 2008 was \$260,358, compared to \$685,784 at March 31, 2008. Working capital at December 31, 2008 was \$1,917,069, compared to \$1,348,102 at March 31, 2008. To date, Ridgeline has generally been able to finance its activities from cash flow from operations. The \$600,000 operating credit facility arranged during the previous quarter ensures additional funds are available to support continued growth of Ridgeline's business.

RELATED PARTY TRANSACTIONS

During the three and nine months ended December 31, 2008, Ridgeline paid legal fees of \$7,702 and \$9,834 (2007 – \$9,023 and \$29,391) to a firm of which a director of the company was a partner. The balance owing at December 31, 2008 was \$12,941 (2007 – \$1,529).

During the three and nine months ended December 31, 2008, Bio-Synergy paid \$4,888 and \$49,416 (2007 – \$0 and \$0) for rental of temporary fencing panels from a supplier owned by three Bio-Synergy employees. The balance owing at December 31, 2008 was \$18,295 (2007 – \$0). This arrangement was of benefit to Ridgeline to facilitate project work in certain geographic areas where the supply of fencing panels from third parties was limited.

These transactions were in the normal course of operations and were measured at the exchange value that represented the amount of consideration established and agreed to by the related parties.

FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, accounts payable, and accrued liabilities included in the Corporation's consolidated balance sheet approximate their fair values due to the short-term maturity of these instruments.

Management has determined that the carrying values of long-term debt and obligations under capital lease included in the Corporation's consolidated balance sheet are not materially different from their fair values.

The Corporation is exposed to credit risk from customers. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Management views the credit risks on these amounts as normal for the industry.

OUTSTANDING SHARE DATA

The following table summarizes issued and outstanding share capital up to the date of this MD&A.

	Number of Shares
Authorized:	
Unlimited common shares	
Unlimited preferred shares	
Common shares:	
Balance as at March 31, 2006	6,909,459
Issued on exercise of options granted to an officer	590,550
Issued pursuant to reverse takeover of Gavwest Resources Ltd.	4,150,005
Issued in a private placement for cash	4,000,000
Issued on exercise of Gavwest directors options	100,000
Issued pursuant to acquisition of Bio-Synergy Resources Inc.	<u>11,246,075</u>

Balance as at March 31, 2007	26,996,089
Balance as at March 31, 2008	26,996,089
Issued on exercise of Agent's options	130,000
Balance as at February 27, 2009	27,126,089

Preferred shares:

Balance as at February 27, 2009	Nil
---------------------------------	-----

The following table lists the stock options outstanding as of the date of this MD&A.

	Number Outstanding as at February 27, 2009	Exercise Price	Expiry Date
Gavwest directors options	50,000	\$0.20	April 14, 2009
Options issued pursuant to Ridgeline's stock option plan	850,000	\$0.20	June 27, 2011
Agent's options	0	\$0.20	June 27, 2008
Options issued to various employees of Bio-Synergy, pursuant to Ridgeline's stock option plan	801,750	\$0.20	December 28, 2011
Options issued to an employee of Bio-Synergy, pursuant to Ridgeline's stock option plan	30,000	\$0.20	September 8, 2013