



# Third Quarter 2008 Management's Discussion and Analysis

As of November 11, 2008

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the nine months ended September 30, 2008 should be read in conjunction with the unaudited financial statements and notes thereto for the nine months ended September 30, 2008 and the audited financial statements and notes thereto for the year ended December 31, 2007.

All amounts referred to in this MD&A are in Canadian dollars unless otherwise stated.

Additional information about Corridor, including the Company's annual information form for the year ended December 31, 2007 (the "Annual Information Form") is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at [www.sedar.com](http://www.sedar.com).

## Introduction

Corridor Resources Inc. is a junior resource company engaged in the exploration for and development and production of petroleum and natural gas onshore in New Brunswick, Prince Edward Island and Québec and offshore in the Gulf of St. Lawrence. The Company has reserves of natural gas at only one property, the McCully Field near Sussex, New Brunswick. In June 2007, Corridor completed the construction of a field gathering system, a gas plant and a pipeline lateral ("midstream facilities") connecting the McCully Field to markets through the Maritimes & Northeast Pipeline ("M&NP").

## Non-GAAP Financial Measures

This MD&A refers to "cash flow from operations" which is a financial measure that is not determined in accordance with Canadian generally accepted accounting principles ("GAAP"). This measure does not have a standardized meaning and may not be comparable to similar measures presented by other companies. "Cash flow from operations" is used by the Company to analyse operating performance, leverage and liquidity and is included in this MD&A because it is believed to facilitate the understanding of the results of Corridor's operations and financial position.

## Selected Financial Information

<i>thousands of dollars except per share amounts</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenues	\$16,253	\$13,603	\$55,619	\$16,431
Net earnings (loss)	\$3,874	\$1,092	\$13,771	\$(633)
Net earnings (loss) per share - basic	\$0.044	\$0.013	\$0.163	\$(0.008)
Net earnings (loss) per share - diluted	\$0.044	\$0.013	\$0.162	\$(0.008)
Cash flow from operations <sup>(1)</sup>	\$11,620	\$9,014	\$38,211	\$8,689
Capital expenditures	\$26,638	\$26,394	\$59,324	\$85,420
Gross proceeds from capital stock issues	\$-	\$-	\$55,546	\$66,502
Total assets	\$306,811	\$261,287	\$306,811	\$261,287

<sup>1</sup>Cash 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 expenditures. See "Non-GAAP Financial Measures".

## Forward Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- revenues;
- production levels;
- natural gas prices;
- gathering, processing and transportation fees;
- royalty rates and expense;
- production expense;
- transportation expense;
- depletion, depreciation and accretion rate;
- general and administrative expenses;
- capital expenditures;
- exploration and development drilling program;
- sources of funding, and
- 2008 capital program.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future natural gas commodity prices, future natural gas production levels, the ability to obtain equipment in a timely manner to carry out development activities, the ability to market natural gas successfully to current and new customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to: 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, co-existence with mining operations, 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, variations in exchange rates, and hedging. Further information regarding these factors may be found under the heading "Risk Factors" in the Annual Information Form. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

Certain of the forward-looking statements in this MD&A may constitute "financial outlooks" as contemplated by National Instrument 51-102 Disclosure Obligations, including information related to projected revenues, expenses, capital expenditures and production for 2008, which are provided for the purpose of forecasting the financial position of Corridor at the end of the 2008 financial year. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

## Outlook Information

The outlook sections of this MD&A contain revisions to the outlook information disclosed in the Q2 2008 MD&A dated August 13, 2008, as revised in the September 2008 presentation at the Annual Atlantic Canadian Investment Seminar. Copies of both documents are available on the Company's website at [www.corridor.ca](http://www.corridor.ca). The Q2 2008 MD&A is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Third Quarter Highlights

- During Q3 2008, natural gas production averaged 16.8 mmscfd net to Corridor (including production from penalty wells) with an average natural gas sales price of \$9.94/mscf, resulting in net earnings of \$3,874 thousand and basic and diluted net earnings per share of \$0.044.
- Natural gas revenues for the three months ended September 30, 2008 increased to \$15,391 thousand from \$12,884 thousand for Q3 2007 due to the increase in the average natural gas sales price.
- Net earnings for Q3 2008 increased to \$3,874 thousand from \$1,092 thousand for Q3 2007, reflecting an increase in the revenues and a decrease in the depletion expense.
- During Q3 2008, Corridor completed drilling the McCully I-47, P-67 and N-66 wells (2 net wells) and commenced drilling the South Branch G-36 exploration well (1 net well). Corridor also commenced its 2008 fracture stimulation, completion and testing program for McCully wells during Q3 2008. Once all of the fracturing, testing and tie-in operations have been completed in Q4 2008, Corridor expects seven new wells to initially contribute in the order of 18 to 24 mmscfd of gross new gas production which will add to the current gross production of 22 mmscfd, with Corridor's share of total gross production estimated at approximately 70%. This expected additional production is partially dependant on the successful clean-up and performance of the N-66 and I-47 horizontal wells which will be completed and tested in Q4 2008.

## Q3 2008 Financial Summary

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenues	<b>\$16,253</b>	\$13,603	<b>\$55,619</b>	\$16,431
Royalty expense	<b>(937)</b>	(793)	<b>(3,402)</b>	(1,023)
Production expense	<b>(696)</b>	(539)	<b>(3,074)</b>	(654)
Transportation expense	<b>(2,624)</b>	(2,076)	<b>(8,435)</b>	(2,344)
	<b>11,996</b>	10,195	<b>40,708</b>	12,410
Other Expenses				
Depletion, depreciation and accretion	<b>5,747</b>	6,735	<b>17,104</b>	7,454
General and administrative	<b>1,062</b>	823	<b>3,323</b>	3,389
Stock-based compensation	<b>307</b>	381	<b>1,263</b>	1,232
Capital tax expense	<b>90</b>	150	<b>330</b>	330
	<b>7,206</b>	8,089	<b>22,020</b>	12,405
Earnings before the following items	<b>4,790</b>	2,106	<b>18,688</b>	5
Interest and finance costs	<b>23</b>	1,016	<b>310</b>	1,606
Interest and other income	<b>(799)</b>	(680)	<b>(1,466)</b>	(1,259)
Earnings (loss) before income taxes	<b>5,566</b>	1,770	<b>19,844</b>	(342)
Future income tax expense	<b>1,692</b>	678	<b>6,073</b>	291
Net earnings (loss)	<b>\$3,874</b>	\$1,092	<b>\$13,771</b>	\$(633)

# Results of Operations

## Revenues

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Natural gas	\$15,391	\$12,884	\$53,172	\$15,691
Condensate	190	75	612	96
Natural gas and gas liquids revenues	15,581	12,959	53,784	15,787
Gathering, processing & transportation fees	672	644	1,835	644
	\$16,253	\$13,603	\$55,619	\$16,431

Natural gas revenues increased to \$15,391 thousand in Q3 2008 from \$12,884 thousand in Q3 2007 due to the increase in the average natural gas sales price to \$9.94/mmbtu from \$7.30/mmbtu in Q3 2007. This increase was partially offset by a reduction in the average daily production in Q3 2008 to 16.8 mmscfd from 19.2 mmscfd in Q3 2007 consistent with predicted natural declines from the initial producing wells.

For the nine months ended September 30, 2008, the increase in natural gas revenues to \$53,172 thousand from \$15,691 thousand for the nine months ended September 30, 2007 is also due to the additional production and sale of natural gas resulting from the completion of the midstream facilities connecting the McCully Field to markets throughout the M&NP on June 28, 2007.

Corridor had a total of 21 wells tied-in to the McCully gathering system by the end of September 30, 2008. Two additional wells were temporarily tied-in for a short period of time in the quarter to facilitate production clean-up following fracturing operations. Prior to June 28, 2007, only two wells were producing and connected to a nearby potash mill owned by Corridor's joint venture partner Potash Corporation of Saskatchewan ("PCS").

The strengthening Canadian dollar during Q1 and Q2 2008 negatively impacted Corridor's gas revenues compared to Q1 and Q2 2007 as Corridor's natural gas prices and condensate prices are based on reference prices denominated in U.S. dollars. The U.S. dollar strengthened in Q3 2008 and was comparable to the U.S. dollar in Q3 2007.

Corridor's average daily gas production of 16.8 mmscfd and revenues of \$16,253 thousand in Q3 2008 are consistent with the amounts budgeted for the quarter. During Q3 2008, natural gas revenues were negatively impacted by forward sales of 10,000 mmbtupd at an average sales price of \$US8.82/mmbtu in effect between April 1, 2008 and October 31, 2008.

## Production volumes and pricing

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Total volumes</b>				
Natural gas production (mmscf)	1,548	1,764	5,023	1,957
Condensate production (bbl)	1,718	1,030	5,961	1,337
<b>Daily production averages</b>				
Natural gas production per day (mmscfd)	16.8	19.2	18.3	7.2
Condensate production per day (bblpd)	18.7	11.2	21.8	4.9
<b>Average prices</b>				
Natural gas selling price (\$/mscf)	\$9.94	\$7.30	\$10.59	\$8.02
Condensate selling price (\$/bbl)	\$110.59	\$72.82	\$102.67	\$71.80

## Outlook

Corridor has decreased its 2008 estimate for revenues from \$83 million to \$81 million to reflect lower natural gas sales prices. Corridor has decreased its estimate of the average natural gas sales price from US\$9/mmbtu at Henry Hub to US\$7/mmbtu at Henry Hub but has increased its estimate of the U.S. dollar from \$1USD/CAD to \$1.11USD/CAD. This revenue estimate reflects forward sales to October 31, 2008 of 10,000 mmbtupd at an average sales price of \$US8.82/mmbtu and forward sales of 10,000 mmbtupd from November 1, 2008 to March 31, 2009 at an average sales price of \$US14.95/mmbtu. Corridor maintains its previously estimated average production for 2008 at 20 mmscfd and estimates an exit rate at the end of December 31, 2008 ranging between 35 mmscfd to 40 mmscfd (25 mmscfd to 30 mmscfd net to Corridor).

## Gathering, processing and transportation fees

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Gathering, processing and transportation fees	<b>\$672</b>	\$644	<b>\$1,835</b>	\$644

Corridor owns the midstream facilities which treats and flows gas from the McCully Field to the M&NP. Third party gas flowing through these facilities, which currently is PCS' share of gas from the McCully Field, is charged a cost of service, the terms of which are consistent with recommended practices in the oil and gas industry. The increase in the gathering, processing and transportation fees for the nine months ended September 30, 2008 to \$1,835 thousand from \$644 thousand is due to the the processing of natural gas production through the midstream facilities starting on June 28, 2007.

### Outlook

Corridor maintains its 2008 estimate for gathering, processing and transportation fees from PCS' share of production at approximately \$2.5 million, based on the current estimated production level for 2008.

## Royalty Expense

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Crown royalties	<b>\$937</b>	\$793	<b>\$3,402</b>	\$1,023
Royalty expense per mscf (\$/mscf)	<b>\$0.61</b>	\$0.45	<b>\$0.68</b>	\$0.52
Percentage of natural gas and gas liquids revenues	<b>6.0%</b>	6.1%	<b>6.3%</b>	6.5%

For the three and nine months ended September 30, 2008 Corridor paid a royalty rate of 10% based on revenues, net of deductions for processing and transportation and a recovery of capital costs. The decrease in the effective royalty rate of 2% and 3% for the three and nine months ended September 30, 2008 respectively, is due to the additional allowable deductions for the midstream facilities.

### Outlook

An effective royalty rate of approximately 6.5% remains forecasted for 2008. Corridor believes the structure of the royalty regime could change during 2008 but has not yet incorporated the impact of this potential change. These new regulations are not expected to have a material long-term financial impact.

## Production Expense

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Gross production expense	<b>\$1,132</b>	\$769	<b>\$4,288</b>	\$884
Third party recoveries	<b>(436)</b>	(230)	<b>(1,214)</b>	(230)
Net production expense	<b>\$696</b>	\$539	<b>\$3,074</b>	\$654
Net production expense per mscf (\$/mscf)	<b>\$0.45</b>	\$0.31	<b>\$0.61</b>	\$0.33

Gross production expense for Q3 2008 increased to \$1,132 thousand from \$769 thousand for Q3 2007 due to the start-up of the gas plant compressor in Q4 2007 which significantly increased utilities expense. The increase in gross production expense for the nine months ended September 30, 2008 to \$4,288 thousand from \$884 thousand for the nine months ended September 30, 2007 also reflects the start-up of natural gas production from the McCully Field to the M&NP on June 28, 2007.

The net production expense per mscf was lower in Q3 2008 than the latest forecast of \$0.68/mscf partly because of the reduction in methanol costs. Corridor has installed a methanol regenerator which has significantly reduced this cost as well as the transportation costs to dispose of the waste fluids. The water transportation costs have also decreased as the wells are now producing less frac water.

## Outlook

Corridor has revised its 2008 estimate of production expense per mscf from \$0.68/mscf to \$0.61/mscf for 2008 to reflect the Q3 2008 savings in methanol and transportation costs on the estimated gross production expense for the remainder of 2008.

## Transportation Expense

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Transportation expense	<b>\$2,624</b>	\$2,076	<b>\$8,435</b>	\$2,344
Transportation expense per mscf (\$/mscf)	<b>\$1.70</b>	\$1.18	<b>\$1.68</b>	\$1.20

The Company's transportation expense increased to \$2,624 thousand and \$8,435 thousand for the three and nine months ended September 30, 2008 respectively from \$2,076 thousand and \$2,344 thousand for the three and nine months ended September 30, 2007 respectively, due to an increase in the cost of the Canadian interruptible tolls from 50% to 100% of the firm transportation tolls on M&NP effective March 1, 2008, as well as the expiry on April 1, 2008 of a one year firm transportation commitment for 8,933 mmbtupd at a cost of 40% of firm tolls on M&NP. Corridor currently has a firm transportation agreement expiring April 1, 2011 for the purchase of 12,170 mmbtupd of transportation on the Canadian side of the M&NP at a cost of 90% of firm tolls.

Transportation expense per mscf for the three and nine months ended September 30, 2008 is higher than the latest forecast of \$1.66/mscf because of the recent strengthening of the U.S. dollar.

## Outlook

Corridor has increased its 2008 estimate for transportation expense from \$1.66/mscf to \$1.70/mscf to reflect the recent strengthening of the U.S. dollar.

## Depletion, Depreciation and Accretion

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Depletion, depreciation and accretion	<b>\$5,747</b>	\$6,735	<b>\$17,104</b>	\$7,454
Depletion, depreciation and accretion per mscf (\$/mscf)	<b>\$4.36</b>	\$4.73	<b>\$4.10</b>	\$4.60

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, 2008 due to the increase in Corridor's proved natural gas reserves from 41.3 bscf as at December 31, 2006 to 79.9 bscf as at December 31, 2007.

## Outlook

Corridor's outlook for the depletion, depreciation and accretion rate per mscf for 2008 remains unchanged at approximately \$4.0/mscf, based on the current estimated production level and capital spending for 2008.

## General and Administrative Expenses

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Gross expenses	<b>\$1,257</b>	\$930	<b>\$3,887</b>	\$3,689
Capitalized overhead	<b>(60)</b>	(88)	<b>(406)</b>	(260)
Operator recoveries	<b>(135)</b>	(19)	<b>(158)</b>	(40)
Net expenses	<b>\$1,062</b>	\$823	<b>\$3,323</b>	\$3,389

During the three months ended September 30, 2008, gross general and administration expenses ("G&A") increased to \$1,257 thousand from \$930 thousand during Q3 2007 due to the increased reliance on consultants necessary to help with the Company's exploration activities. During the nine months ended September 30, 2008, gross G&A increased to \$3,887

thousand from \$3,689 thousand for the nine months ended September 30, 2007 for the same reason. However, this increase was lessened by the reclassification of expenses from G&A to production expense after the start-up of production to M&NP in June 2007.

## Outlook

Corridor maintains its estimate for G&A for 2008 at approximately \$4.5 million, consistent with the G&A level for the prior year.

## Interest and Finance Costs

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Interest and finance costs	<b>\$23</b>	\$1,016	<b>\$310</b>	\$1,606

The decrease in interest and finance costs to \$23 thousand and \$310 thousand for the three and nine months ended September 30, 2008 respectively, from \$1,016 thousand and \$1,606 thousand for the three and nine months ended September 30, 2007 respectively, reflects the decrease in the debt level in 2008 and the decrease in the amortization of debt issue costs which expired in 2007.

## Future Income Taxes

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Future income tax expense	<b>\$1,692</b>	\$678	<b>\$6,073</b>	\$291
Effective tax rate	<b>30.3%</b>	38.3%	<b>30.6%</b>	(85.1)%
Canadian statutory income tax rate	<b>33.3%</b>	35.3%	<b>33.3%</b>	35.3%

The Company's effective tax rate for Q3 2008 is lower than Q3 2007 due to the decrease in the Canadian statutory income tax rate in 2008. The Company's effective tax rate for the nine months ended September 30, 2007 was impacted by the stock-based compensation expense which is non-deductible for income tax purposes and offset the Company's loss before income taxes in that period.

## Capital Expenditures

<i>thousands of dollars</i>	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Drilling	<b>\$12,702</b>	\$15,558	<b>\$37,302</b>	\$37,908
Fracture stimulation programs	<b>10,828</b>	8,190	<b>15,020</b>	8,195
Midstream facilities and tie-ins	<b>2,182</b>	2,274	<b>5,529</b>	37,992
Land and seismic	<b>522</b>	88	<b>645</b>	552
Capitalized overhead	<b>135</b>	88	<b>406</b>	260
Office and other equipment	<b>269</b>	196	<b>422</b>	513
	<b>\$26,638</b>	\$26,394	<b>\$59,324</b>	\$85,420

The capital expenditures of \$26,638 thousand for Q3 2008 are consistent with the capital expenditures of \$26,394 thousand for Q3 2007. For the nine months ended September 30, 2008 capital expenditures decreased to \$59,324 thousand from \$85,420 for the nine months ended September 30, 2007 primarily due to expenditures associated with the midstream facilities as the construction of the facilities was completed in June 2007.

In Q3 2008, Corridor completed drilling the I-47 well, P-67 well and N-66 wells (2 net wells) and began drilling the G-36 well (100% Corridor). In Q3 2007, Corridor completed drilling the J-38, H-76 and GG #3 wells (3 net wells) and began drilling the J-76 and NH#1 wells (2 net wells). The decrease in drilling costs for Q3 2008 to \$12,702 thousand from \$15,558 thousand in Q3 2007 reflects savings in drilling costs and the different stages of completion for the wells in progress.

Drilling costs for the nine months ended September 30 2008 are consistent with the nine months ended September 30, 2007. The decrease in the number of net wells drilled to 7 net wells from 8.5 net wells for the nine months ended September 30, 2007 reflects the drilling of longer reach and horizontal wells in 2008 at increased drilling days.

### Capital Expenditures Outlook

Corridor's capital expenditure program for 2008 has been reduced from \$90.8 million to \$81.6 million to preserve capital during the current economic downturn. The net decrease in the capital expenditure program reflects the following material changes:

- Postponement of the drilling and tie-in to the gathering system of the C-29 well, for a reduction of \$6.6 million;
- Elimination of one of the three planned shale gas evaluation wells and instead deepen the South Branch G-36 exploration well to evaluate the characteristics and natural gas potential of the Frederick Brook shale at that location, including the cutting of full diameter cores, for a net reduction of \$2.9 million;
- Elimination of one of the three planned shale gas evaluation wells with a core hole at Mapleton, for a reduction of \$2 million; and
- Increase in the 3-D Seismic program over East McCully for an increase in costs of \$2.4 million.

The revised 2008 capital program excludes approximately \$7 million of expenditures remaining from the 2007 capital program incurred in the nine months ended September 30, 2008.

The revised 2008 capital program can be summarized as follows:

*millions of dollars*

• Complete drilling and evaluation of E-67 deep test	\$6.0
• Drill and case six new development wells	27.9
• Drill and evaluate South Branch G-36 exploration well	5.0
• Fracture and test new wells	21.8
• Tie-in new production wells	4.2
• Sally's Brook and Salt Springs core holes	1.2
• Drill 2 vertical shale gas appraisal wells and frac one	7.3
• Drill a joint horizontal development well in McCully	3.3
• 3-D Seismic over East McCully	2.7
• Gas Plant Maintenance and Other Corporate Assets	2.2
• Revised 2008 Capital Program	\$81.6

## Balance Sheet Items

Significant changes between the September 30, 2008 balance sheet and the December 31, 2007 balance sheet include:

- \$25,120 thousand increase in cash and cash equivalents reflecting mostly the net proceeds of approximately \$52 million from the June 2008 equity financing net of the repayment of the outstanding bank loan.
- \$42,752 thousand increase in property, plant and equipment reflecting the capital expenditure spending.
- \$3,061 thousand decrease in accounts payable and accrued liabilities reflecting mostly the payment of the 2007 frac program amounts payable.
- \$4,028 thousand decrease in advances from joint venture partners reflecting the drawdown of the previously received cash advances with the spending on the joint venture projects.
- \$10,917 thousand increase in future income taxes reflecting the increased earnings before taxes and the tax impact from the renunciation in January 2008 of \$20 million in exploration expenditures net of the tax impact on the share issue costs.
- \$47,732 thousand increase in capital stock reflecting the June 2008 common share issue.

## Cash Flow Highlights

	Three months ended September 30		Nine months ended September 30	
<i>thousands of dollars</i>	2008	2007	2008	2007
Cash provided by operating activities	<b>\$11,081</b>	\$6,153	<b>\$36,793</b>	\$6,662
Cash provided by financing activities	<b>162</b>	20,950	<b>52,374</b>	100,455
Cash used in investing activities	<b>(12,706)</b>	(24,557)	<b>(64,047)</b>	(81,731)
Increase (decrease) in cash and cash equivalents	<b>\$(1,463)</b>	\$2,546	<b>\$25,120</b>	\$25,386

The increase in cash provided by operating activities for the three and nine months ended September 30, 2008 compared to three and nine months ended September 30, 2007 reflects the increase in natural gas revenues reduced by the increase in royalty, production and transportation expenses.

The decrease in cash provided by financing activities in Q3 2008 and for the year to date reflects primarily a decrease in the bank loan receipts compared to the three and nine months ended September 30, 2007. The cash provided by financing activities has also decreased for the nine months ended September 30, 2008 because the net proceeds received from the June 2008 equity financing were lower than the net proceeds received from the June 2007 equity financing.

The decrease in the cash used in investing activities for Q3 2008 is due to the timing of the payment of the Q3 2008 capital expenditures which are consistent with the capital expenditures in Q3 2007. The decrease for the nine months ended September 30, 2008 reflects a decrease in capital expenditures as the construction of the midstream facilities was completed in June 2007.

## Outstanding Share Information

As of October 31, 2008 the outstanding share information was as follows:

Common shares outstanding	<b>87,629,634</b>
Stock options to purchase common shares	<b>1,601,500</b>
Total common shares outstanding after exercise of all stock options	<b>89,231,134</b>

<i>thousands of dollars</i>	
Total proceeds due on exercise of all stock options	<b>\$8,573</b>

## Liquidity and Capital Resources

During Q2 2008, Corridor renewed its \$40 million revolving short term credit facility with a Canadian chartered bank. The principal amount outstanding from time to time under the loan now bears interest at the lender's prime rate plus 0.25% per annum, with interest payable monthly. The credit facility will now mature, subject to mutual agreement to extend, on June 28, 2009. The loan is subject to customary terms and conditions for borrowings of this nature and is secured by the Company's property, plant and equipment. The Company is in compliance with all material terms of the agreements governing the loan. Corridor does not intend to access this credit facility in 2008 consistent with the Company's revised 2008 capital program.

The Company has sufficient financial resources to undertake its budgeted exploration and development drilling program for 2008 with the net proceeds from the June 2008 equity financing and cash flow from operations. Future additional drilling and completion activities are planned to be financed with a combination of cash flow from operations, access to the credit facility and additional equity financings, if necessary.

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

## Related Party Transactions

A director of Corridor is a partner in a law firm that provides legal services which amounted to \$nil and \$175 thousand for the three and nine months ended September 30, 2008 (\$nil and \$180 thousand for the three and nine months ended September 30, 2007). The amounts paid are recorded at the exchange amount agreed to between the parties and approximate fair value.

## Summary of Quarterly Information

<i>thousand of dollars, except per share amounts and average natural gas price</i>	2008			2007			2006	
	Three months ended			Three months ended			Four months ended	
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
Natural gas revenues	<b>\$15,391</b>	\$18,466	\$19,316	\$15,586	<b>\$12,884</b>	\$1,527	\$1,280	\$1,693
Net earnings (loss)	<b>\$3,874</b>	\$3,816	\$6,081	\$4,682	<b>\$1,092</b>	\$(900)	\$(825)	\$(268)
Net earnings (loss) per share – basic	<b>\$0.044</b>	\$0.046	\$0.074	\$0.057	<b>\$0.013</b>	\$(0.011)	\$(0.011)	\$(0.004)
per share – diluted	<b>\$0.044</b>	\$0.045	\$0.073	\$0.056	<b>\$0.013</b>	\$(0.011)	\$(0.011)	\$(0.004)
Natural gas production (mmscf)	<b>1,548</b>	1,683	1,792	1,759	<b>1,764</b>	110	83	110
Average natural gas price (\$/mscf)	<b>\$9.94</b>	\$10.97	\$10.78	\$8.86	<b>\$7.30</b>	\$13.88	\$15.41	\$15.42
Capital expenditures	<b>\$26,638</b>	\$14,704	\$17,982	\$27,728	<b>\$26,394</b>	\$25,050	\$33,976	\$29,939

## Changes in Accounting Policies

In 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”, which replaced Section 3861 “Financial Instruments – Disclosure and Presentation”. These new standards required enhanced disclosure to assist users of the financial statements in evaluating the significance of financial instruments on the Company’s financial position and performance and include qualitative and quantitative information about the exposure to risks arising from financial instruments. The new standards apply to interim and annual financial statements beginning on or after October 31, 2007.

In 2006, the CICA issued Section 1535 “Capital Disclosures” which required disclosure of objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements. The new standards applied to interim and annual financial statements beginning on or after October 31, 2007.

### Future accounting policy changes

In February 2008, the CICA announced that GAAP for publicly accountable enterprises would be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011 with comparative information required for the previous fiscal year. The Company is currently assessing the financial reporting impact of the transition to IFRS.

## Business Conditions and Risks

The following business conditions and risk factors should not be construed as exhaustive. There are numerous factors both known and unknown, that could cause actual results or events to differ materially from forecast results. Additional risk factors are included in the Annual Information Form and include substantial capital requirements, bank financing, government regulation, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates, and hedging.

## **Risks Associated with Oil and Gas Exploration**

There can be no assurance that commercial quantities of hydrocarbons will be recovered by Corridor in the future. Natural gas and oil exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. In addition, hazards such as unusual or unexpected formations, pressures or other conditions are involved in drilling and operating wells.

The Company currently has a number of specific identified exploration and development prospects. Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and their past practices. The long term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation.

## **Financial Risks**

In 2007 and into 2008, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, subprime and non-prime mortgages) and a decline in credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions continued and worsened in 2008, causing a loss of confidence in the broader U.S. and global credit and financial markets; resulting in the collapse of and intervention in major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions. As a result, certain companies have had, and may continue to have, limited access to capital and credit. These disruptions could, among other things, make it more difficult for Corridor to obtain, or increase its cost of obtaining, capital and financing for its operations. Access to additional capital may not be available on terms acceptable to Corridor or at all.

Corridor currently has a \$40 million revolving short term loan with a Canadian chartered bank that matures, subject to mutual agreement to extend, on June 28, 2009. The Company has sufficient financial resources to undertake all of its planned exploration and development programs for the 2008 year without accessing the credit facility consistent with the Company's revised 2008 capital program. While the Company has not yet finalized its 2009 capital program, it does not anticipate that capital expenditures in 2009 will exceed anticipated cash available from operations during this period.

## **Environmental**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

## **Prices, Markets and Marketing**

The marketability and price of oil and natural gas will be affected by numerous factors beyond the Company's control. The ability to market natural gas may depend upon the Company's ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Company's revenues, profitability and future growth and the carrying value of its properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company.

## **Risks May Not be Insurable**

The Company's operations are subject to the risks normally incident to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs and fires, all of which could result in personal injuries, loss of life and damage to property of Corridor and others. In accordance with customary industry practice, Corridor is not fully insured against all of these risks, nor are all such risks insurable. Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The Company expects it will be able to fully comply with all regulatory requirements in this regard.

## **Contingencies**

Under flow-through share renunciation agreements, the Canada Revenue Agency ("CRA") has the right to audit the renunciations made by the Company 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.

During the period, the Company filed a claim for Scientific Research and Experimental Development ("SRED") income tax credits related to the fiscal year ended August 31, 2006. The claim is subject to audit and there is a risk that the CRA could conclude that some or all of the expenditures were not incurred on SRED activities and, therefore, could reduce or disallow the claim. Due to this uncertainty, the Company has not recognized the related SRED income tax credits.

During Q2 2008, Corridor discovered that approximately 200,000 mmbtu of its net natural gas production since October 25, 2007 was delivered into the pipeline transportation system without being appropriately measured by the custody transfer meter and recognized in the Company's records. Corridor is currently in discussions with the transportation company to reach an agreement on the settlement for these deliveries. Corridor has not recognized any amount relating to this natural gas production as the amount is not determinable at this time.

# Statements of Earnings, Comprehensive Income and Retained Earnings (Unaudited)

(thousands of dollars, except per share amounts)

For the	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenues	\$ 16,253	\$ 13,603	\$ 55,619	\$ 16,431
Royalty expense	(937)	(793)	(3,402)	(1,023)
Production expense	(696)	(539)	(3,074)	(654)
Transportation expense	(2,624)	(2,076)	(8,435)	(2,344)
	<b>11,996</b>	10,195	<b>40,708</b>	12,410
Other Expenses				
Depletion, depreciation and accretion	5,747	6,735	17,104	7,454
General and administrative (note 6)	1,062	823	3,323	3,389
Stock-based compensation (note 7c)	307	381	1,263	1,232
Capital tax expense	90	150	330	330
	<b>7,206</b>	8,089	<b>22,020</b>	12,405
Earnings before the following items	<b>4,790</b>	2,106	<b>18,688</b>	5
Interest and finance costs (note 3)	23	1,016	310	1,606
Interest and other income	(799)	(680)	(1,466)	(1,259)
Earnings (loss) before income taxes	<b>5,566</b>	1,770	<b>19,844</b>	(342)
Future income tax expense (note 5)	<b>1,692</b>	678	<b>6,073</b>	291
Net earnings (loss), being comprehensive income (loss)	<b>3,874</b>	1,092	<b>13,771</b>	(633)
Retained earnings (deficit), beginning of period	<b>8,568</b>	(7,103)	<b>(1,329)</b>	(5,378)
Retained earnings (deficit), end of period	<b>\$ 12,442</b>	\$ (6,011)	<b>\$ 12,442</b>	\$ (6,011)
Net earnings (loss) per share (note 4)				
Basic	<b>\$ 0.044</b>	\$ 0.013	<b>\$ 0.163</b>	\$ (0.008)
Diluted	<b>\$ 0.044</b>	\$ 0.013	<b>\$ 0.162</b>	\$ (0.008)

See accompanying notes to the interim unaudited financial statements.

# Balance Sheets

(thousands of dollars)

As at	<b>September 30 2008</b>	December 31 2007
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	<b>\$ 39,499</b>	\$ 14,379
Restricted cash	<b>350</b>	1,800
Receivables	<b>8,591</b>	8,338
Receivables from joint venture partners	<b>8</b>	4
Prepays and security deposits	<b>277</b>	332
	<b>48,725</b>	24,853
Property, plant and equipment ( <i>note 6</i> )	<b>256,706</b>	213,954
Restricted cash and security deposits	<b>1,380</b>	1,380
	<b>\$ 306,811</b>	\$ 240,187
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<b>\$ 20,617</b>	\$ 23,678
Advances from joint venture partners	<b>3,662</b>	7,690
Capital taxes payable	<b>15</b>	96
	<b>24,294</b>	31,464
Future income taxes	<b>17,774</b>	6,857
Asset retirement obligations	<b>1,756</b>	1,443
	<b>43,824</b>	39,764
<b>Shareholders' Equity</b>		
Capital stock ( <i>note 7</i> )	<b>246,401</b>	198,669
Contributed surplus ( <i>note 7d</i> )	<b>4,144</b>	3,083
Retained earnings (deficit)	<b>12,442</b>	(1,329)
	<b>262,987</b>	200,423
	<b>\$ 306,811</b>	\$ 240,187

*See accompanying notes to the interim unaudited financial statements.*

Contingencies (*note 12*)

On behalf of the Board

Signed "Norman W. Miller" Director

Signed "Robert D. Penner" Director

# Statements of Cash Flows (Unaudited)

(thousands of dollars)

For the	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Operating Activities</b>				
Net earnings (loss)	\$ 3,874	\$ 1,092	\$ 13,771	\$ (633)
Depletion, depreciation and accretion	5,747	6,735	17,104	7,454
Stock-based compensation	307	381	1,263	1,232
Future income tax expense	1,692	678	6,073	291
Amortization of debt issue costs	-	128	-	345
	<b>11,620</b>	9,014	<b>38,211</b>	8,689
Decrease in non-cash operating working capital (note 8)	(539)	(2,861)	(1,418)	(2,027)
Cash provided by operating activities	<b>11,081</b>	6,153	<b>36,793</b>	6,662
<b>Financing Activities</b>				
Proceeds from capital stock issues	-	-	55,546	66,502
Increase in bank loan (note 9)	-	21,000	-	37,650
Share issue costs	162	(44)	(3,172)	(3,622)
Other financing activities	-	(6)	-	(75)
Cash provided by financing activities	<b>162</b>	20,950	<b>52,374</b>	100,455
<b>Investing Activities</b>				
Property, plant and equipment expenditures	(26,638)	(26,394)	(59,324)	(85,420)
Decrease (increase) in restricted cash and security deposits	-	(250)	1,450	(2,800)
Increase (decrease) in non-cash investing working capital (note 8)	13,932	2,087	(6,173)	6,489
Cash used in investing activities	<b>(12,706)</b>	(24,557)	<b>(64,047)</b>	(81,731)
Increase (decrease) in cash and cash equivalents	<b>(1,463)</b>	2,546	<b>25,120</b>	25,386
Cash and cash equivalents, beginning of period	<b>40,962</b>	59,809	<b>14,379</b>	36,969
Cash and cash equivalents, end of period	<b>\$ 39,499</b>	\$ 62,355	<b>\$ 39,499</b>	\$ 62,355
Cash and cash equivalents consists of:				
Cash	\$ 2,557	\$ 13,955	\$ 2,557	\$ 13,955
Short-term investments	<b>36,942</b>	48,400	<b>36,942</b>	48,400
Cash and cash equivalents, end of period	<b>\$ 39,499</b>	\$ 62,355	<b>\$ 39,499</b>	\$ 62,355

See accompanying notes to the interim unaudited financial statements.

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 1 Basis of presentation

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

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 year ended December 31, 2007, 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 year ended December 31, 2007.

### 2 Changes in accounting policies

In 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”, which replaced Section 3861 “Financial Instruments – Disclosure and Presentation”. These new standards required enhanced disclosure to assist users of the financial statements in evaluating the significance of financial instruments on the Company’s financial position and performance, and include qualitative and quantitative information about the exposure to risks arising from financial instruments.

In 2006, the CICA issued Section 1535 “Capital Disclosures” which required disclosure of objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements.

The new standards applied to interim and annual financial statements beginning on or after October 31, 2007 and are disclosed in note 10.

### 3 Interest and finance costs

Interest and finance costs consist of the following:

*(thousands of dollars)*

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Interest expense	\$ 23	\$ 656	\$ 310	\$ 1,029
Foreign exchange losses	-	232	-	232
Amortization of debt issue costs	-	128	-	345
	<b>\$ 23</b>	<b>\$ 1,016</b>	<b>\$ 310</b>	<b>\$ 1,606</b>

### 4 Earnings per share

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

*(thousands of shares)*

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Weighted average number of common shares	<b>87,629</b>	81,922	<b>84,497</b>	78,777
Effect of stock options	<b>251</b>	1,320	<b>464</b>	1,311
Diluted weighted average	<b>87,880</b>	83,242	<b>84,961</b>	80,088

For the three and nine months ended September 30, 2008 stock options of 232 thousand and 366 thousand respectively (three and nine months ended September 30, 2007 – nil) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 5 Future income taxes

The provision for income taxes differs from the amount which would be obtained by applying the Canadian statutory income tax rates to the earnings (loss) before income taxes as follows:

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Earnings (loss) before income taxes	\$ 5,566	\$ 1,770	\$ 19,844	\$ (342)
Canadian statutory income tax rate	33%	35%	33%	35%
Expected income tax expense (recovery)	\$ 1,851	\$ 620	\$ 6,598	\$ (120)
Increase (decrease) resulting from:				
Non-deductible stock-based compensation	103	133	420	431
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	(264)	(87)	(950)	(36)
Other	2	12	5	16
	\$ 1,692	\$ 678	\$ 6,073	\$ 291

### 6 Property, plant and equipment

(thousands of dollars)

September 30, 2008	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 211,391	\$ 25,318	\$ 186,073
Production facilities	74,583	7,957	66,626
Inventory	1,601	-	1,601
Future asset retirement costs	1,502	192	1,310
Office furniture and other equipment	1,567	471	1,096
	\$ 290,644	\$ 33,938	\$ 256,706

(thousands of dollars)

December 31, 2007	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 158,019	\$ 12,185	\$ 145,834
Production facilities	69,054	4,318	64,736
Inventory	1,382	-	1,382
Future asset retirement costs	1,286	124	1,162
Office furniture and other equipment	1,145	305	840
	\$ 230,886	\$ 16,932	\$ 213,954

For the three and nine months ended September 30, 2008, Corridor capitalized to petroleum and natural gas properties general and administrative costs of \$135 thousand and \$406 thousand respectively (three and nine months ended September 30, 2007 - \$88 thousand and \$260 thousand). The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$71 million for the three and nine months ended September 30, 2008 (\$nil for the three and nine months ended September 30, 2007).

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 7 Capital stock

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

b) **Issued and outstanding**

*(thousands of dollars and thousands of shares)*

	September 30, 2008		December 31, 2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	82,612	\$ 198,669	76,051	\$ 135,083
Issue of common shares for cash	3,800	40,280	4,071	46,002
Issue of flow-through shares for cash	1,150	14,950	1,400	20,020
Exercise of stock options for cash and amount recognized from contributed surplus	67	316	1,090	1,679
Tax impact of flow-through renunciation	-	(5,756)	-	(1,920)
Share issue costs net of tax benefit	-	(2,260)	-	(2,511)
<b>Balance, end of period</b>	<b>87,629</b>	<b>\$ 246,401</b>	<b>82,612</b>	<b>\$ 198,669</b>

On June 1, 2007, Corridor issued flow-through shares which resulted in an obligation to incur \$20,020 thousand on qualifying expenditures prior to December 31, 2008. The related exploration expenditures were renounced in January, 2008. At September 30, 2008, there was no remaining obligation to incur (December 31, 2007 - \$15,643 thousand).

On June 20, 2008, Corridor issued flow-through shares which resulted in an obligation to incur \$14,950 thousand on qualifying expenditures prior to December 31, 2009. At September 30, 2008, \$3,311 thousand of expenditures had been incurred.

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 8,262,513 common shares with no more than 5% being issued to any one officer, director or employee. The exercise price of each option is based on the market price for the common share on the close of the day prior to 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. Participants of the stock option plan can elect to surrender any vested option in exchange for a cash payment based on the difference between the market value of the common share and the exercise price of the option. The Board of Directors has the sole discretion to consent or disapprove of this election.

The following table summarizes the information relating to stock options:

	September 30, 2008		December 31, 2007	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Balance, beginning of period	1,370	\$ 4.54	2,550	\$ 3.28
Exercised	(67)	\$ 4.71	(1,090)	\$ 1.54
Forfeited	(42)	\$ 5.63	(100)	\$ 5.50
Granted	341	\$ 8.51	10	\$ 9.70
<b>Balance, end of period</b>	<b>1,602</b>	<b>\$ 5.35</b>	<b>1,370</b>	<b>\$ 4.54</b>
<b>Options exercisable, end of period</b>	<b>1,028</b>	<b>\$ 4.63</b>	<b>770</b>	<b>\$ 4.19</b>

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 7 Capital stock (continued)

The range of exercise prices of stock options outstanding and exercisable as at September 30, 2008 is as follows:

Exercise prices	Number of options outstanding (000's)	Number of options exercisable (000's)	Weighted average remaining term (years)
\$ 0.95 - \$ 1.00	138	138	0.8
\$ 4.00 - \$ 4.99	615	452	2.3
\$ 5.00 - \$ 5.99	508	378	2.8
\$ 6.00 - \$ 6.99	109	2	4.5
\$ 7.00 - \$10.99	232	58	4.6
	1,602	1,028	2.8

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

	September 30, 2008	December 31, 2007
Weighted average fair value of options granted	\$ 8.51	\$ 9.70
Risk-free interest rate	4%	4%
Expected life (years)	3.0	3.0
Expected volatility	60%	100%

For the three and nine months ended September 30, 2008, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of \$307 thousand and \$1,263 thousand respectively (three and nine months ended September 30, 2007 - \$381 thousand and \$1,232 thousand).

#### d) Contributed surplus

(thousands of dollars)

	September 30, 2008	December 31, 2007
Balance, beginning of period	\$ 3,083	\$ 1,765
Stock-based compensation expense	1,263	1,634
Stock options exercised	(202)	(316)
Balance, end of period	\$ 4,144	\$ 3,083

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 8 Supplemental cash flow information

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Increase (decrease) in non-cash operating working capital:				
Receivables	\$ 147	\$ (2,634)	\$ (299)	\$ (2,973)
Prepays and security deposits	162	(161)	55	154
Accounts payable and accrued liabilities	(827)	(135)	(1,093)	703
Capital taxes payable	(21)	69	(81)	89
	<b>\$ (539)</b>	<b>\$ (2,861)</b>	<b>\$ (1,418)</b>	<b>\$ (2,027)</b>
Increase (decrease) in non-cash investing working capital:				
Receivables	\$ (1,789)	\$ 694	\$ 46	\$ 1,348
Inventory	685	796	(219)	(1,412)
Advances from joint venture partners	2,207	(2,826)	(4,032)	(1,468)
Accounts payable and accrued liabilities	12,829	3,423	(1,968)	8,021
	<b>\$ 13,932</b>	<b>\$ 2,087</b>	<b>\$ (6,173)</b>	<b>\$ 6,489</b>
Interest and taxes paid:				
Interest paid	\$ 22	\$ 614	\$ 310	\$ 959
Capital and other taxes paid	\$ 111	\$ 84	\$ 410	\$ 274

### 9 Bank loan

During the period, Corridor renewed its \$40 million revolving short term credit facility with a Canadian chartered bank. The interest rate on the loan is now based on the bank's prime rate plus 0.25% and the credit facility expires, subject to mutual agreement to extend, on June 28, 2009. Outstanding bank loans will be secured by a \$50 million demand debenture on the Company's property, plant and equipment. At September 30, 2008, there is no outstanding bank loan.

### 10 Financial instruments and risk management

#### a) The Company has the following financial instruments:

##### i) Held for trading

The carrying values of cash and cash equivalents and restricted cash are marked-to-market through net earnings at each reporting period end. The carrying values approximate their fair values because of their short term to maturity.

##### ii) Loans and receivables

The carrying values of 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 which generally corresponds to cost.

##### iii) 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, 2008. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost.

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 10 Financial instruments and risk management (continued)

#### b) The Company is exposed to the following risks:

##### i) Commodity price risk

The Company is exposed to risks from fluctuations in the natural gas sales prices. During the period, the Company did not have any derivative financial instruments in place to manage this risk. However, with the Board of Directors' approval, Corridor entered into forward sale commitments, in limited quantities and at fixed prices, to mitigate the commodity price risk. The Company does not use derivative financial instruments for speculative purposes. For the three and nine months ended September 30, 2008, a one dollar decrease in natural gas prices would have resulted in a decrease of \$1.0 million and \$3.2 million respectively in the Company's net earnings.

##### ii) Foreign currency risk

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. Natural gas prices, condensate prices and transportation expenses are based upon reference prices denominated in U.S. dollars while the Company's remaining expenses are denominated in Canadian dollars. The Company does not have any derivative financial instruments in place to manage this risk.

The Company also had the following financial instruments denominated in U.S. dollars at the balance sheet date.

*(thousands of U.S. dollars)*

	September 30, 2008	December 31, 2007
Cash	\$ 6,559	\$ 6,394
Accounts receivable	4,109	6,288
Financial instruments in U.S. dollars	\$ 10,668	\$ 12,682

For the three and nine months ended September 30, 2008, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of \$0.8 million and \$2.8 million respectively in the Company's net earnings.

##### iii) Interest rate risk

During the period, the Company was exposed to risks from fluctuations in interest rates on the bank loan. The interest rate on the bank loan is based on the bank's prime rate plus 0.25%. Increases in market interest rates would not have materially impacted interest expense during the period based on the Company's current debt levels.

##### iv) Credit risk

Corridor sells all of its production to one large 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. Management believes credit risk on these amounts is low and has not made any provision for an allowance for bad debts.

The cash equivalents consist mainly of guaranteed investment certificates held with reputable financial institutions. None of the cash equivalents are in asset backed commercial paper products. Management believes the risk of loss is low.

##### v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2008, the Company was holding cash and equivalents of \$39,499 thousand and had \$40 million available from its revolving credit facility. The Company's accounts payable and accrued liabilities are all due within 30 days of the balance sheet date. The contractual maturities of other long-term liabilities and commitments were presented in the Company's December 31, 2007 audited financial statements. Given the Company's available liquid resources, management expects to have sufficient available funds to meet the current and foreseeable financial contractual obligations.

# Notes to the Interim Unaudited Financial Statements

## September 30, 2008

### 10 Financial instruments and risk management (continued)

#### c) Management of Capital

Management's objective when managing capital is to provide an adequate return to its shareholders and to safeguard the Company's ability to obtain financing and have access to capital. In the management of capital, the Company includes shareholders' equity, bank loan as well as cash and cash equivalents.

To facilitate the management of its capital structure the Company prepares annual expenditure and operating budgets that are updated as necessary depending on success factors, industry conditions and operating cash flow. These annual and updated budgets are approved by the Board of Directors. Corridor has the ability to adjust its capital structure by making modifications to its capital expenditure program or by issuing new equity. To maximize ongoing development and exploration activities, the Company will not pay out dividends during the year.

### 11 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, 2008, legal expenses of \$nil and \$90 thousand are included in general and administrative expenses (three and nine months ended September 30, 2007 – \$nil and \$108 thousand) and share issue costs of \$85 thousand are included in capital stock as at September 30, 2008. At September 30, 2008, no amount was included in accounts payable and accrued liabilities (December 31, 2007 - \$73 thousand). The amounts paid are recorded at the amount agreed to between the parties and approximate fair value.

### 12 Contingencies

The Company has been audited by the Canada Revenue Agency ("CRA") for the taxation years from August 31, 2001 to December 31, 2006 in connection with the renunciation under flow-through share agreements of \$27,784 thousand of exploration expenditures 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.

The Company filed a claim for Scientific Research and Experimental Development ("SRED") income tax credits related to the fiscal year ended August 31, 2006. The claim is subject to audit and there is a risk that the CRA could conclude that some or all of the expenditures were not incurred on SRED activities and, therefore, could reduce or disallow the claim. Due to this uncertainty, the Company has not recognized the related SRED income tax credits.

During the period, Corridor discovered that approximately 200,000 mmbtu of its net natural gas production since October 25, 2007 was delivered into the pipeline transportation system without being appropriately measured by the custody transfer meter and recognized in the Company's records. Corridor is currently in discussions with the transportation company to reach an agreement on the settlement for these deliveries. Corridor has not recognized any amount relating to this natural gas production as the amount is not determinable at this time.

# 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.ca](mailto:nmiller@corridor.ca)  
Website [www.corridor.ca](http://www.corridor.ca)

## Stock Exchange

TSX – CDH

## Directors and Officers

J. Douglas Foster	Chairman and Director
Norman W. Miller	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

## 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 Ltd.  
Calgary, Alberta

## Share Capital

Shares Authorized – Unlimited number of common shares  
Common shares issued as of October 31, 2008 – 87,629,634