



Third Quarter 2007

Management's Discussion and Analysis

As of November 13, 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 and nine months ended September 30, 2007 relative to the three and nine months ended August 31, 2006 and its current financial position as at September 30, 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. 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 holding a total of over 1.7 million net acres under license and 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.

The Company has completed the construction of a field gathering system, a gas plant, and a pipeline lateral connecting the McCully Field, near Sussex New Brunswick, to the Maritimes & Northeast Pipeline ("M&NP"). The Company initiated natural gas production to M&NP on June 28, 2007 and has a continuous development drilling program underway to add reserves and production capacity as field development expands.

Selected Financial Information

<i>thousands of dollars except per share amounts</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Revenues (before royalties)	\$13,603	\$930	\$16,431	\$3,644
Net earnings (loss)	\$1,092	\$(61)	\$(633)	\$(169)
Net earnings (loss) per share - basic	\$0.013	\$(0.001)	\$(0.008)	\$(0.003)
Net earnings (loss) per share - diluted	\$0.013	\$(0.001)	\$(0.008)	\$(0.002)
Cash flow from operations ¹	\$9,014	\$832	\$8,689	\$2,918
Capital expenditures	\$26,394	\$19,601	\$85,420	\$32,292
Gross proceeds from capital stock issues	\$-	\$44	\$66,502	\$44,593

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.

This MD&A contains certain forward looking statements relating to, but not limited to, Corridor's operations, anticipated financial performance, business prospects and strategies, including expectations relating to production levels; capital expenditure programs; the quantity of natural gas reserves; projections of market prices; projections of costs; supply and demand for natural gas; expectations regarding the ability to raise capital and to continually add to reserves through exploration and development; and treatment under governmental regulatory regimes. These forward looking statements are based on current expectations that involve numerous assumptions regarding factors and risks that could cause actual results to vary materially, including, without limitation to, the following factors: risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental, prices, markets and marketing, dependence on key personnel, availability of drilling equipment and access, risks may not be insurable, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties and hedging. There is no representation by Corridor that actual results achieved will be the same in whole or in part as those set out in the forward looking information. Additional information about these risks is included in Corridor's December 31, 2006 Annual Information Form.

Q3, 2007 Financial Summary

thousands of dollars, except per share amounts

	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Revenues	\$13,603	\$930	\$16,431	\$3,644
Royalty expense	(793)	(70)	(1,023)	(290)
Production expense	(539)	(60)	(654)	(221)
Transportation expense	(2,076)	-	(2,344)	-
	10,195	800	12,410	3,133
Other Expenses				
Depletion, depreciation and accretion	6,735	508	7,454	1,795
General and administrative	823	373	3,389	770
Stock-based compensation	381	496	1,232	1,179
Capital tax expense	150	73	330	261
	8,089	1,450	12,405	4,005
Earnings (loss) before the following items	2,106	(650)	5	(872)
Interest and finance costs	1,016	13	1,606	49
Interest and other income	(680)	(489)	(1,259)	(863)
Earnings (loss) before income taxes	1,770	(174)	(342)	(58)
Future income tax expense (recovery)	678	(113)	291	111
Net earnings (loss)	\$1,092	\$(61)	\$(633)	\$(169)
Net earnings (loss) per share - basic	\$0.013	\$(0.001)	\$(0.008)	\$(0.003)
Net earnings (loss) per share – diluted	\$0.013	\$(0.001)	\$(0.008)	\$(0.002)

Third Quarter Overview

The third quarter was an exciting one for the Company. The third quarter marked the first full quarter with production to M&NP resulting in net earnings of \$1,092 thousand and net earnings per share of \$0.013. Natural gas production averaged 19 mmcf/d net to Corridor (including production from penalty wells) and 28 mmcf/d gross production.

Corridor continued its development program during the third quarter completing the drilling of the 24th and 25th wells at the McCully natural gas field in southern New Brunswick. The McCully J-38 well was drilled to a total measured depth of 3,169 meters. The well encountered a total of 58 meters of indicated net gas pay in the upper Hiram Brook formation based on well logs. The well penetrated the full section of the Hiram Brook formation, reaching total depth in the top of the Frederick Brook formation. The well encountered strong gas shows in the sands, with pressure measurements indicating the reservoirs are significantly over-pressured.

The McCully H-76 well was drilled to a total measured depth of 2,910 meters. The well encountered a total of 50 meters of indicated reservoir sand in the Hiram Brook formation based on well logs, including 33 meters in the "A" sand and 15 meters in the "B" sand. However, a pre-frac test of the lower part of the "A" sand recovered over-pressured formation water. The recovery of formation water in both the upper "A" sand and the "B" sand suggests that the western limit of gas reserves in the "A" and "B" sands has been reached in the H-76 fault block.

During the quarter, the Company began its exploration program in Prince Edward Island. In September, 2007 the Green Gables #3 ("GG#3") well was drilled to evaluate the natural gas productive potential of the south flank of the Green Gables structure and in October, 2007 the New Harmony #1 ("NH#1") well was drilled to evaluate the natural gas productive potential of sandstone reservoirs in a large graben structure located north of Souris in eastern Prince Edward Island.

The GG#3 well was drilled to a total measured depth of 2,545 meters, encountering a total of 70 meters of indicated net gas bearing sand mainly in the Bradelle Formation, based on well logs and using a 6% porosity cut-off. The gas bearing sands have significant amounts of clay in the pore structure which may

reduce permeability to gas flow. Corridor plans to frac and flow test the GG#3 well to evaluate the natural gas productivity in mid November, 2007.

The New Harmony #1 well was drilled to a total measured depth of 3,403 meters. The well encountered natural gas shows in several sands in the Bradelle Formation below a depth of approximately 2,700 meters. Based on well logs, porosities appear to be lower than in sands of equivalent age in the Green Gables #3 well. Corridor believes that frac stimulation will be necessary to determine whether or not natural gas can be flowed at potentially commercial rates of production from these relatively low porosity sands. However, decisions regarding fracking and testing will depend on the fracking and testing results from the Green Gables #3 well.

During the quarter, Corridor began its well completion and testing operations at the McCully natural gas field in southern New Brunswick. A total of 25 fracs in seven wells (F-58, H-76, P-76, D-66, E-38, J-38 and I-67) is planned for this year, with approximately 80% completed as of October 31, 2007.

Capital Expenditures

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Drilling and completions	\$23,748	\$10,382	\$46,103	\$20,257
Midstream facilities and tie-ins	2,274	5,277	37,992	7,265
Land and seismic	88	3,769	552	4,165
Capitalized overhead	88	122	260	480
Office and other equipment	196	51	513	125
	\$26,394	\$19,601	\$85,420	\$32,292

The significant increase in Corridor's capital expenditures for the three months ended September 30, 2007 is due to increased drilling and completion costs. The increase in costs in Q3, 2007 compared to the three months ended August 31, 2006 is due to the addition of a second drilling rig (triple), the wells being drilled deeper to evaluate the upper part of the Frederick Brook formation and more of the location of wells drilled and completed being on 100% Corridor lands. The significant increase in Corridor's capital expenditures for the nine months ended September 30, 2007 is also due to the construction of the midstream facilities. Total gross costs incurred to date on the midstream facilities amount to \$62.7 million (\$61.2 million net).

In Q3 2007, Corridor drilled the J-38, D-66, H-76 and GG #3 wells (3.5 net wells) and began drilling the J-76 and NH#1 wells (2 net wells). For the three months ended August 31, 2006, Corridor drilled 2 gross wells (1 net well) and began drilling 1 gross well (1 net well).

For the nine months ended September 30, 2007 Corridor drilled approximately 7 gross wells (6.5 net wells) and commenced drilling 2 additional gross wells (2 net wells). For the nine months ended August 31, 2006 Corridor drilled 6 gross wells (3 net wells) and commenced drilling 1 gross well (0.5 net well).

Capital Expenditures Outlook

Corridor's current estimate of the 2007 capital expenditure program, excluding the midstream facilities, is \$84 million resulting in a reduction of \$15 million from the previously forecasted capital expenditures. Delays relating to drilling and mobilizing another drilling rig have pushed approximately \$5 million of expenditures into 2008. A further decrease of \$7 million relates to additional joint venture participation due to the change in the planned location of two wells.

Corridor's 2007 revised capital expenditure program will be funded with proceeds from the December 2006 and June 2007 equity financings and cash flow from operations.

Results of Operations

Revenues

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30	August 31	September 30	August 31
	2007	2006	2007	2006
Natural gas	\$12,884	\$858	\$15,691	\$3,572
Condensate	75	72	96	72
	12,959	930	15,787	3,644
Gathering, processing & transportation fees	644	-	644	-
	\$13,603	\$930	\$16,431	\$3,644

Natural Gas Revenues

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30	August 31	September 30	August 31
	2007	2006	2007	2006
Natural gas revenues (before royalties)	\$12,884	\$858	\$15,691	\$3,572
Natural gas production (mmcf)	1,764	49	1,957	217
Average natural gas production per day (mmcfpd)	19.2	0.5	7.2	0.8
Average natural gas selling price (\$/mcf)	\$7.30	\$17.38	\$8.02	\$16.47

On June 28 2007, Corridor commenced the production of natural gas from four additional wells in the McCully Field. An additional nine wells were added to production by the end of September, 2007, for a total of thirteen additional wells. This natural gas is delivered to the M&NP and sold to Corridor's gas marketer at prices referenced to Henry Hub (the published Platt's Gas Daily, Dracut mid-point price). Natural gas production from the 2 wells producing since 2003 will continue to supply a nearby potash mill. These natural gas sales which had been based on the N.Y. Harbour price of No. 2 fuel oil are also being referenced to Henry Hub starting June 28, 2007.

During the quarter, Corridor decreased earlier estimates of revenues by \$12 million and now forecasts natural gas revenues of approximately \$33 million for 2007. This decrease in revenues is due to the curtailment of service on M&NP in late October and the strengthening Canadian dollar. Corridor estimates gross production to reach 30 mmcf/d by year end 2007 and to increase to 40-45 mmcf/d by January, 2008. The changes in estimated production are due to the delay in bringing the new wells on stream in the fall of 2007 and to gas plant efficiency issues.

Royalty Expense

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30	August 31	September 30	August 31
	2007	2006	2007	2006
Crown royalties	\$793	\$70	\$1,023	\$290
Royalty expense per mcf (\$/mcf)	\$0.45	\$1.42	\$0.52	\$1.34
Percentage of natural gas revenues	6.1%	7.5%	6.5%	8.0%

Currently a royalty rate of 10% is payable based on revenues, net of deductions for processing and transportation and a recovery of capital costs. The decrease in the effective royalty rate for Q3, 2007 is due to the additional allowable deductions for the midstream facilities.

Corridor was 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.

The effective royalty rate is lower than previously forecasted due to the decrease in forecasted revenues without a corresponding decrease in related allowable deductions. An effective royalty rate of approximately 6.5% is now forecasted for 2007.

Production Expense

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Production expense	\$539	\$60	\$654	\$221
Production expense per mcf (\$/mcf)	\$0.31	\$1.22	\$0.33	\$1.02

Production expense for the three and nine months ended September 30, 2007 has increased due to the start-up of production to M&NP.

Production expense per mcf is lower than previously forecasted due to the delay of forecasted maintenance work. Production expense of approximately \$0.40/mcf is forecasted for 2007.

Transportation Expense

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Transportation expense	\$2,076	\$-	\$2,344	\$-
Transportation expense per mcf (\$/mcf)	\$1.18	\$-	\$1.20	\$-

The Company has a commitment to purchase approximately 9,000 mmbtu per day of transportation on the Canadian side of the Maritimes and Northeast Pipeline from April 1, 2007 to April 1, 2008 and an additional 10,000 mmbtu per day from July 12, 2007 to October 31, 2007. Transportation expense per mcf is lower than previously estimated due to the impact of these transportation arrangements and the strengthening Canadian dollar.

Transportation expense of approximately \$1.20/mcf is forecasted for 2007.

Depletion, Depreciation and Accretion

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Depletion, depreciation and accretion	\$6,735	\$508	\$7,454	\$1,795
Depletion, depreciation and accretion per mcf (\$/mcf)	\$4.73	\$10.29	\$4.60	\$8.30

Depletion expense is calculated using the unit-of-production method which is based on production volumes (excluding penalty wells) in relation to the proved reserve base. The depletion, depreciation and accretion rate decreased for the three and nine months ended September 30, 2007 due to the 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 reported by an independent engineering firm.

The outlook for the depletion, depreciation and accretion rate per mcf for 2007 is approximately \$5.0/mcf.

General and Administrative Expenses

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Gross expenses	\$930	\$552	\$3,689	\$1,508
Capitalized overhead	(88)	(122)	(260)	(480)
Operator recoveries	(19)	(57)	(40)	(258)
Net expenses	\$823	\$373	\$3,389	\$770

Corridor has undergone significant growth during the last year in order to prepare for production start-up. Several 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.

Interest

The increase in interest and other income of \$191 thousand and \$396 thousand for the three and nine months ended September 30, 2007 reflects higher short-term investments.

The increase in interest expense and finance costs of \$1,003 thousand and \$1,557 thousand for the three and nine months ended September 30, 2007 reflects interest expense on the bank loan, standby charges on the unused credit facility, amortization of the related deferred financing costs as well as foreign exchange losses.

Future Income Taxes

The Company's effective tax rate for the three and nine months ended September 30, 2007 is significantly higher than the statutory income tax rate as stock-based compensation expense is non-deductible for income tax purposes. The effective tax rate for the three and nine months ended August 31, 2006 is not comparable to the three and nine months ended September 30, 2007 due to an adjustment during the three months ended August 31, 2006 to decrease the future income tax rate from 35% to 31%.

Balance Sheet Items

Significant changes in the balance sheets between September 30, 2007 and December 31, 2006 include:

- \$25,386 thousand increase in cash and cash equivalents reflecting mostly the net proceeds from the June 2007 share issues of \$62,449 thousand compared to the net proceeds from the December 2006 shares issues of \$28,839 thousand.
- \$2,800 thousand increase in restricted cash reflecting mostly a letter of credit guarantee in connection with a natural gas sales agreement and a deposit on the demobilization of drilling rigs.
- \$1,625 thousand increase in receivables reflecting the increase in natural gas production.
- \$79,704 thousand increase in property, plant and equipment reflecting the increased capital expenditure spending and the increase in inventory of drilling materials.
- \$37,650 thousand increase in the bank loan reflecting instalments received on the \$40 million short term credit facility.
- \$8,723 thousand increase in accounts payable and accrued liabilities reflecting the increased capital expenditure spending.

- \$1,353 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 tax impact of \$1,108 thousand on share issue costs.
- \$61,818 thousand increase in capital stock reflecting the net proceeds from the June 2007 share issues of \$62,449 thousand.

Cash Flow Highlights

<i>thousands of dollars</i>	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Cash provided by operating activities	\$6,153	\$1,329	\$6,662	\$3,762
Cash provided by financing activities	20,950	33	100,455	42,049
Cash used in investing activities	(24,557)	(3,070)	(81,731)	(20,799)
Increase (decrease) in cash and cash equivalents	\$2,546	\$(1,708)	\$25,386	\$25,012

The increase in cash provided by operating activities for the three and nine months ended September 30, 2007 compared to three and nine months ended August 31, 2006 reflects mostly the increase in natural gas revenues offset by the increase in G&A and transportation expenses.

The increase in cash provided by financing activities for the three and nine months ended September 30, 2007 reflects an increase in the short term loan and also an increase in the net proceeds from equity financings of \$25 million for the nine months ended September 30, 2007.

The increase in cash used in investing activities for the three and nine months ended September 30, 2007 compared to the three and nine months ended August 31, 2006 is due to the increase in capital spending.

Outstanding Share Information

As of October 31 2007, the outstanding share information was as follows:

Common shares outstanding	82,612,634
Stock options to purchase common shares	1,370,000
Total common shares outstanding after exercise of all stock options	83,982,634

Liquidity and Capital Resources

During the quarter, Corridor had access to a \$40 million non-revolving short term credit facility with a Canadian chartered bank. The interest rate on the loan was based on the bank's prime interest rate plus 1%. Subsequent to the quarter end, Corridor entered into an amending agreement with the bank to change the existing credit facility to a revolving short term loan with an interest rate based on the bank's prime rate plus 0.40%. The loan will now mature, subject to mutual agreement to extend, on June 30, 2008. The proceeds from the loan will partially fund the Company's ongoing exploration and development activities at the McCully Field.

The Company has sufficient financial resources to undertake its 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.

Corridor's short-term investments consist of bank deposits with 30 days or less to maturity. Corridor has no investments in asset-backed securities.

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 applied to interim and annual financial statements beginning on or after October 1, 2006. 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. Section 3855 requires that all financial instruments, including derivatives, be recognized in the financial statements and measured at inception at fair values and that financial instruments classified as available for sale and held for trading be subsequently measured at fair value at each balance sheet date. Gains and losses resulting from this fair value measurement will be recognized in the income statement for held for trading financial instruments and in the statement of comprehensive income for financial assets classified as available for sale. Section 1530 establishes standards for reporting and displaying the statement of comprehensive income. 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 were applied prospectively without restatement of prior periods. Any adjustments in the carrying amount of financial instruments were required to be recorded to the opening balance of retained earnings or other comprehensive income depending on their classification. The Company has assessed the impact of these new standards at January 1, 2007 and has determined the only adjustment required in the financial statements is the netting of the balance of deferred debt issue costs against the corresponding bank loan. The Company 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.

In 2006, the Canadian Institute of Chartered Accountants replaced Section 1506, “Accounting Changes”. The new standard applied to interim and annual financial statements beginning on or after January 1, 2007. Under the new standard, changes in accounting policies are to be applied retrospectively to all prior periods presented for comparative purposes. The adoption of this revised standard has had no impact on the financial statements.

Future accounting policy changes

As of January 1, 2008, the Company will be required to adopt two new CICA standards: Section 3862 “Financial Instruments – Disclosures”; and Section 3863 “Financial Instruments – Presentation”, which will replace Section 3861 “Financial Instruments – Disclosure and Presentation”. The new standards will require enhanced disclosure to assist users of the financial statements in evaluating the significance of financial instruments on the Company’s financial position and performance. The disclosure will include qualitative and quantitative information about the exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial results of the Company.

As of January 1, 2008, the Company will be required to adopt CICA Section 1535 “Capital Disclosures” which will require disclosure of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

Contingent Liability

Under flow-through share renunciation agreements, the Canada Revenue Agency ("CRA") has the right to audit the renunciations of Canadian exploration expenditures. The Company has been selected for a CRA audit relating to the renunciation of \$27,784 thousand of exploration expenditures between August 31, 2001 and December 31, 2006. The Company has not made a provision for any liability which may arise out of this audit as the outcome is not determinable at this time. The Company does not expect the exposure to be material, although this cannot be predicted with certainty.

Quarterly Information

<i>thousand of dollars, except per share amounts</i>	2007			Four months ended	2006			2005
	Three months ended				Three months ended			Three months ended
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Aug. 31	May 31	Feb. 28	Nov. 30
Natural gas revenues	\$12,884	\$1,527	\$1,280	\$1,693	\$858	\$1,453	\$1,261	\$1,645
Net earnings (loss)	\$1,092	\$(900)	\$(825)	\$(268)	\$(61)	\$198	\$(307)	\$226
Net earnings (loss) per share – basic	\$0.013	\$(0.011)	\$(0.011)	\$(0.004)	\$(0.001)	\$0.003	\$(0.005)	\$0.004
per share – diluted	\$0.013	\$(0.011)	\$(0.011)	\$(0.004)	\$(0.001)	\$0.003	\$(0.005)	\$0.004
Natural gas production (mmcf)	1,764	110	83	110	49	87	80	90
Average natural gas selling price (\$/mcf)	\$7.30	\$13.88	\$15.41	\$15.42	\$17.38	\$16.72	\$15.65	\$18.19
Capital expenditures	\$26,394	\$25,050	\$33,976	\$29,939	\$19,601	\$3,551	\$9,139	\$17,850

Statements of Earnings and Deficit (Unaudited)

(thousands of dollars, except per share amounts)

For the	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Revenues	\$ 13,603	\$ 930	\$ 16,431	\$ 3,644
Royalty expense	(793)	(70)	(1,023)	(290)
Production expense	(539)	(60)	(654)	(221)
Transportation expense	(2,076)	-	(2,344)	-
	10,195	800	12,410	3,133
Other Expenses				
Depletion, depreciation and accretion	6,735	508	7,454	1,795
General and administrative (note 6)	823	373	3,389	770
Stock-based compensation (note 9c)	381	496	1,232	1,179
Capital tax expense	150	73	330	261
	8,089	1,450	12,405	4,005
Earnings (loss) before the following items	2,106	(650)	5	(872)
Interest and finance costs (note 3)	1,016	13	1,606	49
Interest and other income	(680)	(489)	(1,259)	(863)
Earnings (loss) before income taxes	1,770	(174)	(342)	(58)
Future income tax expense (recovery) (note 5)	678	(113)	291	111
Net earnings (loss)	1,092	(61)	(633)	(169)
Deficit, beginning of period	(7,103)	(5,049)	(5,378)	(4,941)
Deficit, end of period	\$ (6,011)	\$ (5,110)	\$ (6,011)	\$ (5,110)
Net earnings (loss) per share (note 4)				
Basic	\$ 0.013	\$ (0.001)	\$ (0.008)	\$ (0.003)
Diluted	\$ 0.013	\$ (0.001)	\$ (0.008)	\$ (0.002)

See accompanying notes to the financial statements.

Balance Sheets

(thousands of dollars)

As at	September 30 2007 <i>(unaudited)</i>	December 31 2006 <i>(audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 62,355	\$ 36,969
Restricted cash	1,450	-
Receivables	4,586	2,961
Receivables from joint venture partners	594	21
Prepays and drilling permit deposits	137	291
	69,122	40,242
Property, plant and equipment <i>(note 6)</i>	190,815	111,111
Restricted cash	1,350	-
Deferred debt issue costs	-	270
	\$ 261,287	\$ 151,623
Liabilities		
Current liabilities		
Bank loan <i>(note 7)</i>	\$ 37,650	\$ -
Accounts payable and accrued liabilities	23,286	14,563
Advances from joint venture partners	-	895
Capital taxes payable	90	1
	61,026	15,459
Future income taxes	5,237	3,884
Asset retirement obligations <i>(note 8)</i>	1,137	810
Shareholders' Equity		
Capital stock <i>(note 9)</i>	196,901	135,083
Contributed surplus <i>(note 9d)</i>	2,997	1,765
Deficit	(6,011)	(5,378)
	193,887	131,470
	\$ 261,287	\$ 151,623

See accompanying notes to the financial statements.

Commitments *(note 13)*
 Contingent liability *(note 14)*
 Subsequent event *(note 16)*

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		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Cash provided by (used in):				
Operating Activities				
Net earnings (loss)	\$ 1,092	\$ (61)	\$ (633)	\$ (169)
Depletion, depreciation and accretion	6,735	508	7,454	1,795
Stock-based compensation	381	496	1,232	1,179
Future income tax expense (recovery)	678	(113)	291	111
Amortization of debt issue costs	128	2	345	2
	9,014	832	8,689	2,918
Increase (decrease) in non-cash operating working capital	(2,861)	497	(2,027)	844
Cash provided by operating activities	6,153	1,329	6,662	3,762
Financing Activities				
Proceeds from capital stock issues	-	44	66,502	44,593
Increase in bank loan	21,000	-	37,650	-
Share issue costs	(44)	(11)	(3,622)	(2,544)
Other financing activities	(6)	-	(75)	-
Cash provided by financing activities	20,950	33	100,455	42,049
Investing Activities				
Property, plant and equipment expenditures	(26,394)	(19,601)	(85,420)	(32,292)
Increase in restricted cash	(250)	-	(2,800)	-
Increase in non-cash investing working capital	2,087	16,531	6,489	11,493
Cash used in investing activities	(24,557)	(3,070)	(81,731)	(20,799)
Increase (decrease) in cash and cash equivalents	2,546	(1,708)	25,386	25,012
Cash and cash equivalents, beginning of period	59,809	43,995	36,969	17,275
Cash and cash equivalents, end of period	\$ 62,355	\$ 42,287	\$ 62,355	\$ 42,287
Cash and cash equivalents consists of:				
Cash	\$ 13,955	\$ 287	\$ 13,955	\$ 287
Short-term investments	48,400	42,000	48,400	42,000
Cash and cash equivalents, end of period	\$ 62,355	\$ 42,287	\$ 62,355	\$ 42,287

See accompanying notes to the financial statements.

Notes to the Interim Unaudited Financial Statements

September 30, 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. In 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. The Company is reporting on results of operations for the three and nine months ended September 30, 2007 with comparative information for the three and nine months ended August 31, 2006.

These interim 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.

In the second quarter of 2007 Corridor completed the required midstream facilities to deliver natural gas to markets in the United States. Corridor will continue with exploration and development activities in the future. The recoverability of amounts recognized in petroleum and natural gas properties and production facilities is dependent upon future profitable production or proceeds from the disposition of the properties, the ability of the Company to obtain the necessary debt or equity financing to complete exploration and development of its properties and the discovery of additional economically recoverable reserves.

2 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 applied to interim and annual financial statements beginning on or after October 1, 2006. 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. Section 3855 requires that all financial instruments, including derivatives, be recognized in the financial statements and measured at inception at fair values and that financial instruments classified as available for sale and held for trading be subsequently measured at fair value at each balance sheet date. Gains and losses resulting from this fair value measurement will be recognized in the income statement for held for trading financial instruments and in the statement of comprehensive income for financial assets classified as available for sale. Section 1530 establishes standards for reporting and displaying the statement of comprehensive income. 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 were applied prospectively without restatement of prior periods. Any adjustments in the carrying amount of financial instruments were required to be recorded to the opening balance of retained earnings or other comprehensive income depending on their classification. The Company has assessed the impact of these new standards at January 1, 2007 and has determined the only adjustment required in the financial statements is the netting of the balance of deferred debt issue costs against the corresponding bank loan. The Company 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 September 30, 2007

2 Changes in accounting policies (continued)

In 2006, the Canadian Institute of Chartered Accountants replaced Section 1506, "Accounting Changes". The new standard applied to interim and annual financial statements beginning on or after January 1, 2007. Under the new standard, changes in accounting policies are to be applied retrospectively to all prior periods presented for comparative purposes. The adoption of this revised standard has had no impact on the financial statements.

Future accounting policy changes

As of January 1, 2008, the Company will be required to adopt two new CICA standards: Section 3862 "Financial Instruments – Disclosures"; and Section 3863 "Financial Instruments – Presentation", which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards will require enhanced disclosure to assist users of the financial statements in evaluating the significance of financial instruments on the Company's financial position and performance. The disclosure will include qualitative and quantitative information about the exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial results of the Company.

As of January 1, 2008, the Company will be required to adopt CICA Section 1535 "Capital Disclosures" which will require disclosure of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

3 Interest and finance costs

Interest and finance costs consist of the following:

(thousands of dollars)

	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Interest expense	\$ 656	\$ 13	\$ 1,029	\$ 49
Amortization of debt issue costs	128	-	345	-
Foreign exchange losses	232	-	232	-
	\$ 1,016	\$ 13	\$ 1,606	\$ 49

4 Earnings per share

The calculation of earnings (loss) per share is based on the following weighted average number of common shares:

(thousands of shares)

	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Weighted average of common shares	81,922	71,146	78,777	66,211
Effect of stock options	1,320	1,224	1,311	1,148
Effect of warrants	-	-	-	373
Diluted weighted average	83,242	72,370	80,088	67,732

The dilution calculation for the nine months ended August 31, 2006 includes the exercise of 2,254 thousand warrants during the period.

Notes to the Interim Unaudited Financial Statements

September 30, 2007

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		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Earnings (loss) before income taxes	\$ 1,770	\$ (174)	\$ (342)	\$ (58)
Statutory income tax rate	35%	36%	35%	36%
Expected income tax expense (recovery)	\$ 620	\$ (63)	\$ (120)	\$ (21)
Increase (decrease) resulting from:				
Non-deductible stock-based compensation	133	178	431	424
Resource allowance	-	33	-	(59)
Effect of tax rate changes	(87)	(224)	(36)	(232)
Other	12	(37)	16	(1)
	\$ 678	\$ (113)	\$ 291	\$ 111

6 Property, plant and equipment

(thousands of dollars)

September 30, 2007	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 133,052	\$ 8,517	\$ 124,535
Production facilities	66,491	3,264	63,227
Inventory	1,449	-	1,449
Future asset retirement costs	1,005	105	900
Office furniture and equipment	947	243	704
	\$ 202,944	\$ 12,129	\$ 190,815

(thousands of dollars)

December 31, 2006	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 86,136	\$ 3,698	\$ 82,438
Production facilities	28,500	794	27,706
Inventory	37	-	37
Future asset retirement costs	728	73	655
Office furniture and equipment	434	159	275
	\$ 115,835	\$ 4,724	\$ 111,111

For the three and nine months ended September 30, 2007, Corridor capitalized to petroleum and natural gas properties general and administrative costs of \$88 thousand and \$260 thousand respectively (three and nine months ended August 31, 2006 - \$122 thousand and \$480 thousand). The calculation of depletion does not include any estimated future development costs relating to the development of proved reserves for the three months ended September 30, 2007 (three and nine months ended August 31, 2006 - \$0.5 million).

Notes to the Interim Unaudited Financial Statements

September 30, 2007

7 Bank loan

The bank loan relates to a \$40 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 November 30, 2007. The bank loan is secured by a \$50 million demand debenture on the Company's property, plant and equipment.

8 Asset retirement obligations

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

(thousands of dollars)

	September 30 2007	December 31 2006
Balance, beginning of period	\$ 810	\$ 1,031
Liabilities incurred	277	26
Change in estimate	-	(277)
Accretion expense	50	30
Balance, end of period	\$ 1,137	\$ 810

The estimated undiscounted future obligation associated with the retirement of the obligation is \$5,335 thousand (December 31, 2006 - \$3,709 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.

9 Capital stock

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

b) Issued and outstanding

(thousands of dollars)

	September 30, 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	4,071	46,002	4,700	30,550
Issue of flow-through shares for cash	1,400	20,020	-	-
Exercise of stock options for cash	400	480	192	346
Tax impact of flow-through renunciation	-	(2,170)	-	-
Share issue costs net of tax benefit	-	(2,514)	-	(1,181)
Balance, end of period	81,922	\$ 196,901	76,051	\$ 135,083

On June 1, 2007, Corridor issued flow-through shares which resulted in an obligation to spend \$20,020 thousand on qualifying expenditures prior to December 31, 2008. At September 30, 2007, \$5,093 thousand of expenditures had been incurred.

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 September 30, 2007, there was no remaining obligation (December 31, 2006 - \$1,464 thousand).

Notes to the Interim Unaudited Financial Statements

September 30, 2007

9 Capital stock (continued)

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.

The following table summarizes the information relating to stock options:

	September 30, 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	1,441	\$ 3.00	1,438	\$ 2.03

The range of exercise prices of stock options outstanding and exercisable as at September 30, 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	750	0.4
\$ 4.40 - \$ 4.70	620	310	3.3
\$ 5.09 - \$ 5.82	670	378	3.8
\$ 6.62	10	3	4.1
	2,050	1,441	2.4

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

	September 30 2007	December 31 2006
Weighted average fair value of options granted	-	\$ 3.86
Risk-free interest rate	-	4%
Expected life (years)	-	3.0
Expected volatility	-	85%

For the three and nine months ended September 30, 2007, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of \$381 thousand and \$1,232 thousand respectively (three and nine months ended August 31, 2006 - \$496 thousand and \$1,179 thousand).

Notes to the Interim Unaudited Financial Statements September 30, 2007

9 Capital stock (continued)

d) Contributed surplus

(thousands of dollars)

	September 30 2007	December 31 2006
Balance, beginning of period	\$ 1,765	\$ 1,232
Stock-based compensation expense	1,232	533
Balance, end of period	<u>\$ 2,997</u>	<u>\$ 1,765</u>

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 September 30, 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.

e) Foreign currency risk

Natural gas revenues are based on a U.S. Dollar benchmark, the Company is therefore exposed to fluctuations in the exchange rate between the Canadian dollar and U.S. dollar.

f) Commodity price risk

The Company is exposed to risks from fluctuations in the natural gas sales prices.

g) Interest rate risk

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

Notes to the Interim Unaudited Financial Statements

September 30, 2007

11 Supplemental cash flow information

(thousands of dollars)

	Three months ended		Nine months ended	
	September 30 2007	August 31 2006	September 30 2007	August 31 2006
Interest and income taxes paid:				
Interest paid	\$ 614	\$ -	\$ 959	\$ -
Capital and other taxes paid	\$ 84	\$ 62	\$ 274	\$ 368

12 Related parties

A director of Corridor is a partner in a law firm that provides legal services to the Company. For the three and nine months ended September 30, 2007, legal expenses of nil and \$108 thousand are included in general and administrative expenses (three and nine months ended August 31, 2006 - nil and \$48 thousand) and share issue costs of \$114 thousand are included in capital stock as at September 30, 2007 (four months ended December 31, 2006- \$114 thousand). The amounts paid are recorded at the amount agreed to between the parties. At September 30, 2007, no amount was included in accounts payable and accrued liabilities (December 31, 2006 – \$141 thousand).

13 Commitments

The Company has a commitment to purchase approximately 9,000 mmbtu per day of transportation on the Canadian side of the Maritimes and Northeast Pipeline from April 1, 2007 to April 1, 2008 and an additional 10,000 mmbtu per day from July 12, 2007 to October 31, 2007. The cost of these commitments over the term of the contract is approximately \$1 million and \$250 thousand respectively.

The Company has a commitment to sell 5,000 mmbtu per day of natural gas from July 1, 2007 to November 1, 2007.

The Company has a commitment to sell 15,000 mmbtu per day of natural gas from November 1, 2007 to March 31, 2008 which includes the purchase of firm transportation on the Canadian and U.S. portions of the Maritimes and Northeast Pipeline.

14 Contingent liability

The Company has been selected for a Canada Revenue Agency audit for the taxation years between August 31, 2001 and December 31, 2006 relating to the renunciation of \$27,784 thousand of exploration expenditures under flow-through share agreements during this period. The Company has not made a provision for any liability which may arise out of this audit as the outcome is not determinable at this time. The Company does not expect the exposure to be material, although this cannot be predicted with certainty.

15 Comparative amounts

Certain of the comparative amounts have been reclassified to conform to the financial statement presentation adopted for September 30, 2007.

16 Subsequent event

In October 2007, Corridor entered into an amending agreement with the bank to change the existing credit facility to a revolving short term loan with an interest rate based on the bank's prime rate plus 0.40%. The loan will now mature, subject to mutual agreement to extend, on June 30, 2008.

Corporate Information

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Website 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 October 31, 2007 – 82,612,634

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

GLJ Petroleum Consultants
Calgary, Alberta