

First Quarter 2007

Management's Discussion and Analysis

As of May 11, 2007

Management's discussion and analysis ("MD&A") provides a review of the results of operations of Corridor Resources Inc. ("Corridor" or the "Company") during the three months ended March 31, 2007 relative to the three months ended February 28, 2006 and its current financial position as at March 31, 2007 relative to December 31, 2006. This MD&A should be read in conjunction with the audited financial statements and supporting notes as at and for the four month period ended December 31, 2006. The Company changed its year-end from August 31 to December 31 to make the reporting period consistent with most reporting issuers in the Canadian oil and gas industry.

Management's Discussion and Analysis may contain certain information of a forward-looking nature. Such forward-looking information may involve known and unknown risks and uncertainties. These risks include, but are not limited to, volatility of commodity prices, general economic conditions, government regulations (including regulations relating to allowable production, royalties, importing and exporting of oil and gas, and environmental protection) and the access to sufficient capital from internal and external sources. Although Corridor believes that the expectations reflected in such forward-looking information are reasonable, it can give no assurance that such expectations will prove to have been correct. Corridor's actual results could differ materially from those anticipated in forward-looking information.

Additional information about Corridor, including the Company's Annual Information Form is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at www.sedar.com.

Introduction

Corridor Resources Inc. is a junior natural resource company engaged in the exploration for petroleum and natural gas and the production of natural gas onshore in New Brunswick with additional exploration interests and opportunities in Prince Edward Island and Québec and offshore in the Gulf of St. Lawrence, holding a total of over 2.4 million net acres under license. The Company is in the early exploration and development stage with respect to its resource properties with only two producing wells in the McCully Field in New Brunswick and one gas sales contract.

Corridor is nearing the completion of the required midstream facilities to connect an initial 13 wells in the McCully Field to the Maritimes and Northeast Pipeline ("M&NP") and to deliver natural gas into the Maritimes and United States markets at prices referenced to Henry Hub.

Selected Financial Information

<i>thousands of dollars except per share amounts</i>	Three months ended	
	March 31 2007	February 28 2006
Revenues (before royalties)	\$1,280	\$1,261
Net loss	\$(825)	\$(307)
Net loss per share - basic	\$(0.011)	\$(0.005)
Net loss per share - diluted	\$(0.011)	\$(0.005)
Cash flow from operations ¹	\$(78)	\$1,053
Capital expenditures	\$33,976	\$9,139
Gross proceeds from common share issue	\$480	\$4,331

¹Cash flow from operations is a non-GAAP measure. Cash flow from operations represents net earnings adjusted for non-cash items including depletion & depreciation, future income taxes, stock-based compensation and other non-cash expenses.

First Quarter Overview

Construction continued for the gas gathering system, gas processing plant and pipeline lateral (the “midstream facilities”) to connect the McCully Field with the Maritimes & Northeast Pipeline. Corridor has now completed the installation, burial and pressure testing of the gathering system and the main pipeline. Construction of the gas plant is nearing completion, with activities now concentrated on final electrical equipping and commissioning of the plant. The capital cost of the gathering system, gas plant and pipeline facilities is approximately \$60 million and production to M&NP is expected to commence in the middle of June, following receipt of a licence to operate and a gas marketer certificate from the New Brunswick Energy and Utilities Board.

The P-76 well was drilled to a total measured depth of 2769 meters in the Frederick Brook formation. The well encountered a total of 33 meters of net gas pay in the Hiram Brook formation based on well logs (16 meters in the “B” sand and 17 meters in the “A” sand), and is the 21st successful gas well in the McCully Field.

On May 10, 2007 Corridor entered into a data exchange and option agreement with PetroWorth Resources Inc. regarding certain exploration licences held by PetroWorth on Prince Edward Island. Under the terms of the agreement, each of Corridor and PetroWorth will make available to the other party seismic information relating to certain properties on Prince Edward Island and in New Brunswick. Prior to August 12, 2007, Corridor will have the option to elect to drill an exploration well to a minimum depth of 2800 meters on PetroWorth’s Exploration Licence 02-03, located towards the eastern end of the Island. If the option is exercised, drilling operations at the well are to be commenced prior to February 1, 2008, although Corridor may elect to drill and evaluate the well this summer, including a frac stimulation treatment if the well is successful. Corridor would then have the option, prior to October 1, 2008, to drill two more wells on the licence and to pay 50% of the costs of these wells to earn a 50% working interest in the licence. Subject to completion of the earning program described above, Corridor will have a further option to finance and drill a total of two more wells on four other PetroWorth licences on PEI in order to earn a 50% working interest in those additional licences. In total, Corridor has the option to earn a 50% interest in more than 400,000 acres on Prince Edward Island if drilling and frac stimulation operations prove to be successful in producing natural gas at commercial rates in PEI.

Q1, 2007 Financial Summary

	Three months ended	
	March 31 2007	February 28 2006
<i>thousands of dollars</i>		
Revenues	\$1,280	\$1,261
Royalty expense	(100)	(102)
Production expense	(56)	(69)
	1,124	1,090
Expenses		
Depletion, depreciation and accretion	377	615
General and administrative	1,296	100
Stock-based compensation	441	527
Capital tax expense	90	35
	2,204	1,277
Loss before the following items	(1,080)	(187)
Interest and finance costs	206	-
Interest and other income	(291)	(98)
Loss before income taxes	(995)	(89)
Future income tax expense (recovery)	(170)	218
Net loss	\$(825)	\$(307)

Capital Expenditures

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Drilling and completion activities	\$10,371	\$8,296
Midstream facilities	23,433	595
Land and seismic	59	59
Capitalized overhead	79	187
Office and other equipment	34	2
	\$33,976	\$9,139

The Company's capital expenditures were high for Q1, 2007 due to the ongoing construction of the midstream facilities. Total costs incurred to date amount to \$48.2 million.

Drilling costs were higher in Q1, 2007 due to the cost of drilling the F-58 well (100% Corridor), the cost to mobilize another drilling rig and the cost to begin drilling the E-38 and P-76 wells (100% Corridor). For the three months ended February 28, 2006, drilling activity consisted of the drilling of the D-57 and J-67 wells (one 100% Corridor and one 50% Corridor).

From November 22, 2006 to February 23, 2007 Corridor drilled the McCully F-58 well to a total depth of 3754 meters at a total cost of approximately \$10 million. This exploratory well was designed to evaluate the natural gas potential of the Dawson Settlement formation. The well failed to reach the Dawson Settlement formation but encountered over 1000 meters of shaley dolomite and dolomitic shale in the Frederick Brook formation. Corridor now estimates that the Dawson Settlement formation will not be reached before a depth of at least 4000 meters at that location.

Outlook

Corridor mobilized a triple drilling rig to the McCully Field during Q1, 2007, earlier than previously planned. This rig allows the Company to drill longer reach and deeper wells and provides the Company with new options for drilling locations. After further interpretation of seismic and drilling results, several planned drilling locations were changed to locations with the potential for better reservoir characteristics. As a result, Corridor's capital expenditure program for 2007 has increased by \$3 million and is now forecasted at approximately \$60 million. The increase is due to two of the planned wells now being located on 100% Corridor lands and the wells being drilled deeper to evaluate the upper part of the Frederick Brook formation. To partially offset these increased expenditures, Corridor has temporarily deferred certain planned exploration expenditures. The revised capital expenditure budget consists of the drilling and completion of 8 gross wells (7.5 net), mobilizing and demobilizing drilling equipment and a fracture stimulation program. Corridor's 2007 capital expenditure program will be funded with proceeds from the December, 2006 equity financing and funds from future production operations.

The midstream facility has a remaining \$12 million of expenditures forecasted in 2007 for a total cost of \$60 million. The midstream facility is currently being partially financed with a \$30 million credit facility with a Canadian chartered bank. On May 11, 2007, Corridor entered into an amending agreement with the bank to increase this short-term facility to \$40 million to fund recent increases in projected final costs.

Results of Operations

Gas Revenues

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Gas revenues (before royalties)	\$1,280	\$1,261
Natural gas production (mcf)	83,069	80,559
Average natural gas production per day (mcf/d)	923	895
Average natural gas selling price (\$/mcf)	\$15.41	\$15.65

The marginal increase in natural gas revenues for Q1, 2007 compared to the three months ended February 28, 2006 is due to a 3% increase in the average daily production due to an increase in gas demand at the nearby potash mill. This was offset by a slight decrease in the average natural gas sales price. Corridor's price for natural gas will be based on the N.Y. Harbour price of No. 2 fuel oil until the McCully Field is connected to M&NP.

Corridor estimates revenues in the range of \$42 - \$47 million for 2007 assuming a mid-June 2007 production start-up.

Royalty Expense

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Crown royalties	\$100	\$102
Percentage of revenues	7.9%	8.0%

Currently a royalty rate of 10% is payable based on revenues, net of deductions for transportation, processing and a recovery of capital costs. Corridor has recently been notified by the New Brunswick Government that the royalty regime regulations are expected to change during 2008. These changes are not expected to have a long-term financial impact.

A net royalty rate of approximately 8.0% - 8.5% is forecasted for 2007.

Production Expenses

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Production expenses	\$56	\$69
Production expenses per mcf (\$/mcf)	\$0.67	\$0.85

Production expenses for Q1, 2007 have decreased marginally compared to the three months ended February 28, 2006. Production expenses of approximately \$0.50/mcf are forecasted for 2007.

Depletion, Depreciation and Accretion

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Depletion, depreciation and accretion	\$377	\$615
Depletion, depreciation and accretion per mcf (\$/mcf)	\$4.54	\$7.63

Depletion expense is calculated using the unit-of-production method which is based on production volumes in relation to the proved reserve base. Corridor's depletion, depreciation and accretion rates had been steadily increasing during the fiscal year ended August 31, 2006 because of the increase in capital expenditures with no corresponding increase in proved reserves. An independent engineering firm reported an increase in Corridor's proved reserves of 28 bcf as of August 31, 2006 and a further increase of 5 bcf as of December 31, 2006. As a result the depletion, depreciation and accretion rate decreased for the three months ended March 31, 2007.

The depletion, depreciation and accretion rate per mcf for 2007 is forecasted to be \$4.5/mcf - \$5.0/mcf.

General and Administrative Expenses

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Gross expenses	\$1,378	\$374
Capitalized overhead	(79)	(187)
Operator recoveries	(3)	(87)
Net expenses	\$1,296	\$100

Corridor has undergone major growth during the last year in order to prepare for production start-up. Ten additional employees have been hired, and several consultants engaged, requiring additional office space, equipment and supplies. As a result, gross general and administration expenses ("G&A") have increased significantly. The decrease in capitalized overhead and operator recoveries is consistent with the decrease in capital expenditures relating to joint venture activity.

Capital Tax Expense

The increase of \$55 thousand in capital tax expense for Q1, 2007 compared to the three months ended February 28, 2006 reflects the \$70 million increase in capital relating to the April 2006 and December 2006 common share issues.

Interest

The increase in interest and other income of \$193 thousand for Q1, 2007 compared to the three months ended February 28, 2006 reflects higher short-term investments and higher interest rates. The increase in interest expense and financing costs of \$206 thousand for Q1, 2007 reflects interest expense on the bank loan, standby charges on the remaining credit facility and the related amortization of the deferred financing costs.

Future Income Taxes

The Company's effective tax rate of 17% for Q1, 2007 is significantly lower than the statutory income tax rate of 35% as stock-based compensation expense is non-deductible for income tax purposes. The decrease in the future income tax expense of \$388 thousand for Q1, 2007 compared to the three months ended February 28, 2006 is due to the decrease in earnings before taxes and the non-deductibility of a portion of royalty expense in 2006.

Balance Sheet Items

Significant changes in the balance sheets between March 31, 2007 and December 31, 2006 include:

- \$22,214 thousand decrease in cash and cash equivalents reflecting mostly the increased capital spending.
- \$1,450 thousand increase in restricted cash reflecting a letter of credit guarantee in connection with a natural gas sales agreement.
- \$33,681 thousand increase in property, plant and equipment reflecting the increased capital expenditure spending.
- \$7,818 thousand increase in the bank loan reflecting the first instalment on the non-revolving short term bank loan net of the unamortized deferred financing costs.
- \$6,611 thousand increase in accounts payable and accrued liabilities reflecting the increased capital expenditure spending.
- \$1,996 thousand increase in future income taxes reflecting the tax impact of \$2,170 thousand from the renunciation in January, 2007 of \$7 million in exploration expenditures net of the future income tax recovery.
- \$1,696 thousand decrease in capital stock reflecting the tax impact of \$2,170 thousand from the renunciation in January, 2007 of \$7 million in exploration expenditures offset by the exercise of \$480 thousand in stock options.

Cash Flow Highlights

<i>thousands of dollars</i>	Three months ended	
	March 31 2007	February 28 2006
Cash provided by (used in) operating activities	\$(1,055)	\$717
Cash provided by financing activities	8,460	4,331
Cash used in investing activities	(29,619)	(12,984)
Decrease in cash and cash equivalents	\$(22,214)	\$(7,936)

The decrease in cash provided by operating activities for Q1, 2007 compared to three months ended February 28, 2006 reflects mostly the increase in G&A expenses.

The increase in cash provided by financing activities for Q1, 2007 compared to the three months ended February 28, 2006 is due to the first instalment on the non-revolving short term loan with a Canadian chartered bank.

The increase in cash used in investing activities for Q1, 2007 compared to the three months ended February 28, 2006 is due to the increase in capital spending.

Outstanding Share Information

As of April 30, 2007, the outstanding share information was as follows:

Common shares outstanding	76,451,634
Stock options to purchase common shares	2,050,000
Total common shares outstanding after exercise of all stock options	78,501,634

Liquidity and Capital Resources

In November 2006, Corridor signed an agreement in respect of a \$30 million non-revolving short term credit facility with a Canadian chartered bank and on May 11, 2007, entered into an amending agreement to increase this credit facility to \$40 million. The interest rate on the loan is based on the bank's prime interest rate plus one percent and the loan matures, subject to mutual agreement to extend, on September 30, 2007. The proceeds from the loan will partially fund the midstream facilities.

Based on the estimated production start-up in June, 2007 and the increase in the short term loan facility to finance the midstream facility, the Company will have sufficient financial resources to undertake its revised exploration and development drilling program for 2007. Future additional drilling and completion activities are planned to be financed with a combination of funds from operations and equity financing.

Changes in Accounting Policies

In 2005, the Canadian Institute of Chartered Accountants issued Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530 – "Comprehensive Income" and Section 3861 – "Financial Instruments – Disclosure and Presentation". The new standards apply to interim and annual financial statements beginning on or after October 1, 2006. Section 3855 requires that all financial instruments, including derivatives, be recognized in the financial statements and measured at inception at fair values and that certain financial instruments be subsequently measured at fair value at each balance sheet date. Section 1530 requires that gains and losses from the fair value measurement of financial assets classified as available for sale are recognized in the statement of comprehensive income and establishes standards for reporting and displaying this new statement. Section 3861 requires interim disclosure to enable users to evaluate the significance of financial instruments on the Company's financial position and cash flows and to understand the nature and extent of risks to which the Company is exposed and how these risks are managed. These new accounting standards will be applied prospectively without restatement of prior periods. Any adjustments in the carrying amount of financial instruments will be recorded to the opening balance of retained earnings or other comprehensive income depending on the classification.

The adoption of these new standards required the identification of all of the Company's financial instruments and their classification into one of five categories; held for trading, available for sale, held to maturity, loans and receivables and other liabilities. This classification determined how the financial instruments would be measured and whether gains and losses resulting from this fair value measurement would be recognized in the income statement or in the statement of comprehensive income. The Company has assessed the impact of these new standards at January 1, 2007 and has determined there is no adjustment required in the financial statements, with the exception that the balance of deferred debt issue costs will now be netted against the corresponding bank loan. The Company has adopted a policy of adding transaction costs to the related financial asset or liability and amortizing these costs using the effective interest method.

Quarterly Information

<i>thousand of dollars</i>	2007	2006				2005		
	Three months ended	Four months ended	Three months ended			Three months ended		
	Mar. 31	Dec. 31	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31	May 31
Gas revenues	\$1,280	\$1,693	\$858	\$1,453	\$1,261	\$1,645	\$873	\$1,301
Net earnings (loss)	\$(825)	\$(268)	\$(62)	\$198	\$(307)	\$226	\$337	\$340
Net earnings (loss) per share – basic	\$(0.011)	\$(0.004)	\$(0.001)	\$0.003	\$(0.005)	\$0.004	\$0.007	\$0.007
Net earnings (loss) per share – diluted	\$(0.011)	\$(0.004)	\$(0.001)	\$0.003	\$(0.005)	\$0.004	\$0.007	\$0.007
Natural gas production (mcf)	83,069	109,799	49,371	86,914	80,559	90,439	57,756	87,498
Average natural gas selling price (\$/mcf)	\$15.41	\$15.42	\$17.38	\$16.72	\$15.65	\$18.19	\$15.12	\$14.87
Capital expenditures	\$36,976	\$29,939	\$19,601	\$3,551	\$9,139	\$17,850	\$7,268	\$5,518

Gas revenues are affected mostly by the variability of the natural gas selling price which is based on the N.Y. Harbour price of No. 2 fuel oil. The natural gas production varies significantly in the three months ended August 31 due to our customer's annual plant shut-down.

Statements of Loss and Deficit (Unaudited)

(thousands of dollars, except per share amounts)

For the three months ended	March 31 2007	February 28 2006
Operating Revenues		
Revenues	\$ 1,280	\$ 1,261
Royalty expense	(100)	(102)
Production expense	(56)	(69)
	1,124	1,090
Expenses		
Depletion, depreciation and accretion	377	615
General and administrative (note 3)	1,296	100
Stock-based compensation (note 7c)	441	527
Capital tax expense	90	35
	2,204	1,277
Loss before the following items	(1,080)	(187)
Interest and finance costs	206	-
Interest and other income	(291)	(98)
Loss before income taxes	(995)	(89)
Future income tax expense (recovery) (note 5)	(170)	218
Net loss	(825)	(307)
Deficit, beginning of period	(5,378)	(4,940)
Deficit, end of period	\$ (6,203)	\$ (5,247)
Net loss per share (note 8)		
Basic	\$ (0.011)	\$ (0.005)
Diluted	\$ (0.011)	\$ (0.005)

See accompanying notes to the financial statements.

Balance Sheets (Unaudited)

(thousands of dollars)

As at	March 31 2007	December 31 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 14,755	\$ 36,969
Restricted cash	1,450	-
Receivables	3,235	2,961
Receivables from joint venture partners	29	21
Inventory	410	37
Prepays and drilling permit deposits	818	291
	20,697	40,279
Property, plant and equipment (note 3)	144,755	111,074
Deferred debt issue costs and other	-	270
	\$ 165,452	\$ 151,623
Liabilities		
Current liabilities		
Bank loan (note 4)	\$ 7,818	\$ -
Accounts payable and accrued liabilities	21,174	14,563
Advances from joint venture partners	259	895
Capital taxes payable	37	1
	29,288	15,459
Future income taxes	5,880	3,884
Asset retirement obligations (note 6)	894	810
Shareholders' Equity		
Capital stock (note 7)	133,387	135,083
Contributed surplus (note 7d)	2,206	1,765
Deficit	(6,203)	(5,378)
	129,390	131,470
	\$ 165,452	\$ 151,623

See accompanying notes to the financial statements.

Commitments (note 12)

Subsequent events (note 14)

On behalf of the Board

Signed "Norman W. Miller" _____ Director

Signed "Paul J. Hopkins" _____ Director

Statements of Cash Flows (Unaudited)

(thousands of dollars)

For the three months ended	March 31 2007	February 28 2006
Cash provided by (used in):		
Operating Activities		
Net loss	\$ (825)	\$ (307)
Depletion, depreciation and accretion	377	615
Stock-based compensation	441	527
Future income tax expense (recovery)	(170)	218
Other non-cash operating items	99	-
	(78)	1,053
Decrease in non-cash operating working capital	(977)	(336)
Cash provided by (used in) operating activities	(1,055)	717
Financing Activities		
Proceeds from capital stock issue	480	4,331
Increase in bank loan	8,050	-
Other financing activities	(70)	-
Cash provided by financing activities	8,460	4,331
Investing Activities		
Property, plant and equipment expenditures	(33,976)	(9,139)
Increase in restricted cash	(1,450)	-
Increase (decrease) in non-cash investing working capital	5,807	(3,845)
Cash used in investing activities	(29,619)	(12,984)
Decrease in cash and cash equivalents	(22,214)	(7,936)
Cash and cash equivalents, beginning of period	36,969	17,275
Cash and cash equivalents, end of period	\$ 14,755	\$ 9,339
Cash and cash equivalents consists of:		
Cash (bank indebtedness)	\$ (5,795)	\$ 3,749
Short-term investments	20,550	5,590
Cash and cash equivalents, end of period	\$ 14,755	\$ 9,339

See accompanying notes to the financial statements.

Notes to the Interim Unaudited Financial Statements

March 31, 2007

1 Basis of presentation

Corridor Resources Inc. ("Corridor" or the "Company") is a junior natural resource company engaged in the exploration for petroleum and natural gas and the production of natural gas in Eastern Canada. The Company has changed its year-end from August 31 to December 31 to make the reporting period consistent with most reporting issuers in the Canadian oil and gas industry. The Company is reporting on results of operations for the three months ended March 31, 2007 with comparative information for the three months ended February 28, 2006.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and follow the same accounting policies as the audited financial statements for the four month period ended December 31, 2006 with the exception of the accounting policy changes disclosed in note 2. These interim financial statements should be read in conjunction with the audited financial statements as at and for the four month period ended December 31, 2006.

Corridor is in the exploration stage with respect to a number of its resource properties and has confirmed proved 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 still unknown.

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.

2 Change in Accounting Policies

In 2005, the Canadian Institute of Chartered Accountants issued Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530 – "Comprehensive Income" and Section 3861 – "Financial Instruments – Disclosure and Presentation". The new standards apply to interim and annual financial statements beginning on or after October 1, 2006. Section 3855 requires that all financial instruments, including derivatives, be recognized in the financial statements and measured at inception at fair values and that certain financial instruments be subsequently measured at fair value at each balance sheet date. Section 1530 requires that gains and losses from the fair value measurement of financial assets classified as available for sale are recognized in the statement of comprehensive income and establishes standards for reporting and displaying this new statement. Section 3861 requires interim disclosure to enable users to evaluate the significance of financial instruments on the Company's financial position and cash flows and to understand the nature and extent of risks to which the Company is exposed and how these risks are managed. These new accounting standards will be applied prospectively without restatement of prior periods. Any adjustments in the carrying amount of financial instruments will be recorded to the opening balance of retained earnings or other comprehensive income depending on the classification.

The adoption of these new standards required the identification of all of the Company's financial instruments and their classification into one of five categories; held for trading, available for sale, held to maturity, loans and receivables and other liabilities. This classification determined how the financial instruments would be measured and whether gains and losses resulting from this fair value measurement would be recognized in the income statement or in the statement of comprehensive income. The Company has assessed the impact of these new standards at January 1, 2007 and has determined there is no adjustment required in the financial statements, with the exception that the balance of deferred debt issue costs will now be netted against the corresponding bank loan. The Company has adopted a policy of adding transaction costs to the related financial asset or liability and amortizing these costs using the effective interest method over the expected life of the instrument.

Notes to the Interim Unaudited Financial Statements

March 31, 2007

3 Property, plant and equipment

(thousands of dollars)

	March 31 2007	December 31 2006
Petroleum and natural gas properties	\$ 96,645	\$ 86,136
Production facilities	51,933	28,500
Future asset retirement costs	794	728
Office furniture and equipment	468	434
	149,840	115,798
Accumulated depletion and depreciation	(5,085)	(4,724)
Net book value	\$ 144,755	\$ 111,074

For the three months ended March 31, 2007, Corridor capitalized to petroleum and natural gas properties, general and administrative costs of \$79 thousand (three months ended February 28, 2006 - \$187 thousand). The calculation of depletion includes estimated future development costs relating to the development of proved reserves, as determined by an independent engineering firm, of \$22 million (three months ended February 28, 2006 - \$0.5 million).

4 Bank loan

(thousands of dollars)

	March 31 2007	December 31 2006
Bank loan	\$ 8,050	\$ -
Deferred debt issue costs	(232)	-
	\$ 7,818	\$ -

The bank loan relates to a \$30 million non-revolving short term loan with a Canadian chartered bank. The interest rate on the loan is based on the bank's prime rate plus one percent and the loan matures, subject to mutual agreement to extend, on September 1, 2007. The bank loan is secured by a demand debenture on the Company's property, plant and equipment.

5 Future income taxes

The provision for income taxes differs from the amount which would be obtained by applying the statutory income tax rate to the earnings before income taxes as follows:

(thousands of dollars)

	Three months ended March 31, 2007	Three months ended February 28, 2006
Loss before income taxes	\$ (995)	\$ (89)
Statutory income tax rate	35%	36%
Expected income tax recovery	\$ (348)	\$ (32)
Increase (decrease) resulting from:		
Non-deductible stock-based compensation	154	190
Effect of tax rate changes	22	(3)
Non-deductible royalty payments	-	23
Other	2	40
	\$ (170)	\$ 218

Notes to the Interim Unaudited Financial Statements

March 31, 2007

6 Asset retirement obligations

The change in asset retirement obligations is due to the following:

(thousands of dollars)

	March 31 2007	December 31 2006
Balance, beginning of period	\$ 810	\$ 1,031
Liabilities incurred	75	26
Change in estimate	-	(277)
Accretion expense	9	30
Balance, end of period	\$ 894	\$ 810

The estimated undiscounted future obligation associated with the retirement of the obligation is \$2,900 thousand (December 31, 2006 - \$2,650 thousand). Management estimates the settlement of these obligations by 2029. A credit adjusted risk-free rate of 8% (December 31, 2006 - 8%) and an inflation rate of 2% (December 31, 2006 - 2%) was used to calculate the estimated fair value of the asset retirement obligations.

7 Capital stock

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

b) **Issued and outstanding**

(thousands of dollars)

	March 31, 2007		December 31, 2006	
	Number of shares (000's)	Amount	Number of shares (000's)	Amount
Balance, beginning of period	76,051	\$ 135,083	71,159	\$ 105,368
Issue of common shares for cash	-	-	4,700	30,550
Exercise of stock options for cash	400	480	192	346
Flow-through tax benefit	-	(2,170)	-	-
Share issue costs net of tax benefit	-	(6)	-	(1,181)
Balance, end of period	76,451	\$ 133,387	76,051	\$ 135,083

On April 27, 2006, Corridor issued flow-through shares which resulted in an obligation to spend \$7,000 thousand on qualifying expenditures prior to December 31, 2007. The related exploration expenditures were renounced in January, 2007. At March 31, 2007, there was no remaining obligation (December 31, 2006 - \$1,464 thousand).

c) **Stock options**

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, 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. The exercise price of each option approximates the market price for the common share on the date the option was granted. Options granted under the plan are generally fully exercisable after three years, with 25% exercisable on the grant date and the remaining 75% in equal amounts on each of the next three anniversary dates. Options expire five years after the grant date.

Notes to the Interim Unaudited Financial Statements

March 31, 2007

The following table summarizes the information relating to stock options:

	March 31, 2007		December 31, 2006	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Balance, beginning of period	2,550	\$ 3.28	2,707	\$ 3.14
Exercised	(400)	\$ 1.20	(192)	\$ 1.80
Forfeited	(100)	\$ 5.50	-	-
Granted	-	-	35	\$ 6.05
Balance, end of period	2,050	\$ 3.57	2,550	\$ 3.28
Options exercisable, end of period	1,163	\$ 2.55	1,438	\$ 2.03

The range of exercise prices of stock options outstanding and exercisable as at March 31, 2007 is as follows:

Exercise prices	Number of options outstanding (000's)	Number of options exercisable (000's)	Weighted average remaining term (years)
\$ 0.95 - \$ 1.20	750	712	0.9
\$ 4.40 - \$ 4.70	620	305	3.9
\$ 5.09 - \$ 5.82	670	143	4.3
\$ 6.62	10	3	4.6
	2,050	1,163	2.9

The fair value of options granted is estimated using the Black-Scholes option pricing model with the following assumptions:

	March 31 2007	December 31 2006
Weighted average fair value of options granted	\$ 3.22	\$ 3.86
Risk-free interest rate	4%	4%
Expected life (years)	3.0	3.0
Expected volatility	85%	85%

The Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of \$441 thousand for the three months ended March 31, 2007 (three months ended February 28, 2006 - \$527 thousand).

d) Contributed surplus

(thousands of dollars)

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 1,765	\$ 1,232
Stock-based compensation expense	441	533
Balance, end of period	\$ 2,206	\$ 1,765

Notes to the Interim Unaudited Financial Statements

March 31, 2007

8 Earnings per share

Earnings per share is calculated based on the following weighted average number of common shares outstanding:

(thousands of shares)

	Three months ended March 31, 2007	Three months ended February 28, 2006
Weighted average	76,274	61,335
Effect of stock options	1,116	1,118
Effect of warrants	-	1,029
Diluted weighted average	77,390	63,482

The dilution calculation for the three months ended February 28, 2006 includes the exercise of 2,254 thousand warrants during the period.

9 Supplemental cash flow information

(thousands of dollars)

	Three months ended March 31, 2007	Three months ended February 28, 2006
Interest and income taxes paid:		
Interest paid	\$ 47	\$ -
Capital and other taxes paid	\$ 84	\$ 188

10 Financial instruments

a) Held for trading

The carrying values of cash and cash equivalents and restricted cash are marked-to market through net income at each period end.

b) Loans and receivables

The carrying values of accounts receivables and receivables from joint venture partners approximate their fair values because of their short term to maturity. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

c) Other financial liabilities

The carrying values of accounts payable and accrued liabilities, advances from joint venture partners and the bank loan approximate their fair values because of their short term to maturity or because the interest rate approximates market rates at March 31, 2007. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost.

d) Credit risk

Corridor sells all of its production to one credit-worthy purchaser under normal industry payment terms. Corridor's receivables from joint venture partners are also subject to normal credit risks in the natural gas industry and the Company views credit risk on these amounts as low.

Notes to the Interim Unaudited Financial Statements

March 31, 2007

e) Foreign currency risk

Natural gas revenues are influenced by changes in the foreign exchange rate from month to month as the natural gas price is based on a U.S. Dollar benchmark at the time of invoicing. Corridor's accounts receivable for natural gas are denominated in Canadian dollars, therefore there is no further exposure to fluctuations in the foreign exchange rate.

f) Commodity price risk

The Company is exposed to risks from fluctuations in the natural gas sales prices which are determined based on the N.Y. Harbour price of No. 2 fuel oil.

g) Interest rate risk

The Company is exposed to risks from fluctuations in interest rates on the bank loan.

11 Related parties

A director of Corridor is a partner in a law firm that provides legal services to the Company. For the three months ended March 31, 2007 no legal expenses are included in general and administrative expenses (three months ended February 28, 2006 - \$10 thousand) and no share issue costs are included in capital stock (four months ended December 31, 2006- \$114 thousand). The amounts paid are recorded at the amount agreed to between the parties. At March 31, 2007 no amount was included in accounts payable and accrued liabilities (December 31, 2006 – \$141 thousand).

12 Commitments

Corridor has committed to purchase approximately \$4,613 thousand of materials, equipment and supplies required to develop the gas gathering system, gas conditioning plant and pipeline lateral.

13 Comparative amounts

Certain of the comparative amounts have been reclassified to conform with the financial statement presentation adopted for March 31, 2007.

14 Subsequent events

On May 11, 2007, Corridor entered into an amending agreement with the bank to increase the credit facility from \$30 million to \$40 million. The loan will now mature, subject to mutual agreement to extend, on September 30, 2007.

Corridor also entered into a data exchange and option agreement with PetroWorth Resources Inc. After the exchange of seismic information, Corridor will have the option to farm-in on certain exploration licenses held by PetroWorth Resources Inc. in Prince Edward Island.

Corporate Information

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Web www.corridor.ca

Stock Exchange

TSX– Trading Symbol CDH

Directors and Officers

J. Douglas Foster	Chairman and Director
Norman W. Miller	President and Director
Paul J. Hopkins	Vice-President and Director
John H. (Jack) Bray	Director
Robert D. Penner	Director
Achille E. Desmarais	Director
W.C. (Mike) Seth	Director
Lisette F. Hachey	Chief Financial Officer and Secretary

Share Capital

Shares Authorized – Unlimited number of common shares
Common shares issued as of April 30, 2007 – 76,451,634

Bankers

Bank of Nova Scotia, Halifax, Nova Scotia

Royal Bank of Canada, Calgary, Alberta

Auditors

Grant Thornton LLP
Halifax, Nova Scotia

Solicitors

Bennett Jones LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

Independent Engineering Firm

APA Petroleum Engineering Inc.
Calgary, Alberta