2011 Management's Discussion and Analysis

As of March 29, 2012

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the year ended December 31, 2011 should be read in conjunction with Corridor's audited financial statements and notes thereto for the year ended December 31, 2011.

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, 2011 (the "Annual Information Form"), is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at www.sedar.com.

Introduction

Corridor is an Eastern Canadian 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. Corridor currently has natural gas reserves and production 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, Corridor has contingent resources and discovered resources of shale gas in Elgin, New Brunswick.

Adoption of International Financial Reporting Standards

On January 1, 2011, International Financial Reporting Standards ("IFRS") became the generally accepted accounting principles in Canada for publicly accountable enterprises, including Corridor. The adoption of IFRS required the restatement of amounts, reported by Corridor under the previous Canadian generally accepted accounting principles ("GAAP"), for the year ended December 31, 2010. As a result, comparative information in this MD&A has been restated to comply with IFRS. The adoption of IFRS had no impact on Corridor's cash flows.

The most significant impacts of the adoption of IFRS on Corridor's financial statements are summarized in the *First Time Adoption of IFRS* section of this MD&A.

Selected Financial Information

	Three months ended December 31		**Twelve months ended December 31**		
thousands of dollars except per share amounts	**2011**	2010	**2011**	2010	2009(2)
Revenues	**$5,295**	$7,864	**$23,993**	$29,558	$48,989
Net earnings (loss)	**$(71,416)**	$(3,038)	**$(79,585)**	$(6,912)	$1,667
Net earnings (loss) per share - basic and diluted	**$(0.807)**	$(0.034)	**$(0.899)**	$(0.078)	$0.019
Cash flow from operations(1)	**$2,071**	$3,585	**$9,250**	$13,250	$27,829
Capital expenditures	**$4,383**	$1,840	**$8,951**	$21,006	$38,361
Total assets	**$204,017**	$301,283	**$204,017**	$301,283	$300,605

(1) "Cash flow from operations" is a non-IFRS measure, see "Non-IFRS Financial Measures".
(2) Financial information for 2009 was prepared under GAAP and has not been restated to comply with IFRS.

The decrease in Corridor's revenues and cash flow from operations over the last three years is primarily the result of the decrease in the average natural gas sales price from $7.34/mscf in 2009 to $5.66/mscf in 2010 and to $5.17/mscf in 2011. In response to the lower natural gas prices, Corridor decreased drilling activities starting in Q2 2009 which resulted in a decrease in Corridor's average daily gas production from 17.0 mmscfpd for the year ended December 31, 2009 to 13.2 mmscfpd for the year ended December 31, 2010 and 11.5 mmscfpd for the year ended December 31, 2011. The decrease in net earnings for the year ended December 31, 2011 is also due to the recognition of an impairment loss relating to Corridor's New Brunswick assets. Due to the significant decline in forecast natural gas prices, Corridor was required under IFRS to estimate the recoverable amount of its New Brunswick assets at December 31, 2011. As a result, the Company recorded an impairment loss of $90,307 thousand and the Company's net loss increased to $79,585 thousand for the year ended December 31, 2011 from $6,192 thousand for the year ended December 31, 2010.

Non-IFRS Financial Measures

This MD&A refers to "cash flow from operations" which is a financial measure that is not determined in accordance with IFRS. 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 cash provided by operating activities excluding the change in non-cash operating working capital, as follows:

	Three months ended December 31		**Twelve months ended December 31**		
thousands of dollars	**2011**	2010	**2011**	2010	2009
Cash provided by operating activities	**$1,930**	$2,906	**$10,630**	$13,589	$34,837
Less: Decrease (increase) in non-cash operating working capital	**(141)**	(679)	**1,380**	339	7,008
Cash flow from operations	**$2,071**	$3,585	**$9,250**	$13,250	$27,829

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 and amortization;
- reserves;
- general and administrative expenses;
- share-based compensation expense;
- timing that the Company will be cash taxable;
- capital expenditures;
- exploration and development drilling program;
- cash flow from operations;
- sources of funding;
- 2012 budget and capital program; and
- level of bank debt.

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 including information 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, the ability to add production and reserves through development and exploration activities and the terms of agreements with third parties such as Petrolia Inc. and Repsol Energy Canada Ltd. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Unknown risks and uncertainties include, but are not limited to: risks associated with oil and gas exploration, substantial capital requirements and financing, prices, markets and marketing, government regulation, third party risk, environmental, hydraulic fracturing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, variations in exchange rates, expiration of licenses and leases, reserves and resources estimates, development and/or acquisition of oil and natural gas properties, trading of common shares, seasonality, competition, management of growth, conflicts of interest, issuance of debt, title to properties and hedging. Further information regarding these factors and additional 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 2012, which are provided for the purpose of forecasting the financial position of Corridor at the end of the 2012 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 Third Quarter 2011 MD&A dated November 14, 2011, which is available on the Company’s website at www.corridor.ca and on SEDAR at www.sedar.com.

2011 Summary

- Natural gas revenues for the year ended December 31, 2011 decreased to $21,777 thousand from $27,283 thousand for the year ended December 31, 2010 due to a decrease in the average natural gas sales price to $5.17/mscf in 2011 from $5.66/mscf in 2010 and a decrease in Corridor’s average daily gas production to 11.5 mmscfpd in 2011 from 13.2 mmscfpd in 2010. The decrease in natural gas prices at Henry Hub during the year was offset by higher premiums at Dracut which have increased by 25% over the prior year to an average of approximately US$1.00/mmbtu for the year ended December 31, 2011.

- Cash flow from operations was $9,250 thousand for the year ended December 31, 2011 compared to $13,250 thousand for the year ended December 31, 2010 due to the lower natural gas revenues in 2011 partially offset by lower transportation expenses. Cash flow from operations for the year ended December 31, 2011 was approximately $1,000 thousand higher than the latest forecast of $8,200 thousand due to an increase in gathering, processing and transportation fees in Q4 2011.

- Corridor’s net working capital at December 31, 2011 was $9,507 thousand, approximately $3,500 thousand higher than previously forecasted due to higher cash flow from operations and reduced capital expenditures in Q4 2011. Corridor had cash and cash equivalents at December 31, 2011 of $6,396 thousand and no outstanding debt.

- Corridor's gross general and administrative expenses decreased by $648 thousand for the year ended December 31, 2011 compared to the year ended December 31, 2010 reflecting management's commitment to lower general and administrative expenses during this period of lower natural gas prices.

- Corridor's net loss increased to $79,585 thousand for the year ended December 31, 2011 from $6,912 thousand for the year ended December 31, 2010 due primarily to impairment losses of $90,307 thousand relating to the Company's New Brunswick assets due to forecasted low natural gas prices. In addition, the Company recognized an impairment loss of $4,474 thousand relating to the Company's Prince Edward Island exploration project as no further exploration is currently planned.

- During the year, workover activities of approximately $900 thousand were carried out on selected wells in an effort to optimize and improve production from these wells. Corridor also performed well surveillance activities with optimization of flow cycles and soaping of liquid loading wells. Workover activities and optimization efforts resulted in a gross initial uplift of 1.0 mmscfpd.

- During the year, Corridor completed the drilling of the vertical Will DeMille O-59 shale gas appraisal well to a total depth of 3188 meters measured depth. Strong gas shows were encountered within Hiram Brook sandstones and the Upper Frederick Brook shale. Based upon initial analysis of well log information, the well intersected at least eight intervals with significantly elevated gas shows that are considered frac candidates. Corridor plans to evaluate these intervals with logs and sidewall cores in order to select the intervals for future fracture stimulation. The Will DeMille O-59 well is located north of Elgin, New Brunswick.

Q4 2011 Financial Summary

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Sales	**$5,295**	$7,864	**$23,993**	$29,558
Royalty expense	**-**	(256)	**(679)**	(606)
Revenues, net	**5,295**	7,608	**23,314**	28,952
Expenses				
Depletion, depreciation and amortization	**4,054**	4,937	**16,982**	18,749
Transportation expense	**1,181**	1,798	**5,499**	6,840
Production expense	**752**	1,016	**3,969**	3,931
General and administrative	**1,180**	1,207	**4,247**	4,716
Share-based compensation	**350**	1,930	**1,946**	2,675
Impairment losses	**94,781**	-	**94,781**	-
Write-down of inventory	**530**	146	**2,285**	146
Write-off of exploration and evaluation assets	**56**	-	**196**	-
Capital tax expense	**21**	(24)	**81**	138
	102,905	11,010	**129,986**	37,195
Loss before the following items	**(97,610)**	(3,402)	**(106,672)**	(8,243)
Interest and finance costs	**73**	87	**323**	352
Foreign exchange losses	**45**	71	**58**	89
Interest and other income	**(28)**	(134)	**(94)**	(300)
Loss before income taxes	**(97,700)**	(3,426)	**(106,959)**	(8,384)
Deferred income tax recovery	**(26,284)**	(388)	**(27,374)**	(1,472)
Net loss and comprehensive loss	**$(71,416)**	$(3,038)	**$(79,585)**	$(6,912)

Fourth Quarter Summary

- Natural gas revenues for Q4 2011 decreased to $4,194 thousand from $7,024 thousand for Q4 2010 due to the decrease in the average natural gas sales price to $4.26/mscf in Q4 2011 from $5.74/mscf in Q4 2010 and a decrease in the natural gas production to 10.7 mmscfpd from 13.3 mmscfpd in Q4 2010.

- Cash flow from operations was $2,071 thousand in Q4 2011 compared to $3,585 thousand in Q4 2010. The decrease in cash flow from operations is due to the lower natural gas revenues partially offset by lower transportation expenses.

- Net loss for Q4 2011 increased to $71,416 thousand from $3,038 thousand for Q4 2010 due primarily to impairment losses on the Company's New Brunswick assets of $90,307 thousand and on the Company's Prince Edward Island exploration prospect of $4,474 thousand.

Results of Operations

Sales

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Natural gas	**$4,194**	$7,024	**$21,777**	$27,283
Condensate	**88**	94	**414**	411
Natural gas and gas liquids revenues	**4,282**	7,118	**22,191**	27,694
Oil recovered during testing	**-**	-	**48**	-
Gathering, processing & transportation fees	**1,013**	746	**1,754**	1,864
	$5,295	$7,864	**$23,993**	$29,558

Natural gas revenues decreased to $4,194 thousand in Q4 2011 from $7,024 thousand in Q4 2010 due to the decrease in the average natural gas sales price to $4.26/mscf in Q4 2011 from $5.74/mscf in Q4 2010 and the decrease in the average daily natural gas production to 10.7 mmscfpd in Q4 2011 from 13.3 mmscfpd in Q4 2010.

Natural gas revenues decreased for the year ended December 31, 2011 to $21,777 thousand from $27,283 thousand for the year ended December 31, 2010 due to a reduction in the average daily production to 11.5 mmscfpd for the year ended December 31, 2011 from 13.2 mmscfpd for the year ended December 31, 2010. In addition, the average natural gas sales price realized decreased to $5.17/mscf from $5.66/mscf for the year ended December 31, 2010 due to the lower natural gas sales prices at Henry Hub and a stronger Canadian dollar. However, the lower Henry Hub prices were partially offset by higher premiums at Dracut which have increased by 25% to an average of approximately US$1.00/mmbtu for the year ended December 31, 2011. The decrease in production is due to the decreased drilling activities at the McCully Field since 2009 following decreases in natural gas prices.

Natural gas revenues for the three and twelve months ended December 31, 2011 were lower than the latest forecast by approximately $1 million due to the lower average natural gas sales price realized in Q4 2011 of $4.26/mscf compared to the forecasted average natural gas sales price of $5.35/mscf for this period. Natural gas production for Q4 2011 was on budget at 10.7 mmscfpd. However, total revenues were lower than budget by only $150 thousand as the gathering, processing and transportation fees were higher than forecasted due to the amendment of the terms of the cost of service calculation for 2011.

Outlook

Corridor estimates total revenues of approximately $16 million for 2012. The budget for revenues is based on an estimate of the average natural gas sales price of US$3.00/mmbtu at Henry Hub and a premium at Dracut of US$0.96/mmbtu, an estimate of the exchange rate of $0.98 U.S. per Canadian dollar and an average net daily gas production for 2012 of approximately 9 mmscfpd.

Production volumes and pricing

	Three months ended December 31		Twelve months ended December 31	
	2011	2010	**2011**	2010
Total volumes				
Natural gas production (mmscf)	**985**	1,223	**4,213**	4,819
Condensate production (bbl)	**875**	1,121	**3,933**	5,347
Daily production averages				
Natural gas production per day (mmscfpd)	**10.7**	13.3	**11.5**	13.2
Condensate production per day (bblpd)	**9.5**	12.2	**10.8**	14.6
Average prices				
Natural gas selling price ($/mscf)	**$4.26**	$5.74	**$5.17**	$5.66
Condensate selling price ($/bbl)	**$100.6**	$83.9	**$105.3**	$76.9

Gathering, processing and transportation fees

thousands of dollars	Three months ended December 31 2011	2010	Twelve months ended December 31 2011	2010
Gathering, processing and transportation fees	**$1,013**	$746	**$1,754**	$1,864

Corridor owns the midstream facilities which process and transport gas from the McCully Field to the Maritimes and Northeast Pipeline ("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 increase in the gathering, processing and transportation ("GPT") fees to $1,013 thousand in Q4 2011 from $746 thousand in Q4 2010 is due to the amendment of the terms of the cost of service calculation for 2011 which resulted in an increase of $865 thousand in the amounts payable for GPT fees in Q4 2011. However, the higher GPT fees in Q4 2011 were not sufficient to offset the effect of the decrease in PCS' share of production, due to the lower overall production from the McCully Field, and GPT fees decreased to $1,754 thousand for the year ended December 31, 2011 from $1,864 thousand for the year ended December 31, 2010.

The GPT fees for 2011 of $1,754 thousand are higher than the latest budget of $850 thousand due to the amendment of the terms of the cost of service calculation for 2011 which resulted in an increase of $865 thousand in the amounts payable for GPT fees in Q4 2011.

Outlook

Corridor's 2012 budget for GPT fees from PCS' share of production is approximately $1,000 thousand based on an average estimated gross daily gas production of 12.0 mmscfpd for 2012.

Royalty Expense

thousands of dollars	Three months ended December 31 2011	2010	Twelve months ended December 31 2011	2010
Crown royalties	**$-**	$256	**$679**	$606
Royalty expense per mscf ($/mscf)	**$-**	$0.21	**$0.16**	$0.13
Percentage of natural gas and gas liquids revenues	**-%**	3.6%	**3.1%**	2.2%

Corridor currently pays 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 increase in the royalty expense per mscf for the year ended December 31, 2011 to $0.16/mscf from $0.13/mscf for the year ended December 31, 2010 is due to a settlement of $188 thousand reached with the New Brunswick Department of Finance ("DOF") in connection with an audit of the Company's crown royalty payments for the periods from April 2003 to October 2009. No royalty amounts were payable in Q4 2011 due to the significant decrease in the natural gas revenues, due to low natural gas prices in Q4 2011, while the deductions allowable in the royalty calculation did not decrease significantly.

Outlook

An effective royalty rate of approximately 1.5% is budgeted for 2012. While the Company has reached a settlement with the DOF for the periods from April 2003 to October 2009, negotiations are still ongoing relating to the calculation of the royalty payments for the periods subsequent to October 2009. The Company has not made any provision as the royalty amounts payable during this period were based on management's best estimate.

Transportation Expense

thousands of dollars	Three months ended December 31 2011	2010	Twelve months ended December 31 2011	2010
Transportation expense	**$1,181**	$1,798	**$5,499**	$6,840
Transportation expense per mscf ($/mscf)	**$1.20**	$1.47	**$1.31**	$1.42

Transportation expense decreased to $1,181 thousand for Q4 2011 from $1,798 thousand for Q4 2010 and to $5,499 thousand for the year ended December 31, 2011 from $6,840 thousand for the year ended December 31, 2010 due to the decrease in natural gas production and to the impact of a transportation agreement for 12,000 mmbtu per day of transportation on the Canadian side of the M&NP in effect from April 1, 2011 to March 31, 2012 at a cost significantly lower than firm tolls. Transportation expense also decreased due to a stronger Canadian dollar as compared to the U.S. dollar.

Transportation expense per mscf of $1.31/mscf for the year ended December 31, 2011 is consistent with the latest forecast of $1.33/mscf.

Outlook

Transportation expense of approximately $1.20/mscf is budgeted for 2012, based on an exchange rate of $0.98 U.S. per Canadian dollar, an average estimated net daily gas production of 9 mmscfpd for 2012 and a transportation agreement in effect from April 1, 2012 to March 31, 2013 to purchase 8,000 mmbtu per day of transportation on the Canadian side of the M&NP at a cost significantly lower than firm tolls.

Production Expense

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2011**	2010	**2011**	2010
Gross production expense	**$1,004**	$1,275	**$4,678**	$4,714
Third party recoveries	**(252)**	(259)	**(709)**	(783)
Net production expense	**$752**	$1,016	**$3,969**	$3,931
Net production expense per mscf ($/mscf)	**$0.76**	$0.83	**$0.94**	$0.82

Gross production expense for Q4 2011 decreased to $1,004 thousand from $1,275 thousand for Q4 2010 due to the decrease in workover activities in Q4 2011. In addition, higher repairs and maintenance and supplies were necessary in Q4 2010 following the installation of an inlet compressor. For the year ended December 31, 2011, gross production expense was consistent with the prior year at $4,678 thousand as the decrease in workover activities offset the higher utilities expense during the first half of 2011. Corridor was successful at reducing utilities expense in the later half of the year as modifications made to the compressor, during the Company's annual shut-down in Q2 2011, were successful in reducing energy costs.

Net production expense per mscf of $0.94/mscf for the year ended December 31, 2011 is lower than the latest forecast of $1.07/mscf due to higher than expected third party recoveries in Q4 2011 and lower than expected workover expenditures.

Outlook

Net production expense of approximately $1.16/mscf is budgeted for 2012 based on an average estimated net daily gas production of 9 mmscfpd for 2012.

Depletion, Depreciation and Amortization

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2011**	2010	**2011**	2010
Depletion, depreciation and amortization	**$4,054**	$4,937	**$16,982**	$18,749
Depletion, depreciation and amortization per mscf ($/mscf)	**$4.64**	$4.49	**$4.53**	$4.35

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 decrease in depletion, depreciation and amortization ("DD&A") expense for the three and twelve months ended December 31, 2011 is primarily due to the decrease in natural gas production compared to the three and twelve months ended December 31, 2010.

The increase in the DD&A expense per mscf for the three and twelve months ended December 31, 2011 reflects the increase in the estimated future development costs relating to the development of proved reserves to $72,193 thousand from $63,924 thousand in 2010, as estimated by GLJ Petroleum Consultants Ltd. ("GLJ") in its December 31, 2011 and December 31, 2010 reserves report in respect of the McCully Field. GLJ's estimate of gross proved natural gas reserves increased by 0.2 bscf to 58.7 bscf but this increase had a minimal impact on DD&A expense for 2011.

The DD&A rate per mscf for 2011 of $4.53/mscf is higher than the previous 2011 estimate of $4.50/mscf due to the increase in the estimated future development costs relating to the development of proved reserves to $72,193 thousand from $63,924 thousand in 2010.

Outlook

The Company's outlook for the DD&A rate per mscf for 2012 is approximately $4.60/mscf based on the Company's estimated capital expenditures of $1,000 thousand and an average estimated net daily gas production of 9 mmscfpd.

General and Administrative Expenses

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Gross expenses	**$1,286**	$1,532	**$4,750**	$5,398
Capitalized overhead	**(104)**	(274)	**(494)**	(630)
Operator recoveries	**(2)**	(51)	**(9)**	(52)
Net expenses	**$1,180**	$1,207	**$4,247**	$4,716

Gross general and administrative expenses ("G&A") decreased to $1,286 thousand in Q4 2011 from $1,532 thousand during Q4 2010 and to $4,750 thousand for the year ended December 31, 2011 from $5,398 thousand for the year ended December 31, 2010 due to a decrease in the number of employees and to a decrease in the use of consultants reflecting management's commitment to lower G&A expenses during this period of low natural gas prices. Net G&A expense of $4,247 thousand is lower than the previous estimate of $4,600 thousand for the same reasons.

Outlook

Gross G&A of approximately $3,850 thousand is budgeted for 2012 as management takes further steps to reduce G&A in response to the continued forecasted low natural gas prices in North America.

Share-based Compensation

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Share-based compensation	**$350**	$1,930	**$1,946**	$2,675

The decrease in share-based compensation expense for the year ended December 31, 2011 to $1,946 thousand from $2,675 thousand for the year ended December 31, 2010 results from the reversal, in Q2 2011, of approximately $1,200 thousand of previously expensed share-based compensation due to the voluntary surrender of 1,200 thousand stock options by the directors of the Company in that period. The decrease in share-based compensation expense to $350 thousand in Q4 2011 from $1,930 thousand in Q4 2010 is due to reduced level of stock options being granted. In Q4 2011, stock options of 1,112 thousand were granted while late in Q3 2010, Corridor granted 2,786 thousand stock options, with 750 thousand of these stock options vesting in Q4 2010.

Outlook

Corridor's estimate of the 2012 share-based compensation is approximately $1,400 thousand.

Deferred Income Taxes

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Deferred income tax recovery	**$(26,284)**	$(388)	**$(27,374)**	$(1,472)
Effective tax rate	**26.9%**	11.3%	**25.6%**	17.6%
Canadian statutory income tax rate	**28.5%**	31.0%	**28.5%**	31.0%

The increase in the effective tax rate for the three and twelve months ended December 31, 2011 compared to the three and twelve months ended December 31, 2010 is due to the deferred income tax expense of $905 thousand recognized in Q2 2011 resulting from an increase in the Company's deferred income tax rate from 26% to 27% following an increase in New Brunswick's corporate income tax rate effective July 1, 2012. The effective tax rates were also impacted by share-based compensation expense which is a non-deductible expense for income tax purposes.

As of December 31, 2011, Corridor's income tax pools were approximately as follows:

thousands of dollars

	December 31 2011
Canadian exploration expense	$72,387
Canadian development expense	80,063
Canadian oil and natural gas property expense	3,139
Deferred financing costs	626
Undepreciated capital cost	39,562
	$195,777

Outlook

Based on planned capital expenditure programs and current natural gas price assumptions, the Company does not expect to be cash taxable for the foreseeable future.

Impairment Losses

The Company recognized an impairment loss of $90,307 thousand for the year ended December 31, 2011 relating to the Company's New Brunswick cash generating unit ("CGU") which includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The impairment resulted from the decline in forecast natural gas prices. The impairment was based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves using forecast prices and costs and discounted using 10%. The Company utilized the following benchmark prices to determine the forecast prices in the fair value calculation:

	2012	2013	2014	2015	2016	2017-2021	Thereafter
Henry Hub ($US/mmbtu)	$3.80	$4.50	$5.00	$5.50	$6.00	$6.50-$7.17	+2%/year
McCully ($/mscf)	$3.50	$4.17	$4.70	$5.24	$5.77	$6.31-$7.03	+2%/year
Exchange rate (US$/CDN$)	$0.98	$0.98	$0.98	$0.98	$0.98	$0.98	$0.98

The Henry Hub gas prices are adjusted for the basis differential to reflect the local reference price, transportation costs and heat content to arrive at the McCully gas price.

Due to the decrease in natural gas prices estimated for 2012, the Company currently has no further plans to explore its Prince Edward Island exploration prospect. Since these licenses will expire in 2012, the Company has recorded an impairment loss in the amount of $4,474 thousand in Q4 2011 relating to the costs incurred on this project.

Write-off of Assets

During the year, Corridor wrote-off $140 thousand of exploration and evaluation expenditures relating to costs incurred on a potential natural gas storage project located in Salt Springs, New Brunswick. The previously capitalized costs were written-off as these licenses expired on March 7, 2011, and were not renewed by New Brunswick's Department of Natural Resources.

During the year, the Company determined to sell excess casing inventory. As a result, the Company wrote-down this inventory by $2,130 thousand to reflect the decrease in the net realizable value. The Company subsequently sold some of this inventory and incurred a further loss of $155 thousand.

Balance Sheet Items

Significant changes between the December 31, 2011 balance sheet and the December 31, 2010 balance sheet include:

- $5,531 thousand increase in cash and cash equivalents, primarily reflecting decreased capital expenditures in 2011.
- $1,500 thousand increase in restricted cash reflecting a letter of credit guarantee in connection with a drilling rig agreement.

- $2,340 thousand decrease in receivables, primarily reflecting the decrease in natural gas prices and natural gas production in December 2011 compared to December 2010.
- $71,289 thousand decrease in property, plant and equipment, primarily reflecting impairment losses of $51,967 thousand and depletion and depreciation expenses in 2011.
- $34,725 thousand decrease in exploration and evaluation assets, primarily reflecting impairment losses of $42,814 thousand recognized by the Company in Q4 2011.
- $27,374 thousand decrease in deferred income taxes, primarily reflecting the deferred income tax impact on the impairment losses of $94,781 thousand.
- $4,907 thousand increase in capital stock, reflecting the exercise of 649 thousand stock options in 2011.

Capital Expenditures

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Development activities	**$(325)**	$19	**$918**	$6,679
Exploration activities	**4,573**	1,721	**7,292**	8,687
Midstream facilities and tie-ins	**31**	(174)	**242**	4,925
Capitalized overhead	**104**	274	**494**	630
Office and other equipment	**-**	-	**5**	85
	$4,383	$1,840	**$8,951**	$21,006

The increase in total capital expenditures for Q4 2011 to $4,383 thousand relates to the drilling of the vertical Will DeMille O-59 shale gas appraisal well. In Q4 2010, the exploration activities consisted of a $1.3 million geohazard survey on the Newfoundland and Labrador side of the Old Harry structure in the Gulf of Saint Lawrence.

For the year ended December 31, 2011, the decrease in total capital expenditures to $8,951 thousand compared to $21,006 thousand for the year ended December 31, 2010 reflects the Company's planned decrease in capital spending in 2011 following decreases in natural gas prices and lower cash flow from operations. For the year ended December 31 2010, the Company drilled the McCully L-37 well and completed a drilling program on Anticosti Island. The Company also incurred costs for the installation of an inlet compressor aimed at increasing the production at the McCully Field. During the year ended December 31, 2011, the Company incurred costs relating to the proposed development of the Old Harry prospect and the drilling of the vertical Will DeMille O-59 shale gas appraisal well in Elgin, New Brunswick.

The total capital expenditures for 2011 were lower than the latest estimate of $10,900 thousand. The net decrease of $1,949 thousand consists mainly of the following:

- Lower than expected costs to advance the drilling of the Old Harry prospect for a net decrease of $500 thousand.
- Lower than expected costs capitalized for workover activities for a net decrease of $500 thousand.
- Lower than expected corporate and gas plant maintenance for a net decrease of $500 thousand.

Outlook

Corridor's 2012 capital budget of $1,000 thousand includes only gas plant maintenance and corporate expenditures at this time. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

Cash Flow Summary

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2011**	2010	**2011**	2010
Cash provided by operating activities	**$1,930**	$2,906	**$10,630**	$13,589
Cash provided by financing activities	**4**	262	**2,756**	323
Cash used in investing activities	**(2,905)**	(7,996)	**(7,855)**	(21,531)
Increase (decrease) in cash and cash equivalents	**$(971)**	$(4,828)	**$5,531**	$(7,619)

The decrease in cash provided by operating activities for the three and twelve months ended December 31, 2011 compared to the three and twelve months ended December 31, 2010 is primarily the result of the decrease in natural gas revenues resulting from the decreased natural gas production and natural gas prices.

The increase in cash provided by financing activities for the year ended December 31, 2011 reflects the exercise of 649 thousand stock options during this period.

Cash used in investing activities has decreased for the three and twelve months ended December 31, 2011 as a result of the decrease in capital spending.

Outlook

Corridor is forecasting 2012 cash flow from operations of $3,000 thousand which is based on an estimate of the natural gas sales price of approximately $4.30/mscf for 2012 (US$3.00/mmbtu at Henry Hub for 2012 and a premium at Dracut of US$0.96/mmbtu and an exchange rate estimate of $0.98 U.S. per Canadian dollar), and an estimated average net daily gas production for 2012 of 9 mmscfpd. Based on available working capital of $9.5 million at December 31, 2011 and Corridor's current capital budget of $1.0 million, Corridor is forecasting a net positive working capital of approximately $11.5 million at December 31, 2012 with no outstanding debt. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

Summary of Quarterly Information

	2011				2010 (1)			
thousand of dollars, except per share amounts and average natural gas price	Three months ended				Three months ended			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Natural gas revenues	**$4,194**	$4,722	$5,155	$7,706	**$7,024**	$5,021	$6,141	$9,097
Net loss	**$(71,416)**	$(2,348)	$(3,643)	$(2,178)	**$(3,038)**	$(1,739)	$(1,739)	$(396)
Net loss per share basic and diluted	**$(0.807)**	$(0.027)	$(0.041)	$(0.025)	**$(0.034)**	$(0.020)	$(0.020)	$(0.005)
Natural gas production (mmscf)	**985**	1,020	1,067	1,141	**1,223**	1,012	1,240	1,344
Average natural gas price ($/mscf)	**$4.26**	$4.63	$4.83	$6.75	**$5.74**	$4.96	$4.95	$6.77
Capital expenditures	**$4,383**	$2,990	$873	$705	**$1,840**	$6,834	$7,681	$4,651

(1) As restated in accordance with IFRS

The decrease in Corridor's natural gas revenues, cash flow from operations and net earnings in 2010 and 2011 is primarily the result of the decrease in the average natural gas sales price from $11.21/mscf for the year ended December 31, 2008 to as low as $3.87/mscf for the three months ended September 30, 2009 and to $4.26/mscf in the three months ended December 31, 2011. In response to these lower prices, Corridor has decreased drilling activities at the McCully Field since Q2 2009, which has resulted in reduced capital expenditures and natural gas production.

Outstanding Share Information

As of February 29, 2012, the outstanding share information was as follows:

Common shares outstanding	**88,464,133**
Stock options to purchase common shares	**3,429,167**
Total common shares outstanding after exercise of all stock options	**91,893,300**
thousands of dollars	
Total proceeds due on exercise of all stock options	**$14,164**

Related Party Transactions

A director of Corridor is a partner in a law firm that provides legal services which amounted to $28 thousand and $139 thousand for the three and twelve months ended December 31, 2011 (three and twelve months ended December 31, 2010 - $115 thousand). The amounts paid are recorded at the amount agreed to between the parties and approximate fair value.

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 December 31, 2011, Corridor had access to a $16 million revolving credit facility with a Canadian chartered bank. The credit facility currently 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% per annum, with interest payable monthly. The credit facility will mature, subject to mutual agreement to extend, on July 28, 2012 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 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 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 $16 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 December 31, 2011, no amounts were drawn on this credit facility and $16 million remained available thereunder.

At this time, Corridor does not intend to access its credit facility in 2012 consistent with the Company's 2012 capital budget. The 2012 budget assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales.

At this time, the directors of the Company have approved a nominal capital budget of $1,000 thousand in recognition of low gas prices and to preserve cash flow. The Company has sufficient financial resources to undertake its planned activities. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

Corridor does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties. 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 financings, equity financings 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.

Corridor's short-term investments consist of bank deposits with 90 days or less to maturity.

Contractual Obligations

As of December 31, 2011, Corridor had the following contractual obligations and commitments:

thousands of dollars	**Total**	2012	2013	2014	2015	2016	Thereafter
Accounts payable and accrued liabilities	**$3,459**	$3,459	$-	$-	$-	$-	$-
Obligations under capital lease	**14**	14	-	-	-	-	-
Transportation commitments	**2,064**	1,669	395	-	-	-	-
Operating leases	**2,943**	859	746	341	326	244	427
Decommissioning liabilities	**11,101**	-	153	-	-	-	10,948
	$19,581	$6,001	$1,294	$341	$326	$244	$11,375

Given the Company's available liquid resources and the Company's 2012 budget, management expects to have sufficient available funds to meet the current and foreseeable contractual obligations and commitments.

Internal Controls over Financial Reporting

The President and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109").

As of the year ended December 31, 2011, an evaluation of the effectiveness of Corridor's disclosure controls and procedures, as defined by NI 52-109, was performed. Based on that evaluation, each of the President and the Chief Financial Officer of Corridor has concluded that the disclosure controls and procedures are effective and provide reasonable assurance that material information was made known to them and recorded, processed, summarized and reported within the time periods required particularly during the period in which the annual filings are being prepared.

The President and the Chief Financial Officer have designed, or caused to be designed under their supervision, 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 IFRS. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The certifying officers evaluated the effectiveness of Corridor's internal controls over financial reporting and concluded that the Company's internal controls over financial reporting are effective as at December 31, 2011. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in *Internal Control – Integrated Framework*.

During the year ended December 31, 2011, 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. In connection with the adoption of IFRS, we maintained internal controls over financial reporting and validated the conversion to IFRS and the restatement of the 2010 comparative financial information and related disclosures.

Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies and commitments. Actual results could differ materially from those estimates. The following significant critical accounting estimates have been impacted by the adoption of IFRS.

Asset Impairments

Under GAAP, an impairment test was required when the undiscounted future net cash flows from proved reserves of assets, grouped in a country cost centre, were less than the carrying value. The impairment loss was then measured based on discounted future net cash flows from proved plus probable reserves using a risk-free interest rate.

Under IFRS, impairment test assessments will require more judgment and estimates by management. Under IFRS, an impairment test is required only if there are events or changes in circumstances that indicate that the carrying value of assets may not be recoverable. An impairment loss is then only recognized when the recoverable amount for a cash-generating unit ("CGU"), calculated as the higher of fair value less costs to sell and value-in-use, is less than its carrying value. A CGU is based on management's determination of the smallest group of assets that generate independent and identifiable cash inflows. Under IFRS, impairment losses are reversed when there is a subsequent increase in the recoverable amount of the impaired asset with the impairment reversal limited to the net book value that would have existed had the impairment loss not been recorded.

Determination as to whether and how much an asset is impaired also involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles and reserves. An impairment loss could result in a material loss in future periods but future depletion expense would be reduced as a result. The Company recognized an impairment loss of $90,307 thousand for the year ended December 31, 2011 relating to the Company's New Brunswick CGU. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves using forecast prices and costs and discounted using 10%. The discount rate is based on Corridor's post-tax weighted average cost of capital and is consistent with Corridor's peer group. The following table demonstrates the impact on the impairment loss of a one percent change in the discount rate:

(thousands of dollars)

	2011	
	1% rate increase	1% rate decrease
Increase (decrease) in impairment loss	$ 12,650	$ (14,448)

Depletion

Under GAAP, capitalized costs, estimated future development costs to develop proved reserves and asset retirement costs were accumulated in a country cost centre and depleted based on estimated proved natural gas reserves. Under IFRS, the depletion basis contracts from a country cost centre to a smaller area. At this time, management has determined that the McCully Field consists of only one area for depletion purposes. Corridor will continue to deplete these costs using proved natural gas reserves.

Decommissioning Liabilities

The decommissioning liability (asset retirement obligations under GAAP) is measured based on the estimated cost of abandonment discounted to its net present value. The determination of decommissioning liabilities under IFRS requires the recalculation of the decommissioning liability and related asset at each balance sheet date using a current discount rate. Future changes in interest rates, or in the assumptions relating to the expected timing of the future abandonment costs, could result in a material change in the decommissioning liability and related asset.

Contingent Liabilities

Provisions for contingent liabilities are recognized under IFRS when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the obligation can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Under GAAP, contingent liabilities were not recognized unless they were likely to be realized. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Changes in Accounting Policies

Adoption of IFRS

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee that were effective as of December 31, 2011. On January 1, 2011, Corridor adopted IFRS with an effective date of January 1, 2010. The transition to IFRS required the adoption of new accounting policies and the restatement of amounts, previously reported by Corridor under GAAP, to be in accordance with the IFRS accounting policies (as disclosed in note 3 to the financial statements for the year ended December 31, 2011). The impacts of the adoption of IFRS on Corridor's financial position as at January 1, 2010 and December 31, 2010 and on the financial results, changes in shareholders' equity and cash flows for the year ended December 31, 2010, as well as the IFRS 1 exemptions elected by the Company, are detailed in note 23 to the financial statements for the year ended December 31, 2011. This note also includes detailed reconciliations between Corridor's financial statements as previously reported under GAAP and its financial statements as reported under IFRS.

The following table provides summary reconciliations, by quarter, between Corridor's 2010 GAAP financial results and its IFRS financial results, with a discussion of the related IFRS accounting policy changes below.

Summary net loss reconciliation

thousands of dollars	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**2010**
Net loss under GAAP	$(695)	$(2,227)	$(2,281)	$(3,402)	**$(8,605)**
Decrease in DD&A expense *(a)*	883	873	790	1,098	**3,644**
Decrease (increase) in workover activities expensed *(b)*	(311)	(62)	30	41	**(302)**
Increase in share-based compensation *(c)*	(97)	(85)	(35)	(448)	**(665)**
Reclassification of accretion to finance costs *(d)*	(31)	(31)	(33)	(21)	**(116)**
Increase in accretion expense *(d)*	(5)	(6)	(7)	(21)	**(39)**
Impact of IFRS adjustments on deferred taxes	(140)	(201)	(203)	(285)	**(829)**
Net loss under IFRS	$(396)	$(1,739)	$(1,739)	$(3,038)	**$(6,912)**
Basic and diluted net loss per share under GAAP	$(0.008)	$(0.025)	$(0.026)	$(0.039)	**$(0.098)**
Basic and diluted net loss per share under IFRS	$(0.005)	$(0.020)	$(0.020)	$(0.034)	**$(0.078)**

a) DD&A Expense

Under GAAP, Corridor followed 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 were capitalized and accumulated in a country cost centre. Under IFRS 6 *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"), pre-exploration costs, or expenditures incurred prior to obtaining the legal right to explore, are expensed in the period incurred. After the legal right to explore is acquired, costs incurred to determine the technical feasibility and commercial viability of an exploration project are capitalized as exploration and evaluation ("E&E") assets. Once the technical feasibility and commercial viability has been determined, costs are transferred into property, plant and equipment ("PP&E").

The Company did not elect to take the exemption permitted under IFRS 1 for entities using the full cost method of accounting and instead reviewed all costs capitalized as petroleum and natural gas properties at January 1, 2010 and reclassified these costs between exploration activities and development activities. As a result, E&E assets in the amount of $55,913 thousand at January 1, 2010 and $65,707 thousand at December 31, 2010 were reclassified from PP&E to E&E assets in accordance with IFRS 6.

The decrease in the DD&A expense noted above in the summary net loss reconciliation table is largely the result of the change in accounting policy under IFRS for the depletion of exploration and evaluation ("E&E") assets. E&E assets, which were accumulated in a country cost centre and depleted by the Company under GAAP, are not depleted under IFRS. The Company continues to calculate depletion expense using the unit-of-production method based on estimated proved natural gas reserves under IFRS.

The following table provides the impact, by quarter, on Corridor's 2010 DD&A expense and DD&A expense per mscf:

DD&A expense

thousands of dollars	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**2010**
DD&A expense under GAAP	$6,022	$5,619	$4,717	$6,035	**$22,393**
DD&A expense per mscf ($/mscf) under GAAP	$4.99	$5.10	$5.22	$5.49	**$5.20**
DD&A expense under IFRS	$5,139	$4,746	$3,927	$4,937	**$18,749**
DD&A expense per mscf ($/mscf) under IFRS	$4.26	$4.31	$4.35	$4.49	**$4.35**

b) Workover Activities

Under GAAP, workover activities were capitalized by the Company, and depleted along with the related asset, if the work resulted in an increase in the productive life of the well. Under IFRS, workover activities are also capitalized if the work results in an increase in the productive life but are only amortized until the next scheduled workover activity. As a result of this difference, workover activities expensed changed as noted in the summary net loss reconciliation table above.

The following table provides the impact, by quarter, on Corridor's 2010 production expense and production expense per mscf:

Production expense

thousands of dollars	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**2010**
Production expense under GAAP	$919	$802	$851	$1,057	**$3,629**
Production expense per mscf ($/mscf) under GAAP	$0.68	$0.65	$0.84	$0.86	**$0.75**
Production expense under IFRS	$1,230	$864	$821	$1,016	**$3,931**
Production expense per mscf ($/mscf) under IFRS	$0.91	$0.70	$0.81	$0.83	**$0.82**

c) Share-based Compensation

Under GAAP, the fair value of the stock options with graded vesting was calculated as one grant and recognized as stock-based compensation expense on a straight line basis over the vesting period. Under IFRS 2 *Share-based Payments*, each vesting installment of a stock option grant is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of each respective vesting instalment. While the amount of share-based compensation expense will not change materially over the life of the stock options, this expense will be higher at the beginning of the stock option grant and lower at the end of the vesting period. As a result of this difference in accounting, share-based compensation expense increased, as noted in the summary net loss reconciliation table above.

d) Decommissioning Liability

Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the expected cash outflows for future abandonment of assets are estimated and discounted using a risk-free rate while under GAAP a credit-adjusted risk-free rate was applied. Under IFRS, the determination of the decommissioning liability (asset retirement obligations under GAAP) and related asset requires the use of a current discount rate at each balance sheet date. As a result of this difference in accounting, the decommissioning liability increased by $2,272 thousand at January 1, 2010 and by an additional $171 thousand at December 31, 2010. The higher decommissioning liability balance resulted in an increase in accretion expense in 2010 as noted in the summary net loss reconciliation table above. In addition, accretion is recorded as a finance cost under IFRS, therefore accretion expense previously recorded under GAAP in DD&A was reclassified to finance costs.

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 government regulation, hydraulic fracturing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, variations in exchange rates, expiration of licenses and leases, development and/or acquisition of oil and natural gas properties, trading of common shares, seasonality, competition, management of growth, conflicts of interest, issuance of debt, title to properties, 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.

Substantial Capital Requirements and Financing

The Company anticipates making substantial capital expenditures for the exploration, development and production of natural gas and oil reserves in the future. The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties. The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. If the Company's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects. 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 and oil trapped in shale. If such resources are developed, it may have a substantial impact on the price of gas and oil 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 operational problems with pipelines and processing 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. Any substantial and extended decline in the price of gas and oil would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. In addition, a decline in the price of gas may result in Corridor having to impair, as a non-cash charge to earnings, the carrying value of its oil and gas properties.

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.

Reserves Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves, including many factors beyond the Company's control. The reserve and associated cash flow information of the Company represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of gas and oil, royalty rates, environmental conditions, governmental and other regulatory factors and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

In accordance with applicable securities laws, GLJ has used forecast price and cost estimates in calculating reserves. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the effect of inflation on costs.

Actual production and revenues derived therefrom will vary from the estimates contained in the GLJ reserves report with an effective date of December 31, 2011 setting forth certain information relating to certain natural gas reserves of Corridor's properties, specifically the McCully Field, and the estimated present value associated with such reserves and such variations could be material. The reserves and estimated cash flows to be derived therefrom contained in the GLJ reserves report will be reduced to the extent that such activities do not achieve the level of success assumed in such report.

Management’s Report

The accompanying financial statements are the responsibility of management. The financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include amounts based on management’s best estimates and judgments. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the financial statements and the safeguarding of the Company’s assets.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The financial statements have been approved by the Board of Directors on recommendation from the Audit Committee. The external auditors have full and free access to the Audit Committee.

PricewaterhouseCoopers LLP has been appointed to serve as the Company's external auditors. They have examined the financial statements and the Company’s internal control over financial reporting and provided their auditor’s report.

March 29, 2012

Signed *“Phillip R. Knoll”*
Phillip R. Knoll
President and Chief Executive Officer

Signed *“Lisette F. Hachey”*
Lisette F. Hachey
Chief Financial Officer

March 29, 2012

Independent Auditor's Report

To the Shareholders of Corridor Resources Inc.

We have audited the accompanying financial statements of **Corridor Resources Inc.**, which comprise the statements of financial position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Corridor Resources Inc. as at December 31, 2011 and December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

PricewaterhouseCoopers LLP, Chartered Accountants
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
T: 902 491 7400 F:902 422 1166, www.pwc.com/ca

Statements of Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)

For the years ended December 31	**2011**	2010 *(note 23)*
Sales *(note 5)*	**$ 23,993**	$ 29,558
Royalty expense	**(679)**	(606)
Revenues, net	**23,314**	28,952
Expenses		
Depletion, depreciation and amortization	**16,982**	18,749
Transportation expense	**5,499**	6,840
Production expense *(note 6)*	**3,969**	3,931
General and administrative *(note 6)*	**4,247**	4,716
Share-based compensation *(note 17)*	**1,946**	2,675
Impairment losses *(notes 10 and 11)*	**94,781**	-
Loss on sale and write-down of inventory *(note 10)*	**2,285**	146
Write-off of exploration and evaluation assets *(note 11)*	**196**	-
Capital tax expense	**81**	138
	129,986	37,195
Loss before the following items	**(106,672)**	(8,243)
Interest and finance costs	**323**	352
Foreign exchange losses	**58**	89
Interest and other income	**(94)**	(300)
Loss before income taxes	**(106,959)**	(8,384)
Deferred income tax recovery (*note 7*)	**(27,374)**	(1,472)
Net loss and comprehensive loss	**$ (79,585)**	$ (6,912)
Net loss per share		
Basic	**$ (0.899)**	$ (0.078)
Diluted	**$ (0.899)**	$ (0.078)
Weighted average number of common shares		
Basic	**88,436**	87,781
Diluted *(note 8)*	**88,650**	88,317

See accompanying notes to the financial statements.

Statements of Financial Position

(thousands of Canadian dollars)

As at	**December 31 2011**	December 31 2010 *(note 23)*	January 1 2010 *(note 23)*
Assets			
Current assets			
Cash and cash equivalents	**$ 6,396**	$ 865	$ 8,484
Restricted cash *(note 21 b)*	**2,150**	650	1,350
Receivables *(notes 9 & 19 a ii)*	**3,228**	5,568	6,624
Inventory *(note 10)*	**870**	-	-
Capital taxes receivable	**229**	173	85
Prepaids and security deposits	**107**	82	120
	12,980	7,338	16,663
Non-current assets			
Property, plant and equipment *(notes 10 & 15)*	**153,711**	225,000	233,284
Exploration and evaluation assets *(note 11)*	**30,982**	65,707	55,913
Investment tax credits	**1,660**	1,715	1,227
Deferred income tax assets *(note 7)*	**3,959**	-	-
Intangible assets *(note 12)*	**345**	393	425
Restricted cash and security deposits *(note 21 b)*	**380**	1,130	1,230
Total assets	**$ 204,017**	$ 301,283	$ 308,742
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities *(note 13)*	**$ 3,459**	$ 3,195	$ 5,636
Obligations under finance leases	**14**	141	145
	3,473	3,336	5,781
Non-current liabilities			
Obligations under finance leases	**-**	14	155
Deferred income taxes *(note 7)*	**-**	23,415	24,886
Decommissioning liability *(note 14)*	**5,408**	4,482	3,772
Total liabilities	**8,881**	31,247	34,594
Shareholders' Equity			
Capital stock *(note 16)*	**247,496**	242,589	242,381
Contributed surplus	**7,952**	8,174	5,582
Retained earnings (deficit)	**(60,312)**	19,273	26,185
Total shareholders' equity	**195,136**	270,036	274,148
Total liabilities and shareholders' equity	**$ 204,017**	$ 301,283	$ 308,742

See accompanying notes to the financial statements.

Commitments *(note 21)*
Contingency *(note 22)*

On behalf of the Board

Signed *"Phillip R. Knoll"* Director

Signed *"Robert D. Penner"* Director

Statements of Changes in Shareholders' Equity

(thousands of Canadian dollars)

For the years ended December 31	**2011**	2010
		(note 23)
Capital stock, beginning of year	**$ 242,589**	$ 242,381
Exercise of stock options for cash	**2,739**	125
Amount previously expensed for stock options exercised	**2,168**	83
Capital stock, end of year	**$ 247,496**	$ 242,589
Contributed surplus, beginning of year	**$ 8,174**	$ 5,582
Share-based compensation	**1,946**	2,675
Amount previously expensed for stock options exercised	**(2,168)**	(83)
Contributed surplus, end of year	**$ 7,952**	$ 8,174
Retained earnings, beginning of year	**$ 19,273**	$ 26,185
Net loss	**(79,585)**	(6,912)
Retained earnings (deficit), end of year	**$ (60,312)**	$ 19,273
Shareholders' equity, end of year	**$ 195,136**	$ 270,036

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of Canadian dollars)

For the years ended December 31	**2011**	2010
		(note 23)
Operating Activities		
Net loss	**$ (79,585)**	$ (6,912)
Adjustments not affecting cash:		
Depletion, depreciation and amortization	**16,982**	18,749
Share-based compensation	**1,946**	2,675
Write-downs of assets and impairment losses	**97,262**	146
Deferred income tax recovery	**(27,374)**	(1,472)
Other operating activities	**19**	64
	9,250	13,250
Decrease in non-cash operating working capital *(note 18)*	**1,380**	339
Cash provided by operating activities	**10,630**	13,589
Financing Activities		
Proceeds from capital stock issues	**2,739**	125
Other financing activities	**17**	198
Cash provided by financing activities	**2,756**	323
Investing Activities		
Exploration and evaluation expenditures	**(7,786)**	(9,317)
Property, plant and equipment expenditures	**(1,165)**	(11,689)
Proceeds from sale of inventory	**722**	710
Decrease (increase) in restricted cash and security deposits	**(750)**	800
Decrease (increase) in non-cash investing working capital *(note 18)*	**1,124**	(2,019)
Other investing activities	**-**	(16)
Cash used in investing activities	**(7,855)**	(21,531)
Increase (decrease) in cash and cash equivalents	**5,531**	(7,619)
Cash and cash equivalents, beginning of year	**865**	8,484
Cash and cash equivalents, end of year	**$ 6,396**	$ 865
Cash and cash equivalents consists of:		
Cash	**$ 2,926**	$ 845
Short-term investments	**3,470**	20
Cash and cash equivalents, end of year	**$ 6,396**	$ 865

See accompanying notes to the financial statements.

Notes to the Financial Statements
Years ended December 31, 2011 and 2010

1. Nature of operations

Corridor Resources Inc. ("Corridor" or the "Company") is an Eastern Canadian 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. Corridor is a public company incorporated under the Alberta Business Corporations Act with common shares listed on the Toronto Stock Exchange under the symbol "CDH". Corridor's head office is located at 5475 Spring Garden Road, Halifax, Nova Scotia, B3J 3T2.

2. Basis of preparation and adoption of IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of financial statements under IFRS was effective January 1, 2011 and resulted in changes to the Company's financial statements previously reported under Canadian generally accepted accounting principles ("GAAP"). The term GAAP in these financial statements refers to GAAP before the adoption of IFRS. Note 23 discloses the impact of the transition to IFRS on the financial position, financial performance and cash flows for the year ended December 31, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements prepared under GAAP for the year ended December 31, 2010.

On March 29, 2012, the financials statements were approved by the Board of Directors and signed by the chair of the Audit Committee and the President and Chief Executive Officer.

3. Significant accounting policies

The financial statements have been prepared by management using the following IFRS accounting policies. The accounting policies have been applied consistently for all periods presented in these financial statements with the exception of the IFRS 1 exemptions applied by the Company, as disclosed in note 23.

a) Basis of measurement

These financial statements are prepared on a going concern basis under the historical cost basis. These financial statements are presented in Canadian dollars, the Company's functional currency, with all information presented in thousands of Canadian dollars, except where otherwise indicated.

b) Exploration and evaluation assets

Once the legal right to explore has been acquired, costs directly associated with an exploration activity are capitalized as exploration and evaluation intangible assets by licensed exploration area. Capitalized costs include lease acquisition costs, geological and geophysical expenses, the portion of general and administrative expenses directly related to exploration activities and costs of drilling both productive and non-productive wells. Costs are capitalized until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the determination of reserves is evaluated, and are then transferred to oil and gas properties after being assessed for impairment.

Exploration and evaluation assets are assessed for impairment based on a technical, commercial and management review. When the Company believes that exploration and evaluation assets are no longer viable for future economic development the assets are written-off to the Statement of Loss and Comprehensive Loss.

All exploration and evaluation assets are subject to a review for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

Exploration and evaluation assets are not depleted.

3. Significant accounting policies (continued)

b) Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depletion and accumulated impairment losses.

The cost of drilling development wells, including unsuccessful development or delineation wells, are capitalized within oil and gas properties in property, plant and equipment. Capitalized costs include the purchase price or construction cost and any costs directly attributable to bringing the well into operation, the present value of the estimated cost of the decommissioning obligation and borrowing costs for qualifying assets.

When commercial production has commenced, depletion of oil and gas properties is calculated using the unit-of-production basis over the estimated proved reserves before royalties, as determined by qualified independent reserves engineers. Depletion is calculated at the field level and takes into account expenditures incurred to date together with future development expenditures to develop the proved reserves.

When an item in oil and gas properties is disposed of the carrying amount of the asset is derecognized with any gain or loss recorded in the Statement of Loss and Comprehensive Loss.

c) Property, plant and equipment

The initial cost of property, plant and equipment consists of its purchase price or construction cost, the present value of the estimated decommissioning obligation and borrowing costs for qualifying assets.

Inventories held for exploration and development activities are capitalized in property, plant and equipment and stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less applicable selling expense.

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses, and is depreciated using the following methods and estimated useful lives:

Asset	Method	Basis
Buildings	Declining Balance	4%
Equipment and furniture	Declining Balance	20% - 30%
Computer hardware and software	Declining Balance	30% - 50%
Vehicles	Declining Balance	30%
Production facilities	Unit of Production	Proved reserves

Expenditures on major turnarounds, inspections or repairs consist of the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Costs associated with turnarounds are capitalized and amortized over the period to the next turnaround. Maintenance costs associated with routine maintenance are expensed as incurred.

When an item of property, plant and equipment is disposed of the carrying amount of the asset is derecognized with any gain or loss recorded in the Statement of Loss and Comprehensive Loss.

d) Investment tax credits

Investment tax credits are accrued when the Company has made the qualifying expenditures and there is reasonable assurance that the credits will be realized. Investment tax credits are deducted from the related qualifying assets with depletion being calculated on the net amount.

e) Jointly controlled assets

Certain of Corridor's exploration and development activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate share in those activities. The Company only accounts for its share of the jointly controlled assets and liabilities, income from sale, and expenses incurred in relation to Corridor's interest in the jointly held assets.

3. Significant accounting policies (continued)

f) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. A CGU includes a group of assets that generates cash flows that are largely independent of the cash inflows from other groups of assets. A CGU may include certain aggregated exploration and evaluation assets. If any indication of impairment exists, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is written down to its recoverable amount with the impairment loss recognized in the Statement of Loss and Comprehensive Loss.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount when the impairment loss was initially recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been recognized, net of depletion, depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Any reversal of previously recognized impairment losses is recognized in the Statement of Loss and Comprehensive Loss.

g) Intangible assets

Intangible assets consist of computer software and are carried at cost, less accumulated amortization and less any accumulated impairment losses. Intangible assets are depreciated on a straight line basis over the estimated useful life of ten years.

h) Deferred financing costs

Financing costs related to the issuance of debt are deferred and amortized using the effective interest method over the expected life of the debt. Deferred financing costs are netted against the related financial liability.

i) Financial assets and liabilities

All financial instruments, including derivatives and embedded derivatives in certain contracts, must initially be recognized on the balance sheet at fair value which is based on the following hierarchy:

- -Level 1 - quoted prices in active markets;
- -Level 2 - internal models using observable market information as inputs; and
- -Level 3 - internal models without observable market information as inputs.

Subsequent measurement of the financial instruments is based on their classification. Non-financial derivatives must be recorded at fair value on the balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements. The Company has classified each financial instrument into the following categories:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include cash and cash equivalents and trade receivables and are included in current assets. Their carrying values approximate fair values because of their short term to maturity. Loans and receivables are initially recognized at the amount expected to be received less a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the original effective interest rate.

3. Significant accounting policies (continued)

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities and obligations under finance lease. They approximate their fair values because of their short term to maturity or because the interest rates approximate market rates at the end of the year. Trade payables are initially recognized at the amount required to be paid less a discount to reduce the payables to fair value. Subsequently, they are measured at amortized cost using the effective interest rate method, which generally corresponds to cost. Obligations under finance lease are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

j) Provisions

i) General:

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the obligation can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value where the effect is material.

ii) Decommissioning provision:

A decommissioning liability is recognized for the present value of the future cost of abandonment of oil and gas wells and related production facilities based on engineering estimates. A decommissioning liability is recognized only when a legal or constructive obligation arises. The liability is measured at each reporting date at the fair value of the estimated expenditures expected to settle the obligation using a risk-free interest rate. An equivalent amount is capitalized as part of exploration and evaluation assets or property, plant and equipment and depleted along with the related asset.

Changes in the estimated timing of settlement or future cash flows are dealt with prospectively by recording an adjustment to the decommissioning liability and a corresponding adjustment to the related asset. The unwinding of the discount on the decommissioning liability is included as a finance cost in the Statement of Loss and Comprehensive Loss. Actual expenditures are charged against the accumulated decommissioning liability as incurred.

k) Share-based compensation

The Company records share-based compensation expense for stock options granted to directors, officers, employees and consultants using the fair value method. The fair value of each vesting installment of the stock options granted is determined using the Black-Scholes option pricing model. Share-based compensation expense is calculated over the vesting period based on the number of stock options expected to vest. Forfeiture estimates are based on historical information and reviewed at each reporting date, with any impact being recognized immediately in the Statement of Loss and Comprehensive Loss. Share-based compensation expense is recorded in the Statement of Loss and Comprehensive Loss with a corresponding increase to contributed surplus. When stock options are exercised the consideration received and the amount previously recognized in contributed surplus is recorded as an increase to capital stock.

l) Revenue recognition

Revenue from the sale of natural gas is recognized when the title passes to the customer and delivery has taken place. Revenue reported represents only the Company's share of the joint venture activities and is shown net of royalties. Natural gas liquids revenue is recognized when delivery has taken place. Other revenue is recognized in the period that the service is provided to the customer.

m) Current taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities using income tax rates that are enacted or substantively enacted at the reporting date.

3. Significant accounting policies (continued)

n) Deferred taxes

Deferred income tax is recorded using the liability method of accounting. Deferred income tax is recognized for the temporary differences between the tax basis and carrying value of assets and liabilities and is measured using the enacted or substantively enacted tax rates expected to be in effect when the deferred income tax assets are realized or the liabilities are settled. Deferred income tax assets are recognized to the extent future recovery is probable. The effect of a change in income tax rates that are substantively enacted is recognized in the Statement of Loss and Comprehensive Loss in the period the change occurs. Deferred income tax assets and liabilities are presented as non-current. Deferred income tax relating to items recognized directly in equity is recognized in equity.

o) Earnings per share

Earnings per share amounts are calculated based on the weighted-average number of common shares outstanding during the year. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if the stock options were exercised, using the treasury stock method. This method assumes that the proceeds received upon exercise of all outstanding stock options, with an exercise price below the average market price, would be used to repurchase the Company's common shares at the average market price during the period.

p) Foreign currency translation

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities at the balance sheet date are recognized in the Statement of Loss and Comprehensive Loss.

q) Leases

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized as property, plant and equipment of the Company at the lower of the fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recognized as an obligation under finance leases. All other leases are classified as operating leases with payments made under operating leases expensed to the Statement of Loss and Comprehensive Loss as incurred.

r) Operating segment

In measuring performance, Corridor does not distinguish or group its operations on a geographic or any other basis, and accordingly, results have been aggregated into a single reportable segment.

s) Accounting standards and amendments issued but not yet adopted

The following listing of standards and amendments are those the Company reasonably expects may have an impact on disclosure, financial position and/or financial performance when applied at a future date. The Company has not yet assessed the impact of these standards and amendments.

i) IFRS 7, *Financial Instruments Disclosure*, requires the disclosure of information that will enable users of an entity's financial statements to evaluate the effect, or potential effect, of offsetting of financial assets and liabilities to the entity's financial position. The amendments to IFRS 7 are applicable to annual periods beginning on or after January 1, 2013, with retrospective application required.

3. Significant accounting policies (continued)

ii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

iii) IFRS 12, *Disclosure of Interests in Other Entities,* establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, and associates. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

iv) IFRS 13, *Fair Value Measurement,* is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

4. Critical judgments and accounting estimates

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are evaluated at each reporting date and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from the estimated amounts as future confirming events occur and more information is obtained by management. The Company has identified the following areas requiring significant judgments, assumptions or estimates.

Recoverability of asset carrying values

At each reporting date, the Company assesses its property, plant and equipment, oil and gas properties and exploration and evaluation assets for possible impairment, to determine if there is any indication that the carrying values of the assets may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles, operating costs, future capital costs and reserves. Changes in circumstances may impact these estimates which may impact the recoverable amount of assets. An impairment loss could result in a material loss in future periods but future depletion expense would be reduced as a result.

Natural gas and oil reserves

All of Corridor's reserves are evaluated and reported on by independent reserve engineers. Reserve estimates have a material impact on the depletion expense, impairment test calculation and decommissioning liability, all of which could possibly have a material impact on net loss. The estimation of economically recoverable natural gas and oil reserves is based upon a number of variable factors and assumptions, such as historical production from the properties, ultimate reserve recovery, timing and amount of capital expenditures, commodity prices, royalty rates and future costs, all of which may vary from actual results. Assumptions that are valid at the time of estimation may change significantly when new information becomes available.

4. Critical judgments and accounting estimates (continued)

Decommissioning liability

Decommissioning costs will be incurred by the Company at the end of the productive life of some of the Company's facilities and assets. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing can also change in response to changes in reserves or changes in laws and regulations. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results.

Income taxes

The Company calculates deferred income taxes based on rates substantively enacted at each reporting period and expected to be in effect when temporary differences reverse. Any changes in the estimated timing of these reversals could impact the deferred income tax rate and could materially impact the Company's deferred income tax expense. In addition, all income tax filings are subject to audit and potential reassessment by the Canada Revenue Agency. As a result, the actual deferred income tax liability could differ from the amount estimated by management and the impact on the Company's deferred income tax expense could be material.

Share-based compensation

The calculation of share-based compensation expense includes estimates of risk-free interest rates, expected volatility of the Company's share price and expected life of the outstanding options. By their nature, these estimates are subject to measurement uncertainty and could materially impact the financial statements.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5. Sales

Sales consist of the following:

(thousands of Canadian dollars)

	2011	2010
Natural gas sales	**$ 21,777**	$ 27,283
Gathering, processing and transportation fees	**1,754**	1,864
Natural gas liquids sales	**462**	411
Sales	**$ 23,993**	$ 29,558

6. Expenses by nature

Production expenses by nature consist of the following:

(thousands of Canadian dollars)

	2011	2010
Wages and benefits	**$ 1,030**	$ 1,023
Utilities expense	**1,141**	917
Repairs and maintenance	**776**	708
Workover activities and field maintenance	**321**	452
Other production expenses	**1,410**	1,614
	4,678	4,714
Third party recoveries	**(709)**	(783)
Production expenses	**$ 3,969**	$ 3,931

6. Expenses by nature (continued)

General and administrative expenses by nature consist of the following:

(thousands of Canadian dollars)

	2011	2010
Wages and benefits	**$ 2,327**	$ 2,515
Directors fees	**214**	213
Consultants	**637**	1,060
Legal and accounting	**419**	392
Other general and administrative expenses	**1,153**	1,218
	4,750	5,398
Third party recoveries & capitalized overhead	**(503)**	(682)
General and administrative expenses	**$ 4,247**	$ 4,716

7. Income taxes

Deferred income tax recovery differs from the amount which would be obtained by applying the Canadian statutory income tax rates to the loss before income taxes as follows:

(thousands of Canadian dollars)

	2011	2010
Loss before income taxes	**$ (106,959)**	$ (8,384)
Blended Canadian statutory income tax rate	**28.5%**	31.0%
Expected income tax recovery	**$ (30,483)**	$ (2,599)
Increase resulting from:		
Non-deductible share-based compensation	**555**	829
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**1,575**	285
Effect of provincial tax rate change	**905**	-
Other	**74**	13
	$ (27,374)	$ (1,472)

During the year, the Company increased its deferred income tax rate from 26% to 27% following the New Brunswick Government's 2010 budget which resulted in the Province's corporate income tax rate being increased from 8% to 10% effective July 1, 2012. As a result, Corridor's deferred income tax recovery decreased by $905 thousand for the year ended December 31, 2011.

The continuity of the temporary differences of the Company's deferred income tax liabilities (assets) is as follows:

(thousands of Canadian dollars)

	December 31 2010 deferred income tax balance	**December 31 2011 deferred income tax recovery**	December 31 2011 deferred income tax balance
Property, plant and equipment and exploration and evaluation assets	$ 24,532	**$ (27,504)**	**$ (2,972)**
Decommissioning liability	(547)	**(271)**	**(818)**
Share issue costs	(570)	**401**	**(169)**
	$ 23,415	**$ (27,374)**	**$ (3,959)**

7. Income taxes (continued)

(thousands of Canadian dollars)

	January 1 2010 deferred income tax balance	December 31 2010 deferred income tax recovery	December 31 2010 deferred income tax balance
Property, plant and equipment and exploration and evaluation assets	$ 26,394	$ (1,862)	$ 24,532
Decommissioning liability	(406)	(141)	(547)
Share issue costs	(1,102)	532	(570)
	$ 24,886	$ (1,472)	$ 23,415

The temporary differences of $169 thousand at December 31, 2011 for share issue costs are expected to reverse in the next twelve months.

The Company has $1,660 thousand of outstanding investment tax credits which expire between 2028 and 2031.

At December 31, 2011, the Company has $195,777 thousand of unutilized income tax pools available to reduce future taxable income. Deferred income tax assets have been recognized for all of the income tax pools as future recovery is probable.

8. Loss per share

For the year ended December 31, 2011, stock options of 1,768 thousand (December 31, 2010 – 775 thousand) were excluded from the dilution calculation since the average market price for the year was lower than the exercise price.

9. Receivables

Receivables consist of the following:

(thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
Trade receivables	**$ 1,138**	$ 3,674	$ 3,963
Receivables from joint venture partners	**1,476**	1,517	934
Other receivables	**614**	377	1,727
	$ 3,228	$ 5,568	$ 6,624

Receivables are generally on a 30 day term and are all current. 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.

Notes to the Financial Statements
Years ended December 31, 2011 and 2010

10. Property, plant and equipment

(thousands of Canadian dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at January 1, 2010	$ 209,755	$ 71,779	$ 6,690	$ 2,598	$ 290,822
Additions	6,291	4,925	388	85	11,689
Disposals, sales or use of inventory	669	-	(1,371)	(18)	(720)
Changes in future abandonment costs	355	-	-	-	355
Investment tax credits	-	(488)	-	-	(488)
Transfers to exploration and evaluation assets	-	-	(276)	-	(276)
Balance at December 31, 2010	$ 217,070	$ 76,216	$ 5,431	$ 2,665	$ 301,382
Additions	917	242	1	5	1,165
Transfer to current assets	-	-	(1,748)	-	(1,748)
Use of inventory	55	-	(55)	-	-
Changes in future abandonment costs	1,070	-	-	-	1,070
Investment tax credits	-	55	-	-	55
Transfers to exploration and evaluation assets	(356)	-	(444)	-	(800)
Balance at December 31, 2011	**$ 218,756**	**$ 76,513**	**$ 3,185**	**$ 2,670**	**$ 301,124**
Accumulated depletion and depreciation					
Balance at January 1, 2010	$ 44,246	$ 12,456	$ -	$ 836	$ 57,538
Depletion or depreciation expense	14,717	3,729	-	256	18,702
Write-down or disposals	-	-	146	(4)	142
Balance at December 31, 2010	$ 58,963	$ 16,185	$ 146	$ 1,088	$ 76,382
Depletion or depreciation expense	13,102	3,625	-	207	16,934
Impairment losses	38,272	13,695	-	-	51,967
Write-down of inventory	-	-	2,130	-	2,130
Balance at December 31, 2011	**$ 110,337**	**$ 33,505**	**$ 2,276**	**$ 1,295**	**$ 147,413**
Net book value					
At January 1, 2010 *(note 23)*	$ 165,509	$ 59,323	$ 6,690	$ 1,762	$ 233,284
At December 31, 2010	$ 158,107	$ 60,031	$ 5,285	$ 1,577	$ 225,000
At December 31, 2011	**$ 108,419**	**$ 43,008**	**$ 909**	**$ 1,375**	**$ 153,711**

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $72,193 thousand for the year ended December 31, 2011 (December 31, 2010 - $63,924 thousand). Costs of property, plant and equipment excluded from costs subject to depletion, depreciation and amortization amounted to $7,374 thousand at December 31, 2011 (December 31, 2010 - $7,026 thousand).

During the year, the Company determined to sell excess inventory and reclassified $1,748 thousand of inventory to current assets after a write-down of $2,130 thousand to reflect the decrease in the net realizable value. The Company subsequently sold $878 thousand in inventory and incurred a further loss of $155 thousand.

The Company recognized an impairment loss for the year ended December 31, 2011 relating to the Company's New Brunswick CGU which includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The impairment loss of $90,307 thousand was allocated as follows:

(thousands of Canadian dollars)

	2011	2010
Oil and gas properties and production facilities	**$ 51,967**	$ -
Exploration and evaluation assets	**38,340**	-
	$ 90,307	$ -

10. Property, plant and equipment (continued)

The impairment resulted from the decline in forecast natural gas prices. The impairment was based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves using forecast prices and costs and discounted using 10 percent. The Company utilized the following benchmark prices to determine the forecast prices in the fair value calculation:

	2012	2013	2014	2015	2016	2017-2021	Thereafter
Henry Hub ($US/mmbtu)	$3.80	$4.50	$5.00	$5.50	$6.00	$6.50-$7.17	+2%/year
McCully ($/mscf)	$3.50	$4.17	$4.70	$5.24	$5.77	$6.31-$7.03	+2%/year
Exchange rate (US$/CDN$)	$0.98	$0.98	$0.98	$0.98	$0.98	$0.98	$0.98

The Henry Hub gas prices are adjusted for the basis differential to reflect the local reference price, transportation costs and heat content to arrive at the McCully gas price.

The following table demonstrates the impact on the impairment loss of a one percent change in the discount rate:

(thousands of Canadian dollars)

	2011	
	1% rate increase	1% rate decrease
Increase (decrease) in impairment loss	$ 12,650	$ (14,448)

11. Exploration and evaluation assets

(thousands of Canadian dollars)

	2011	2010
Balance, beginning of year *(note 23)*	**$ 65,707**	$ 55,913
Impairment losses	**(42,814)**	-
Additions	**7,786**	9,317
Transfers from property, plant and equipment	**800**	276
Write-off of exploration and evaluation assets	**(196)**	-
Changes in future abandonment costs	**(301)**	201
Balance, end of year	**$ 30,982**	$ 65,707

In addition to the impairment loss of $38,340 thousand, explained in note 10, relating to the impairment of the Company's New Brunswick CGU, the Company recorded an impairment loss of $4,474 thousand relating to its Prince Edward Island exploration prospect as the licenses are due to expire in 2012 and the Company currently has no further plans to explore.

The Company wrote-off exploration and evaluation assets in the amount of $196 thousand as the prospects were no longer commercially viable.

Notes to the Financial Statements
Years ended December 31, 2011 and 2010

12. Intangible assets

(thousands of Canadian dollars)

	2011	2010
Cost		
Balance, beginning of year	**$ 479**	$ 463
Additions	**-**	16
Balance, end of year	**479**	479
Accumulated amortization		
Balance, beginning of year	**$ 86**	$ 38
Amortization	**48**	48
Balance, end of year	**134**	86
Net book value, end of year	**$ 345**	$ 393

13. Accounts payable and accrued liabilities

Accounts payables and accrued liabilities consist of the following:

(thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
Trade payables	**$ 1,890**	$ 1,179	$ 2,829
Accrued liabilities	**1,530**	1,757	2,734
Payables to joint venture partners	**7**	19	-
Payables to related parties	**32**	240	73
	$ 3,459	$ 3,195	$ 5,636

Payables are non-interest bearing and are normally settled on a 30 – 60 day term.

14. Decommissioning liability

The change in the decommissioning liability is due to the following:

(thousands of Canadian dollars)

	2011	2010
Balance, beginning of year *(note 23)*	**$ 4,482**	$ 3,772
Liabilities incurred	**190**	344
Change in discount rate	**669**	311
Change in estimate	**(90)**	30
Liabilities settled	**-**	(130)
Finance costs	**157**	155
Balance, end of year	**$ 5,408**	$ 4,482

The total undiscounted amount of estimated cash flows required to settle these obligations is $11,101 thousand (December 31, 2010 - $10,458 thousand). Management estimates the settlement of these obligations between 2013 and 2036. A risk-free rate of 2.98% (December 31, 2010 – 3.68%) and an inflation rate of 2% (December 31, 2010 – 2%) was used to calculate the estimated fair value of the decommissioning liability.

15. Credit facility

Corridor has a $16 million revolving short term credit facility with a Canadian chartered bank. The interest rate on the loan is currently based on the bank's prime rate plus 1% and the credit facility expires, subject to mutual agreement to extend, on July 28, 2012. Outstanding amounts drawn on the credit facility are secured by a $75 million demand debenture on the Company's property, plant and equipment. At December 31, 2011, December 31, 2010 and January 1, 2010, there was no amount drawn on the credit facility.

16. Capital stock

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

b) Issued and outstanding

(thousands of Canadian dollars and thousands of shares)

	December 31, 2011		December 31, 2010	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year *(note 23)*	**87,815**	**$ 242,589**	87,767	$ 242,381
Exercise of stock options for cash and	**649**	**2,739**	48	125
amount recognized from contributed surplus	**-**	**2,168**	-	83
Balance, end of year	**88,464**	**$ 247,496**	87,815	$ 242,589

17. Share-based compensation

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:

	December 31, 2011		December 31, 2010	
	Number of options (000's)	**Weighted average exercise price**	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of year	**4,989**	**$ 4.95**	2,299	$ 4.58
Exercised	**(649)**	**$ 4.22**	(48)	$ 2.58
Forfeited and cancelled	**(1,435)**	**$ 5.13**	(48)	$ 4.87
Expired	**(528)**	**$ 5.43**	-	-
Granted	**1,112**	**$ 2.46**	2,786	$ 5.21
Options outstanding, end of year	**3,489**	**$ 4.14**	4,989	$ 4.95
Options exercisable, end of year	**1,444**	**$ 5.12**	1,859	$ 5.16

For the year ended December 31, 2011, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of $1,946 thousand (December 31, 2010 - $2,675 thousand).

17. Share-based compensation (continued)

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

	December 31, 2011	December 31, 2010
Weighted average fair value of options granted	**$ 1.38**	$ 3.15
Risk-free interest rate	**1.6%**	2.5%
Expected life (years)	**4.9**	4.2
Expected volatility	**68%**	80%

The range of exercise prices of stock options outstanding and exercisable as at December 31, 2011 is as follows:

	Outstanding options			**Exercisable options**	
Exercise prices	**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	1,721	3.99	$ 2.50	401	$ 2.56
$ 3.00 - $ 4.99	8	3.69	$ 4.77	3	$ 4.77
$ 5.00 - $ 5.99	1,474	3.76	$ 5.21	754	$ 5.21
$ 6.00 - $ 6.99	109	1.25	$ 6.80	109	$ 6.80
$ 7.00 - $10.99	177	1.35	$ 9.55	177	$ 9.55
	3,489	3.67	$ 4.14	1,444	$ 5.12

18. Supplemental cash flow information

(thousands of Canadian dollars)

	2011	2010
Change in non-cash operating working capital:		
Receivables	**$ 2,143**	$ 414
Prepaids and security deposits	**(25)**	38
Accounts payable and accrued liabilities	**(682)**	(25)
Capital taxes receivable	**(56)**	(88)
	$ 1,380	$ 339
Change in non-cash investing working capital:		
Receivables	**$ 197**	$ 642
Inventory transferred from property, plant and equipment	**1,748**	-
Inventory received in current assets	**(1,748)**	-
Accounts payable and accrued liabilities	**927**	(2,661)
	$ 1,124	$ (2,019)
Interest and taxes paid:		
Interest paid	**$ 105**	$ 105
Interest received	**$ 61**	$ 69
Capital and other taxes paid	**$ 133**	$ 93

Notes to the Financial Statements
Years ended December 31, 2011 and 2010

19. 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) 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 banks with high credit-ratings assigned by international credit-rating agencies. Management believes the risk of loss is low.

iii) 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 had the following financial instruments denominated in U.S. dollars at the balance sheet dates.

(thousands of U.S. dollars)

	December 31, 2011	December 31, 2010
Cash	**$ 9**	$ 2
Receivables	**909**	3,190
Financial instruments in U.S. dollars	**$ 918**	$ 3,192

At December 31, 2011, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately $35 thousand (December 31, 2010 – $117 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 $35 thousand (December 31, 2010 – $117 thousand) in the Company's net loss.

iv) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At December 31, 2011, the Company was holding cash and cash equivalents of $6,396 thousand and had $16 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 has declined below the credit facility limit of $16 million, the lender can recalculate the Company's borrowing base and could, as a result, decrease the credit currently available to the Company.

The Company's financial liabilities are all due within one year. Given the Company's available liquid resources and the Company's 2012 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities.

19. Risk management (continued)

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.

20. Related party transactions

a) Legal services

A director of Corridor is a partner in a law firm that provides legal services to the Company. For the year ended December 31, 2011, $139 thousand of legal expenses (December 31, 2010 - $115 thousand) are included in general and administrative expenses. At December 31, 2011, $32 thousand was included in accounts payable and accrued liabilities (December 31, 2010 - $240 thousand). The amounts paid are recorded at the amount agreed to between the parties which management believes is representative of fair value.

b) Remuneration of Directors and Senior Management

(thousands of Canadian dollars)

	2011	2010
Directors' fees	**$ 214**	$ 213
Wages and benefits	**1,007**	1,147
Share-based compensation	**1,383**	2,218
	$ 2,604	$ 3,578

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes Corridor's President, Chief Financial Officer, Senior Geologist, Senior Drilling and Completions Engineer and Production Operations Manager. Wages and benefits include salary, benefits and bonuses earned or awarded during the year. Share-based compensation includes expenses relating to Corridor's stock option plan as disclosed in note 17.

21. Commitments

a) Transportation and gas sales

The Company has a commitment to purchase 12,000 mmbtu per day of transportation on the Canadian side of the Maritimes and Northeast Pipeline from April 1, 2011 to March 31, 2012 and 8,000 mmbtu per day from April 1, 2012 to March 31, 2013.

The Company has a long term agreement to sell, at market rates, all of its natural gas produced from the McCully Field and surrounding areas in southern New Brunswick to Repsol Energy Canada Ltd. for resale to natural gas markets in Maritimes Canada and the Northeast United States.

21. Commitments (continued)

b) Letters of credit

At December 31, 2011, the Company had the following irrevocable standby letters of credit issued by a Canadian chartered bank:

(thousands of Canadian dollars)

	Amount
Letter of credit expiring February 12, 2012	**$ 1,500**
Letter of credit expiring June 27, 2012	**350**
Letters of credit expiring June 3, 2012	**300**
Letter of credit expiring August 1, 2013	**380**
	$ 2,530

The Company has pledged $2,530 thousand of short term investments as security. These investments are recorded as restricted cash or restricted cash and security deposits based on their expiry date.

c) Operating leases

The Company has entered into operating lease agreements for office space, land and other equipment. Future minimum annual lease payments under the leases are as follows:

(thousands of Canadian dollars)

	Amount
2012	**$ 859**
2013	**746**
2014	**341**
2015	**326**
2016	**244**
Thereafter	**427**
	$ 2,943

During 2011, total rental expense under operating leases was $416 thousand (2010 - $399 thousand).

d) Commitments

The maturities of the Company's commitments as of December 31, 2011 are as follows:

(thousands of dollars)	**Total**	2012	2013	2014	2015	Thereafter
Transportation commitments	**$ 2,064**	$ 1,669	$ 395	$ -	$ -	$ -
Operating leases	**2,943**	859	746	341	326	671
Decommissioning liabilities	**11,101**	-	153	-	-	10,948
	$ 16,108	$ 2,528	$ 1,294	$ 341	$ 326	$ 11,619

22. Contingency

During the year, the Company reached a settlement of $188 thousand with the New Brunswick Department of Finance ("DOF") in connection with their audit of the Company's crown royalty payments for the periods from April 2003 to October 2009. However, negotiations are still ongoing relating to the calculation of the royalty payments for the periods subsequent to October 2009. The Company has not made any provision as the royalty amounts payable during this period were based on management's best estimate.

23. First time adoption of IFRS

As discussed in note 2, these are the Company's first financial statements under IFRS. The following explains how the transition from GAAP to IFRS has affected the Company's financial position as at January 1, 2010 and December 31, 2010 and the financial results, changes in shareholders' equity and cash flows for the year ended December 31, 2010.

1) First time adoption

The general principle on the adoption of IFRS is that accounting standards should be applied retrospectively. However, IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and certain exceptions to the full retrospective adoption. Management has elected to apply the following IFRS 1 exemptions:

- The Company will not apply IFRS 2 *Share-based Payments* to any equity instruments that were granted on or before November 7, 2002, or to equity instruments granted after November 7, 2002 that vested before January 1, 2010.
- The Company will apply IFRS 3 *Business Combinations* prospectively from January 1, 2010.
- The Company elected to apply a modified approach when calculating the future asset abandonment costs at transition. Under the modified approach, the decommissioning liability is recalculated at transition under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the related future asset abandonment costs are estimated by discounting the decommissioning liability to the date in which the liability first arose using best estimates of the historical risk-free discount rates.
- The Company did not elect to take the exemption permitted under IFRS 1 for entities using the full cost method of accounting and instead retrospectively applied IFRS to its petroleum and natural gas properties.

23. First time adoption of IFRS (continued)

2) Reconciliations

Reconciliation of Statement of Financial Position at January 1, 2010

(thousands of Canadian dollars)

	GAAP	Effects of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 8,484	$ -	$ 8,484
Restricted cash	1,350	-	1,350
Receivables	6,624	-	6,624
Capital taxes receivable	85	-	85
Prepaids and security deposits	120	-	120
	16,663	-	16,663
Non-current assets			
Property, plant and equipment *(f)*	281,060	(47,776)	233,284
Exploration and evaluation assets *(a)*	-	55,913	55,913
Investment tax credits	1,227	-	1,227
Intangible assets	425	-	425
Restricted cash and security deposits	1,230	-	1,230
Total assets	$ 300,605	$ 8,137	$ 308,742
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	$ 5,636	$ -	$ 5,636
Obligations under finance lease	145	-	145
	5,781	-	5,781
Non-current liabilities			
Obligations under finance lease	155	-	155
Deferred income taxes *(i)*	23,151	1,735	24,886
Decommissioning liability *(e)*	1,500	2,272	3,772
Total liabilities	30,587	4,007	34,594
Shareholders' Equity			
Capital stock	242,381	-	242,381
Contributed surplus (*h*)	5,148	434	5,582
Retained earnings	22,489	3,696	26,185
Total shareholders' equity	270,018	4,130	274,148
Total liabilities and shareholders' equity	$ 300,605	$ 8,137	$ 308,742

23. First time adoption of IFRS (continued)

Reconciliation of Statement of Financial Position at December 31, 2010

(thousands of Canadian dollars)

	GAAP	Effects of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 865	$ -	$ 865
Restricted cash	650	-	650
Receivables	5,568	-	5,568
Capital taxes receivable	173	-	173
Prepaids and security deposits	82	-	82
	7,338	-	7,338
Non-current assets			
Property, plant and equipment *(f)*	279,172	(54,172)	225,000
Exploration and evaluation assets *(a)*	-	65,707	65,707
Investment tax credits	1,715	-	1,715
Intangible assets	393	-	393
Restricted cash and security deposits	1,130	-	1,130
Total assets	$ 289,748	$ 11,535	$ 301,283
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	$ 3,195	$ -	$ 3,195
Obligations under finance lease	141	-	141
	3,336	-	3,336
Non-current liabilities			
Obligations under finance lease	14	-	14
Deferred income taxes *(i)*	20,850	2,565	23,415
Decommissioning liability *(e)*	2,000	2,482	4,482
Total liabilities	26,200	5,047	31,247
Shareholders' Equity			
Capital stock	242,583	6	242,589
Contributed surplus *(h)*	7,081	1,093	8,174
Retained earnings	13,884	5,389	19,273
Total shareholders' equity	263,548	6,488	270,036
Total liabilities and shareholders' equity	$ 289,748	$ 11,535	$ 301,283

Notes to the Financial Statements
Years ended December 31, 2011 and 2010

23. First time adoption of IFRS (continued)

Reconciliation of Statement of Loss and Comprehensive Loss
Year ended December 31, 2010

(thousands of Canadian dollars)

	GAAP	Effects of transition to IFRS	IFRS
Sales	$ 29,558	$ -	$ 29,558
Royalty expense	(606)	-	(606)
Revenues, net	28,952	-	28,952
Expenses			
Depletion, depreciation and amortization *(g)*	22,393	(3,644)	18,749
Transportation expense	6,840	-	6,840
Production expense *(d)*	3,629	302	3,931
General and administrative	4,862	-	4,862
Share-based compensation *(h)*	2,010	665	2,675
Capital tax expense	138	-	138
	39,872	(2,677)	37,195
Earnings (loss) before the following items	(10,920)	2,677	(8,243)
Interest and finance costs *(e)*	197	155	352
Foreign exchange losses	89	-	89
Interest and other income	(300)	-	(300)
Earnings (loss) before income taxes	(10,906)	2,522	(8,384)
Deferred income tax expense (recovery) *(i)*	(2,301)	829	(1,472)
Net earnings (loss) and comprehensive income (loss)	$ (8,605)	$ 1,693	$ (6,912)

Reconciliation of Statement of Changes in Shareholders' Equity
Year ended December 31, 2010

(thousands of Canadian dollars)

	GAAP	Effects of transition to IFRS	IFRS
Capital stock at January 1, 2010	$ 242,381	$ -	$ 242,381
Exercise of stock options for cash	125	-	125
Amount previously expensed for stock options exercised	77	6	83
Capital stock at December 31, 2010	$ 242,583	$ 6	$ 242,589
Contributed surplus at January 1, 2010	$5,148	$ 434	$ 5,582
Share-based compensation *(h)*	2,010	665	2,675
Amount previously expensed for stock options exercised	(77)	(6)	(83)
Contributed surplus at December 31, 2010	$ 7,081	$ 1,093	$ 8,174
Retained earnings at January 1, 2010	$ 22,489	$ 3,696	$ 26,185
Net earnings (loss)	(8,605)	1,693	(6,912)
Retained earnings at December 31, 2010	$ 13,884	$ 5,389	$ 19,273
Shareholders' equity at December 31, 2010	$ 263,548	$ 6,488	$ 270,036

23. First time adoption of IFRS (continued)

3) Explanation of IFRS adjustments

(a) Exploration and evaluation assets

Under GAAP, Corridor followed 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 were capitalized and accumulated in a country cost centre. Under IFRS 6 *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"), pre-exploration costs, or expenditures incurred prior to obtaining the legal right to explore, are expensed in the period incurred. After the legal right to explore is acquired, costs incurred to determine the technical feasibility and commercial viability of an exploration project are capitalized as exploration and evaluation ("E&E") assets. Once the technical feasibility and commercial viability has been determined, costs are transferred into property, plant and equipment ("PP&E").

The Company did not elect to take the exemption permitted under IFRS 1 for entities using the full cost method of accounting. Instead, all costs capitalized as petroleum and natural gas properties at January 1, 2010 were reviewed and reclassified between exploration activities and development activities. As a result, E&E assets in the amount of $55,913 thousand at January 1, 2010 and $65,707 thousand at December 31, 2010 were reclassified from PP&E to E&E assets in accordance with IFRS 6.

During this review, management also identified exploration costs in the amount of $4,291 thousand to be expensed under IFRS 6. As a result, PP&E and retained earnings decreased by $4,291 thousand at January 1, 2010 and December 31, 2010.

(b) Depletion

Consistent with GAAP, the Company will continue to calculate depletion expense using the unit-of-production method based on estimated proved natural gas reserves. However, E&E assets, which were accumulated in the country cost centre and depleted by the Company under GAAP, will not be depleted under IFRS. Since Corridor did not elect to take the exemption permitted under IFRS 1, PP&E and retained earnings increased by $11,346 thousand at January 1, 2010 and $14,927 thousand at December 31, 2010 due to the lower depletion expense. In addition, depletion, depreciation and amortization expense decreased by $3,560 thousand for the year ended December 31, 2010.

(c) Sale of assets

Under GAAP, proceeds from the sale of petroleum and natural gas properties were deducted from capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion. Under IFRS, gains or losses on the disposition of assets are recognized in the Statement of Loss and Comprehensive Loss. As a result of this difference and the resulting impact on depletion expense, PP&E and retained earnings decreased by $377 thousand at January 1, 2010 and $366 thousand at December 31, 2010 and depletion, depreciation and amortization expense decreased by $11 thousand for the year ended December 31, 2010.

(d) Workovers

Under GAAP, workover activities were capitalized by the Company and depleted along with the related asset if the work resulted in an increase in the productive life of the well. Under IFRS, workover activities are also capitalized if the work results in an increase in the productive life but are only amortized until the next scheduled workover activity. As a result of this difference and the resulting impact on depletion expense, the net book value of capitalized workover activities in the amount of $302 thousand for the year ended December 31, 2010 was removed from PP&E and included in production expenses. As a result, depletion, depreciation and amortization expense decreased by $20 thousand for the year ended December 31, 2010.

23. First time adoption of IFRS (continued)

(e) Decommissioning

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the expected cash outflows for future abandonment of assets are estimated and discounted using a risk-free rate while under GAAP a credit-adjusted risk-free rate was applied. As a result, the decommissioning liability (asset retirement obligations under GAAP) increased, and retained earnings decreased, by $2,272 thousand at January 1, 2010. The Company elected to apply the modified approach under IFRS 1 to calculate the future abandonment costs in PP&E and as a result, PP&E and retained earnings increased by $1,459 thousand at January 1, 2010.

In addition, the decommissioning liability and the related assets are recalculated at each balance sheet date using a current discount rate under IFRS. As a result, the decommissioning liability and future abandonment costs increased by an additional $171 thousand at December 31, 2010.

The higher future abandonment costs balance resulted in an increase in the depletion, depreciation and amortization expense of $63 thousand for the year ended December 31, 2010.

The higher decommissioning liability balance resulted in an increase in accretion of $39 thousand for the year ended December 31, 2010. Since accretion expense is recorded as a finance cost under IFRS, accretion expense previously recorded under GAAP of $116 thousand for the year ended December 31, 2010 was reclassified from depletion, depreciation and amortization expense to finance costs.

The following summarizes the increases (decreases) to the decommissioning liability and future abandonment costs caused by the transition to IFRS as at January 1, 2010 and December 31, 2010:

(thousands of Canadian dollars)

	Decommissioning liability		Future abandonment costs	
As at	December 31 2010	January 1 2010	December 31 2010	January 1 2010
Change in discount rate at transition	$ 2,272	$ 2,272	$ 1,459	$ 1,459
Remeasurement at each balance sheet date	171	-	171	-
Increase in future abandonment costs depreciation	-	-	(63)	-
Increase in accretion of decommissioning liability	39	-	-	-
Effect of transition to IFRS	$ 2,482	$ 2,272	$ 1,567	$ 1,459

(f) PP&E

The following summarizes the increases (decreases) to PP&E caused by the transition to IFRS as at January 1, 2010 and December 31, 2010:

(thousands of Canadian dollars)

As at	December 31 2010	January 1 2010
Exploration and evaluation assets expensed *(a)*	$ (4,291)	$ (4,291)
Exploration and evaluation assets not amortized *(b)*	14,927	11,346
Loss recognized on the disposition of assets *(c)*	(366)	(377)
Workover activities expensed *(d)*	(302)	-
Increase in future abandonment costs *(e)*	1,567	1,459
Increase in PP&E before reclassification of E&E assets	$ 11,535	$ 8,137
Reclassification of E&E assets *(a)*	(65,707)	(55,913)
Decrease to PP&E	$ (54,172)	$ (47,776)

Notes to the Financial Statements
Years ended December 31, 2011 and 2010

23. First time adoption of IFRS (continued)

At January 1, 2010 and December 31, 2010, management assessed whether any facts and circumstances suggested impairment of PP&E and E&E assets and none were identified.

(g) Depletion, depreciation and amortization ("DD&A")
The following summarizes the decreases (increases) to DD&A caused by the transition to IFRS for the year ended December 31, 2010:

(thousands of Canadian dollars)

	Year ended December 31, 2010
Exploration and evaluation assets not amortized *(b)*	$ 3,560
Decrease in PP&E balance *(c&d)*	31
Increase in future abandonment costs *(e)*	(63)
Reclassification of accretion expense to finance costs *(e)*	116
Decrease in DD&A	$ 3,644

(h) Share-based compensation
Under GAAP, the fair value of the stock options with graded vesting was calculated as one grant and recognized as stock-based compensation expense on a straight line basis over the vesting period. Under IFRS 2 *Share-based Payments*, each vesting installment of a stock option grant is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of each respective installment. In addition, forfeitures of options which were recognized as they occurred under GAAP by the Company are estimated and revised at each reporting period under IFRS.

At January 1, 2010, this difference resulted in an increase to contributed surplus of $434 thousand with a corresponding decrease to retained earnings. In addition, share-based compensation expense increased by $665 thousand for the year ended December 31, 2010 with a corresponding increase to contributed surplus. Accordingly, contributed surplus increased by $1,093 thousand at December 31, 2010.

(i) Deferred income tax
The effects of the transition to IFRS on PP&E and E&E assets resulted in an increase in the deferred income tax liability and a corresponding decrease in retained earnings of $1,735 thousand at January 1, 2010. The decrease in the Company's net loss for the year ended December 31, 2010 resulted in a decrease in the deferred income tax recovery of $829 thousand. Accordingly, the deferred income tax liability increased by $2,565 thousand at December 31, 2010.

(j) Statement of cash flows
The effects of the transition to IFRS on the Statements of Financial Position and Statements of Loss and Comprehensive Loss have resulted in reclassifications and adjustments of various amounts on the Statements of Cash Flows, however, as there have been no changes to the net cash flow, no reconciliation has been presented.