



# First Quarter 2012

## Management's Discussion and Analysis

As of May 14, 2012

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the three months ended March 31, 2012 should be read in conjunction with Corridor's unaudited condensed financial statements and notes thereto for the three months ended March 31, 2012, audited financial statements and notes thereto for the year ended December 31, 2011 and the MD&A for the year ended December 31, 2011 ("2011 Annual MD&A"), copies of which are available on the Company's website at [www.corridor.ca](http://www.corridor.ca) and through the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com). All amounts referred to in this MD&A are in Canadian dollars unless otherwise stated.

Additional information about Corridor, including the Company's annual information form for the year ended December 31, 2011 (the "Annual Information Form"), is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Introduction

Corridor is an Eastern Canadian junior resource company engaged in the exploration for and development and production of petroleum and natural gas onshore in New Brunswick, Prince Edward Island and Québec and offshore in the Gulf of St. Lawrence. Corridor currently has natural gas reserves and production in the McCully Field near Sussex, New Brunswick and discovered crude oil reserves in the Caledonia Field near Sussex, New Brunswick in 2008. In addition, Corridor has contingent resources and discovered resources of shale gas in Elgin, New Brunswick.

### Selected Financial Information

<i>thousands of dollars except per share amounts</i>	Three months ended March 31	
	2012	2011
Total Sales	\$4,156	\$8,024
Net loss	\$(1,654)	\$(2,178)
Net loss per share - basic and diluted	\$(0.019)	\$(0.025)
Cash flow from operations <sup>(1)</sup>	\$1,290	\$3,572
Capital expenditures	\$787	\$705
Total assets	\$200,885	\$301,260

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

### 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:

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Cash provided by operating activities	\$2,155	\$5,017
Less: Decrease in non-cash operating working capital	865	1,445
Cash flow from operations	\$1,290	\$3,572

## Forward Looking Information

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

- revenues;
- production levels;
- resources and development of resources;
- Canadian – U.S. dollar exchange rate;
- natural gas prices;
- gathering, processing and transportation fees;
- royalty rates and expense;
- production expense;
- transportation expense;
- depletion, depreciation and amortization;
- reserves;
- general and administrative expenses;
- share-based compensation;
- timing that the Company will be cash taxable;
- capital expenditures;
- exploration and development drilling program;
- cash flow from operations;
- sources of funding;
- 2012 budget and capital program; and
- level of bank debt.

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

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

Unknown risks and uncertainties include, but are not limited to: risks associated with oil and gas exploration, substantial capital requirements and financing, prices, markets and marketing, government regulation, third party risk, environmental, hydraulic fracturing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, variations in exchange rates, expiration of licenses and leases, reserves and resources estimates, development and/or acquisition of oil and natural gas properties, trading of common shares, seasonality, competition, management of growth, conflicts of interest, issuance of debt, title to properties and hedging. Further information regarding these factors and additional factors may be found under the heading "Risk Factors" in the Annual Information Form. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

Certain of the forward-looking statements in this MD&A may constitute "financial outlooks" as contemplated by National Instrument 51-102 *Disclosure Obligations*, including information related to projected revenues, expenses, capital expenditures and production for 2012, which are provided for the purpose of forecasting the financial position of Corridor at the end of the 2012 financial year. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

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

## Outlook Information

The outlook sections of this MD&A contain revisions to the outlook information disclosed in the 2011 Annual MD&A dated March 29, 2012.

## Q1 2012 Financial Summary

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2012</b>	2011
Sales	<b>\$4,156</b>	\$8,024
Royalty expense	<b>(8)</b>	(329)
Revenues, net	<b>4,148</b>	7,695
Expenses		
Depletion, depreciation and amortization	<b>3,011</b>	4,564
Transportation expense	<b>1,096</b>	1,691
Production expense	<b>795</b>	1,115
General and administrative expenses	<b>891</b>	1,130
Share-based compensation	<b>383</b>	1,330
Write-off (recovery) of exploration and evaluation assets	<b>(14)</b>	140
Capital tax expense	<b>13</b>	27
	<b>6,175</b>	9,997
Loss before the following items	<b>(2,027)</b>	(2,302)
Interest and finance costs	<b>65</b>	79
Foreign exchange losses	<b>43</b>	107
Interest and other income	<b>(20)</b>	(18)
Loss before income taxes	<b>(2,115)</b>	(2,470)
Deferred income tax recovery	<b>(461)</b>	(292)
Net loss and comprehensive loss	<b>\$(1,654)</b>	\$(2,178)

## First Quarter Summary

- During Q1 2012, natural gas production averaged 9.9 mmscfpd net to Corridor (including production from penalty wells) with an average natural gas sales price of \$4.16/mscf, resulting in a net loss of \$1,654 thousand and basic and diluted net loss per share of \$0.019.
- Natural gas revenues for Q1 2012 decreased to \$3,764 thousand from \$7,706 thousand for Q1 2011 due to the decrease in the average natural gas sales price to \$4.16/mscf in Q1 2012 from \$6.75/mscf in Q1 2011 and the decrease in natural gas production to 9.9 mmscfpd in Q1 2012 from 12.7 mmscfpd in Q1 2011.
- Cash flow from operations was \$1,290 thousand in Q1 2012 compared to \$3,572 thousand in Q1 2011. The decrease in cash flow from operations is due to the lower natural gas revenues partially offset by lower transportation expenses. Corridor had cash and cash equivalents as at March 31, 2012 of \$7,769 thousand and no outstanding debt.
- Net loss for Q1 2012 decreased to \$1,654 thousand from \$2,178 thousand for Q1 2011 as the decrease in natural gas revenues was offset by lower depletion, transportation and share-based compensation expenses.

# Results of Operations

## Sales

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Natural gas	\$3,764	\$7,706
Condensate	84	94
Natural gas and gas liquids sales	\$3,848	\$7,800
Gathering, processing & transportation fees	308	224
	<b>\$4,156</b>	<b>\$8,024</b>

## Production volumes and pricing

	Three months ended March 31	
	2012	2011
<b>Total volumes</b>		
Natural gas production (mmscf)	904	1,141
Condensate production (bbl)	745	951
<b>Daily production averages</b>		
Natural gas production per day (mmscfpd)	9.9	12.7
Condensate production per day (bblpd)	8.2	10.6
<b>Average prices</b>		
Natural gas selling price (\$/mscf)	\$4.16	\$6.75
Condensate selling price (\$/bbl)	\$112.80	\$98.70

Natural gas sales decreased to \$3,764 thousand in Q1 2012 from \$7,706 thousand in Q1 2011 due to the decrease in the average natural gas sales price to \$4.16/mscf in Q1 2012 from \$6.75/mscf in Q1 2011 and the decrease in the average daily natural gas production to 9.9 mmscfpd in Q1 2012 from 12.7 mmscfpd in Q1 2011. The decrease in production is due to the Company's decision to decrease drilling activities at the McCully Field since 2009 following decreases in natural gas prices.

## Outlook

Corridor has decreased its forecast for revenues for 2012 from approximately \$16 million to \$13 million to reflect lower than expected natural gas sales in Q1 2012 of \$1,300 thousand and a decrease in the future estimated average natural gas sales price for 2012. Corridor has reduced its estimated average natural gas sales price for 2012 from \$4.30/mscf to \$3.55/mscf (US\$2.55/mmbtu at Henry Hub, a premium at Dracut of US\$0.72/mmbtu and an estimate of the exchange rate at \$0.98 U.S. per Canadian dollar). Corridor maintains its estimate of the average net daily natural gas production of approximately 9 mmscfpd for 2012 which is based on a shut-in of approximately 2 mmscfpd of natural gas production during the summer months due to expected low natural gas prices during this period.

## Gathering, processing and transportation fees

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Gathering, processing and transportation fees	\$308	\$224

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 limited to 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 increase in the gathering, processing and transportation ("GPT") fees to \$308 thousand in Q1 2012 from \$224 thousand in Q1 2011 is due to the amendment of the terms of the cost of service calculation in 2011 which results in increased GPT fees.

## Outlook

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

## Royalty Expense

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Crown royalties	\$8	\$329
Royalty expense per mscf (\$/mscf)	\$0.01	\$0.29
Percentage of natural gas and gas liquids revenues	0.2%	4.2%

Corridor's royalty payments are currently based on a royalty rate of 10% calculated 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 Q1 2012 to \$0.01/mscf from \$0.29/mscf for Q1 2011 is due to the significant decrease in the natural gas revenues, due to low natural gas prices in Q1 2012, while the deductions allowable in the royalty calculation did not decrease significantly.

### Outlook

The Company has decreased its effective royalty rate for 2012 from 1.5% to 0.5% to reflect the decrease in the 2012 forecast for natural gas revenues.

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

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Transportation expense	\$1,096	\$1,691
Transportation expense per mscf (\$/mscf)	\$1.21	\$1.48

Transportation expense decreased to \$1,096 thousand for Q1 2012 from \$1,691 thousand for Q1 2011 due to the transportation agreement in effect from April 1, 2011 to April 1, 2012 to purchase 12,000 mmbtu per day of transportation on the Canadian side of the M&NP at a cost significantly lower than firm tolls. Transportation expense also decreased due to the decrease in natural gas production and a stronger Canadian dollar as compared to the U.S. dollar.

### Outlook

Corridor has decreased its transportation expense estimate for 2012 from \$1.20/mscf to \$1.19/mscf to reflect a transportation agreement effective April 1, 2012 to purchase an additional 2,000 mmbtu per day of transportation on the Canadian side of the M&NP at a cost significantly lower than firm tolls. Corridor entered into this agreement as the current transportation agreement to purchase 12,000 mmbtu per day decreases to 8,000 mmbtu per day from April 1, 2012 to March 31, 2013.

## Production Expense

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Gross production expense	\$925	\$1,254
Third party recoveries	(130)	(139)
Net production expense	\$795	\$1,115
Net production expense per mscf (\$/mscf)	\$0.88	\$0.98

Gross production expense for Q1 2012 decreased to \$925 thousand from \$1,254 thousand in Q1 2011 due to the decrease in work-over activities in Q1 2012 and the decrease in utilities expense due to the modifications made to Corridor's compressor in Q2 2011, which were successful in reducing energy costs subsequent to that date.

Net production expense per mscf of \$0.88/mscf in Q1 2012 is lower than Corridor's previous expectation of \$1.16/mscf for 2012 due to higher than expected third party recoveries due to the increase in GPT fees and lower than expected repairs and maintenance costs.

### Outlook

Corridor has decreased its production expense estimate for 2012 from \$1.16/mscf to \$1.12/mscf to reflect expected higher third party recoveries.

## Depletion, Depreciation and Amortization

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2012</b>	2011
Depletion, depreciation and amortization	<b>\$3,011</b>	\$4,564
Depletion, depreciation and amortization per mscf (\$/mscf)	<b>\$3.76</b>	\$4.48

Depletion expense is calculated using the unit-of-production method which is based on production volumes (excluding penalty wells) in relation to the proved reserve base. The decrease in depletion, depreciation and amortization ("DD&A") expense for Q1 2012 is primarily due to the decrease in natural gas production compared to Q1 2011 and the decrease in the net book value of the depletion asset base following the Q4 2011 impairment charge of \$51,967 thousand.

The DD&A rate per mscf of \$3.76/mscf for Q1 2012 is lower than Corridor's previous expectation of \$4.60/mscf for 2012 due to the reduction in the net book value of the depletion asset base.

### Outlook

The Company has reduced its 2012 estimate for the DD&A rate per mscf from \$4.60/mscf to \$3.60/mscf to reflect the reduction in the net book value of the depletion asset base.

## General and Administrative Expenses

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2012</b>	2011
Gross expenses	<b>\$995</b>	\$1,272
Capitalized overhead	<b>(98)</b>	(141)
Operator recoveries	<b>(6)</b>	(1)
Net expenses	<b>\$891</b>	\$1,130

Gross general and administrative expenses ("G&A") decreased to \$995 thousand in Q1 2012 from \$1,272 thousand during Q1 2011 due to a decrease in the use of consultants in 2012 and a reduced number of employees of Corridor, reflecting management's commitment to lower G&A expenses in this time of lower natural gas prices.

### Outlook

Corridor maintains its 2012 budget for gross G&A of \$3,850 thousand.

## Share-based Compensation

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2012</b>	2011
Share-based compensation	<b>\$383</b>	\$1,330

The decrease in share-based compensation expense for Q1 2012 to \$383 thousand from \$1,330 thousand for Q1 2011 is due to the reduced level of stock options being granted in the immediately preceding years and a reduced number of employees. In Q4 2011, stock options of 1,112 thousand were granted while late in Q3 2010, Corridor had granted 2,786 thousand stock options.

### Outlook

Corridor maintains its 2012 estimate of share-based compensation of \$1,400 thousand.

## Deferred Income Taxes

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Deferred income tax recovery	<b>\$(461)</b>	\$(292)
Effective tax rate	<b>21.8%</b>	11.8%
Canadian statutory income tax rate	<b>26.75%</b>	28.5%

The increase in the effective tax rate for Q1 2012 compared to Q1 2011 is due to the decrease in share-based compensation expense in Q1 2012 as share-based compensation expense is a non-deductible expense for income tax purposes.

### 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.

### Write-off of Exploration and Evaluation Assets

In Q1 2012, Corridor recognized \$14 thousand of credits relating to an exploration and evaluation project, the costs of which were previously written-off in Q4 2011.

In Q1 2011, Corridor wrote-off \$140 thousand of exploration and evaluation expenditures relating to costs incurred on a potential natural gas storage project located in Salt Springs, New Brunswick. Since these licenses expired on March 7, 2011, and were not renewed by New Brunswick's Department of Natural Resources, previously capitalized costs were written-off.

## Statement of Financial Position Changes

Significant changes between the March 31, 2012 Statement of financial position and the December 31, 2011 Statement of financial position include:

- \$1,373 thousand increase in cash and cash equivalents and \$1,500 thousand decrease in restricted cash, primarily reflecting the expiry of a letter of credit guarantee in connection with a drilling rig agreement.
- \$1,853 thousand decrease in receivables, primarily reflecting the decrease in natural gas prices in March 2012 compared to December 2011 and higher GPT fees receivable in Q4 2011 due to the amendment of the terms of the GPT agreement.
- \$2,268 thousand decrease in accounts payable and accrued liabilities, reflecting decreased capital expenditures in Q1 2012 compared to Q4 2011.

## Capital Expenditures

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Exploration activities	<b>\$582</b>	\$391
Development activities	<b>47</b>	89
Production facilities	<b>56</b>	80
Capitalized overhead	<b>98</b>	141
Office and other equipment	<b>4</b>	4
	<b>\$787</b>	\$705

The increase in total capital expenditures in Q1 2012 to \$787 thousand from \$705 thousand in Q1 2011 is due to the increase in exploration costs in 2012.

## Capital Expenditures Outlook

Corridor has increased its 2012 capital budget by \$500 thousand to approximately \$1,500 thousand to include the planned testing this summer of the Green Road B-41 shale gas well near Elgin, New Brunswick. At this time, the only other items included in the 2012 capital budget consist of gas plant maintenance and corporate expenditures. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

## Cash Flow Summary

<i>thousands of dollars</i>	Three months ended March 31	
	2012	2011
Cash provided by operating activities	\$2,155	\$5,017
Cash provided by financing activities	35	2,699
Cash used in investing activities	(817)	(772)
Increase in cash and cash equivalents	\$1,373	\$6,944

The decrease in cash provided by operating activities for Q1 2012 compared to Q1 2011 is primarily the result of the decrease in natural gas revenues resulting from the decreased natural gas prices and production.

The decrease in cash provided by financing activities is due to no options being exercised in Q1 2012, as compared to the exercise of 632 thousand stock options in Q1 2011 for proceeds of \$2,697 thousand.

## Outlook

Corridor has reduced the forecasted 2012 cash flow from operations from \$3,000 thousand to \$1,500 thousand to reflect the decrease in the estimated natural gas sales. Corridor has reduced its estimated average natural gas sales price for 2012 from \$4.30/mscf to \$3.55/mscf (US\$2.55/mmbtu at Henry Hub, a premium at Dracut of US\$0.72/mmbtu and an estimate of the exchange rate at \$0.98 U.S. per Canadian dollar). Corridor has maintained its estimated average net daily gas production for 2012 of 9 mmscfpd which is based on a shut-in of approximately 2 mmscfpd of natural gas production during the summer months due to expected low natural gas prices during this period.

Based on available working capital of \$9.5 million at December 31, 2011 and Corridor's current capital budget of approximately \$1.5 million, Corridor is forecasting a net positive working capital of approximately \$9.5 million at December 31, 2012 with no outstanding debt. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

## Related Party Transactions

A director of Corridor is a partner in a law firm that provides legal services to the Company. There were no related party transactions in Q1 2012 and Q1 2011.

## Outstanding Share Information

As of April 30, 2012, the outstanding share information was as follows:

Common shares outstanding	88,464,133
Stock options to purchase common shares	3,202,500
Total common shares outstanding after exercise of all stock options	91,666,633

  

<i>thousands of dollars</i>	
Total proceeds due on exercise of all stock options	\$13,039

## Summary of Quarterly Information

	2012	2011				2010		
<i>Thousands of dollars, except per share amounts and average natural gas price</i>	Three months ended	Three months ended				Three months ended		
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Natural gas sales	<b>\$3,764</b>	\$4,194	\$4,722	\$5,155	<b>\$7,706</b>	\$7,024	\$5,021	\$6,141
Net loss	<b>\$(1,654)</b>	\$(71,416)	\$(2,348)	\$(3,643)	<b>\$(2,178)</b>	\$(3,038)	\$(1,739)	\$(1,739)
Net loss per share - basic and diluted	<b>\$(0.019)</b>	\$(0.807)	\$(0.027)	\$(0.041)	<b>\$(0.025)</b>	\$(0.034)	\$(0.020)	\$(0.020)
Natural gas production (mmscf)	<b>904</b>	985	1,020	1,067	<b>1,141</b>	1,223	1,012	1,240
Average natural gas price (\$/mscf)	<b>\$4.16</b>	\$4.26	\$4.63	\$4.83	<b>\$6.75</b>	\$5.74	\$4.96	\$4.95
Capital expenditures	<b>\$787</b>	\$4,383	\$2,990	\$873	<b>\$705</b>	\$1,840	\$6,834	\$7,681

The decrease in Corridor's natural gas sales and cash flow from operations in 2011 and 2012 is primarily the result of the decrease in the average natural gas sales price from as high as \$11.21/mscf for the year ended December 31, 2008 to as low as \$3.87/mscf for the three months ended September 30, 2009 and to \$4.16/mscf in the three months ended March 31, 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, natural gas production and natural gas sales.

## 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 March 31, 2012, Corridor had access to a \$16 million revolving credit facility with a Canadian chartered bank. The credit facility currently provides that any principal amount outstanding from time to time under the credit facility will bear interest at the lender's prime rate plus 1% per annum, with interest payable monthly. The credit facility will mature, subject to mutual agreement to extend, on July 28, 2012 and is subject to customary terms and conditions for borrowings of this nature and secured by the Company's property, plant and equipment. The Company is in compliance with all material terms of the agreements governing the credit facility.

The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependant on the Company's reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the borrowing base has materially declined below the \$16 million credit facility, the lender can recalculate the Company's borrowing base and could, as a result, decrease the credit currently available to the Company. As of March 31, 2012, no amounts were drawn on this credit facility and \$16 million remained available thereunder.

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

At this time, the directors of the Company have approved a nominal capital budget for 2012 of approximately \$1,500 thousand in recognition of low gas prices and to preserve cash flow. The Company has sufficient financial resources to undertake its planned activities. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

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

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

## **Internal Controls over Financial Reporting**

The President and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. During the three months ended March 31, 2012, there were no changes in the Company's internal control over financial reporting that have materially affected, or are 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. During the three months ended March 31, 2012, there were no changes in the critical accounting estimates disclosed in Corridor's 2011 Annual MD&A.

## **Changes in Accounting Policies**

Corridor's unaudited condensed financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and in accordance with IAS 34 – *Interim Financial Reporting*. These unaudited condensed financial statements have been prepared following the same accounting policies disclosed in note 3 to the audited financial statements for the year ended December 31, 2011.

## **Business Conditions and Risks**

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

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

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

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

### **Substantial Capital Requirements and Financing**

The Company anticipates making substantial capital expenditures for the exploration, development and production of natural gas and oil reserves in the future. The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties. The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. If the Company's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access

sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects. For more information please refer to "*Liquidity and Capital Resources*".

### **Third Party Risk**

In the normal course of business, Corridor has entered into contractual arrangements with third parties which subject Corridor to the risk that such parties may default on their obligations. Corridor sells all of its production to one large credit-worthy purchaser under normal industry payment terms. Corridor's receivables from joint venture partners are also subject to normal credit risks in the natural gas industry. Management believes credit risk on these amounts is low.

### **Environmental**

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

### **Prices, Markets and Marketing**

The marketability and price of oil and natural gas will be affected by numerous factors beyond the Company's control. New technologies and drilling techniques are allowing recovery of gas and oil trapped in shale. If such resources are developed, it may have a substantial impact on the price of gas and oil on the energy market generally. The ability to market natural gas may depend upon the Company's ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to operational problems with pipelines and processing facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Company's revenues, profitability and future growth and the carrying value of its properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. Any substantial and extended decline in the price of gas and oil would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. In addition, a decline in the price of gas may result in Corridor having to impair, as a non-cash charge to earnings, the carrying value of its oil and gas properties.

### **Risks May Not be Insurable**

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

# Unaudited Statements of Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)

For the	Three months ended March 31	
	2012	2011
Sales	\$ 4,156	\$ 8,024
Royalty expense	(8)	(329)
Revenues, net	<b>4,148</b>	7,695
Expenses		
Depletion, depreciation and amortization	<b>3,011</b>	4,564
Transportation expense	<b>1,096</b>	1,691
Production expense	<b>795</b>	1,115
General and administrative expenses	<b>891</b>	1,130
Share-based compensation (note 10)	<b>383</b>	1,330
Write-off (recovery) of exploration and evaluation assets	<b>(14)</b>	140
Capital tax expense	<b>13</b>	27
	<b>6,175</b>	9,997
Loss before the following items	<b>(2,027)</b>	(2,302)
Interest and finance costs	<b>65</b>	79
Foreign exchange losses	<b>43</b>	107
Interest and other income	<b>(20)</b>	(18)
Loss before income taxes	<b>(2,115)</b>	(2,470)
Deferred income tax recovery (note 3)	<b>(461)</b>	(292)
Net loss and comprehensive loss	<b>\$ (1,654)</b>	\$ (2,178)
Net loss per share – basic and diluted	<b>\$ (0.019)</b>	\$ (0.025)
Weighted average number of common shares		
Basic	<b>88,464</b>	88,357
Diluted (note 4)	<b>88,464</b>	88,787

*The accompanying notes are an integral part of these interim unaudited condensed financial statements.*

# Unaudited Statements of Financial Position

(thousands of Canadian dollars)

As at	<b>March 31 2012</b>	December 31 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	<b>\$ 7,769</b>	\$ 6,396
Restricted cash	<b>650</b>	2,150
Receivables (note 12 a iv)	<b>1,375</b>	3,228
Inventory	<b>870</b>	870
Capital taxes receivable	<b>261</b>	229
Prepays and security deposits	<b>325</b>	107
	<b>11,250</b>	12,980
Non-current assets		
Property, plant and equipment (notes 5 & 7)	<b>151,185</b>	153,711
Exploration and evaluation assets (note 6)	<b>31,676</b>	30,982
Investment tax credits	<b>1,666</b>	1,660
Deferred income tax assets	<b>4,395</b>	3,959
Intangible assets	<b>333</b>	345
Restricted cash and security deposits	<b>380</b>	380
<b>Total assets</b>	<b>\$ 200,885</b>	\$ 204,017
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	<b>\$ 1,191</b>	\$ 3,459
Obligations under finance lease	<b>4</b>	14
	<b>1,195</b>	3,473
Non-current liabilities		
Decommissioning liability (note 8)	<b>5,825</b>	5,408
<b>Total liabilities</b>	<b>7,020</b>	8,881
<b>Shareholders' Equity</b>		
Capital stock (note 9)	<b>247,496</b>	247,496
Contributed surplus	<b>8,335</b>	7,952
Deficit	<b>(61,966)</b>	(60,312)
<b>Total shareholders' equity</b>	<b>193,865</b>	195,136
<b>Total liabilities and shareholders' equity</b>	<b>\$ 200,885</b>	\$ 204,017

*The accompanying notes are an integral part of these interim unaudited condensed financial statements.*

Contingency (note 14)

On behalf of the Board

Signed "Phillip R. Knoll" Director

Signed "Robert D. Penner" Director

# Unaudited Statements of Changes in Shareholders' Equity

(thousands of Canadian dollars)

For the	Three months ended March 31	
	2012	2011
Capital stock, beginning of period	\$ 247,496	\$ 242,589
Exercise of stock options for cash	-	2,697
Amount previously expensed for stock options exercised	-	2,139
Capital stock, end of period	\$ 247,496	\$ 247,425
Contributed surplus, beginning of period	\$ 7,952	\$ 8,174
Share-based compensation	383	1,330
Amount previously expensed for stock options exercised	-	(2,139)
Contributed surplus, end of period	\$ 8,335	\$ 7,365
Retained earnings (deficit), beginning of period	\$ (60,312)	\$ 19,273
Net loss	(1,654)	(2,178)
Retained earnings (deficit), end of period	\$ (61,966)	\$ 17,095
Shareholders' equity, end of period	\$ 193,865	\$ 271,885

*The accompanying notes are an integral part of these interim unaudited condensed financial statements.*

# Unaudited Statements of Cash Flows

(thousands of Canadian dollars)

For the	Three months ended March 31	
	2012	2011
<b>Operating Activities</b>		
Net loss	\$ (1,654)	\$ (2,178)
Adjustments not affecting cash:		
Depletion, depreciation and amortization	3,011	4,564
Share-based compensation	383	1,330
Write-off (recovery) of exploration and evaluation assets	(14)	140
Deferred income tax recovery	(461)	(292)
Other operating activities	25	8
	<b>1,290</b>	3,572
Decrease in non-cash operating working capital (note 11)	865	1,445
Cash provided by operating activities	<b>2,155</b>	5,017
<b>Financing Activities</b>		
Proceeds from capital stock issues	-	2,697
Other financing activities	35	2
Cash provided by financing activities	<b>35</b>	2,699
<b>Investing Activities</b>		
Property, plant and equipment expenditures	(107)	(173)
Exploration and evaluation expenditures	(680)	(532)
Decrease in restricted cash	1,500	-
Decrease in non-cash investing working capital (note 11)	(1,530)	(67)
Cash used in investing activities	<b>(817)</b>	(772)
Increase in cash and cash equivalents	1,373	6,944
Cash and cash equivalents, beginning of period	6,396	865
Cash and cash equivalents, end of period	<b>\$ 7,769</b>	\$ 7,809
Cash and cash equivalents consists of:		
Cash	\$ 2,799	\$ 7,789
Short-term investments	4,970	20
Cash and cash equivalents, end of period	<b>\$ 7,769</b>	\$ 7,809

*The accompanying notes are an integral part of these interim unaudited condensed financial statements.*

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2012

### 1. Nature of operations

Corridor Resources Inc. (“Corridor” or the “Company”) is an Eastern Canadian junior resource company engaged in the exploration for and development and production of petroleum and natural gas onshore in New Brunswick, Prince Edward Island and Québec and offshore in the Gulf of St. Lawrence. Corridor is a public company incorporated under the Alberta Business Corporations Act with common shares listed on the Toronto Stock Exchange under the symbol "CDH". Corridor’s head office is located at 5475 Spring Garden Road, Halifax, Nova Scotia, B3J 3T2.

### 2. Basis of presentation

These unaudited condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), and in accordance with IAS 34 – *Interim Financial Reporting*. The unaudited condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2011.

These unaudited condensed financial statements have been prepared following the same accounting policies as the audited financial statements for the year ended December 31, 2011.

On May 14, 2012, the unaudited condensed financial statements were approved by the Board of Directors and signed by the chair of the Audit Committee and the President and Chief Executive Officer of the Company.

### 3. Income taxes

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

*(thousands of Canadian dollars)*

	<b>Three months ended March 31</b>	
	<b>2012</b>	<b>2011</b>
Loss before income taxes	<b>\$ (2,115)</b>	\$ (2,470)
Blended Canadian statutory income tax rate	<b>26.75%</b>	28.50%
Expected income tax recovery	<b>\$ (566)</b>	\$ (704)
Increase resulting from:		
Non-deductible share-based compensation	<b>102</b>	379
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	<b>(4)</b>	29
Other	<b>7</b>	4
	<b>\$ (461)</b>	\$ (292)

### 4. Loss per share

For the three months ended March 31, 2012, stock options of 3,269 thousand (March 31, 2011 – 775 thousand) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2012

### 5. Property, plant and equipment

(thousands of Canadian dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
<b>Cost</b>					
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)
Disposals, sales or 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	47	56	-	4	107
Changes in future abandonment costs	372	-	-	-	372
Investment tax credits	-	(6)	-	-	(6)
<b>Balance at March 31, 2012</b>	<b>\$ 219,175</b>	<b>\$ 76,563</b>	<b>\$ 3,185</b>	<b>\$ 2,674</b>	<b>\$ 301,597</b>
<b>Accumulated impairment, depletion and depreciation</b>					
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	2,370	588	-	41	2,999
<b>Balance at March 31, 2012</b>	<b>\$ 112,707</b>	<b>\$ 34,093</b>	<b>\$ 2,276</b>	<b>\$ 1,336</b>	<b>\$ 150,412</b>
<b>Net book value</b>					
At December 31, 2011	\$ 108,419	\$ 43,008	\$ 909	\$ 1,375	\$ 153,711
<b>At March 31, 2012</b>	<b>\$ 106,468</b>	<b>\$ 42,470</b>	<b>\$ 909</b>	<b>\$ 1,338</b>	<b>\$ 151,185</b>

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$72,193 thousand for the three months ended March 31, 2012 (March 31, 2011- \$63,924 thousand). Costs of property, plant and equipment excluded from costs subject to depletion, depreciation and amortization amounted to \$7,378 thousand at March 31, 2012 (March 31, 2011 - \$7,026 thousand).

### 6. Exploration and evaluation assets

(thousands of Canadian dollars)

	March 31 2012	December 31 2011
Balance, beginning of period	\$ 30,982	\$ 65,707
Impairment losses	-	(42,814)
Additions	680	7,786
Transfers from property, plant and equipment	-	800
Recovery (write-off) of exploration and evaluation assets	14	(196)
Changes in future abandonment costs	-	(301)
Balance, end of period	<b>\$ 31,676</b>	\$ 30,982

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2012

### 7. Credit facility

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

### 8. Decommissioning liability

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

*(thousands of Canadian dollars)*

	<b>March 31 2012</b>	December 31 2011
Balance, beginning of period	<b>\$ 5,408</b>	\$ 4,482
Liabilities incurred	-	190
Change in discount rate	<b>372</b>	669
Change in estimate	-	(90)
Finance costs	<b>45</b>	157
Balance, end of period	<b>\$ 5,825</b>	\$ 5,408

The total undiscounted amount of estimated cash flows required to settle these obligations is \$11,101 thousand (December 31, 2011 - \$11,101 thousand). Management estimates the settlement of these obligations between 2013 and 2036. A risk-free rate of 2.66% (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.

### 9. Capital stock

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

b) **Issued and outstanding**

*(thousands of Canadian dollars and thousands of shares)*

	<b>Three months ended March 31, 2012</b>		Year ended December 31, 2011	
	<b>Number of shares</b>	<b>Amount</b>	Number of shares	Amount
Balance, beginning of period	<b>88,464</b>	<b>\$ 247,496</b>	87,815	\$ 242,589
Exercise of stock options for cash and amount recognized from contributed surplus	-	-	649	2,739
	-	-	-	2,168
Balance, end of period	<b>88,464</b>	<b>\$ 247,496</b>	88,464	\$ 247,496

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2012

### 10. 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:

	March 31, 2012		December 31, 2011	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of period	3,489	\$ 4.14	4,989	\$ 4.95
Exercised	-	-	(649)	\$ 4.22
Forfeited and cancelled	(220)	\$ 5.35	(1,435)	\$ 5.13
Expired	-	-	(528)	\$ 5.43
Granted	-	-	1,112	\$ 2.46
Options outstanding, end of period	3,269	\$ 4.06	3,489	\$ 4.14
Options exercisable, end of period	1,307	\$ 5.00	1,444	\$ 5.12

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

	March 31, 2012	December 31, 2011
Weighted average fair value of options granted	-	\$ 1.38
Risk-free interest rate	-	1.6%
Expected life (years)	-	4.9
Expected volatility	-	68%

For the three months ended March 31, 2012, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$383 thousand (March 31, 2011 - \$1,330 thousand).

The range of exercise prices of stock options outstanding and exercisable as at March 31, 2012 is as follows:

Exercise prices	Outstanding options			Exercisable options		
	Number of options outstanding (000's)	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable (000's)	Weighted average exercise price	
\$ 1.00 - \$ 2.99	1,665	3.76	\$ 2.50	388	\$ 2.56	
\$ 3.00 - \$ 4.99	8	3.44	\$ 4.77	3	\$ 4.77	
\$ 5.00 - \$ 5.99	1,415	3.51	\$ 5.21	735	\$ 5.21	
\$ 6.00 - \$ 6.99	9	1.00	\$ 6.80	9	\$ 6.80	
\$ 7.00 - \$10.99	172	1.10	\$ 9.55	172	\$ 9.55	
	3,269	3.51	\$ 4.06	1,307	\$ 5.00	

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2012

### 11. Supplemental cash flow information

(thousands of Canadian dollars)

	Three months ended March 31	
	2012	2011
Change in non-cash operating working capital:		
Receivables	\$ 1,514	\$ 2,594
Prepays and security deposits	(218)	(409)
Accounts payable and accrued liabilities	(399)	(739)
Capital taxes receivable	(32)	(1)
	<b>\$ 865</b>	<b>\$ 1,445</b>
Change in non-cash investing working capital:		
Receivables	\$ 339	\$ 613
Accounts payable and accrued liabilities	(1,869)	(680)
	<b>\$ (1,530)</b>	<b>\$ (67)</b>
Interest and taxes paid:		
Interest paid	\$ 21	\$ 24
Interest received	\$ 4	\$ 13
Capital and other taxes paid	\$ 20	\$ 24

### 12. Risk management

a) The Company is exposed to the following risks:

#### i) Commodity price risk

The Company is exposed to risks from fluctuations in the natural gas sales prices. During the period, the Company did not have any derivative financial instruments in place to manage this risk. With the Board of Directors' approval, Corridor will enter into forward sale commitments, in limited quantities and at fixed prices, when appropriate. The Company does not use derivative financial instruments for speculative purposes.

#### ii) Foreign currency risk

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

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

(thousands of U.S. dollars)

	March 31, 2012	December 31, 2011
Cash	\$ 745	\$ 9
Receivables	451	909
Financial instruments in U.S. dollars	<b>\$ 1,196</b>	<b>\$ 918</b>

At March 31, 2012, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately \$50 thousand (March 31, 2011 – \$100 thousand) in the Company's net loss due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately \$50 thousand (March 31, 2011 – \$100 thousand) in the Company's net loss.

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2012

### 12. Risk management (continued)

#### iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At March 31, 2012, the Company was holding cash and cash equivalents of \$7,769 thousand and had \$16 million available from its revolving credit facility. The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependant on the Company's petroleum and natural gas reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the current approved borrowing base has declined below the credit facility limit of \$16 million, the lender can recalculate the Company's borrowing base and could, as a result, decrease the credit currently available to the Company.

Given the Company's available liquid resources and the Company's 2012 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities as disclosed in the Company's December 31, 2011 audited financial statements.

#### iv) Credit risk

Corridor sells all of its production to one large credit-worthy purchaser under normal industry payment terms. Corridor's receivables from joint venture partners are also subject to normal credit risks in the natural gas industry. Management believes credit risk on these amounts is low and has not made any provision for an allowance for bad debts.

The cash equivalents consist mainly of guaranteed investment certificates held with banks with high credit-ratings assigned by international credit-rating agencies. Management believes the risk of loss is low.

#### b) Management of capital

Management's objective when managing capital is to provide an adequate return to its shareholders and to safeguard the Company's ability to obtain financing and have access to capital. In the management of capital, the Company includes shareholders' equity, its credit facility as well as cash and cash equivalents. To facilitate the management of its capital structure, the Company prepares annual expenditure and operating budgets that are updated as necessary depending on success factors, industry conditions and operating cash flow. These annual and updated budgets are approved by the Board of Directors. Corridor has the ability to adjust its capital structure by making modifications to its capital expenditure program. To maximize ongoing development and exploration activities, the Company will not pay out dividends during the year.

### 13. Related parties

A director of Corridor is a partner in a law firm that provides legal services to the Company. For the three months ended March 31, 2012 and March 31, 2011, no legal expenses are included in general and administrative expenses. At March 31, 2012, no amount 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.

### 14. Contingency

In 2011, the Company reached a settlement of \$188 thousand with the New Brunswick Department of Finance 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.