2012 Management's Discussion and Analysis

As of March 27, 2013

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, 2012 should be read in conjunction with Corridor's audited financial statements and notes thereto for the year ended December 31, 2012.

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, 2012 (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 and Québec and offshore in the Gulf of St. Lawrence. Corridor currently has natural gas production and reserves in the McCully Field near Sussex, New Brunswick and crude oil reserves in the Caledonia Field near Sussex, New Brunswick. In addition, Corridor has contingent resources and discovered resources in Elgin, New Brunswick and undiscovered resources on Anticosti Island, Québec where Corridor has ongoing exploration projects.

Selected Financial Information

	Three months ended December 31		**Twelve months ended December 31**		
thousands of dollars except per share amounts	**2012**	2011	**2012**	2011	2010
Revenues	**$ 4,962**	$ 5,295	**$ 14,795**	$ 23,993	$ 29,558
Net loss	**$ (42,023)**	$ (71,416)	**$ (47,889)**	$ (79,585)	$ (6,912)
Net loss per share - basic and diluted	**$ (0.475)**	$ (0.807)	**$ (0.541)**	$ (0.899)	$ (0.078)
Cash flow from operations(1)	**$ 2,380**	$ 2,071	**$ 4,404**	$ 9,250	$ 13,250
Capital expenditures	**$ 1,195**	$ 4,383	**$ 3,763**	$ 8,951	$ 21,006
Total assets	**$ 157,978**	$ 204,017	**$ 157,978**	$ 204,017	$ 301,283

(1) "Cash flow from operations" is a non-IFRS measure, see "Non-IFRS Financial Measures".

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, which began in 2009, from $5.66/mscf in 2010 to $5.17/mscf in 2011 and to $4.05/mscf in 2012. 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 13.2 mmscfpd for the year ended December 31, 2010 to 11.5 mmscfpd for the year ended December 31, 2011 and to 9.0 mmscfpd for the year ended December 31, 2012. The significant net losses for the years ended December 31, 2012 and December 31, 2011 are also due to the recognition of impairment losses relating to Corridor's New Brunswick assets. Due to the decline in forecast natural gas prices, Corridor was required under International Financial Reporting Standards ("IFRS") to estimate the recoverable amount of its New Brunswick assets at December 31, 2011 and at December 31, 2012. As a result, the Company recorded an impairment loss of $90,307 thousand in December 31, 2011 and $56,325 thousand in December 31, 2012 and the Company's net loss increased from $6,912 in December 31, 2010 to $79,585 thousand for the year ended December 31, 2011 and then decreased to $47,889 thousand for the year ended December 31, 2012.

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	**2012**	2011	**2012**	2011	2010
Cash provided by operating activities	**$ 1,954**	$ 1,930	**$ 5,258**	$ 10,630	$ 13,589
Less: Decrease (increase) in non-cash operating working capital	**(426)**	(141)	**854**	1,380	339
Cash flow from operations	**$ 2,380**	$ 2,071	**$ 4,404**	$ 9,250	$ 13,250

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;
- future development costs and reserves;
- general and administrative expenses;
- share-based compensation expense;
- timing as to when 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;
- net positive working capital; 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 advers125
e 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, volatility of natural gas and oil prices, government regulation, environmental, hydraulic fracturing, third party risk, 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 cash flow from operations, revenues, expenses, capital expenditures, working capital and debt levels for 2013, which are provided for the purpose of forecasting the financial position of Corridor at the end of the 2013 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 2012 MD&A dated November 13, 2012 as updated in a press release dated December 17, 2012, both of which are available on the Company’s website at www.corridor.ca and on SEDAR at www.sedar.com.

2012 Summary

- Natural gas revenues for the year ended December 31, 2012 decreased to $13,345 thousand from $21,777 thousand for the year ended December 31, 2011 due to a decrease in the average natural gas sales price to $4.05/mscf in 2012 from $5.17/mscf in 2011 and a decrease in Corridor’s average daily gas production to 9.0 mmscfpd in 2012 from 11.5 mmscfpd in 2011. In 2012 there were record low natural gas sales prices at Henry Hub with prices dropping below US$2.00/mmbtu in Q2 2012. However, premiums at Dracut remained strong and averaged US$1.10/mmbtu for the year ended December 31, 2012. In November 2012, natural gas prices at Dracut began to increase, averaging over US$6.00/mmbtu from November 1 to December 31, 2012.

- Cash flow from operations was $4,404 thousand for the year ended December 31, 2012 compared to $9,250 thousand for the year ended December 31, 2011 due to the lower natural gas revenues in 2012, partially offset by lower transportation expenses. Corridor was successful at lessening the impact of lower natural gas revenues on cash flow from operations by decreasing production expenses and general and administrative expenses. Cash flow from operations for the year ended December 31, 2012 was approximately $400 thousand higher than Corridor’s updated forecast due to lower than expected general and administrative and production expenses in Q4 2012.

- Corridor had cash and cash equivalents at December 31, 2012 of $8,014 thousand, net working capital of $10,237 thousand and no outstanding debt.

- Corridor’s gross general and administrative expenses decreased by $1,226 thousand to $3,021 thousand for the year ended December 31, 2012 compared to the year ended December 31, 2011 reflecting management’s commitment to lower general and administrative expenses during a period of lower natural gas prices.

- Corridor's net loss decreased to $47,889 thousand for the year ended December 31, 2012 from $79,585 thousand for the year ended December 31, 2011 due primarily to lower impairment losses relating to the Company's New Brunswick assets of $56,325 thousand for the year ended December 31, 2012 compared to $90,307 thousand for the year ended December 31, 2011. Under IFRS, impairment losses are reversed in the future if there is a positive change in the assumptions used to determine the recoverable amount.

Q4 2012 Financial Summary

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2012**	2011	**2012**	2011
Sales	**$ 4,962**	$ 5,295	**$ 14,795**	$ 23,993
Royalty expense	**(50)**	-	**(58)**	(679)
Revenues, net	**4,912**	5,295	**14,737**	23,314
Expenses				
Depletion, depreciation and amortization	**2,979**	4,054	**11,254**	16,982
Transportation expense	**1,037**	1,181	**4,074**	5,499
Production expense	**715**	752	**2,982**	3,969
General and administrative expenses	**682**	1,180	**3,021**	4,247
Share-based compensation expense	**297**	350	**1,554**	1,946
Impairment losses	**56,325**	94,781	**56,325**	94,781
Loss on sale and write-down of inventory	**190**	530	**190**	2,285
Write-off of exploration and evaluation assets	**86**	56	**72**	196
Capital tax expense	**-**	21	**20**	81
	62,311	102,905	**79,492**	129,986
Loss before the following items	**(57,399)**	(97,610)	**(64,755)**	(106,672)
Interest and finance costs	**61**	73	**260**	323
Foreign exchange losses	**(6)**	45	**73**	58
Interest and other income	**(23)**	(28)	**(97)**	(94)
Loss before income taxes	**(57,431)**	(97,700)	**(64,991)**	(106,959)
Deferred income tax recovery	**(15,408)**	(26,284)	**(17,102)**	(27,374)
Net loss and comprehensive loss	**$ (42,023)**	$ (71,416)	**$ (47,889)**	$ (79,585)

Fourth Quarter Summary

- Natural gas revenues for Q4 2012 increased to $4,604 thousand from $4,194 thousand for Q4 2011 due to the increase in the average natural gas sales price to $5.63/mscf in Q4 2012 from $4.26/mscf in Q4 2011 which increase was partially offset by a decrease in natural gas production to 8.9 mmscfpd from 10.7 mmscfpd in Q4 2011.

- Cash flow from operations increased to $2,380 thousand in Q4 2012 from $2,071 thousand in Q4 2011 due to the higher natural gas revenues, lower transportation expenses, production expenses and general and administrative expenses.

- Net loss for Q4 2012 decreased to $42,023 thousand from $71,416 thousand for Q4 2011 due primarily to the lower impairment loss in Q4 2012 of $56,325 thousand relating to the Company's New Brunswick assets compared to the impairment loss in Q4 2011 of $90,307 thousand relating to the Company's New Brunswick assets and of $4,474 thousand relating to the Company's Prince Edward Island exploration prospect.

Results of Operations

Sales

thousands of dollars	Three months ended December 31 2012	2011	Twelve months ended December 31 2012	2011
Natural gas	**$ 4,604**	$ 4,194	**$ 13,345**	$ 21,777
Condensate	**76**	88	**288**	414
Natural gas and gas liquids revenues	**4,680**	4,282	**13,633**	22,191
Oil recovered during testing	**-**	-	**-**	48
Gathering, processing & transportation fees	**282**	1,013	**1,162**	1,754
	$ 4,962	$ 5,295	**$ 14,795**	$ 23,993

Production volumes and pricing

	Three months ended December 31 2012	2011	Twelve months ended December 31 2012	2011
Total volumes				
Natural gas production (mmscf)	**818**	985	**3,293**	4,213
Condensate production (bbl)	**726**	875	**2,691**	3,933
Daily production averages				
Natural gas production per day (mmscfpd)	**8.9**	10.7	**9.0**	11.5
Condensate production per day (bblpd)	**7.9**	9.5	**7.4**	10.8
Average prices				
Natural gas selling price ($/mscf)	**$ 5.63**	$ 4.26	**$ 4.05**	$ 5.17
Condensate selling price ($/bbl)	**$ 104.68**	$ 100.57	**$ 107.02**	$ 105.26

Natural gas revenues increased to $4,604 thousand in Q4 2012 from $4,194 thousand in Q4 2011 due to the increase in the average natural gas sales price to $5.63/mscf in Q4 2012 from $4.26/mscf in Q4 2011 which increase was partially offset by the decrease in the average daily natural gas production to 8.9 mmscfpd in Q4 2012 from 10.7 mmscfpd in Q4 2011. The decrease in production in Q4 2012 is due to the decreased drilling activities at the McCully Field since 2009 following decreases in natural gas prices. However, this decrease was partially offset by flush production on the start-up of four McCully wells which had been shut-in from May to November 2012. Corridor resumed production of the shut-in wells early in November 2012 when natural gas prices peaked due to cold weather.

Natural gas revenues decreased for the year ended December 31, 2012 to $13,345 thousand from $21,777 thousand for the year ended December 31, 2011 due to a reduction in the average daily gas production to 9.0 mmscfpd for the year ended December 31, 2012 from 11.5 mmscfpd 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. In addition, the average natural gas sales price realized decreased to $4.05/mscf from $5.17/mscf for the year ended December 31, 2011 due to the lower natural gas sales prices at Henry Hub.

Natural gas revenues and production for the three and twelve months ended December 31, 2012 were consistent with Corridor's latest forecast.

Outlook

Corridor estimates total revenues of approximately $18 million for 2013 compared to revenues of $15 million for 2012 due to higher expected natural gas sales prices. The Corporation's 2013 budget for revenues is based on an estimated average natural gas sales price of approximately $6.60/mscf and an estimated average net daily gas production of 7.7 mmscfpd for 2013. The natural gas sales price is based on an exchange rate estimate of $1.00 U.S. per Canadian dollar, an estimated Henry Hub price of US$3.60/mmbtu and an average premium at Dracut of US$2.60/mmbtu which incorporates Corridor's forward sale agreement for 6,000 mmbtupd from January 1, 2013 to March 31, 2013 at an average price of $US8.52/mmbtu.

Gathering, processing and transportation fees

thousands of dollars	Three months ended December 31 2012	2011	Twelve months ended December 31 2012	2011
Gathering, processing and transportation fees	**$ 282**	$ 1,013	**$ 1,162**	$ 1,754

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 were amended in 2011. The decrease in the gathering, processing and transportation (“GPT”) fees to $282 thousand in Q4 2012 from $1,013 thousand in Q4 2011 is due to the amendment of the terms of the cost of service calculation which resulted in an increase of $865 thousand in the amounts payable for GPT fees in Q4 2011. The decrease in GPT fees to $1,162 thousand for the year ended December 31, 2012 from $1,754 thousand for the year ended December 31, 2011 reflects a decrease in PCS’ share of production going through the midstream facilities due to the decreased overall production from the McCully Field.

Outlook

Corridor’s 2013 budget for GPT fees from PCS’ share of production is approximately $1,000 thousand based on an average estimated gross daily gas production of 10.2 mmscfpd for 2013.

Royalty Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2012**	2011	**2012**	2011
Crown royalties	**$ 50**	$ -	**$ 58**	$ 679
Royalty expense per mscf ($/mscf)	**$ 0.06**	$ -	**$ 0.02**	$ 0.16
Percentage of natural gas and gas liquids revenues	**1.1%**	-%	**0.4%**	3.1%

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 decrease in the royalty expense per mscf for the year ended December 31, 2012 to $0.02/mscf from $0.16/mscf for the year ended December 31, 2011 is due to the significant decrease in the natural gas sales during the year while the deductions allowable in the royalty calculation did not decrease significantly.

Outlook

An effective royalty rate of approximately 1.5% is budgeted for 2013.

While the Company reached a settlement in 2011 with the New Brunswick Department of Finance in respect of royalty payments 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 for additional royalty payments as the royalty amounts payable during this period were based on management’s best estimate.

Transportation Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2012**	2011	**2012**	2011
Transportation expense	**$ 1,037**	$ 1,181	**$ 4,074**	$ 5,499
Transportation expense per mscf ($/mscf)	**$ 1.27**	$ 1.20	**$ 1.24**	$ 1.31

Transportation expense decreased to $1,037 thousand for Q4 2012 from $1,181 thousand for Q4 2011 and to $4,074 thousand for the year ended December 31, 2012 from $5,499 thousand for the year ended December 31, 2011 due to the decrease in natural gas production and a decrease of $0.06/mmbtu in the cost of the firm transportation tariff on the Canadian side of the M&NP effective January 1, 2012. Effective April 1, 2011, Corridor entered into a transportation agreement, at a cost significantly lower than firm tolls, to purchase 12,000 mmbtu per day of transportation on the Canadian side of the M&NP until March 31, 2012 and 8,000 mmbtu per day until March 31, 2013. The decrease in transportation expense for the year ended December 31, 2012 is therefore also attributed to Corridor securing a transportation agreement with lower rates after Q1 2011.

Transportation expense per mscf of $1.24/mscf for the year ended December 31, 2012 is higher than the latest forecast of $1.22/mscf due to an amount owing of $65 thousand in Q4 2012 to M&NP US for insufficient fuel charged during the period from October 2011 to September 2012.

The Company has a commitment to purchase 8,000 mmbtu per day of transportation on the Canadian side of the M&NP from January 1, 2013 to October 31, 2013, 7,500 mmbtu per day from November 1, 2013 to October 31, 2014 and 6,500 mmbtu per day from November 1, 2014 to October 31, 2015.

Outlook

Transportation expense of approximately $1.24/mscf is budgeted for 2013, based on an average estimated net daily gas production of 7.7 mmscfpd for 2013 and transportation agreements in place to purchase transportation on the Canadian side of the M&NP, at a cost significantly lower than firm tolls, from January 1, 2013 to December 31, 2013.

Production Expense

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2012**	2011	**2012**	2011
Gross production expense	**$ 894**	$ 1,004	**$ 3,584**	$ 4,678
Third party recoveries	**(179)**	(252)	**(602)**	(709)
Net production expense	**$ 715**	$ 752	**$ 2,982**	$ 3,969
Net production expense per mscf ($/mscf)	**$ 0.87**	$ 0.76	**$ 0.91**	$ 0.94

Gross production expense for Q4 2012 decreased to $894 thousand from $1,004 thousand for Q4 2011 due to management’s efforts to reduce costs. For the year ended December 31, 2012, gross production expense decreased to $3,584 thousand from $4,678 thousand for the year ended December 31, 2011 due to the decrease in utilities expense as a result of modifications made to the compressor in Q2 2011, which were successful in reducing energy costs, and to the decrease in workover activities and in repairs and maintenance expenses in 2012.

Net production expense per mscf of $0.91/mscf for the year ended December 31, 2012 is lower than the most recent forecast of $0.97/mscf due to lower than expected repairs and maintenance expenses in Q4 2012.

Outlook

Net production expense of approximately $1.24/mscf is budgeted for 2013 based on an average estimated net daily gas production of 7.7 mmscfpd for 2013.

Depletion, Depreciation and Amortization

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2012**	2011	**2012**	2011
Depletion, depreciation and amortization	**$ 2,979**	$ 4,054	**$ 11,254**	$ 16,982
Depletion, depreciation and amortization per mscf ($/mscf)	**$ 4.09**	$ 4.64	**$ 3.86**	$ 4.53

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 and DD&A rate per mscf for the three and twelve months ended December 31, 2012 is primarily due to the decrease in natural gas production compared to the three and twelve months ended December 31, 2011 and the decrease in the net book value of the depletion asset base following the Q4 2011 impairment loss of $51,967 thousand.

In its December 31, 2012 reserves report in respect of the McCully Field, GLJ Petroleum Consultants Ltd. (“GLJ”) increased the estimated future development costs relating to the development of proved reserves to $96,708 thousand from $72,193 thousand in 2011 and increased the estimate of gross proved natural gas reserves by 1.9 bscf to 57.6 bscf.

The DD&A rate per mscf for 2012 of $3.86/mscf is higher than the most recent 2012 estimate of $3.75/mscf due to the increase in the estimated future development costs relating to the development of proved reserves partially offset by the increase in GLJ’s estimate of gross proved natural gas reserves.

Outlook

The Company’s outlook for the DD&A rate per mscf for 2013 is approximately $3.20/mscf based on the estimated gross proved natural gas reserves of 57.6 bscf, future development costs of $96,708 thousand and an average estimated net daily gas production of 7.7 mmscfpd for 2013.

General and Administrative Expenses

thousands of dollars	Three months ended December 31 2012	2011	Twelve months ended December 31 2012	2011
Gross expenses	**$ 774**	$ 1,286	**$ 3,380**	$ 4,750
Capitalized overhead	**(91)**	(104)	**(350)**	(494)
Operator recoveries	**(1)**	(2)	**(9)**	(9)
Net expenses	**$ 682**	$ 1,180	**$ 3,021**	$ 4,247

Gross general and administrative expenses ("G&A") decreased to $774 thousand in Q4 2012 from $1,286 thousand during Q4 2011 and to $3,380 thousand for the year ended December 31, 2012 from $4,750 thousand for the year ended December 31, 2011 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. Gross G&A expense of $3,380 thousand is lower than the previous estimate of $3,650 thousand for the same reasons.

Outlook

Gross G&A of approximately $3,350 thousand is budgeted for 2013.

Share-based Compensation

thousands of dollars	Three months ended December 31 2012	2011	Twelve months ended December 31 2012	2011
Share-based compensation	**$ 297**	$ 350	**$ 1,554**	$ 1,946

The decrease in share-based compensation expense to $297 thousand for Q4 2012 from $350 thousand for Q4 2011 and to $1,554 thousand for the year ended December 31, 2012 from $1,946 thousand for the year ended December 31, 2011 is due to the reduction in the number of stock options granted and a decline in the fair value of the stock options granted in 2012, which decrease was partially offset by the surrender of 1,200 thousand stock options by the directors in Q2 2011 which resulted in a reversal of approximately $1,200 thousand of previously expensed share-based compensation.

Outlook

In Q1 2013, 1.5 million stock options were surrendered for no consideration as part of Corridor's option cancellation program. As a result, share-based compensation expense will decrease by approximately $500 thousand during this period. Corridor's estimate of the 2013 share-based compensation expense is approximately $180 thousand.

Deferred Income Taxes

thousands of dollars	Three months ended December 31 2012	2011	Twelve months ended December 31 2012	2011
Deferred income tax recovery	**$ (15,408)**	$ (26,284)	**$ (17,102)**	$ (27,374)
Effective tax rate	**26.8%**	26.9%	**26.3%**	25.6%
Canadian statutory income tax rate	**26.75%**	28.5%	**26.75%**	28.5%

The increase in the effective tax rate for the year ended December 31, 2012 compared to the year ended December 31, 2011 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, 2012, Corridor's income tax pools were approximately as follows:

thousands of dollars	**December 31 2012**
Canadian exploration expense	**$ 75,271**
Canadian development expense	**80,071**
Canadian oil and natural gas property expense	**3,816**
Undepreciated capital cost	**35,895**
	$ 195,053

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

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2012**	2011	**2012**	2011
Impairment losses	**$ 56,325**	$ 94,781	**$ 56,325**	$ 94,781

The Company recognized an impairment loss of $56,325 thousand for the year ended December 31, 2012 and $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 losses were 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%.

In 2012, the impairment loss was due to a decline in forecast natural gas prices which resulted in a decrease in estimated proved plus probable reserves and lower estimated future cash flows. The 2011 impairment loss was also due to a decline in natural gas prices. Under IFRS, impairment losses are reversed in the future if there is a positive change in the assumptions used to determine the recoverable amount. In 2012, the Company utilized the following benchmark prices to determine the forecast prices in the fair value calculation:

	2013	2014	2015	2016	2017	2018-2022	Thereafter
Henry Hub ($US/mmbtu)	$ 3.75	$ 4.25	$ 4.75	$ 5.25	$ 5.50	$ 5.80-$ 6.27	+2%/year
McCully ($/mscf)	$ 4.18	$ 4.50	$ 4.81	$ 5.33	$ 5.60	$ 5.91-$ 6.40	+2%/year
Exchange rate (US$/CDN$)	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00

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.

In Q4 2011, the Company also recorded an impairment loss in the amount of $4,474 thousand relating to the costs incurred on its Prince Edward Island exploration prospect as the Company had no further plans to explore.

Loss on Sale and Write-down of Assets

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2012**	2011	**2012**	2011
Write-down of inventory	**$ 186**	$ 530	**$ 186**	$ 2,130
Loss on sale of inventory	**4**	-	**4**	155
	$ 190	$ 530	**$ 190**	$ 2,285

In 2011, 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 in 2011 and $4 thousand in 2012. In 2012, the Company wrote-down this inventory by $186 thousand to reflect an additional decrease in the net realizable value.

Statement of Financial Position Changes

Significant changes between Corridor's December 31, 2012 statement of financial position and its December 31, 2011 statement of financial position include:

- $1,618 thousand increase in cash and cash equivalents, primarily reflecting decreased capital expenditures in 2012.
- $1,500 thousand decrease in restricted cash reflecting the expiry of a letter of credit guarantee in connection with a drilling rig agreement in February 2012.
- $1,139 thousand decrease in receivables, primarily reflecting the higher GPT fees receivable in Q4 2011 due to the amendment of the terms of the GPT agreement.
- $53,810 thousand decrease in property, plant and equipment, primarily reflecting impairment losses of $44,432 thousand and depletion and depreciation expenses in 2012.
- $8,013 thousand decrease in exploration and evaluation assets, primarily reflecting impairment losses of $11,893 thousand recognized by the Company in Q4 2012.
- $17,102 thousand increase in deferred income tax assets, primarily reflecting the deferred income tax impact on the impairment losses of $56,325 thousand.
- $1,997 thousand decrease in accounts payable and accrued liabilities, primarily reflecting decreased capital expenditures in 2012.

Capital Expenditures

	Three months ended December 31		**Twelve months ended December 31**	
thousands of dollars	**2012**	2011	**2012**	2011
Exploration activities	**$ 1,104**	$ 4,573	**$ 3,212**	$ 7,292
Development activities	**-**	(325)	**64**	918
Midstream facilities and tie-ins	**-**	31	**108**	242
Capitalized overhead	**91**	104	**350**	494
Office and other equipment	**-**	-	**29**	5
	$ 1,195	$ 4,383	**$ 3,763**	$ 8,951

The decrease in total capital expenditures to $1,195 thousand for Q4 2012 from $4,383 thousand for Q4 2011 and to $3,763 thousand for the year ended December 31, 2012 from $8,951 thousand for the year ended December 31, 2011 reflects the Company's planned decrease in capital spending in 2012 following decreases in natural gas prices and lower cash flow from operations.

During Q4 2012, the Company continued its exploration program on Anticosti Island, Québec with its partner, Petrolia Inc. and re-tested the Green Road B-41 shale gas well in Elgin, New Brunswick and was successful at removing a tool stuck in this well since 2011. While the Green Road B-41 well did not flow material amounts of gas, a section of the horizontal leg of this well is now available for future fracturing operations. In Q4 2011, the exploration activities consisted of drilling the vertical Will DeMille O-59 shale gas appraisal well in Elgin, New Brunswick.

During the year ended December 31, 2012, the Company also incurred costs to advance the drilling of the Old Harry prospect. For 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 2012 were lower than the latest estimate of $4,000 thousand due to lower than expected costs associated with the Anticosti Island exploration program.

Outlook

Corridor's 2013 capital budget consists of the following:

thousands of dollars	
Old Harry drilling advancement	$ 1,000
Work-overs aimed at increasing production at the McCully Field	1,000
Gas plant maintenance and corporate	1,000
	$ 3,000

However, the board of directors may approve additional capital expenditures in 2013 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	**2012**	2011	**2012**	2011
Cash provided by operating activities	**$ 1,954**	$ 1,930	**$ 5,258**	$ 10,630
Cash provided by financing activities	**51**	4	**177**	2,756
Cash used in investing activities	**(1,721)**	(2,905)	**(3,817)**	(7,855)
Increase (decrease) in cash and cash equivalents	**$ 284**	$ (971)	**$ 1,618**	$ 5,531

The decrease in cash provided by operating activities for year ended December 31, 2012 compared to the year ended December 31, 2011 is primarily the result of the decrease in natural gas revenues resulting from the decreased natural gas production and natural gas prices. However, natural gas prices were higher in Q4 2012 compared to Q4 2011 and as a result cash provided by operating activities increased in Q4 2012.

The decrease in cash provided by financing activities for the year ended December 31, 2012 reflects the exercise of 649 thousand stock options in the year ended December 31, 2011. No financing activities took place in 2012.

Cash used in investing activities has decreased for the three and twelve months ended December 31, 2012 as a result of the decrease in capital spending.

Outlook

Corridor is forecasting cash flow from operations of $8,000 thousand in 2013 which is based on an estimated average natural gas sales price of approximately $6.60/mscf and an estimated average net daily gas production of 7.7 mmscfpd for 2013. The natural gas sales price is based on an exchange rate estimate of $1.00 U.S. per Canadian dollar, an estimated Henry Hub price of US$3.60/mmbtu and an average premium at Dracut of US$2.60/mmbtu which incorporates Corridor's forward sale agreement for 6,000 mmbtupd from January 1, 2013 to March 31, 2013 at an average price of $US8.52/mmbtu.

Based on available working capital of $10.2 million at December 31, 2012 and Corridor's current capital budget of $3.0 million in 2013, Corridor is forecasting a net positive working capital of approximately $15.2 million at December 31, 2013, with no outstanding debt. However, the board of directors may approve additional capital expenditures in 2013 relating to one or more of Corridor's prospects.

Outstanding Share Information

As of February 28, 2013, the outstanding share information was as follows:

Common shares outstanding	**88,464,133**
Stock options to purchase common shares	**2,466,333**
Total common shares outstanding after exercise of all stock options	**90,930,466**
thousands of dollars	
Total proceeds due on exercise of all stock options	**$ 4,459**

Summary of Quarterly Information

	2012				2011			
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	**$ 4,604**	$ 2,616	$ 2,361	$ 3,764	**$ 4,194**	$ 4,722	$ 5,155	$ 7,706
Net loss	**$ (42,023)**	$ (1,777)	$ (2,435)	$ (1,654)	**$ (71,416)**	$ (2,348)	$ (3,643)	$ (2,178)
Net loss per share basic and diluted	**$ (0.475)**	$ (0.020)	$ (0.028)	$ (0.019)	**$ (0.807)**	$ (0.027)	$ (0.041)	$ (0.025)
Natural gas production (mmscf)	**818**	745	826	904	**985**	1,020	1,067	1,141
Average natural gas price ($/mscf)	**$ 5.63**	$ 3.51	$ 2.86	$ 4.16	**$ 4.26**	$ 4.63	$ 4.83	$ 6.75
Capital expenditures	**$ 1,195**	$ 928	$ 853	$ 787	**$ 4,383**	$ 3,050	$ 873	$ 705

The decrease in Corridor's natural gas revenues, cash flow from operations and net loss from Q1 2011 to Q4 2012 is primarily the result of the decrease in the average natural gas sales price from $6.75/mscf for the three months ended March 31, 2011 to as low as $2.86/mscf for the three months ended June 30, 2012. 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 and impairment losses.

Related Party Transactions

A director of Corridor is a partner in a law firm that provides legal services which amounted to $20 thousand and $59 thousand for the three and twelve months ended December 31, 2012 (three and twelve months ended December 31, 2011 - $28 thousand and $139 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, 2012, Corridor had access to an $8 million revolving credit facility with a Canadian chartered bank, which was subsequently decreased to $6 million in January 2013. 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 27, 2013 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 $6 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 the date hereof, no amounts were drawn on this credit facility and $6 million remained available thereunder.

At this time, Corridor does not intend to access its credit facility in 2013 consistent with the Company’s 2013 budget. The 2013 budget assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales.

The Company has sufficient financial resources to undertake its planned activities for 2013. However, 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, 2012, Corridor had the following contractual obligations and commitments:

thousands of dollars	**Total**	2013	2014	2015	2016	2017	Thereafter
Transportation commitments	**$ 4,450**	$ 1,641	$ 1,616	$ 1,193	$ -	$ -	$ -
Operating leases	**2,420**	984	364	353	263	165	291
Decommissioning liabilities	**14,903**	-	163	-	-	-	14,740
	$ 21,773	$ 2,625	$ 2,143	$ 1,546	$ 263	$ 165	$ 15,031

Given the Company’s available liquid resources and the Company’s 2013 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, 2012, 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 President and the Chief Financial Officer 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, 2012. 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, 2012, 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.

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 Company has identified the following significant critical accounting estimates.

Asset Impairments

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, 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. Under IFRS, impairment losses are reversed in the future if there is a positive change in the assumptions used to determine the recoverable amount.

The Company recognized an impairment loss of $56,325 thousand for the year ended December 31, 2012 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 for the year ended December 31, 2012 of a one percent change in the discount rate:

(thousands of dollars)		
	2012	
	1% rate increase	1% rate decrease
Increase (decrease) in impairment loss	$ 8,347	$ (9,469)

Depletion

Capitalized costs, estimated future development costs to develop proved reserves and asset retirement costs are depleted based on estimated proved natural gas reserves. Changes in proved reserve estimates could materially impact depletion expense.

Decommissioning Liabilities

The decommissioning liability is measured based on the estimated cost of abandonment discounted to its net present value. The determination of decommissioning liabilities 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. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results.

Contingent Liabilities

Provisions for contingent liabilities 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 when the effect is material. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Business Conditions and Risks

An overview of the industry conditions in which the Company operates is set forth in the Annual Information Form under the heading "Industry Conditions".

The following is a summary of certain risk factors and 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 under the heading "Risk Factors" and include, hydraulic fracturing, third party risk, 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, 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*".

Volatility of Natural Gas and Oil Prices

The Company's revenues, profitability and future growth and the carrying value of its properties are substantially dependent on prevailing prices of gas and oil. Fluctuations in natural gas or oil prices could have an adverse effect on the Company's operations and financial condition and the value and amount of its reserves. Prices for natural gas fluctuate in response to changes in the supply of and demand for natural gas and oil, market uncertainty and a variety of additional factors beyond the Company's control. Natural gas prices are affected primarily by supply and demand, weather conditions and by prices of alternate sources of energy (including refined product, coal, and renewable energy initiatives). A substantial or extended decline in the price of natural gas or a continued low price environment for natural gas could result in a delay or cancellation of existing or future drilling, development programs or curtailment in production or could result in unutilized transportation commitments, all of which could 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 natural gas may result in Corridor having to impair, as a non-cash charge to earnings, the carrying value of its oil and gas properties.

Government Regulation

The oil and natural gas industry (exploration, production, pricing, marketing and transportation) is subject to extensive controls and regulations imposed by various levels of government. See "*Industry Conditions*" in the Annual Information Form. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Company's intended business, financial condition and results of operations. The Company's operations require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development on its properties. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted. In particular, in Québec, delays in shale gas development are expected to continue as the Province implements the various recommendations made by the Québec's Bureau d'audiences publiques sur l'environnement ("**BAPE**"), including the main recommendation that a strategic environmental assessment on shale gas development be performed.

Environmental

All phases of the natural gas and liquids businesses are subject to environmental regulation pursuant to a variety of federal, provincial and municipal laws and regulations (collectively, "environmental legislation"). Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the use, generation, handling, storage, transportation, treatment and disposal of chemicals, hazardous substances and waste associated with the finding, production, transmission and storage of the Company’s products including the hydraulic fracturing of wells, the decommissioning of facilities and in connection with spills, releases and emissions of various substances to the environment. It also imposes restrictions, liabilities and obligations in connection with the management of fresh or potable water sources that are being used, or whose use is contemplated, in connection with natural gas and oil operations.

Environmental legislation also requires that wells, facility sites and other properties associated with the Company's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or permit applications. Compliance with environmental legislation can require significant expenditures, including expenditures for clean-up costs and damages arising out of contaminated properties and failure to comply with environmental legislation may result in the imposition of fines and penalties.

A number of federal and provincial governments have announced intentions to regulate greenhouse gases and certain air pollutants. These governments are currently developing the regulatory and policy frameworks to deliver on their announcements. In most cases there are few technical details regarding the implementation and coordination of these plans to regulate emissions. However, the Canadian federal government has gone on record as saying that it will align greenhouse gas emission legislation with the United States. As it remains unclear what approach the U.S. federal government will take, or when, it is also unclear whether these federal governments will implement economy-wide greenhouse gas emission legislation or a sector-specific approach, and what type of compliance mechanisms will be available to certain emitters. Currently, certain provinces have implemented greenhouse gas emission legislation that impacts areas in which the Company operates. It is anticipated that other federal, provincial and state announcements and regulatory frameworks to address emissions will continue to emerge.

Corridor believes that it is in material compliance with applicable environmental legislation and is committed to continued compliance. Corridor believes that it is reasonably likely that a trend towards stricter standards in environmental legislation will continue and Corridor anticipates making increased expenditures of both a capital and an expense nature as a result of increasingly stringent environmental laws.

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, 2012 setting forth certain information relating to certain natural gas and oil reserves of Corridor's properties, specifically the McCully Field and the Caledonia Field in New Brunswick, 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 27, 2013

Signed *"Phillip R. Knoll"*
Phillip R. Knoll
President and Chief Executive Officer

Signed *"Lisette F. Hachey"*
Lisette F. Hachey
Chief Financial Officer

March 27, 2013

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, 2012 and December 31, 2011 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011 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 audit 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, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

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Statements of Loss and Comprehensive Loss

(thousands of dollars, except per share data) For the years ended December 31	**2012**	2011
Sales *(note 5)*	**$ 14,795**	$ 23,993
Royalty expense	**(58)**	(679)
Revenues, net	**14,737**	23,314
Expenses		
Depletion, depreciation and amortization	**11,254**	16,982
Transportation expense	**4,074**	5,499
Production expense *(note 6)*	**2,982**	3,969
General and administrative expenses *(note 6)*	**3,021**	4,247
Share-based compensation expense *(note 18)*	**1,554**	1,946
Impairment losses *(notes 11 and 12)*	**56,325**	94,781
Loss on sale and write-down of inventory *(note 10)*	**190**	2,285
Write-off of exploration and evaluation assets *(note 12)*	**72**	196
Capital tax expense	**20**	81
	79,492	129,986
Loss before the following items	**(64,755)**	(106,672)
Interest and finance costs	**260**	323
Foreign exchange losses	**73**	58
Interest and other income	**(97)**	(94)
Loss before income taxes	**(64,991)**	(106,959)
Deferred income tax recovery (*note 8*)	**(17,102)**	(27,374)
Net loss and comprehensive loss	**$ (47,889)**	$ (79,585)
Net loss per share – basic and diluted	**$ (0.541)**	$ (0.899)
Weighted average number of common shares		
Basic	**88,464**	88,436
Diluted *(note 7)*	**88,464**	88,650

See accompanying notes to the financial statements.

Statements of Financial Position

(thousands of dollars) As at December 31	**2012**	2011
Assets		
Current assets		
Cash and cash equivalents	**$ 8,014**	$ 6,396
Restricted cash *(note 22 b)*	**650**	2,150
Receivables *(notes 9 & 20 a ii)*	**2,089**	3,228
Inventory *(note 10)*	**737**	870
Capital taxes receivable	**25**	229
Prepaids and security deposits	**184**	107
	11,699	12,980
Non-current assets		
Property, plant and equipment *(notes 11 & 16)*	**99,901**	153,711
Exploration and evaluation assets *(note 12)*	**22,969**	30,982
Investment tax credits	**1,671**	1,660
Deferred income tax assets *(note 8)*	**21,061**	3,959
Intangible assets *(note 13)*	**297**	345
Restricted cash *(note 22 b)*	**380**	380
Total assets	**$ 157,978**	$ 204,017
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities *(note 14)*	**$ 1,462**	$ 3,459
Obligations under finance lease	**-**	14
	1,462	3,473
Non-current liabilities		
Decommissioning liability *(note 15)*	**7,715**	5,408
Total liabilities	**9,177**	8,881
Shareholders' Equity		
Capital stock *(note 17)*	**247,496**	247,496
Contributed surplus	**9,506**	7,952
Deficit	**(108,201)**	(60,312)
Total shareholders' equity	**148,801**	195,136
Total liabilities and shareholders' equity	**$ 157,978**	$ 204,017

See accompanying notes to the financial statements.

Commitments *(note 22)*
Contingency *(note 23)*
Subsequent event *(note 24)*

On behalf of the Board

Signed *"Phillip R. Knoll"* Director

Signed *"Robert D. Penner"* Director

Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the years ended December 31	**2012**	2011
Capital stock, beginning of year	**$ 247,496**	$ 242,589
Exercise of stock options for cash	**-**	2,739
Amount previously expensed for stock options exercised	**-**	2,168
Capital stock, end of year	**$ 247,496**	$ 247,496
Contributed surplus, beginning of year	**$ 7,952**	$ 8,174
Share-based compensation expense	**1,554**	1,946
Amount previously expensed for stock options exercised	**-**	(2,168)
Contributed surplus, end of year	**$ 9,506**	$ 7,952
Retained earnings (deficit), beginning of year	**$ (60,312)**	$ 19,273
Net loss and comprehensive loss	**(47,889)**	(79,585)
Deficit, end of year	**$ (108,201)**	$ (60,312)
Shareholders' equity, end of year	**$ 148,801**	$ 195,136

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of dollars)

For the years ended December 31	**2012**	2011
Operating Activities		
Net loss	**$ (47,889)**	$ (79,585)
Adjustments not affecting cash:		
Depletion, depreciation and amortization	**11,254**	16,982
Share-based compensation	**1,554**	1,946
Write-downs of assets and impairment losses	**56,587**	97,262
Deferred income tax recovery	**(17,102)**	(27,374)
Other operating activities	**-**	19
	4,404	9,250
Decrease in non-cash operating working capital *(note 19)*	**854**	1,380
Cash provided by operating activities	**5,258**	10,630
Financing Activities		
Proceeds from capital stock issues	**-**	2,739
Other financing activities	**177**	17
Cash provided by financing activities	**177**	2,756
Investing Activities		
Exploration and evaluation expenditures	**(3,562)**	(7,786)
Property, plant and equipment expenditures	**(201)**	(1,165)
Proceeds from sale of inventory	**31**	722
Decrease (increase) in restricted cash	**1,500**	(750)
Decrease (increase) in non-cash investing working capital *(note 19)*	**(1,585)**	1,124
Cash used in investing activities	**(3,817)**	(7,855)
Increase in cash and cash equivalents	**1,618**	5,531
Cash and cash equivalents, beginning of year	**6,396**	865
Cash and cash equivalents, end of year	**$ 8,014**	$ 6,396
Cash and cash equivalents consists of:		
Cash	**$ 2,964**	$ 2,926
Short-term investments	**5,050**	3,470
Cash and cash equivalents, end of year	**$ 8,014**	$ 6,396

See accompanying notes to the financial statements.

Notes to the Financial Statements
Years ended December 31, 2012 and 2011

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 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").

On March 27, 2013, 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.

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 and grouped 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 presence of reserves has been established, after which capitalized costs are transferred to oil and gas properties after being assessed for impairment.

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 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.

Exploration and evaluation assets are not depleted.

c) Oil and gas properties

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

Once 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.

3. Significant accounting policies (continued)

When an asset 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.

d) Property, plant and equipment

The initial costs of property, plant and equipment consist 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 cost method. Net realizable value is the estimated selling price less applicable selling expenses.

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

Depreciation rates and useful lives are reviewed on an annual basis.

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 asset in 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.

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, revenues and expenses incurred in relation to Corridor’s interest in the jointly held assets.

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 also 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 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. However, the amount of the impairment loss 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.

3. Significant accounting policies (continued)

g) 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 calculated on the net amount.

h) 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.

i) 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.

j) 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 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.

k) 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.

l) 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 estimated to be realized or liabilities estimated to be 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.

m) 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 for the period.

3. Significant accounting policies (continued)

n) Foreign currency translation

Foreign currency transactions are translated using the exchange rate prevailing at the date of transaction. 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.

o) 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 and lease payments are expensed in the Statement of Loss and Comprehensive Loss as incurred.

p) 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.

q) 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 are included in current assets and consist of cash and cash equivalents and trade receivables. 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.

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.

3. Significant accounting policies (continued)

r) 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 and calculated based on engineering estimates. A decommissioning liability is recognized only when a legal or constructive obligation exists. 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.

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 fully assessed the impact of these standards and amendments but does not expect any material impact.

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.

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.

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.

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.

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 on a number of variable factors and assumptions, such as historical production, 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.

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 recovery. 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 asset could differ from the amount estimated by management and the impact on the Company's deferred income tax recovery could be material.

Share-based compensation

The calculation of share-based compensation expense includes estimates of risk-free interest rates, forfeiture estimates, 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.

Notes to the Financial Statements
Years ended December 31, 2012 and 2011

5. Sales

Sales consist of the following:

(thousands of dollars)

	2012	2011
Natural gas sales	**$ 13,345**	$ 21,777
Gathering, processing and transportation fees	**1,162**	1,754
Natural gas liquids sales	**288**	462
Sales	**$ 14,795**	$ 23,993

6. Expenses by nature

Production expenses by nature consist of the following:

(thousands of dollars)

	2012	2011
Wages and benefits	**$ 941**	$ 1,030
Utilities expense	**917**	1,141
Repairs and maintenance	**542**	776
Property taxes and insurance	**396**	428
Office expenses	**95**	115
Workover activities and field maintenance	**39**	321
Other production expenses	**654**	867
	3,584	4,678
Third party recoveries	**(602)**	(709)
Production expenses	**$ 2,982**	$ 3,969

General and administrative expenses by nature consist of the following:

(thousands of dollars)

	2012	2011
Wages and benefits	**$ 1,624**	$ 2,327
Directors fees	**173**	214
Consultants	**393**	637
Legal and accounting	**321**	419
Office expenses	**316**	342
Software maintenance and licensing	**132**	180
Other general and administrative expenses	**421**	631
	3,380	4,750
Third party recoveries & capitalized overhead	**(359)**	(503)
General and administrative expenses	**$ 3,021**	$ 4,247

7. Loss per share

For the year ended December 31, 2012, stock options of 3,980 thousand (December 31, 2011 – 1,768 thousand) were excluded from the dilution calculation since the average market price for the year was lower than the exercise price.

8. 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 dollars)

	2012	2011
Loss before income taxes	**$ (64,991)**	$ (106,959)
Blended Canadian statutory income tax rate	**26.75%**	28.5%
Expected income tax recovery	**$ (17,385)**	$ (30,483)
Increase resulting from:		
Non-deductible share-based compensation	**416**	555
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**(159)**	1,575
Effect of provincial tax rate change	**-**	905
Other	**26**	74
	$ (17,102)	$ (27,374)

In 2011, 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 Company's deferred income tax assets (liabilities) is as follows:

(thousands of dollars)

	December 31 2011 deferred income tax balance	**December 31 2012 deferred income tax recovery**	December 31 2012 deferred income tax balance
Property, plant and equipment and exploration and evaluation assets	$ 2,972	**$ 16,648**	$ 19,620
Decommissioning liability	818	**623**	1,441
Share issue costs	169	**(169)**	-
	$ 3,959	**$ 17,102**	$ 21,061

(thousands of 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

There are no temporary differences which are expected to reverse in the next twelve months.

The Company has $1,671 thousand of outstanding investment tax credits which expire between 2028 and 2032.

At December 31, 2012, the Company has recognized deferred income tax assets of $21,061 thousand for which it is probable there will be sufficient taxable profits from operations to facilitate the utilization of the underlying tax deductible amounts.

Notes to the Financial Statements
Years ended December 31, 2012 and 2011

9. Receivables

Receivables consist of the following:

(thousands of dollars)

	December 31 2012	December 31 2011
Trade receivables	**$ 1,608**	$ 1,138
Receivables from joint venture partners	**423**	1,476
Sales taxes and fuel taxes receivable from government	**32**	588
Interest receivable	**26**	26
	$ 2,089	$ 3,228

Receivables generally have a 30 day term and have all been received subsequent to the year end. 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.

10. Inventory

(thousands of dollars)

	December 31 2012	December 31 2011
Inventory	**$ 737**	$ 870

In 2011, the Company determined to sell excess inventory and reclassified $1,748 thousand of inventory from property, plant and equipment to current assets after a write-down of $2,130 thousand to reflect the decrease in the net realizable value. The Company subsequently sold $913 thousand in inventory and incurred a further loss of $155 thousand in 2011 and $4 thousand in 2012. In 2012, a further inventory write-down was required in current assets of $98 thousand and in property, plant and equipment of $88 thousand to reflect the decrease in the net realizable value (see note 11).

11. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	**Production facilities**	**Inventory**	**Office and other assets**	**Total**
Cost					
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
Additions	64	108	-	29	201
Changes in future abandonment costs	1,726	-	-	-	1,726
Investment tax credits	-	(11)	-	-	(11)
Balance at December 31, 2012	**$ 220,546**	**$ 76,610**	**$ 3,185**	**$ 2,699**	**$ 303,040**

11. Property, plant and equipment (continued)

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Accumulated depletion and depreciation					
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
Depletion or depreciation expense	8,871	2,121	-	214	11,206
Impairment losses	31,336	13,096	-	-	44,432
Write-down of inventory	-	-	88	-	88
Balance at December 31, 2012	**$ 150,544**	**$ 48,722**	**$ 2,364**	**$ 1,509**	**$ 203,139**
Net book value at December 31, 2011	$ 108,419	$ 43,008	$ 909	$ 1,375	$ 153,711
Net book value at December 31, 2012	**$ 70,002**	**$ 27,888**	**$ 821**	**$ 1,190**	**$ 99,901**

The calculation of depletion expense includes estimated future development costs relating to the development of proved reserves of $96,708 thousand for the year ended December 31, 2012 (December 31, 2011 - $72,193 thousand). Costs of property, plant and equipment excluded from costs subject to depletion, depreciation and amortization amounted to $7,366 thousand at December 31, 2012 (December 31, 2011 - $7,374 thousand).

For the years ended December 31, 2012 and 2011, the Company recognized impairment losses 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 losses were allocated as follows:

(thousands of dollars)

	2012	2011
Oil and gas properties and production facilities	**$ 44,432**	$ 51,967
Exploration and evaluation assets	**11,893**	38,340
	$ 56,325	$ 90,307

In 2012, the impairment loss was due to the decline in forecast natural gas prices which resulted in a decrease in natural gas reserves and lower estimated future cash flows. The impairment loss 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 a discount rate of 10 percent. In 2012, the Company utilized the following benchmark prices to determine the forecast prices in the fair value calculation:

	2013	2014	2015	2016	2017	2018-2022	Thereafter
Henry Hub ($US/mmbtu)	$ 3.75	$ 4.25	$ 4.75	$ 5.25	$ 5.50	$ 5.80-$ 6.27	+2%/year
McCully ($/mscf)	$ 4.18	$ 4.50	$ 4.81	$ 5.33	$ 5.60	$ 5.91-$ 6.40	+2%/year
Exchange rate (US$/CDN$)	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00

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 2012 impairment loss of a change in the discount rate of 1%:

(thousands of dollars)

	2012	
	1% rate increase	1% rate decrease
Increase (decrease) in impairment loss	$ 8,347	$ (9,469)

12. Exploration and evaluation assets

(thousands of dollars)

	2012	2011
Balance, beginning of year	**$ 30,982**	$ 65,707
Impairment losses	**(11,893)**	(42,814)
Additions	**3,562**	7,786
Transfers from property, plant and equipment	**-**	800
Write-off of exploration and evaluation assets	**(72)**	(196)
Changes in future abandonment costs	**390**	(301)
Balance, end of year	**$ 22,969**	$ 30,982

For the year ended December 31, 2012, the Company recorded an impairment loss of $11,893 thousand (December 31, 2011 - $38,340 thousand) relating to the impairment of the Company's New Brunswick CGU, as explained in note 11. For the year ended December 31, 2011, the Company also recorded an impairment loss of $4,474 thousand relating to its Prince Edward Island exploration prospect as the licenses expired in 2012 and the Company had no further plans to explore.

The Company wrote-off exploration and evaluation assets in the amount of $72 thousand for the year ended December 31, 2012 (December 31, 2011 - $196 thousand) as the prospects were no longer commercially viable.

13. Intangible assets

(thousands of dollars)

	2012	2011
Cost		
Balance, beginning of year	**$ 479**	$ 479
Additions	**-**	-
Balance, end of year	**479**	479
Accumulated amortization		
Balance, beginning of year	**$ 134**	$ 86
Amortization	**48**	48
Balance, end of year	**182**	134
Net book value, end of year	**$ 297**	$ 345

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

(thousands of dollars)

	December 31 2012	December 31 2011
Trade payables	**$ 647**	$ 1,890
Accrued liabilities	**716**	1,530
Payables to joint venture partners	**70**	7
Payables to related parties	**29**	32
	$ 1,462	$ 3,459

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

15. Decommissioning liability

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

(thousands of dollars)

	2012	2011
Balance, beginning of year	**$ 5,408**	$ 4,482
Liabilities incurred	**-**	190
Change in discount rate	**648**	669
Change in estimate	**1,468**	(90)
Finance costs	**191**	157
Balance, end of year	**$ 7,715**	$ 5,408

The total undiscounted amount of estimated cash flows required to settle these obligations is $14,903 thousand (December 31, 2011 - $11,101 thousand). Management estimates the settlement of these obligations between 2014 and 2040. A risk-free rate of 2.42% (December 31, 2011 – 2.98%) and an inflation rate of 2% (December 31, 2011 – 2%) was used to calculate the estimated fair value of the decommissioning liability.

16. Credit facility

Corridor had an $8 million revolving short term credit facility with a Canadian chartered bank at December 31, 2012 which was subsequently decreased to $6 million in January 2013. 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 27, 2013. 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, 2012 and December 31, 2011, there was no amount drawn on the credit facility.

17. Capital stock

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

b) Issued and outstanding

(thousands of dollars and thousands of shares)

	2012		2011	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**88,464**	**$ 247,496**	87,815	$ 242,589
Exercise of stock options for cash and	**-**	**-**	649	2,739
amount recognized from contributed surplus	**-**	**-**	-	2,168
Balance, end of year	**88,464**	**$ 247,496**	88,464	$ 247,496

18. 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:

	2012		2011	
	Number of options (000's)	**Weighted average exercise price**	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of year	**3,489**	**$ 4.14**	4,989	$ 4.95
Granted	**977**	**$ 0.76**	1,112	$ 2.46
Forfeited and cancelled	**(486)**	**$ 4.40**	(1,435)	$ 5.13
Exercised	**-**	**-**	(649)	$ 4.22
Expired	**-**	**-**	(528)	$ 5.43
Options outstanding, end of year	**3,980**	**$ 3.28**	3,489	$ 4.14
Options exercisable, end of year	**2,159**	**$ 4.49**	1,444	$ 5.12

For the year ended December 31, 2012, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of $1,554 thousand (December 31, 2011 - $1,946 thousand).

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

	2012	2011
Weighted average fair value of options granted	**$ 0.47**	$ 1.38
Risk-free interest rate	**1.4%**	1.6%
Expected life (years)	**4.7**	4.9
Expected volatility	**80%**	68%

The range of exercise prices of stock options outstanding and exercisable as at December 31, 2012 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**
$ 0.50 - $ 1.99	977	4.62	$ 0.76	-	-
$ 2.00 - $ 4.99	1,497	3.02	$ 2.51	850	$ 2.54
$ 5.00 - $ 6.99	1,344	2.75	$ 5.22	1,147	$ 5.22
$ 7.00 - $10.99	162	0.39	$ 9.55	162	$ 9.55
	3,980	3.22	$ 3.28	2,159	$ 4.49

19. Supplemental cash flow information

(thousands of dollars)

	2012	2011
Change in non-cash operating working capital:		
Receivables	**$ 860**	$ 2,143
Prepaids and security deposits	**(77)**	(25)
Accounts payable and accrued liabilities	**(133)**	(682)
Capital taxes receivable	**204**	(56)
	$ 854	$ 1,380
Change in non-cash investing working capital:		
Receivables	**$ 279**	$ 197
Inventory transferred from property, plant and equipment	**-**	1,748
Inventory received in current assets	**-**	(1,748)
Accounts payable and accrued liabilities	**(1,864)**	927
	$ (1,585)	$ 1,124
Interest and taxes paid:		
Interest paid	**$ 65**	$ 105
Interest received	**$ 91**	$ 61
Capital and other taxes paid (received)	**$ (208)**	$ 133

20. 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.

For the year ended December 31, 2012, a 5% decrease in the price of natural gas would have resulted in an increase of approximately $485 thousand (December 31, 2011 – $795 thousand) in the Company's net loss due to lower natural gas sales. Conversely, a 5% increase in the price of natural gas would have resulted in a decrease of approximately $485 thousand (December 31, 2011 – $795 thousand) in the Company's net loss due to lower natural gas sales.

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.

20. Risk management (continued)

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, 2012	December 31, 2011
Cash	**$ 1,918**	$ 9
Receivables	**1,226**	909
Financial instruments in U.S. dollars	**$ 3,144**	$ 918

At December 31, 2012, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately $115 thousand (December 31, 2011 – $35 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 $115 thousand (December 31, 2011 – $35 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, 2012, the Company was holding cash and cash equivalents of $8,014 thousand and had $6 million available from its revolving credit facility (as disclosed in note 16). 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 $6 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 2013 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities.

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.

21. 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, 2012, $59 thousand of legal expenses (December 31, 2011 - $139 thousand) are included in general and administrative expenses. At December 31, 2012, $39 thousand was included in accounts payable and accrued liabilities (December 31, 2011 - $32 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 dollars)

	2012	2011
Directors' fees	**$ 173**	$ 214
Wages and benefits	**864**	1,007
Share-based compensation	**1,100**	1,383
	$ 2,137	$ 2,604

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 and Production Operations Manager. Wages and benefits include salary and benefits during the year. Share-based compensation includes expenses relating to Corridor's stock option plan as disclosed in note 18.

22. Commitments

a) Transportation and gas sales

The Company has a commitment to purchase 8,000 mmbtu per day of transportation on the Canadian side of the Maritimes and Northeast Pipeline from January 1, 2013 to October 31, 2013, 7,500 mmbtu per day from November 1, 2013 to October 31, 2014 and 6,500 mmbtu per day from November 1, 2014 to October 31, 2015.

The Company has a commitment to sell 6,000 mmbtu per day of natural gas production from January 1, 2013 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.

b) Letters of credit

At December 31, 2012, the Company had the following irrevocable standby letters of credit issued by a Canadian chartered bank:

(thousands of dollars)

	Amount
Letter of credit expiring June 27, 2013	**$ 350**
Letters of credit expiring June 3, 2013	**300**
Letter of credit expiring August 1, 2015	**380**
	$ 1,030

The Company has pledged $1,030 thousand of short term investments as security. These investments are recorded as restricted cash in current assets or non-current assets based on their expiry date.

22. Commitments (continued)

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 dollars)	**Amount**
2013	**$ 984**
2014	**364**
2015	**353**
2016	**263**
2017	**165**
Thereafter	**291**
	$ 2,420

During 2012, total rental expense under operating leases was $402 thousand (2011 - $416 thousand).

d) Commitments

The maturities of the Company's commitments as of December 31, 2012 are as follows:

(thousands of dollars)	**Total**	2013	2014	2015	2016	Thereafter
Transportation commitments	**$ 4,450**	$ 1,641	$ 1,616	$1,193	$ -	$ -
Operating leases	**2,420**	984	364	353	263	456
Decommissioning liabilities	**14,903**	-	163	-	-	14,740
	$ 21,773	$ 2,625	$ 2,143	$ 1,546	$ 263	$ 15,196

23. Contingency

In 2011, 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.

24. Subsequent event

In Q1 2013, 1.5 million stock options were surrendered for no consideration as part of the Company's option cancellation program. As a result, share-based compensation expense will decrease by approximately $500 thousand.