

Corridor Resources Inc.

First Quarter Report 2006

For The Three Months Ended November 30, 2005

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) should be read in conjunction with the unaudited financial statements for the three month period ended November 30, 2005 and the audited financial statements and MD&A for the year ended August 31, 2005, available in printed form on request and posted on the Company's website (www.corridor.ns.ca).

All financial information within the MD&A is presented in thousands of dollars.

Corridor Resources Inc. (Corridor or the Company) is a junior natural resource corporation engaged in exploration for petroleum and natural gas, and the production of natural gas, in Eastern Canada. Corridor has been producing natural gas from the McCully Field since April 2003.

Financial Summary

Three Months Ended November 30,	2005	2004	Change
Gas revenue (before royalties)	1,645	1,128	46 %
Cash flow from operations ¹	1,117	746	50 %
EBITDA ¹	1,355	823	65 %
Net earnings	226	294	(23 %)
Per share ² - basic	0.004	0.007	(43 %)
- diluted	0.004	0.007	(43 %)
Capital expenditures	17,849	556	3,110 %
Proceeds from capital stock (net)	18	-	-
Long-term debt ³	-	2,588	(100 %)
Total assets	73,480	66,980	10 %
Working capital	12,346	29,059	(58 %)
Weighted average shares (000')			
- basic	59,708	39,529	51 %
- diluted	62,605	39,543	58 %

¹ Cash flow is a non-GAAP measure. Cash flow represents net income before exploration costs, depletion & depreciation, future income taxes and other non-cash expenses. EBITDA represents earnings from operations before interest, taxes, depletion and depreciation.

² Per share calculations are made using the weighted-average number of shares outstanding for the period.

³ Convertible notes were issued in 2003 for \$3,000. The notes were compound financial instruments which were recorded as a liability of \$2,588 and as equity of \$412. On October 21, 2005, 99.7% of the notes were converted to common shares at a fixed conversion price of \$1.60 and the remainder were redeemed for cash.

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Results of Operations

Operating Summary	Three Months Ended November 30,		
	2005	2004	Change
Total production natural gas (mcf)	90,439	86,067	5 %
Average production natural gas (mcf/d)	994	946	5 %
Average pricing natural gas (\$/mcf)	\$ 18.19	\$ 13.11	39 %
Average operating costs (\$/mcf)	\$ 0.97	\$ 1.05	(8 %)
Cash flow net back (\$/mcf) ¹	\$ 12.35	\$ 8.67	42 %

¹ Cash flow net back is calculated by dividing cash flow from operations (found above) by the total mcf of natural gas produced during the period. To calculate \$/boe, multiply by 6.

Gas Revenue Analysis	Three Months Ended November 30,		
	2005	2004	Change
Total gas revenue	\$ 1,645	\$ 1,128	46 %
Mcf produced	90,439	86,067	5 %
\$ / Mcf	\$ 18.19	\$ 13.11	39 %

Natural gas revenues were higher than the comparable quarter as the average price for the quarter and the volume of natural gas produced had increased by 39% and 5% respectively.

Corridor's price for gas sold to PCS is based on the N.Y. Harbour price of No.2 Fuel Oil thereby allowing Corridor to realize the current spread of oil over gas prices.

Interest Expense	Three Months Ended November 30,		
	2005	2004	Change
	\$ 121	\$ 75	61 %

Interest expense is higher in the first quarter compared to the prior year resulting from a charge of \$89 related to the write-off of debt issue costs upon the conversion of the notes. Previously the costs incurred in the issue of the notes was deferred and allocated to interest expense evenly over the life of the debt portion of the notes.

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	Three Months Ended November 30,		
	2005	2004	Change
Depletion and Depreciation	\$ 575	\$ 226	154 %
Depletion and Depreciation per mcf	\$ 6.36	\$ 2.63	142 %

Depletion and depreciation rates have risen in the first quarter 2006 due to a 28.9 million increase in the asset base used in the calculation over the prior year. The majority of the increase to the asset base was spending incurred on drilling successful wells at the McCully Field. However, the related proven reserves of those wells cannot be added to the proven reserves used in the calculation until the reserves are producible.

	Three Months Ended November 30,		
	2005	2004	Change
General and Administrative Expenses (G & A)	2005	2004	Change
Salaries	\$ 146	\$ 126	16 %
Office costs	26	22	18 %
Corporate costs	27	20	35 %
Professional services	36	35	3 %
G&A expenses (gross)	235	203	16 %
Capitalized to exploration (see financial statement Note 2)	(47)	(64)	(27 %)
Recovered from joint venture's	-	(7)	(100 %)
G&A expense (net)	\$ 188	\$ 132	42 %

Overall general and administration expenses for the first quarter ended November 2005 were 16% higher than in the prior year. The largest notable increase was in the salaries category which increased \$20 compared to the the first quarter of fiscal year 2005. This difference is attributable to a salary increase that took affect mid year 2005 plus the addition of one full time employee during the third quarter of 2005.

	Three Months Ended November 30,		
	2005	2004	Change
Operating Expense Analysis	2005	2004	Change
Operating expenses	\$ 88	\$ 90	(2 %)
Mcf produced	90,439	86,067	5 %
\$ / Mcf	\$ 0.97	\$ 1.05	(8 %)

There was no material change in the operating expenses when compared to the prior period as only a small proportion of the expenses are variable when compared to the the volume of natural gas produced.

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Capital Expenditure Analysis	Three Months Ended		
	2005	2004	Change
Geological and geophysical	\$ 23	\$ 293	(92 %)
Drilling	1,770	206	759 %
Capitalized overhead	47	57	(18 %)
Production and development	16,003	-	-
	\$ 17,843	\$ 556	3,109 %

During the quarter Corridor drilled three new wells (the Jupiter well on Anticosti Island and the O-66 & B-58 wells at the McCully Field) versus no well activity in the prior year. Two additional wells are planned for the second quarter (D-57 was drilled and cased by January 18, 2006 and J-67 spudded on January 21, 2006).

In October and early November, Corridor placed fracs in the "A" and "B" sands in the C-67 well, the "A" and "B" sands in the G-67ST well, the "A", "B", "D" and "E" sands in the O-66 well, and the "B" sand in the K-57 well. Preliminary flow tests have been conducted on these wells as well as on the previously fraced D-48 and J-65 wells, and the results are presented in the table below. The flow rates and pressures reported are at the end of the test flow periods shown. The O-66 and C-67 wells cleaned up reasonably well, whereas flow rates at the G-67ST and K-57 wells have been impeded by the presence of unrecovered frac fluids in the wellbores and surrounding areas. Flow results for the D-48 and J-65 wells have demonstrated significant improvement on re-test compared to the very poor rates measured more than three years ago when these wells were fraced and first tested.

Well	Sands Fraced	Flow Duration (hours)	Choke Size (mm)	Flow Rate (mmscf/day)	Tubing Head Pressure (psi)
C-67	A & B	67	7.94	3.2	1410
G-67ST	A & B	40	5.56	0.9	978
O-66	A, B, D & E	92	12.70	5.7	955
K-57	B	61	7.14	0.9	634
D-48*	B, D & E	47	7.14	2.7	1147
J-65	B	48	7.14	2.2	1102
TOTALS (As tested)				15.6	

*Denotes Corridor 100% well, otherwise above wells are 50% Corridor, 50% PCS

Based on the well stimulation results Corridor plans to proceed with an application to the New Brunswick Government to build a lateral pipeline from the McCully Field area to the Maritimes and North East Pipeline located to the north of the field.

During the period, PCS elected not to participate in the drilling and completion of the C-67 and O-66 wells. PCS also elected not to participate in the fall 2005 frac program with the exception of the G-67 well.

The D-57 well at McCully was spudded in early December 2005 and reached a total depth of 2,582 meters in mid January, 2006. The well encountered net gas bearing pay thicknesses totaling 50 meters in the Hiram Brook formation and similar in log character to the O-66 and P-66 wells to the southwest. The well was drilled over-balanced with conventional drill mud and is the 13th well to encounter natural gas bearing sands in the McCully Field. The rig has been moved back to the C-67 site to drill the J-67 well from the same well pad.

Corridor had a deposit with the Canada-Newfoundland Offshore Petroleum Board for licence EL1063 totaling \$152 which was expensed in the first quarter as spending of the required \$608 on the licence

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will not be completed by January 2006. The licence covered approximately 33% of the Old Harry prospect in the Gulf of St. Lawrence. The primary drilling location on the Old Harry prospect is located on licences which Corridor holds (currently under moratorium) with the Government of Quebec.

Common Shares

At the date of this report, January 27, 2006, the common shares issued were 61,049,479.

Business Conditions and Risk

There can be no assurance that commercial quantities of hydrocarbons will be recovered by Corridor in the future. The marketability of any oil and gas acquired or discovered will be affected by numerous factors beyond the control of Corridor. These factors include market fluctuations, proximity and capacity of oil and gas pipelines and processing equipment and government regulations (including regulations relating to royalties, allowable production, importing and exporting of oil and gas, and environmental protection). In particular, factors directly affecting Corridor will be the NYMEX price of No. 2 Fuel Oil and the demand for gas at the PCS mill. In addition, hazards such as unusual or unexpected formations, pressures or other conditions are involved in drilling and operating wells.

Corridor maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other business interruptions. Corridor believes it is in substantial compliance, in all-material respects, with current environmental legislation and regularly works with government environmental agencies to maintain levels of compliance.

Forward Looking Statements

Management's Discussion and Analysis may contain certain forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that may cause actual results in the future to differ materially from those anticipated in forward-looking statements. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not of historical fact. Although Corridor believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

Additional information about Corridor Resources Inc. is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at www.sedar.com

Corridor Resources Inc.

Statements of Earnings and Deficit	Three Months Ended November 30,	
<i>(thousands of dollars, except per share amounts, unaudited)</i>	2005	2004
Revenues		
Gas revenues	\$ 1,645	\$ 1,128
Royalties	(144)	(83)
	1,501	1,045
Interest revenue	130	-
	1,631	1,045
Expenses		
Operating	88	90
General and administrative	188	132
Depletion and depreciation	575	226
Exploration deposit	152	-
Accretion of asset retirement obligations	7	4
Risk management loss	-	28
Interest on convertible notes	121	75
Capital tax expense	54	13
	1,185	568
Earnings before income taxes	446	477
Future income tax expense	(220)	(183)
Net earnings	\$ 226	\$ 294
Deficit, beginning of period	(5,162)	(6,239)
Equity component of interest on convertible notes	(5)	(11)
Deficit, end of period	(\$ 4,941)	(\$ 5,956)
Net earnings per share		
Basic	\$ 0.004	\$ 0.007
Diluted	\$ 0.004	\$ 0.007

See accompanying notes to the financial statements.

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Balance Sheets <i>(thousands of dollars)</i>	November 30, 2005 <i>(unaudited)</i>	August 31, 2005
Assets		
Current		
Cash and cash equivalents	\$ 17,275	\$ 27,778
Receivables		
Trade	2,823	940
Advances to joint ventures	2,079	4,182
Interest receivable	87	52
Cash held for licence security	-	152
Prepays and drilling permit deposits	536	498
	22,800	33,602
Property and equipment		
Office equipment and furniture	52	51
Exploration and development	50,626	33,236
Deferred debt issue costs and other	2	91
	\$ 73,480	\$ 66,980
Liabilities		
Current		
Payables and accruals	\$ 10,210	\$ 4,275
Interest payable on convertible notes	-	114
Crown royalty payable	39	3
Corporate taxes payable	205	151
	10,454	4,543
Deferred settlement	117	117
Future income taxes	1,678	1,451
Convertible notes	-	2,588
Asset retirement obligations	373	247
	12,622	8,946
Shareholders' Equity		
Capital stock	65,652	62,636
Contributed surplus	147	147
Convertible notes	-	412
Deficit	(4,941)	(5,161)
	60,858	58,034
	\$ 73,480	\$ 66,980
Commitment	<i>Note 8</i>	

On behalf of the Board

Signed "Norman W. Miller" _____ Director

Signed "Paul J. Hopkins" _____ Director

See accompanying notes to the financial statements.

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Statements of Cash Flows

Three Months Ended
November 30,

<i>(thousands of dollars, unaudited)</i>	2005	2004
(Decrease) increase in cash and cash equivalents		
Operating		
Net earnings	\$ 226	\$ 294
Depletion and depreciation	575	226
Amortization of debt issue costs	89	11
Risk management loss	-	28
Accretion of asset retirement obligations	7	4
Future income tax expense	220	183
	1,117	746
Change in non-cash operating working capital	<i>Note 7</i> (1,781)	297
	(\$ 664)	\$ 1,043
Financing		
Interest on convertible notes relating to the equity portion	(5)	(11)
Proceeds from issue of capital stock	18	-
Share issue costs recovered	13	-
Purchase of convertible notes	(9)	-
	\$ 17	(\$ 11)
Investing		
Payables and accruals	5,890	(490)
Advances from joint ventures	2,103	875
Expenditures on exploration	(1,840)	(556)
Production and development expenditures	(16,003)	-
Purchase of equipment	(6)	-
	(\$ 9,856)	(\$ 171)
Net (decrease) increase in cash and cash equivalents	(\$ 10,503)	\$ 861
Cash and cash equivalents		
Beginning of period	27,778	3
End of period	\$ 17,275	\$ 864

See accompanying notes to the financial statements.

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Notes to the Financial Statements

November 30, 2005 – *(unaudited, thousands of dollars unless otherwise noted)*

1 Basis of presentation

Corridor Resources Inc. (Corridor or the Company) is a junior natural resource corporation engaged in exploration for petroleum and natural gas, and the production of natural gas, in Eastern Canada.

Corridor is in the exploration stage with respect to a number of its resource properties and has confirmed proven natural gas reserves in one of its properties. The amount of recoverable reserves, if any, which may be located on the properties in the exploration stage is not known.

Recovery of the Company's cumulative exploration costs on all properties is uncertain and dependent upon confirming its ongoing commitment to the properties and achieving commercial production from, or sale of, the properties. Additional financing will be required to conduct further exploration and development activities on the properties.

The amounts at which the resource properties are recorded represent historical costs and do not necessarily reflect current or future values.

The financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada. Certain information and disclosure normally required to be included in notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto in the Company's annual report for the year ended August 31, 2005. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended August 31, 2005.

2 General and administrative expenses

A portion of general and administrative expense is allocated to exploration expenditures as follows:

Three months ended November 30,	2005	2004
G&A gross costs	\$ 235	\$ 203
Less: G&A capitalized to exploration	(47)	(71)
G&A expensed to operations	\$ 188	\$ 132

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Notes to the Financial Statements

November 30, 2005 – (unaudited, thousands of dollars unless otherwise noted)

3 Asset retirement obligations

The following table represents the reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of oil and natural gas assets:

For the period ended	November 30, 2005	August 31, 2005
Asset retirement obligations, beginning of period	\$ 247	\$ 197
Liabilities incurred	50	33
Change in estimate	69	-
Accretion expense	7	17
Asset retirement obligations, end of period	\$ 373	\$ 247

The total undiscounted amount of estimated cash flows required to settle the obligation is \$748 which has been discounted using a credit adjusted risk-free rate of 8%. The \$69 change in estimate was required to recognize an increase in cash flows calculated to settle the obligation in the future. The future cash flow requirement was then discounted using the risk-free rate of 8%. The majority of the obligations are not expected to be settled for years in the future and will be funded from general company resources at the time of retirement and removal.

4 Cash held for licence security

Corridor had a deposit with the Canada-Newfoundland Offshore Petroleum Board for licence EL1063 totaling \$152 which was expensed in the first quarter as spending of the required \$608 on the licence will not be completed by January 2006. At the end of January 2006 the Company's licence will expire.

5 Capital stock

a) **Authorized** - Unlimited common shares without nominal or par value.

b) **Issued and outstanding**

Common Shares (000's)	Three months ending November 30, 2005		Year ending August 31, 2005	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	58,851	\$ 62,636	39,529	\$ 22,698
Exercise of stock options for cash	15	18	50	60
Exercise of warrants for cash	-	-	4	7
Notes converted to common shares ⁽¹⁾	1,869	2,991	-	-
Issue of flow-through shares for cash ⁽²⁾	-	-	4,752	10,500
Issue of common shares for cash	-	-	14,516	31,000
Share issue costs net of tax benefit	-	7	-	(1,629)
Balance, end of period	60,735	\$ 65,652	58,851	\$ 62,636

⁽¹⁾ Convertible notes were issued in 2003 for \$3,000. The notes were compound financial instruments which were recorded as a liability of \$2,588 and as equity of \$412. On October

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Notes to the Financial Statements

November 30, 2005 – *(unaudited, thousands of dollars unless otherwise noted)*

21, 2005, 99.7% of the notes were converted to common shares at a fixed conversion price of \$1.60 and the remainder were redeemed for cash.

- ⁽²⁾ Expenditure in respect of flow-through shares issued in February 2005 and July 2005 will be renounced effective December 31, 2005. Under the terms of the Company's flow-through share agreements, the Company is required to incur and renounce qualifying Canadian Exploration Expenditures in respect of funds raised. As at November 30, 2005 the existing agreements requires the Company to make further expenditures totaling \$1,023 prior to December 31, 2006.

c) Warrants

(000's, except exercise price)	Three months ending November 30, 2005		Year ending August 31, 2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants				
Balance, beginning of year	2,254	\$ 1.90	1,500	\$ 1.50
Expired	-	\$ -	(1,500)	\$ 1.50
Issued	-	\$ -	2,258	\$ 1.90
Exercised	-	\$ -	(4)	\$ 1.90
Balance, end of period	2,254	\$ 1.90	2,254	\$ 1.90

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Notes to the Financial Statements

November 30, 2005 – (unaudited, thousands of dollars unless otherwise noted)

d) Options

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, key employees and consultants of the Company. The stock option plan is limited to 10% of issued and outstanding shares (non-diluted) with no more than 5% for any one officer, director or employee and no more than 1% for any one consultant.

(000's, except exercise price)	Three months ending November 30, 2005		Year ending August 31, 2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Fixed options				
Balance, beginning of year	1,585	\$ 1.27	1,635	\$ 1.27
Exercised	(15)	\$ 1.20	(50)	\$ 1.20
Balance, end of period	1,570	\$ 1.27	1,585	\$ 1.27
Options exercisable, end of period	1,489	\$ 1.29	1,236	\$ 1.31

6 Earnings per share

Diluted weighted average shares outstanding are determined using the treasury stock method.

Earnings per share is calculated based on the weighted average number of shares outstanding shown in the table below:

Three months ended November 30,	2005	2004
Weighted average (000's)	59,708	39,529
Dilutive effect of stock options	642	14
Dilutive effect of warrants	2,255	-
Diluted weighted average ⁽¹⁾	62,605	39,543

⁽¹⁾ Options and warrants not in-the-money for the period are not included in the calculation for that period.

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Notes to the Financial Statements

November 30, 2005 – (unaudited, thousands of dollars unless otherwise noted)

7 Supplemental cash flow information

Three months ended November 30,	2005	2004
Changes in non-cash operating working capital:		
Receivables, advances, prepaids and permit deposits	(\$ 1,804)	\$ 57
Payables and accruals	83	303
Interest payable on convertible note	(114)	(76)
Corporate taxes payable	54	13
	(\$ 1,781)	\$ 297
Interest and income taxes paid:		
Interest paid	\$ 150	\$ 150
Capital and other taxes paid	\$ -	\$ -

8 Commitment

On January 1, 2004, the Company entered into a five year agreement to lease its premises until December 31, 2008. Minimum lease payments remaining during the term are approximately:

Until fiscal year end August 31,	
2006	\$ 32
2007	\$ 44
2008	\$ 45
2009	\$ 15

9 Conversion of Notes

Convertible notes were issued in 2003 for \$3,000. The notes were compound financial instruments which were recorded as a liability of \$2,588 and as equity of \$412. On October 10, 2005, 99.7% of the notes were converted to common shares at a fixed conversion price of \$1.60 and the remainder were redeemed for cash. The costs incurred in 2003 to issue the notes was deferred and allocated to income systematically during the life of the debt portion of the notes. When the notes were converted a charge of \$89 was made to interest expense to clear the deferred balance.

10 Comparative figures

Certain of the comparative figures for 2005 have been reclassified to conform with the financial statement presentation adopted for 2006.

Corridor Resources Inc.

Corporate Information

Head Office

Suite 301, Cornwallis House
5475 Spring Garden Road
Halifax, Nova Scotia B3J 3T2
Canada

Telephone (902) 429-4511
Fax (902) 429-0209
E-mail nmiller@corridor.ns.ca
Web www.corridor.ns.ca

Bankers

Bank of Nova Scotia
Halifax, Nova Scotia

Auditors

Grant Thornton LLP
Halifax, Nova Scotia

Solicitors

Bennett Jones LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange

TSX Venture Exchange – Trading Symbol CDH

Directors and Officers

Charles MacDonald	Chairman
Norman W. Miller	President and Director
Paul J. Hopkins	Vice President and Director
Brad R. Perry	Chief Financial Officer
Y. Beth Riley	Secretary
J. Douglas Foster	Director
Jacques Plante	Director
Jack Bray	Director

Share Capital

Shares Authorized – Unlimited number of Common Shares
Common Shares issued as of November 30, 2005 – 60,735,479