

**FORM 51-102F3  
MATERIAL CHANGE REPORT**

**Item 1      Name and Address of Company**

Ridgeline Energy Services Inc.  
#200, 3016 – 19<sup>th</sup> Street NE  
Calgary, AB T2E 6Y9

**Item 2      Date of Material Change**

July 25, 2011

**Item 3      News Release**

July 25, 2011

The press release was disseminated through the services of Marketwire

**Item 4      Summary of Material Change**

CALGARY, Alberta – July 25, 2011 – Ridgeline Energy Services Inc. (TSXV:RLE) (“Ridgeline” or the “Corporation”) wishes to announce that the Corporation is anticipating a delay in filing its 2011 annual audited financial statements. Pursuant to National Instrument 51-102, Continuous Disclosure Obligations, the Issuer is required to file annual audited financial statements on or before July 29, 2011.

In connection with the Corporation's inability to file its 2011 annual audited financial statements on time, the Corporation has applied to applicable Canadian securities regulators requesting that a management cease trade order (which restricts trading in the Corporation's securities by the Corporation's insiders) be issued as opposed to an issuer cease trade order (which restricts all trading in the Corporation's securities).

The Issuer's auditor is in the process of completing the Issuer's 2011 annual audited financial statements and has advised the Issuer that it anticipates that they will be completed on or before August 24, 2011.

**Item 5      Full Description of Material Change**

Full details are set out in the attached news release.

**Item 6      Reliance on subsection 7.1(2) or (3) of National Instrument 51-102**

N/A

**Item 7      Omitted Information**

N/A

**Item 8      Executive Officer**

Tony Ker, Chief Executive Officer  
(604) 682-7312

**Item 9      Date of Report**

DATED this 25<sup>th</sup> day of July, 2011

## **DEFAULT ANNOUNCEMENT**

CALGARY, Alberta – July 25, 2011 – Ridgeline Energy Services Inc. (TSXV:RLE) ("Ridgeline" or the "Corporation") wishes to announce that the Corporation is anticipating a delay in filing its 2011 annual audited financial statements. Pursuant to National Instrument 51-102, *Continuous Disclosure Obligations*, the Issuer is required to file annual audited financial statements on or before July 29, 2011.

In connection with the Corporation's inability to file its 2011 annual audited financial statements on time, the Corporation has applied to applicable Canadian securities regulators requesting that a management cease trade order (which restricts trading in the Corporation's securities by the Corporation's insiders) be issued as opposed to an issuer cease trade order (which restricts all trading in the Corporation's securities).

The Issuer's auditor is in the process of completing the Issuer's 2011 annual audited financial statements and has advised the Issuer that it anticipates that they will be completed on or before August 24, 2011.

### **Events and Circumstances Related to the Delay**

On or about the 3<sup>rd</sup> day of May, 2010, Ridgeline Eau Claire Inc. ("Eau Claire"), a wholly owned subsidiary of the Issuer, entered into a general partnership agreement with Danzik Water Sciences LLC (the "Partnership") to develop and commercialize a waste water treatment process and related equipment specifically for use in the petroleum and natural gas industry (the "Development"). Following formation of the Partnership, the Issuer, through Eau Claire, funded the Partnership for the Development and research related to the Development. During the Issuer's financial year ended March 31, 2011, approximately \$2,100,000 was funded to the Partnership by Eau Claire (the "Funding"), such amount representing a substantial and material aspect of the Issuer's financial status.

Following completion of the Development, the Issuer and Eau Claire entered an agreement with a Client (the "Client") on the 7<sup>th</sup> day of December, 2010 whereby the Issuer and Eau Claire agreed to construct certain water treatment equipment (the "Equipment") based on the Development (including the intellectual property therein), on behalf of the Client (the "Equipment Contract"). As substantial intellectual property comprised the Equipment, the Equipment Contract provided that notwithstanding the development of the Equipment for the benefit of the Client, the Issuer and Eau Claire would retain ownership and control of the Equipment to ensure ownership and control of the intellectual property in the Equipment did not pass to the Client. At this time, the parties also entered a non-definitive agreement whereby the Issuer and Eau Claire agreed to provide related water treatment services to the Client for a yet to be determined length of time (the "Service Contract").

The transactions noted above resulted in several accounting issues and uncertainties, all of which the Issuer's auditor and accountants had difficulty resolving. Such issues and uncertainties are summarized as follows:

1. accounting for the Funding, which could be classified as contributions to the Partnership on account of capital or an expense as a portion of the Funding was used for research and a portion for development, the latter of which can be capitalized;
2. accounting for the development of the Equipment for and on behalf of the Client as the Equipment was effectively "purchased" by the Client but ownership and control retained by the Issuer;
3. accounting for the obligation of the Issuer and Eau Claire to "repurchase" the Equipment in the event the Client cancelled water treatment services pursuant to the Service Contract;
4. accounting for the obligation to provide services under the Service Contract when the term of such contract has not yet be determined; and
5. classifying expenditures made by the Issuer during installation of the Equipment on behalf of the Client. From an accounting perspective, such expenditures had elements of expenses, research costs, development costs and capital expenditures.

As a result of the accounting issues noted above, the Issuer's auditors and accountants had differing accounting opinions. These differences resulted in delays with preparation of the Issuer's 2011 annual audited financial statements. Consequently, in mid June of 2011 the Issuer retained an independent audit firm to provide an opinion on the matters. Following receipt of an opinion from such firm on or about July 7, 2011, the Issuer's auditor was able to continue its preparation of the Issuer's 2011 annual audited financial statements. However, as a result of delays associated with determining the manner to account for the above referenced transactions, the Issuer's 2011 annual audited financials will not be filed by July 29, 2011.

The Issuer confirms that it intends to satisfy the provisions of the alternative information guidelines described in section 4.3 and 4.4 of National Policy 12-203, *Cease Trade Orders for Continuous Disclosure Defaults*, for so long as it remains in default of the requirement to file audited financial statements on or before July 29, 2011.

For further information please contact Clint Wolstenholme of Ridgeline Energy Services Inc. at (403) 806-2380, [clint@ridgelinecanada.com](mailto:clint@ridgelinecanada.com) or David Waldman at Crescendo Communications at (212) 671-1021, [dwaldman@crescendo-ir.com](mailto:dwaldman@crescendo-ir.com).

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