



## Second Quarter 2010 Management's Discussion and Analysis

As of August 12, 2010

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the three and six months ended June 30, 2010 should be read in conjunction with Corridor's unaudited financial statements and notes thereto for the three and six months ended June 30, 2010 and audited financial statements and notes thereto for the year ended December 31, 2009.

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, 2009 (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 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 natural gas reserves in the McCully Field near Sussex, New Brunswick, and discovered crude oil reserves in the Caledonia Field, near Sussex, New Brunswick in 2008. In addition, the Company has contingent resources in Elgin, 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. Cash flow from operations represents net earnings adjusted for non-cash items including depletion, depreciation and amortization, future income taxes, stock-based compensation and other non-cash expenditures.

### Selected Financial Information

<i>thousands of dollars except per share amounts</i>	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Revenues	<b>\$6,575</b>	\$7,887	<b>\$16,223</b>	\$31,699
Net earnings (loss)	<b>\$(2,227)</b>	\$118	<b>\$(2,922)</b>	\$6,934
Net earnings (loss) per share - basic	<b>\$(0.025)</b>	\$0.001	<b>\$(0.033)</b>	\$0.079
Net earnings (loss) per share - diluted	<b>\$(0.025)</b>	\$0.001	<b>\$(0.033)</b>	\$0.079
Cash flow from operations <sup>(1)</sup>	<b>\$2,846</b>	\$3,217	<b>\$8,174</b>	\$20,350
Capital expenditures	<b>\$7,771</b>	\$2,957	<b>\$12,769</b>	\$22,757
Total assets	<b>\$297,818</b>	\$306,603	<b>\$297,818</b>	\$306,603

<sup>1</sup>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;
- resources and development of resources;
- Canadian – U.S. dollar exchange rate;
- natural gas prices;
- gathering, processing and transportation fees;
- royalty rates and expense;
- production expense;
- transportation expense;
- depletion, depreciation, amortization and accretion rate;
- general and administrative expenses;
- capital expenditures;
- exploration and development drilling program;
- cash flow from operations;
- sources of funding;
- 2010 capital program;
- level of bank debt, and
- impact of IFRS on Corridor.

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 and oil commodity prices, exchange rates, 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, third party risk, 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 2010, which are provided for the purpose of forecasting the financial position of Corridor at the end of the 2010 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 First Quarter 2010 MD&A dated May 12, 2010 which is available on the Company's website at [www.corridor.ca](http://www.corridor.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## Q2 2010 Financial Summary

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenues	<b>\$6,575</b>	\$7,887	<b>\$16,223</b>	\$31,699
Royalty expense	<b>(29)</b>	(106)	<b>(321)</b>	(1,603)
Production expense	<b>(802)</b>	(652)	<b>(1,721)</b>	(1,642)
Transportation expense	<b>(1,727)</b>	(2,467)	<b>(3,564)</b>	(5,621)
	<b>4,017</b>	4,662	<b>10,617</b>	22,833
Other Expenses				
Depletion, depreciation, amortization and accretion	<b>5,619</b>	6,523	<b>11,641</b>	13,678
General and administrative	<b>1,206</b>	1,266	<b>2,332</b>	2,504
Stock-based compensation	<b>154</b>	165	<b>314</b>	457
Capital tax expense	<b>45</b>	30	<b>117</b>	60
	<b>7,024</b>	7,984	<b>14,404</b>	16,699
Earnings (loss) before the following items	<b>(3,007)</b>	(3,322)	<b>(3,787)</b>	6,134
Interest and finance costs	<b>51</b>	42	<b>106</b>	68
Foreign exchange losses (gains)	<b>(95)</b>	463	<b>(38)</b>	408
Interest and other income	<b>(13)</b>	(356)	<b>(30)</b>	(557)
Earnings (loss) before income taxes	<b>(2,950)</b>	(3,471)	<b>(3,825)</b>	6,215
Future income tax recovery	<b>(723)</b>	(3,589)	<b>(903)</b>	(719)
Net earnings (loss)	<b>\$(2,227)</b>	\$118	<b>\$(2,922)</b>	\$6,934

## Second Quarter Highlights

- During Q2 2010, natural gas production averaged 13.6 mmscfpd net to Corridor (including production from penalty wells) with an average natural gas sales price of \$4.95/mscf, resulting in a net loss of \$2,227 thousand and basic and diluted net loss per share of \$0.025.
- Natural gas revenues for Q2 2010 decreased to \$6,141 thousand from \$7,164 thousand for Q2 2009 due to the decrease in production from 15.9 mmscfpd in Q2 2009 to 13.6 mmscfpd in Q2 2010, partly as a result of the decreased drilling activities in 2009 and 2010 in response to the downturn in the economy and lower natural gas prices and partly as a result of the lower than expected production from the L-37 well drilled in Q2 2010. The average natural gas sales price increased slightly from \$4.94/mscf in Q2 2009 to \$4.95/mscf in Q2 2010.
- Net earnings for Q2 2010 decreased to a net loss of \$2,227 thousand from net earnings of \$118 thousand for Q2 2009 reflecting mostly a future income tax recovery of \$2,640 thousand in Q2 2009 following a decrease in New Brunswick's corporate income tax rates. The decrease in natural gas revenues in Q2 2010 was mostly offset by the decrease in transportation expense resulting from lower firm tolls on the M&NP and the decrease in depletion expense resulting from lower production.
- During Q2 2010, Corridor completed perforating the L-37 wellbore in the McCully Field. Initial efforts to flow test this well without stimulation resulted in relatively low rates of natural gas production. The McCully L-37 well is currently shut-in for a pressure build-up before conducting further testing operations. The McCully L-37 well was designed to be drilled and completed without fracture stimulation while retaining the option to frac part of the pay section if necessary. It was drilled horizontally through the upper part of the Hiram Brook formation, intercepting a

number of prospective pay sands. Some of these sands had been encountered in the adjacent P-47 and L-38 vertical wells, where only small amounts of bitumen were encountered. The expectation for L-37 was that the sands encountered there would also be relatively free of bitumen and possibly productive based on perforating stimulation alone. This completion approach is significantly less expensive than conducting a multi-stage frac program in the horizontal leg of the well. However, it appears that the L-37 well encountered greater amounts of bitumen in the reservoir sands than expected, resulting in significantly lower rates of gas production than expected. Consequently, Corridor is currently evaluating the option to re-complete the well by conducting a propane frac in the well at the next opportunity when suitable frac equipment is available in the region.

- Subsequent to the quarter end, Apache Canada Ltd. (“Apache”) completed the drilling of the horizontal section of the Green Road B-41 well located north of Elgin, New Brunswick and is preparing to case the horizontal section in preparation for multi-zone fracturing of the well. Apache has advised that it plans to move the drilling rig approximately three kilometers to the southwest to drill a second shale gas appraisal well at the Will DeMille #1 location.

## Results of Operations

### Revenues

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Natural gas	\$6,141	\$7,164	\$15,238	\$30,376
Condensate	110	118	234	220
Natural gas and gas liquids revenues	\$6,251	\$7,282	\$15,472	\$30,596
Gathering, processing & transportation fees	324	605	751	1,103
	\$6,575	\$7,887	\$16,223	\$31,699

Natural gas revenues decreased to \$6,141 thousand in Q2 2010 from \$7,164 thousand in Q2 2009 due to the decrease in the average daily production to 13.6 mmscfd in Q2 2010 from 15.9 mmscfd in Q2 2009. The decrease in production is largely due to the Company suspending drilling activities early in Q2 2009 in response to the downturn in the economy resulting in only three wells being drilled and completed in Q1 2009 and only the L-37 well being drilled in Q2 2010. In addition, this well is currently shut-in for a pressure build-up before conducting further testing operations and potential future fracturing operations.

The decrease in natural gas revenues for the six months ended June 30, 2010 to \$15,238 thousand from \$30,376 thousand for the six months ended June 30, 2009 is due to the decrease in the average natural gas sales price to \$5.90/mmscf from \$9.92/mmscf for the six months ended June 30, 2009 and a reduction in the average daily production for the six months ended June 30, 2010 to 14.3 mmscfd from 16.9 mmscfd for the six months ended June 30, 2009 for the same reasons noted above.

Corridor had a total of 29 producing wells tied-in to the McCully gathering system by the end of June 2010 compared to a total of 26 producing wells by the end of June 2009.

### Production volumes and pricing

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Total volumes</b>				
Natural gas production (mmscf)	1,240	1,450	2,584	3,064
Condensate production (bbl)	1,477	1,807	3,135	3,884
<b>Daily production averages</b>				
Natural gas production per day (mmscfd)	13.6	15.9	14.3	16.9
Condensate production per day (bblpd)	16.2	19.9	17.3	21.5
<b>Average prices</b>				
Natural gas selling price (\$/mmscf)	\$4.95	\$4.94	\$5.90	\$9.92
Condensate selling price (\$/bbl)	\$74.70	\$65.30	\$74.64	\$56.64

Corridor's Q2 2010 revenues of \$6,575 thousand are lower than the amount previously budgeted of \$8,400 thousand due to the lower than budgeted gas production and budgeted natural gas sales price. The average daily gas production in Q2 2010 of 13.6 mmscfpd was lower than the amount previously budgeted of 15.5 mmscfpd due primarily to the delay in the production start-up from the L-37 well. In addition, Corridor had estimated an average natural gas sales price for Q2 2010 of \$5.45/mscf, based on a natural gas sales price at Henry Hub of US\$4.2/mmbtu and a \$0.98 U.S. per Canadian dollar, but the actual average natural gas sales price for Q2 2010 was slightly lower at \$4.95/mscf due to lower natural gas prices at Henry Hub.

### Outlook

Corridor has decreased its estimate of the average daily net production for 2010 from 17.5 mmscfpd to 13.7 mmscfpd due primarily to the lower than estimated production from the McCully L-37 well and the decision not to drill a second McCully well in 2010. However, Corridor has maintained its estimate of the average natural gas sales price at US\$4.80/mmbtu at Henry Hub and its estimate of the exchange rate at \$0.98 U.S. per Canadian dollar for the remainder of 2010. As a result, Corridor's 2010 budget for revenues has decreased from \$42 million to \$33 million.

### Gathering, processing and transportation fees

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Gathering, processing and transportation fees	<b>\$324</b>	\$605	<b>\$751</b>	\$1,103

Corridor owns the midstream facilities which treat and flow gas from the McCully Field to the M&NP. Third party gas flowing through these facilities, which currently is Potash Corporation of Saskatchewan's ("PCS") share of gas from the McCully Field, is charged a cost of service, the terms of which are generally consistent with recommended practices in the oil and gas industry. The decrease in the gathering, processing and transportation ("GPT") fees to \$324 thousand in Q2 2010 from \$605 thousand in Q2 2009 and to \$751 thousand for the six months ended June 30, 2010 from \$1,103 thousand for the six months ended June 30, 2009 reflects a decrease in PCS' share of production going through the midstream facilities due to the decreased overall production from the McCully Field.

### Outlook

Corridor has decreased its 2010 budget for GPT fees from \$2,200 thousand to \$2,100 thousand based on PCS' estimated share of gross production.

### Royalty Expense

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Crown royalties	<b>\$29</b>	\$106	<b>\$321</b>	\$1,603
Royalty expense per mscf (\$/mscf)	<b>\$0.02</b>	\$0.07	<b>\$0.12</b>	\$0.52
Percentage of natural gas and gas liquids revenues	<b>0.5%</b>	1.5%	<b>2.1%</b>	5.2%

For the three and six months ended June 30, 2010, Corridor paid a royalty rate of 10% calculated based on the net amount of revenues after deductions for processing and transportation and a recovery of capital costs. The decrease in the royalty expense per mscf for the three and six months ended June 30, 2010 to \$0.02/mscf and \$0.12/mscf from \$0.07/mscf and \$0.52/mscf for the three and six months ended June 30, 2009 is due to the significant decrease in the natural gas revenues during the period while the deductions allowable in the royalty calculation remained consistent.

### Outlook

Corridor has decreased its 2010 estimate for the effective royalty rate from 4% to approximately 3% to reflect the forecasted decrease in natural gas revenues for the year. Corridor recognizes that the structure of the royalty regime could change during 2010 if new regulations are implemented by the New Brunswick government but Corridor has not yet incorporated the impact of this potential change as these new regulations are not expected to have a material long-term financial impact on the Company. Since Q4 2008, the Company has been undergoing an audit by the New Brunswick Department of Finance for the periods from April 2003 to September 2009 in connection with the Company's crown royalty payments. 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.

## Production Expense

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Gross production expense	<b>\$954</b>	\$1,077	<b>\$2,073</b>	\$2,434
Third party recoveries	<b>(152)</b>	(425)	<b>(352)</b>	(792)
Net production expense	<b>\$802</b>	\$652	<b>\$1,721</b>	\$1,642
Net production expense per mscf (\$/mscf)	<b>\$0.65</b>	\$0.45	<b>\$0.67</b>	\$0.54

Gross production expense for Q2 2010 decreased to \$954 thousand from \$1,077 thousand for Q2 2009 and to \$2,073 thousand for the six months ended June 30, 2010 from \$2,434 thousand for the six months ended June 30, 2009 due to the decrease in methanol and water disposal costs resulting from the lower production of water. The decrease in third party recoveries for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009 reflects the decrease in PCS's share of production.

Production expense per mscf for 2010 of \$0.67/mscf is lower than the previous 2010 forecast of \$0.98/mscf, as higher production expenses were expected later in the year.

### Outlook

Corridor has decreased its 2010 estimate for production expense from \$0.98/mscf to \$0.86/mscf to reflect the decrease of approximately \$1,700 thousand in estimated work-over operations to be incurred in 2010 which was partially offset by the decrease in the average estimated net production for 2010 from 17.5 mmscfpd to 13.7 mmscfpd.

## Transportation Expense

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Transportation expense	<b>\$1,727</b>	\$2,467	<b>\$3,564</b>	\$5,621
Transportation expense per mscf (\$/mscf)	<b>\$1.39</b>	\$1.70	<b>\$1.38</b>	\$1.83

Transportation expense for Q2 2010 decreased to \$1,727 thousand from \$2,467 thousand for Q2 2009 and to \$3,564 thousand for the six months ended June 30, 2010 from \$5,621 thousand for the six months ended June 30, 2009 due to a decrease in natural gas production, two decreases in the cost of U.S. firm tolls effective August 1, 2009 and April 1, 2010, respectively, and a stronger Canadian dollar as compared to the U.S. dollar in 2010 compared to 2009.

Corridor currently has a firm transportation agreement, which commenced on April 1, 2008 and will expire on 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. Corridor also has a transportation agreement for any remaining volumes, which commenced on December 1, 2009 and will expire on October 31, 2010, at a cost lower than firm tolls.

### Outlook

Corridor has revised its 2010 estimate of transportation expense from \$1.38/mscf to \$1.40/mscf to reflect the change in the average estimated net production from 17.5 mmscfpd to 13.7 mmscfpd for 2010.

## Depletion, Depreciation, Amortization and Accretion

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Depletion, depreciation, amortization and accretion	<b>\$5,619</b>	\$6,523	<b>\$11,641</b>	\$13,678
Depletion, depreciation, amortization and accretion per mscf (\$/mscf)	<b>\$5.10</b>	\$5.15	<b>\$5.04</b>	\$5.11

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, amortization and accretion ("DDAA") rate decreased for the three and six months ended June 30, 2010 as Corridor's estimated future development costs relating

to the development of proved reserves decreased to \$87 million from \$104 million for the three and six months ended June 30, 2009.

The DDAA rate for the three and six months ended June 30, 2010 is consistent with the estimate for the DDAA rate of \$5/mscf.

### Outlook

The Company has maintained its 2010 estimate of the DDAA rate per mscf of approximately \$5/mscf based on an average estimated daily gas production of 13.7 mmscfd and a capital budget for 2010 of \$24,400 thousand.

## General and Administrative Expenses

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Gross expenses	<b>\$1,296</b>	\$1,374	<b>\$2,510</b>	\$2,752
Capitalized overhead	<b>(89)</b>	(98)	<b>(177)</b>	(210)
Operator recoveries	<b>(1)</b>	(10)	<b>(1)</b>	(38)
Net expenses	<b>\$1,206</b>	\$1,266	<b>\$2,332</b>	\$2,504

During Q2 2010, gross general and administrative expenses (“G&A”) decreased to \$1,296 thousand from \$1,374 thousand during Q2 2009 and for the six months ended June 30, 2010 decreased to \$2,510 thousand from \$2,752 thousand for the six months ended June 30, 2009 due to the overall decrease in activity level in 2010.

Capitalized overhead and operator recoveries for the three and six months ended June 30, 2010 have decreased compared to the prior period due to the decrease in joint venture activity.

### Outlook

Corridor maintains its 2010 budget for G&A of approximately \$5.0 million which is consistent with the G&A for 2009.

## Future Income Taxes

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Future income tax recovery	<b>\$(723)</b>	\$(3,589)	<b>\$(903)</b>	\$(719)
Effective tax rate	<b>24.5%</b>	103.3%	<b>23.6%</b>	(11.5)%
Canadian statutory income tax rate	<b>31.0%</b>	33.2%	<b>31.0%</b>	33.2%

The decrease in the future income tax recovery to \$723 thousand in Q2 2010 from \$3,589 thousand in Q2 2009 is due to a recovery of \$2,640 thousand in Q2 2009 as a result of the decrease in the Company’s future income tax rate from 28.75% to 26% following a decrease in New Brunswick’s corporate income tax rates effective July 1, 2009. This additional recovery of \$2,640 thousand in Q2 2009 had a significant impact on the effective tax rates for the three and six months ended June 30, 2009 resulting in the effective tax rates for the three and six months ended June 30, 2010 not being comparable.

### Outlook

Based on planned capital expenditure programs and current commodity price assumptions, the Company does not expect to be cash taxable in 2010 or 2011.

## Balance Sheet Items

Significant changes between the June 30, 2010 balance sheet and the December 31, 2009 balance sheet include:

- \$3,664 thousand decrease in receivables, primarily reflecting the decrease in natural gas prices and the collection of an outstanding fuel tax rebate in Q1 2010.
- \$448 thousand increase in advances from joint venture partners, reflecting advances received relating to the Anticosti drilling program.

## Capital Expenditures

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Drilling	\$2,957	\$949	\$6,752	\$16,166
Fracture stimulation programs and work-overs	1,403	(299)	1,828	3,278
Midstream facilities and tie-ins	2,986	1,184	3,240	1,754
Land and seismic	303	787	630	1,017
Capitalized overhead	89	98	177	210
Office and other equipment	33	238	142	332
	<b>\$7,771</b>	<b>\$2,957</b>	<b>\$12,769</b>	<b>\$22,757</b>

The increase in capital expenditures in Q2 2010 to \$7,771 thousand from \$2,957 thousand in Q2 2009 reflects the completion of the drilling of the McCully L-37 well and the commencement of a drilling program on Anticosti Island in Q2 2010 and costs incurred in Q2 2010 relating to the installation of an inlet compressor scheduled to be completed in Q3 2010. There were no drilling activities in Q2 2009.

For the six months ended June 30, 2010 capital expenditures decreased to \$12,769 thousand from \$22,757 thousand for the six months ended June 30, 2009 due mostly to the reduction in the number of McCully wells drilled. During the six months ended June 30, 2010, Corridor only drilled the L-37 McCully well while during the six months ended June 30, 2009, Corridor drilled the McCully C-29, L-38 and P-47 wells (3 net wells).

### Capital Expenditures Outlook

Corridor has decreased its 2010 capital budget from \$28,600 thousand to \$24,400 thousand net to Corridor's working interest as a result of the anticipated \$5,000 thousand decrease in the Company's 2010 estimated cash flow from operations. The net decrease in the capital expenditure program reflects the following significant changes:

- Deferral of the drilling, testing, completing and tying in of the second McCully well, for a net reduction of \$7.0 million;
- Increase in the estimated costs relating to a site survey at a proposed drilling location on the Newfoundland side of the Old Harry structure in the Gulf of St. Lawrence, for a net increase of \$0.3 million; and
- Increase of \$2.5 million in the costs relating to the Anticosti drilling program due primarily to increased mobilization and demobilization costs as a result of complications encountered in the transportation of all drilling and ancillary equipment to the relatively remote Anticosti Island. In addition, the delayed approval for this program resulted in a compressed planning period resulting in increased costs and inadequate budgeting information. Furthermore, more drilling equipment than initially planned was required in order to drill and flow test the directional wells in an underbalanced manner. As a result of the increased costs, Corridor and its joint venture partner determined to reduce the drilling program from four wells to three wells.

Corridor has no planned expenditures for 2010 for the evaluation of its Frederick Brook shale gas resources in New Brunswick as it awaits the results of operations conducted by Apache pursuant to the farm-out agreement with Apache.

## Cash Flow Highlights

<i>thousands of dollars</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash provided by operating activities	\$2,413	\$8,255	\$9,378	\$28,366
Cash provided by financing activities	27	-	27	-
Cash used in investing activities	(7,390)	(11,144)	(9,042)	(43,557)
Increase (decrease) in cash and cash equivalents	<b>\$(4,950)</b>	<b>\$(2,889)</b>	<b>\$363</b>	<b>\$(15,191)</b>

The decrease in cash provided by operating activities for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009 is primarily the result of the decrease in natural gas revenues resulting from the reduction in natural gas prices and the decrease in the accounts receivable collected during these periods.

Cash used in investing activities has decreased for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009 due mostly to the decrease in the payment of outstanding accounts payable related to capital spending during these periods.

## Outstanding Share Information

As of July 31, 2010, the outstanding share information was as follows:

Common shares outstanding	<b>87,776,800</b>
Stock options to purchase common shares	<b>2,241,334</b>
<b>Total common shares outstanding after exercise of all stock options</b>	<b>90,018,134</b>
<i>thousands of dollars</i>	
Total proceeds due on exercise of all stock options	<b>\$10,269</b>

## Summary of Quarterly Information

<i>thousand of dollars, except per share amounts and average natural gas price</i>	2010		2009				2008	
	Three months ended		Three months ended				Three months ended	
	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
Natural gas revenues	<b>\$6,141</b>	\$9,097	\$9,936	\$5,167	<b>\$7,164</b>	\$23,212	\$22,667	\$15,391
Net earnings (loss)	<b>\$(2,227)</b>	\$(695)	\$(1,825)	\$(3,442)	<b>\$118</b>	\$6,816	\$8,380	\$3,874
Net earnings (loss) per share – basic	<b>\$(0.025)</b>	\$(0.008)	\$(0.021)	\$(0.039)	<b>\$0.001</b>	\$0.078	\$0.096	\$0.044
per share – diluted	<b>\$(0.025)</b>	\$(0.008)	\$(0.021)	\$(0.039)	<b>\$0.001</b>	\$0.078	\$0.096	\$0.044
Natural gas production as disclosed (mmscf)	<b>1,240</b>	1,344	1,797	1,336	<b>1,450</b>	1,614	1,934	1,548
Revised natural gas production (mmscf) <sup>(1)</sup>	<b>1,240</b>	1,344	1,797	1,336	<b>1,450</b>	1,614	1,743	1,548
Average natural gas price (\$/mmscf)	<b>\$4.95</b>	\$6.77	\$5.53	\$3.87	<b>\$4.94</b>	\$14.38	\$13.01	\$9.94
Capital expenditures	<b>\$7,771</b>	\$4,998	\$5,781	\$9,823	<b>\$2,957</b>	\$19,800	\$20,411	\$26,638

(1) The revised natural gas production reflects, in the period in which natural gas production actually occurred, 191 mmscf of natural gas production recognized in Q4 2008 relating to natural gas production not measured by M&NP's custody transfer meter during the period from October 25, 2007 to June 20, 2008 (this amount is referred to as the by-passed natural gas production).

## Liquidity and Capital Resources

Corridor's liquidity depends upon cash flow from operations, supplemented as necessary by equity and debt financings and the existing credit facility.

At June 30, 2010, Corridor had access to a \$20 million revolving credit facility with a Canadian chartered bank based on an approved borrowing base of \$44 million. The credit facility provides that any principal amount outstanding from time to time under the credit facility will bear interest at the lender's prime rate plus 1.25% per annum, with interest payable monthly. This credit facility was renewed on July 31, 2010 for an initial amount of \$20 million. This new credit facility can be increased at any time up to the current approved borrowing base of \$32 million, subject to the bank reconfirming this borrowing base. The interest rate on the new credit facility is currently based on the bank's prime rate plus 1.25% per annum, with interest payable monthly. The credit facility will mature, subject to mutual agreement to extend, on July 30, 2011 and is subject to customary terms and conditions for borrowings of this nature and secured by the Company's property, plant and equipment. The Company is in compliance with all material terms of the agreements governing the loan.

The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependant on the Company's reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the borrowing base has materially declined below the initial \$20 million credit facility, the lender can recalculate the

Company's borrowing base and could as a result, decrease the credit currently available to the Company. As of June 30, 2010, no amounts were drawn on this credit facility and \$20 million remained available.

Corridor plans to access approximately \$2,000 thousand of this credit facility in Q4 2010 based on the Company's revised 2010 capital budget. The revised 2010 budget assumes that no additional funds will be utilized from other sources such as equity financings or asset sales.

The Company believes it has sufficient financial resources to undertake all of its planned exploration and development programs for 2010. However, Corridor does not presently have sufficient financial resources to undertake by itself a comprehensive exploration and development of the Company's properties beyond 2010. Future exploration and development of the Company's properties will depend, therefore, on the Company's cash flow from operations and its ability to obtain additional financing through joint ventures, debt financing, equity financing or other means. Failure to obtain any financing necessary for Corridor's capital expenditure plans may result in a delay in development or production on Corridor's properties.

On December 7, 2009, Corridor entered into a farm-out agreement with Apache to appraise and potentially develop oil and natural gas resources in southern New Brunswick. Under the terms of this agreement, Apache has committed to conduct an appraisal program consisting of any combination of seismic, drilling, fracturing, testing and completing or abandoning one or more horizontal or vertical oil, gas and/or shale gas wells. Apache has until June 1, 2011 to spend a committed \$25 million to undertake operations pursuant to the agreement prior to electing whether or not to spend a further \$100 million to earn 50% of Corridor's 100% interest in approximately 116,000 acres in the Elgin/Sussex area. Thereafter, the Company would be a 50% paying participant in all further activities on the farm-out lands. Subsequent to the quarter end, Apache completed the drilling of the horizontal section of the Green Road B-41 well located north of Elgin, New Brunswick and is preparing to case the horizontal section in preparation for multi-zone fracturing of the well. Apache has advised that it plans to move the drilling rig approximately three kilometers to the southwest to drill a second shale gas appraisal well at the Will DeMille #1 location. This farm-out agreement potentially provides a mechanism for the Company to continue to develop its properties beyond 2010.

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 thousand for the three and six months ended June 30, 2010 (three and six months ended June 30, 2009 - \$97 thousand). The amounts paid are recorded at the amount agreed to between the parties and approximate fair value.

## **Disclosure and Internal Controls and Procedures**

The President and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During the three months ended June 30, 2010, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

## **Changes in Accounting Policies**

In April 2008, the Accounting Standards Board ("AcSB") issued an omnibus exposure draft which proposes that GAAP for publicly accountable enterprises be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011 with comparative information for the previous fiscal year. In March 2009, the AcSB issued a second omnibus exposure draft which confirms the IFRS transition date.

Corridor commenced its IFRS transition project in 2008 with the help of external advisors. Corridor's implementation project consists of the following phases:

- Diagnostic assessment phase: This phase involved a high level review of the major differences between current GAAP and IFRS. Each potential impact was ranked as having a high, moderate or low impact on the Company's financial reporting and served as the basis for the more detailed analysis in the later phases.

- Impact analysis and evaluation phase: Activities in this phase include a more in-depth analysis of the differences between current GAAP and IFRS, the selection of accounting policies by management and the subsequent approval of these accounting policies by the Audit Committee. This phase also involves the quantification of the impact of the changes in accounting policies on the Company's opening IFRS balance sheet as well as the development of skeleton interim and annual IFRS financial statements and note disclosures.
- Implementation phase: This part of the project includes the implementation and testing of all changes approved in the impact analysis and evaluation phase. The outcome of this phase will be the fully quantified IFRS financial statements and note disclosures for all of the necessary interim and annual periods and comparative periods. This phase will also involve changes to information systems, business processes and the training and education of staff.

Corridor's IFRS accounting policies are expected to be finalized in Q4 2010 with the quantification of IFRS impacts being determined utilizing previously captured data. The Company will be monitoring the International Accounting Standards Board's ("IASB") active projects and all changes to IFRS prior to January 1, 2011 will be incorporated as required.

### **First Time Adoption**

In July 2009, the IASB issued *Additional Exemptions for First-time Adopters (Amendments to IFRS 1)* which provides entities adopting IFRS for the first time with a number of optional exemptions and certain exceptions to the full retrospective adoption of IFRS. Management has determined the most significant exemptions applicable to Corridor, as of the date hereof, to be the following:

#### *Deemed Cost of Property Plant & Equipment ("PP&E")*

IFRS 1 provides the option to companies using the full cost method of accounting for their petroleum and natural gas properties the option to carry forward the net book value determined under GAAP at December 31, 2009 as the deemed cost under IFRS in the January 1, 2010 opening financial statements. This exemption will significantly reduce the amount of necessary PP&E adjustments which would have resulted from the retroactive adoption of IFRS. IFRS balances determined on this basis will be required to be tested for impairment at the date of transition, and the Company's petroleum and natural gas assets will need to be allocated between exploration and evaluation phase assets and development and production phase assets based on one of two acceptable allocation methods offered in the exemption. The Company intends to utilize this exemption.

#### *Asset Retirement Obligations ("ARO")*

In accordance with the IFRS 1 *Deemed cost of PP&E exemption*, the Company will re-measure its opening ARO liability at January 1, 2010 in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Any resulting difference between the GAAP balance at that date and the amount calculated under IFRS will be recognized directly in retained earnings. Under GAAP, the ARO liability fair value is based on the estimated future expenditures expected to be incurred and existing ARO liabilities are not re-measured using current discount rates. Under IFRS, the ARO liability and asset will be measured as the best estimate of the expenditure to be incurred and will require the use of current discount rates at each balance sheet date.

#### *Share based compensation*

IFRS 1 allows an exemption on the adoption of IFRS 2 *Share-based payments* for options granted prior to November 7, 2002, or for options that were granted after November 7, 2002 but that vested before January 1, 2010. This exemption will result in no adjustment in the accounting for these options at the transition date. The Company intends to utilize this exemption.

### **Key Differences**

The transition from GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. At this time, Corridor has identified the following key differences between Corridor's existing accounting policies under GAAP and IFRS:

#### *PP&E*

Under GAAP, Corridor follows the full cost method of accounting for its petroleum and natural gas properties whereby all costs directly associated with the exploration for and the development of natural gas reserves are capitalized. Upon transition to IFRS, Corridor will be required to adopt new accounting policies to account for certain of these expenditures.

According to IFRS 6, *Exploration for and Evaluation of Mineral Resources*, pre-exploration costs are those expenditures incurred prior to obtaining the legal right to explore and must be expensed in the period incurred under IFRS. Currently, Corridor capitalizes and depletes pre-exploration costs, however, these costs have been insignificant for Corridor in the past.

IFRS 6 defines exploration and evaluation ("E&E") costs as those expenditures for which technical feasibility and commercial viability have not yet been determined. Upon transition to IFRS, Corridor will need to reclassify all E&E expenditures that are

currently included in PP&E on the Balance Sheet as E&E assets. Under IFRS, Corridor will have the option to initially capitalize these costs as E&E assets on the Balance Sheet or expense them in the period incurred. Corridor has not concluded at this time the preferred accounting policy for E&E assets.

Development and production costs include those expenditures for which technical feasibility and commercial viability have been determined. Under IFRS, Corridor will continue to capitalize these costs in PP&E on the balance sheet. However, the depletion basis for these costs will likely contract from a country cost centre to a smaller unit-of-measure. Corridor has not finalized the inputs to be utilized in the unit-of-production depletion calculation.

#### *Calculation of depletion expense for PP&E assets*

Under GAAP, the Company calculates depletion expense using the unit-of-production method based on estimated proved natural gas reserves. Under IFRS, Corridor has the option to calculate depletion expense using a reserve base of proved reserves or proved plus probable reserves. Corridor has not concluded at this time the preferred method for calculating depletion.

#### *Impairment*

Under IFRS, the level at which impairment tests are performed and the impairment testing methodology will differ from GAAP. Impairment of PP&E will be calculated at a more granular level than what is currently required under GAAP. Under IFRS, impairment losses will be reversed when there is a subsequent increase in the recoverable amount and will be written back up to the net book value that would have existed had the impairment not been recorded.

At this time, the impact of reporting under IFRS on the Company's financial position and results of operations is not reasonably determinable.

## **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**

Operations are affected by local, national, and worldwide economic conditions and the condition of the oil and gas industry. Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to financial markets and commodity prices. These conditions continued through 2009 and are expected to continue through 2010, and caused a loss of confidence in the broader U.S. and global credit and financial markets and resulted in the collapse of, and government intervention in, major banks, financial institutions and insurers and created 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 continue. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Corridor, along with all other oil and gas entities, may have restricted access to capital, bank debt and equity, and is likely to face increased borrowing costs. Although Corridor's business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of funds generated from operations, borrowings and possible future equity sales, Corridor's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and Corridor's securities in particular.

For more information please refer to "Liquidity and Capital Resources".

### **Third Party Risk**

In the normal course of business, Corridor has entered into contractual arrangements with third parties which subject Corridor to the risk that such parties may default on their obligations. 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.

### **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. New technologies and drilling techniques are allowing recovery of gas trapped in shale. If such resources are developed, it may have a substantial impact on the price of gas and on the energy market generally. 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 oil and 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.

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

(thousands of dollars, except per share amounts)

For the	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenues	\$ 6,575	\$ 7,887	\$ 16,223	\$ 31,699
Royalty expense	(29)	(106)	(321)	(1,603)
Production expense	(802)	(652)	(1,721)	(1,642)
Transportation expense	(1,727)	(2,467)	(3,564)	(5,621)
	<b>4,017</b>	4,662	<b>10,617</b>	22,833
Other Expenses				
Depletion, depreciation, amortization and accretion	5,619	6,523	11,641	13,678
General and administrative (note 4)	1,206	1,266	2,332	2,504
Stock-based compensation (note 6c)	154	165	314	457
Capital tax expense	45	30	117	60
	<b>7,024</b>	7,984	<b>14,404</b>	16,699
Earnings (loss) before the following items	(3,007)	(3,322)	(3,787)	6,134
Interest and finance costs	51	42	106	68
Foreign exchange losses (gains)	(95)	463	(38)	408
Interest and other income	(13)	(356)	(30)	(557)
Earnings (loss) before income taxes	(2,950)	(3,471)	(3,825)	6,215
Future income tax recovery (note 2)	(723)	(3,589)	(903)	(719)
Net earnings (loss), being comprehensive income (loss)	(2,227)	118	(2,922)	6,934
Retained earnings, beginning of period	21,794	27,638	22,489	20,822
Retained earnings, end of period	<b>\$ 19,567</b>	\$ 27,756	<b>\$ 19,567</b>	\$ 27,756
Net earnings (loss) per share (note 3)				
Basic	\$ (0.025)	\$ 0.001	\$ (0.033)	\$ 0.079
Diluted	\$ (0.025)	\$ 0.001	\$ (0.033)	\$ 0.079

See accompanying notes to the interim unaudited financial statements.

## Balance Sheets (Unaudited)

(thousands of dollars)

As at	June 30 2010	December 31 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 8,847	\$ 8,484
Restricted cash	800	1,350
Receivables	2,839	6,503
Receivables from joint venture partners	42	121
Capital taxes receivable	146	85
Prepays and security deposits	400	120
	13,074	16,663
Property, plant and equipment (notes 4 & 5)	281,546	281,060
Investment tax credits	1,551	1,227
Intangible assets	417	425
Restricted cash and security deposits	1,230	1,230
	\$ 297,818	\$ 300,605
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,861	\$ 5,636
Obligations under capital lease	147	145
Advances from joint venture partners	448	-
	6,456	5,781
Obligations under capital lease	81	155
Future income taxes	22,247	23,151
Asset retirement obligations	1,597	1,500
	30,381	30,587
Shareholders' Equity		
Capital stock (note 6)	242,423	242,381
Contributed surplus (note 6d)	5,447	5,148
Retained earnings	19,567	22,489
	267,437	270,018
	\$ 297,818	\$ 300,605

See accompanying notes to the interim unaudited financial statements.

Commitment (note 10)

Contingency (note 11)

Subsequent event (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 June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Operating Activities</b>				
Net earnings (loss)	\$ (2,227)	\$ 118	\$ (2,922)	\$ 6,934
Depletion, depreciation, amortization and accretion	5,619	6,523	11,641	13,678
Stock-based compensation	154	165	314	457
Future income tax recovery	(723)	(3,589)	(903)	(719)
Other operating activities	23	-	44	-
	<b>2,846</b>	3,217	<b>8,174</b>	20,350
Increase (decrease) in non-cash operating working capital (note 7)	(433)	5,038	1,204	8,016
Cash provided by operating activities	<b>2,413</b>	8,255	<b>9,378</b>	28,366
<b>Financing Activities</b>				
Proceeds from capital stock issues	27	-	27	-
Cash provided by financing activities	<b>27</b>	-	<b>27</b>	-
<b>Investing Activities</b>				
Property, plant and equipment expenditures	(7,771)	(2,957)	(12,769)	(22,757)
Decrease (increase) in restricted cash	(450)	(1,000)	550	(1,000)
Increase (decrease) in non-cash investing working capital (note 7)	831	(7,187)	3,177	(19,800)
Cash used in investing activities	<b>(7,390)</b>	(11,144)	<b>(9,042)</b>	(43,557)
Increase (decrease) in cash and cash equivalents	<b>(4,950)</b>	(2,889)	<b>363</b>	(15,191)
Cash and cash equivalents, beginning of period	13,797	22,011	8,484	34,313
Cash and cash equivalents, end of period	<b>\$ 8,847</b>	\$ 19,122	<b>\$ 8,847</b>	\$ 19,122
Cash and cash equivalents consists of:				
Cash	\$ 3,477	\$ 4,852	\$ 3,477	\$ 4,852
Short-term investments	5,370	14,270	5,370	14,270
Cash and cash equivalents, end of period	<b>\$ 8,847</b>	\$ 19,122	<b>\$ 8,847</b>	\$ 19,122

See accompanying notes to the interim unaudited financial statements.

# Notes to the Interim Unaudited Financial Statements

## June 30, 2010

### 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, 2009. These interim financial statements do not contain all the disclosure required for annual financial statements and therefore should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2009.

### 2 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 June 30		Six months ended June 30	
	2010	2009	2010	2009
Earnings (loss) before income taxes	\$ (2,950)	\$ (3,471)	\$ (3,825)	\$ 6,215
Blended Canadian statutory income tax rate	31%	33%	31%	33%
Expected income tax expense (recovery)	(915)	(1,152)	(1,186)	2,064
Increase (decrease) resulting from:				
Non-deductible stock-based compensation	47	55	97	152
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	139	146	175	(298)
Effect of provincial tax rate change	-	(3,600)	-	(3,600)
Effect of change in estimate in provincial tax allocation	-	960	-	960
Other	6	2	11	3
	\$ (723)	\$ (3,589)	\$ (903)	\$ (719)

### 3 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 June 30		Six months ended June 30	
	2010	2009	2010	2009
Weighted average number of common shares - basic	87,770	87,629	87,768	87,629
Effect of stock options	519	82	427	76
Weighted average number of common shares - diluted	88,289	87,711	88,195	87,705

For the three and six months ended June 30, 2010, stock options of 775 thousand and 825 thousand (three and six months ended June 30, 2009 – 1,484 thousand) 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

## June 30, 2010

### 4 Property, plant and equipment

(thousands of dollars)

June 30, 2010	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 276,378	\$ 64,069	\$ 212,309
Production facilities	76,047	15,650	60,397
Inventory	6,345	-	6,345
Future asset retirement costs	1,124	313	811
Office furniture and other equipment	2,642	958	1,684
	<b>\$ 362,536</b>	<b>\$ 80,990</b>	<b>\$ 281,546</b>

(thousands of dollars)

December 31, 2009	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 266,984	\$ 54,559	\$ 212,425
Production facilities	73,139	13,758	59,381
Inventory	6,690	-	6,690
Future asset retirement costs	1,089	287	802
Office furniture and other equipment	2,598	836	1,762
	<b>\$ 350,500</b>	<b>\$ 69,440</b>	<b>\$ 281,060</b>

For the three and six months ended June 30, 2010, Corridor capitalized to petroleum and natural gas properties general and administrative costs of \$89 thousand and \$177 thousand (three and six months ended June 30, 2009 - \$98 thousand and \$210 thousand). The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$87 million for the three and six months ended June 30, 2010 (three and six months ended June 30, 2009 - \$104 million).

### 5 Credit facility

At June 30, 2010, Corridor had a \$20 million revolving short term credit facility with a Canadian chartered bank which expired on July 31, 2010. The interest rate on the loan was based on the bank's prime rate plus 1.25% and outstanding amounts drawn on the credit facility were secured by a \$75 million demand debenture on the Company's property, plant and equipment. At June 30, 2010, there was no amount drawn on the credit facility.

### 6 Capital stock

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

b) **Issued and outstanding**

(thousands of dollars and thousands of shares)

	June 30, 2010		December 31, 2009	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	87,767	\$ 242,381	87,629	\$ 246,413
Exercise of stock options for cash and amount recognized from contributed surplus	10	27	138	131
Tax impact of flow-through renunciation	-	15	-	118
Share issue costs net of tax benefit	-	-	-	(4,298)
Balance, end of period	87,777	\$ 242,423	87,767	\$ 242,381

# Notes to the Interim Unaudited Financial Statements

## June 30, 2010

### 6 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 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 generally vest over a three year period and 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 deny this election.

The following table summarizes the changes in the outstanding stock options:

	June 30, 2010		December 31, 2009	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Balance, beginning of period	2,299	\$ 4.58	1,604	\$ 5.34
Exercised	(10)	\$ 2.75	(138)	\$ 0.95
Forfeited	(48)	\$ 4.87	(6)	\$ 9.48
Granted	-	\$ -	839	\$ 2.57
Balance, end of period	2,241	\$ 4.58	2,299	\$ 4.58
Options exercisable, end of period	1,381	\$ 5.56	1,338	\$ 5.43

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

	June 30, 2010	December 31, 2009
Weighted average fair value of options granted	-	\$ 1.62
Risk-free interest rate	-	2.5%
Expected life (years)	-	3.0
Expected volatility	-	90%

For the three and six months ended June 30, 2010, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of \$154 thousand and \$314 thousand (three and six months ended June 30, 2009 - \$165 thousand and \$457 thousand).

The range of exercise prices of stock options outstanding and exercisable as at June 30, 2010 is as follows:

Exercise prices	Outstanding options			Exercisable options	
	Number of options outstanding (000's)	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable (000's)	Weighted average exercise price
\$ 1.00 - \$ 2.99	801	4.0	\$ 2.56	-	\$ -
\$ 3.00 - \$ 4.99	615	0.6	\$ 4.41	610	\$ 4.41
\$ 5.00 - \$ 5.99	508	1.0	\$ 5.46	508	\$ 5.46
\$ 6.00 - \$ 6.99	109	2.8	\$ 6.80	107	\$ 6.80
\$ 7.00 - \$10.99	208	2.9	\$ 9.54	156	\$ 9.54
	2,241	2.3	\$ 4.58	1,381	\$ 5.56

# Notes to the Interim Unaudited Financial Statements

## June 30, 2010

### 6 Capital stock (continued)

#### d) Contributed surplus

(thousands of dollars)

	<b>June 30</b>	December 31
	<b>2010</b>	2009
Balance, beginning of period	<b>\$ 5,148</b>	\$ 4,446
Stock-based compensation expense	<b>314</b>	820
Stock options exercised	<b>(15)</b>	(118)
Balance, end of period	<b>\$ 5,447</b>	\$ 5,148

### 7 Supplemental cash flow information

(thousands of dollars)

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Increase (decrease) in non-cash operating working capital:				
Receivables	<b>\$ (86)</b>	\$ 5,188	<b>\$ 2,496</b>	\$ 8,885
Prepays and security deposits	<b>96</b>	127	<b>(280)</b>	(296)
Accounts payable and accrued liabilities	<b>(338)</b>	(320)	<b>(951)</b>	(537)
Capital taxes receivable	<b>(105)</b>	43	<b>(61)</b>	(36)
	<b>\$ (433)</b>	\$ 5,038	<b>\$ 1,204</b>	\$ 8,016
Increase (decrease) in non-cash investing working capital:				
Receivables	<b>\$ (5)</b>	\$ 3,564	<b>\$ 1,168</b>	\$ 4,240
Inventory	<b>184</b>	(1,730)	<b>345</b>	(2,660)
Accounts payable and accrued liabilities	<b>222</b>	(10,325)	<b>1,137</b>	(20,217)
Advances from joint venture partners	<b>430</b>	1,304	<b>527</b>	(1,163)
	<b>\$ 831</b>	\$ (7,187)	<b>\$ 3,177</b>	\$ (19,800)
Interest and taxes paid:				
Interest paid	<b>\$ 25</b>	\$ 41	<b>\$ 50</b>	\$ 63
Capital and other taxes paid (received)	<b>\$ 17</b>	\$ (14)	<b>\$ 45</b>	\$ 95

### 8 Risk management

a) 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. With the Board of Directors' approval, Corridor will enter into forward sale commitments, in limited quantities and at fixed prices, when appropriate. The Company does not use derivative financial instruments for speculative purposes.

#### 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.

# Notes to the Interim Unaudited Financial Statements

## June 30, 2010

### 8 Risk management (continued)

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

*(thousands of U.S. dollars)*

	June 30, 2010	December 31, 2009
Cash	\$ 93	\$ 27
Receivables	1,645	3,281
Financial instruments in U.S. dollars	\$ 1,738	\$ 3,308

At June 30, 2010, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately \$100 thousand (June 30, 2009 – \$100 thousand) in the Company's net loss due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately \$100 thousand (June 30, 2009 – \$100 thousand) in the Company's net loss.

#### iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At June 30, 2010, the Company was holding cash and cash equivalents of \$8,847 thousand and had \$20 million available from its revolving credit facility. The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependant on the Company's petroleum and natural gas reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the current approved borrowing base of \$44 million has declined below the credit facility limit of \$20 million, the lender can recalculate the Company's borrowing base and could, as a result, decrease the credit currently available to the Company.

Given the Company's available liquid resources and the Company's 2010 budget, management expects to have sufficient available funds to meet the current and foreseeable financial contractual obligations, as disclosed in the Company's December 31, 2009 audited financial statements.

#### 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.

#### b) 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, its credit facility 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. To maximize ongoing development and exploration activities, the Company will not pay out dividends during the year.

# Notes to the Interim Unaudited Financial Statements

## June 30, 2010

### 9 Related parties

A director of Corridor is a partner in a law firm that provides legal services to the Company. For the three and six months ended June 30, 2010, no legal expenses (three and six months ended June 30, 2009 - \$97 thousand) are included in general and administrative expenses. At June 30, 2010, no amount was included in accounts payable and accrued liabilities (December 31, 2009 - \$73 thousand). The amounts paid are recorded at the amount agreed to between the parties which management believes is representative of fair value.

### 10 Commitment

During the period, the Company issued irrevocable standby letter of credits in the amount of \$450 thousand. The letters of credit, issued by a Canadian chartered bank, were issued in connection with the drilling program on Anticosti Island and expire June 3, 2011. Subsequent to the quarter end, a letter of credit in the amount of \$150 thousand was returned by the beneficiary and cancelled by the Canadian chartered bank.

### 11 Contingency

Since Q4 2008, the Company has been undergoing an audit by the New Brunswick Department of Finance for the periods from April 2003 to September 2009 in connection with the Company's crown royalty payments. 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. While not yet determinable, the Company does not expect the exposure to be material.

### 12 Subsequent event

On July 31, 2010, Corridor entered into a revolving short term credit facility with a Canadian chartered bank for an initial amount of \$20 million. The credit facility can be increased at any time up to the current approved borrowing base of \$32 million, subject to the bank reconfirming this borrowing base. The interest rate on the new credit facility will be based on the bank's prime rate plus 1.25% per annum. The loan will mature, subject to mutual agreement to extend, on July 30, 2011 and will be secured by a \$75 million demand debenture on the Company's property, plant and equipment.

# 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  
Canadian Imperial Bank of Commerce  
Calgary, Alberta

## Auditors

PricewaterhouseCoopers 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 July 31, 2010 – 87,776,800