



# First Quarter 2017

## Management's Discussion and Analysis

As of May 10, 2017

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, 2017 should be read in conjunction with Corridor's unaudited condensed financial statements and notes thereto for the three months ended March 31, 2017, audited financial statements and notes thereto for the year ended December 31, 2016 and the MD&A for the year ended December 31, 2016 ("2016 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 its annual information form for the year ended December 31, 2016 (the "Annual Information Form"), is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Introduction

Corridor is a 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. In addition, Corridor has a shale gas prospect in New Brunswick, an offshore conventional hydrocarbon prospect in the Gulf of St. Lawrence and an unconventional hydrocarbon prospect through a 21.67% interest in Anticosti Hydrocarbons L.P., a joint venture with undeveloped lands on Anticosti Island, Québec (the "Anticosti Joint Venture").

## Selected Financial Information

<i>thousands of dollars except per share amounts</i>	Three months ended March 31	
	2017	2016
Sales	\$ 4,467	\$ 6,495
Net income	\$ 1,825	\$ 1,283
Net income per share – basic and diluted	\$ 0.021	\$ 0.014
Cash flow from operations <sup>(1)</sup>	\$ 3,683	\$ 3,353
Capital expenditures	\$ 99	\$ 81
Total assets	\$ 105,316	\$ 134,424

(1) "Cash flow from operations" is a non-IFRS financial 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 International Financial Reporting Standards ("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>	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Cash provided by operating activities	<b>\$ 3,445</b>	\$ 3,249
Less: increase in non-cash operating working capital	<b>(238)</b>	(104)
Cash flow from operations	<b>\$ 3,683</b>	\$ 3,353

## **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:

- exploration and development plans of Corridor;
- natural gas prices;
- royalty payments in respect of historical production;
- future taxable profits;
- capital expenditures;
- sources of funding; and
- government regulation.

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 agreements governing the Anticosti Joint Venture and 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 the agreements governing the Anticosti Joint Venture. 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, development and production, operational risks, 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, variations in exchange rates, expiration of licenses and leases, reserves estimates, trading of common shares, seasonality, competition, management of growth, conflicts of interest, issuance of debt, title to properties and hedging and the successful conclusion of a negotiation with the Government of Québec for the termination of the Anticosti Joint Venture. 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.

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 following table provides a comparison of Corridor's results for the period from April 1, 2016 to March 31, 2017 as compared to the guidance disclosed in Corridor's 2016 Annual MD&A dated March 30, 2017.

	Actual results	March 30, 2017 guidance
AGT average natural gas price	<b>\$US 3.40/mmbtu</b>	\$US 3.40/mmbtu
USD/CAD average exchange rate	<b>\$ 1.31 USD/CAD</b>	\$ 1.31 USD/CAD
Average natural gas price realized	<b>\$ 5.70/mscf</b>	\$ 5.70/mscf
Average daily natural gas production	<b>5.5 mmscfd</b>	5.5 mmscfd
Field operating netback	<b>\$ 7.2 million</b>	\$ 7.2 million
Cash flow from operations <sup>(1)</sup>	<b>\$ 4.6 million</b>	\$ 4.4 million
Field operating netback per mscf	<b>\$ 3.58/mscf</b>	\$ 3.55/mscf
Cash flow from operations <sup>(1)</sup> per mscf	<b>\$ 2.28/mscf</b>	\$ 2.20/mscf
Working capital as at March 31, 2017	<b>\$ 33.2 million</b>	\$ 33.2 million

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

Corridor's cash flow from operations for the period from April 1, 2016 to March 31, 2017 increased to \$4.6 million from \$4.4 million due to the fluctuation in the USD/CAD exchange rate during the quarter which resulted in higher than expected foreign exchange gains in Q1 2017.

## Q1 2017 Financial Summary

<i>thousands of dollars</i>	Three months ended March 31	
	2017	2016
Sales	<b>\$ 4,467</b>	\$ 6,495
Royalties	<b>(92)</b>	(137)
Revenues, net	<b>4,375</b>	6,358
Expenses		
Depletion, depreciation and amortization	<b>1,932</b>	2,152
Transportation expense	<b>428</b>	1,355
Production expense	<b>789</b>	717
General and administrative expense	<b>651</b>	720
Financial derivatives gain	<b>(1,347)</b>	-
Share-based compensation expense	<b>70</b>	125
	<b>2,523</b>	5,069
Income before the following items	<b>1,852</b>	1,289
Gain on sale of exploration assets	<b>-</b>	110
Interest and other	<b>6</b>	(290)
Equity loss	<b>(33)</b>	(32)
Income before income taxes	<b>1,825</b>	1,077
Deferred income tax recovery	<b>-</b>	(206)
Net income and comprehensive income	<b>\$ 1,825</b>	\$ 1,283

## First Quarter Summary

- Natural gas sales for Q1 2017 decreased to \$4,166 thousand from \$6,314 thousand for Q1 2016 due to the decrease in the average natural gas sales price to \$6.45/mscf in Q1 2017 from \$8.54/mscf in Q1 2016 and to the decrease in the average daily natural gas production to 7.2 mmscfd in Q1 2017 from 8.1 mmscfd in Q1 2016. The decrease in Corridor's average daily natural gas production is partially due to the higher flush production achieved in Q1 2016 following the shut-in of most of Corridor's McCully wells from May 1 to October 29, 2015 as opposed to the flush production achieved in Q1 2017 from the partial shut-in of natural gas production between September 2016 and November 2016.

- The decrease in the average natural gas sales price was mitigated by the Company's financial hedges in place during Q1 2017 which resulted in a realized gain of \$1,094 thousand in Q1 2017. In Q1 2016, the Company had forward sale agreements in place for the physical delivery of natural gas and no financial hedges.
- Transportation expense decreased to \$428 thousand in Q1 2017 from \$1,355 thousand in Q1 2016 due primarily to the Company's forward sale agreement in effect from December 1, 2016 to March 31, 2017 for the sale of 4,755 mmbtup of natural gas production to the local Maritimes market as opposed to the New England market.
- Corridor's cash flow from operations increased to \$3,683 thousand in Q1 2017 from \$3,353 thousand in Q1 2016 primarily due to higher foreign exchange gains in Q1 2017. The decrease in natural gas sales in Q1 2017 of \$2,028 thousand was for the most part offset by the decrease in transportation expenses of \$927 thousand and realized financial derivatives gains of \$1,094 thousand in Q1 2017.
- At March 31, 2017, Corridor had cash and cash equivalents of \$30,669 thousand, working capital of \$33,226 thousand, and no outstanding debt.
- Corridor's net income increased to \$1,825 thousand in Q1 2017 from \$1,283 thousand in Q1 2016 primarily due to higher foreign exchange gains during the quarter and the change in unrealized gain on financial derivatives of \$253 thousand.
- On April 11, 2017, Corridor entered into a financial hedge for the period from December 1, 2017 to March 31, 2018 for 2,500 mmbtu per day of natural gas production (approximately 2.3 mmscf per day) at a fixed price of \$US7.40/mmbtu. As security for this financial hedge, the bank has the authority to hold Corridor funds in the amount of \$US3.7 million.
- On April 6, 2017, Corridor announced that the Company, together with other partners of Anticosti Hydrocarbons L.P., entered into negotiations with the Government of Québec with the goal of terminating the Anticosti Joint Venture.

## Results of Operations

### Sales

<i>thousands of dollars</i>	Three months ended March 31	
	2017	2016
Natural gas	\$ 4,166	\$ 6,314
Condensate	47	15
Natural gas and gas liquids sales	4,213	6,329
Gathering, processing & transportation fees	254	166
<b>Sales</b>	<b>\$ 4,467</b>	<b>\$ 6,495</b>

### Production volumes and pricing

	Three months ended March 31	
	2017	2016
Natural gas production (mmscf)	646	739
Natural gas production per day (mmscfpd)	7.2	8.1
Average natural gas selling price (\$/mmscf)	\$ 6.45	\$ 8.54

Natural gas sales for Q1 2017 decreased to \$4,166 thousand from \$6,314 thousand for Q1 2016 due to the decrease in the average natural gas sales price to \$6.45/mmscf in Q1 2017 from \$8.54/mmscf in Q1 2016 and to the decrease in the average daily natural gas production to 7.2 mmscfpd in Q1 2017 from 8.1 mmscfpd in Q1 2016. The decrease in Corridor's average daily natural gas production is partially due to the higher flush production achieved in Q1 2016 following the shut-in of most of Corridor's McCully wells from May 1 to October 29, 2015 as opposed to the flush production achieved in Q1 2017 from the partial shut-in of natural gas production between September 2016 and November 2016.

The decrease in the average natural gas sales price was mitigated by the Company's financial hedges in place during Q1 2017 which resulted in a realized gain of \$1,094 thousand in Q1 2017. In Q1 2016, the Company had forward sale agreements in place for the physical delivery of natural gas and no financial hedges.

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 is currently limited to Potash Corporation of Saskatchewan's ("PCS") share of gas from the McCully Field, is charged a cost of service. The increase in the gathering, processing and transportation ("GPT") fees to \$254 thousand for Q1 2017 from \$166 thousand for Q1 2016 is due to an increase in PCS's share of natural gas production flowing through Corridor's gas plant in Q1 2017.

## Financial Derivatives Gain

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Realized financial derivatives gain	<b>\$ 1,094</b>	-
Change in unrealized gain on financial derivatives	<b>253</b>	-
Financial derivatives gain	<b>\$ 1,347</b>	-

In 2016, Corridor entered into financial hedges to manage the risks associated with fluctuations in natural gas prices. During Q1 2017, the settlement of contracts resulted in a realized gain of \$1,094 thousand due to a higher average contract price for natural gas sales than the market price. Corridor had the following financial hedges in place in Q1 2017: 2,500 mmbtupd of natural gas production at a fixed price of \$US6.50/mmbtu for the period from December 1, 2016 to March 31, 2017; 1,000 mmbtupd at a fixed price of \$US7.30/mmbtu for the period from January 1, 2017 to February 28, 2017, and 1,000 mmbtupd at a fixed price of \$US9.55/mmbtu for January 2017.

No contracts are outstanding at March 31, 2017, however, on April 11, 2017, Corridor entered into a financial hedge for the period from December 1, 2017 to March 31, 2018 for 2,500 mmbtu per day of natural gas production (approximately 2.3 mmscf per day) at a fixed price of \$US7.40/mmbtu.

## Royalties

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Crown royalties	<b>\$ 92</b>	\$ 137
Royalties per mscf (\$/mscf)	<b>\$ 0.14</b>	\$ 0.19
Percentage of natural gas and gas liquids sales	<b>2.2%</b>	2.2%

Corridor's royalties for Q1 2017 decreased to \$92 thousand from \$137 thousand for Q1 2016 due to lower natural gas sales in Q1 2017.

An audit by the New Brunswick Department of Finance ("DOF") relating to the Company's calculation of the royalty payments for the periods between November 1, 2009 and December 31, 2014 is still ongoing. The Company has filed a Notice of Appeal to object to the Notice of Debt received by the DOF seeking a total of \$300 thousand, with Corridor's share estimated at \$200 thousand. Corridor has not made a provision for any of the amount identified in the DOF's Notice of Debt, as management believes a successful claim by the DOF is not probable given previous discussions and conclusions reached with Government of New Brunswick officials.

## Transportation Expense

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Transportation expense	<b>\$ 428</b>	\$ 1,355
Transportation expense per mscf (\$/mscf)	<b>\$ 0.66</b>	\$ 1.83

Transportation expense for Q1 2017 decreased significantly to \$428 thousand from \$1,355 thousand in Q1 2016 primarily due to the Company's forward sale agreement in effect from December 1, 2016 to March 31, 2017 for the sale of 4,755 mmbtupd of natural gas production to the local Maritimes market as opposed to the New England market. As a result, transportation expense per mscf decreased from \$1.83/mscf in Q1 2016 to \$0.66/mscf in Q1 2017.

## Production Expense

<i>thousands of dollars</i>	Three months ended March 31	
	2017	2016
Gross production expense	\$ 966	\$ 794
Third party recoveries	(177)	(77)
Net production expense	\$ 789	\$ 717
Net production expense per mscf (\$/mscf)	\$ 1.22	\$ 0.97

Gross production expense for Q1 2017 increased to \$966 thousand from \$794 thousand for Q1 2016 due primarily to an increase in repairs and maintenance and workover expenses incurred in Q1 2017. Third party recoveries increased to \$177 thousand from \$77 thousand in Q1 2016 due to an increase in PCS's share of natural gas production flowing through Corridor's gas plant in Q1 2017.

## Depletion, Depreciation and Amortization

<i>thousands of dollars</i>	Three months ended March 31	
	2017	2016
Depletion, depreciation and amortization	\$ 1,932	\$ 2,152
Depletion, depreciation and amortization per mscf (\$/mscf)	\$ 3.33	\$ 3.23

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 to \$1,932 thousand for Q1 2017 from \$2,152 thousand in Q1 2016 is due to the decrease in natural gas production in Q1 2017 and the decrease in the net book value of the depletion asset base following the recognition of net impairment losses of \$15.7 million in 2016.

## General and Administrative Expenses

<i>thousands of dollars</i>	Three months ended March 31	
	2017	2016
Gross expenses	\$ 681	\$ 775
Capitalized overhead	(30)	(27)
Operator recoveries	-	(28)
Net expenses	\$ 651	\$ 720

Gross general and administrative expenses ("G&A") decreased to \$681 thousand in Q1 2017 from \$775 thousand during Q1 2016 due to costs incurred of approximately \$45 thousand relating to the New Brunswick Responsible Energy Development Alliance in Q1 2016. The decrease in G&A also reflects management's efforts to reduce costs.

## Deferred Income Taxes

<i>thousands of dollars</i>	Three months ended March 31	
	2017	2016
Deferred income tax recovery	-	\$ 206
Canadian statutory income tax rate	29.3%	28.0%

In Q2 2016, the Company wrote-down its remaining deferred income tax asset balance as management determined it was no longer probable that there would be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax deductible amounts. As a result, the Company has not recognized deferred income taxes in Q1 2017.

At March 31, 2017, the Company had approximately \$179 million of tax pools available to be applied against future taxable income. 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.

As of March 31, 2017, Corridor's income tax pools were approximately as follows:

<i>thousands of dollars</i>	
Canadian exploration expense	<b>\$ 93,890</b>
Canadian development expense	<b>61,670</b>
Canadian oil and natural gas property expense	<b>2,950</b>
Undepreciated capital cost	<b>20,320</b>
	<b>\$ 178,830</b>

## Capital Expenditures

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Exploration, development and production	<b>\$ 64</b>	\$ 30
Capitalized overhead	<b>30</b>	27
Office and other assets	<b>5</b>	24
	<b>\$ 99</b>	\$ 81

The Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place.

## Statement of Financial Position Changes

Significant changes between Corridor's March 31, 2017 statement of financial position and its December 31, 2016 statement of financial position include:

- \$3,397 thousand increase in cash and cash equivalents, primarily reflecting the natural gas sales in Q1 2017.
- \$100 thousand decrease in receivables, primarily reflecting lower natural gas prices in March 2017 compared to December 2016.

## Cash Flow Summary

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Cash provided by operating activities	<b>\$ 3,445</b>	\$ 3,249
Cash provided by financing activities	<b>13</b>	-
Cash used in investing activities	<b>(61)</b>	(102)
Increase in cash and cash equivalents	<b>\$ 3,397</b>	\$ 3,147

The increase in cash provided by operating activities for Q1 2017 to \$3,445 thousand from \$3,249 thousand for Q1 2016 is due primarily to higher foreign exchange gains in Q1 2017.

## Outstanding Share Information

As of April 30, 2017, the outstanding share information was as follows:

Common shares outstanding	<b>88,655,299</b>
Stock options to purchase common shares	<b>3,398,167</b>
Total common shares outstanding after exercise of all stock options	<b>92,053,466</b>
<i>thousands of dollars</i>	
Total proceeds due on exercise of all stock options	<b>\$ 2,638</b>

The weighted average exercise price for the stock options outstanding at April 30, 2017 was \$0.78.



## Summary of Quarterly Information

	2017	2016				2015		
<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	\$ 4,166	\$ 2,199	\$ 1,878	\$ 2,205	\$ 6,314	\$ 3,433	\$ 595	\$ 1,170
Net income (loss)	\$ 1,825	\$ 12,316	\$ (1,261)	\$ (41,629)	\$ 1,283	\$ (33,952)	\$ (1,150)	\$ (469)
Net income (loss) per share - basic	\$ 0.021	\$ 0.139	\$ (0.014)	\$ (0.469)	\$ 0.014	\$ (0.383)	\$ (0.013)	\$ (0.005)
Net income (loss) per share - diluted	\$ 0.021	\$ 0.139	\$ (0.014)	\$ (0.469)	\$ 0.014	\$ (0.383)	\$ (0.013)	\$ (0.005)
Natural gas production (mmscfpd)	7.2	3.0	5.1	6.9	8.1	5.3	1.1	2.9
Average natural gas price (\$/mscf)	\$ 6.45	\$ 7.88	\$ 3.98	\$ 3.53	\$ 8.54	\$ 6.99	\$ 6.10	\$ 4.48
Capital expenditures	\$ 99	\$ 175	\$ 41	\$ 123	\$ 81	\$ 163	\$ 62	\$ 167

Since 2014, natural gas prices at AGT have trended down (notwithstanding favourable prices obtained by the Company as a result of certain forward sales agreements) resulting in reduced natural gas prices year over year. In recent years, the AGT market has been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices in other areas of North America. In response to this trend in natural gas prices, and to take advantage of the expected significant differential in the sale price of natural gas at AGT for the summer of 2015 relative to the winter of 2015/2016, management shut-in most of Corridor's producing natural gas wells in the McCully Field in New Brunswick from May 1, 2015 to October 29, 2015, which resulted in a decrease in natural gas production during this period. Due to a build-up in the formation pressure in the wells during this shut-in period, the shut-in wells produced at flush rates and natural gas production increased to 8.1 mmscfpd in Q1 2016 and 6.9 mmscfpd in Q2 2016. Corridor determined to continue this strategy in Q3 2016 and partially shut-in its natural gas production between September and November 2016 which resulted in a decrease in natural gas production to 3.0 mmscfpd in Q4 2016 and an increase in natural gas production to 7.2 mmscfpd in Q1 2017.

The reduction in forecast natural gas prices at AGT in 2015 resulted in the recognition of an impairment loss of \$21,300 thousand, a write-down of deferred income tax assets of \$10,654 thousand and a net loss of \$33,952 thousand in Q4 2015. In Q2 2016, the New Brunswick Government announced its decision to continue its previously announced moratorium on hydraulic fracturing for an indefinite period. As a result, GLJ Petroleum Consultants Ltd. ("GLJ") provided an updated reserves report which reduced the estimate of the Company's proved plus probable natural gas reserves effective December 31, 2015, resulting in the recognition of an impairment loss of \$28,400 thousand, a write-down of deferred income tax assets of \$11,456 thousand and a net loss of \$41,629 thousand in Q2 2016. GLJ prepared a reserves report effective as of December 31, 2016 and increased the estimate of future natural gas revenues resulting in the recognition of an impairment loss reversal of \$12,700 thousand and a net income of \$12,316 thousand in Q4 2016.

## Liquidity and Capital Resources

Corridor's liquidity depends upon cash flow from operations, supplemented as necessary by equity and debt financings and bank debt. At March 31, 2017, the Company was holding cash and cash equivalents of \$30,669 thousand, working capital of \$33,226 thousand and had no outstanding debt. The Company has sufficient financial resources to undertake its planned activities in 2017 and assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales, recognizing that the Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place. Corridor does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties or any additional properties that may be acquired in the future. Future exploration and development of the Company's properties will depend, therefore, on the termination of the moratorium in New Brunswick, the receipt of required government approvals, the outcome of negotiations with the Government of Québec in respect of the Anticosti Joint Venture, 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.



## **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

The President and the Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance that: (i) material information relating to the Company is made known to them, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The President and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control 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. During the three months ended March 31, 2017, 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. 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.

## **Critical Accounting Estimates**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and 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, 2017, there were no changes in the critical accounting estimates disclosed in Corridor's 2016 Annual MD&A.

## **Changes in Accounting Policies**

Corridor's unaudited condensed financial statements for the three months ended March 31, 2017 have been prepared in accordance with IFRS, 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 of Corridor's audited financial statements for the year ended December 31, 2016.

## **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, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, expiration of licenses and leases, trading of common shares, seasonality, competition, management of growth, conflicts of interest, issuance of debt, title to properties and hedging. See also "*Forward-Looking Statements*" in this MD&A.

### **Risks Associated with Oil and Gas Exploration, Development and Production**

The long-term success of Corridor depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves from exploration, development or acquisition activities, Corridor's existing reserves and production will decline over time. Production decline rates will vary by the type of reservoir, age of the wells and other factors and are not necessarily indicative of future performance. Future increases in Corridor's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to generate or raise sufficient capital to make the necessary investments to replace or expand its oil and natural gas reserves. Future oil and gas

exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

There is no assurance that expenditures made on future exploration, development or acquisition by Corridor will result in new discoveries of oil or natural gas in commercial quantities.

### **Operational Risks**

Corridor's oil and natural gas operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, mechanical or pipe failure, cratering and oil spills, acts of vandalism, or other unexpected or dangerous conditions. Any of these hazards can interrupt operations, impact Corridor's reputation, cause a loss of life or personal injury, result in a loss of, or damage to, equipment or property and cause environmental damage that may include polluting water, land or air.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including drilling into unexpected formations or unexpected pressures, premature decline of reservoirs, the invasion of water into producing formations and sour gas from wells. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Corridor's business, financial condition, results of operations and cash flows.

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

Substantial capital expenditures are required to finance the exploration, development and production of the Company's natural gas and oil properties and any other properties that may be acquired by the Company. The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties. The Company's cash flows 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.

The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties. The exploration and development of the Company's properties depend, therefore, on Corridor's ability to obtain additional financing through joint ventures, debt financing, equity financing or other means. Failure to obtain any financing necessary for Corridor's capital expenditure plans may result in a delay in development or production of Corridor's properties. There can be no assurance that Corridor's efforts to raise such funding or to enter into a joint venture with a partner will be successful, or achieved on terms favourable to the Company or its existing shareholders. The failure of Corridor to obtain additional financing or enter into a joint venture on a timely basis or on terms favourable to the Company could result in the loss or substantial dilution of the Company's interests (as existing or as proposed to be acquired) in its properties.

### **Volatility of Natural Gas and Oil Prices**

Corridor's revenues, cash flows, results of operations and financial condition are dependent upon, among other things, the price it receives from the sale of its natural gas production. A substantial or extended decline in the price of natural gas or a continued low price environment for natural gas could have a material adverse effect on Corridor's revenues, cash flows, financial condition and the value of the Company's oil and gas reserves.

Corridor's natural gas production is sold at prices referenced to AGT. The New England market has in recent years been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices in other areas of North America, and this excess demand is expected to continue until new pipeline infrastructure is available to increase the supply of natural gas into this market. While numerous projects are proposed which could alleviate supply constraints in the New England market by 2018, it is not known whether the required regulatory approvals will be received and, if the projects proceed, the timing of completion of these projects.

### **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. These regulations include, among other things, matters related to land tenure, drilling, production practices, environmental protection, royalties, carbon tax, marketing and pricing and various taxes and levies. 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 gas industry could have a material adverse impact on Corridor's business, financial condition, results of operations and cash flows.

## **Hydraulic Fracturing**

There has been public concern over the hydraulic fracturing process. Most of these concerns have raised questions regarding the drilling fluids used in the fracturing process, their effect on fresh water aquifers, the use of water in connection with completion operations, the ability of such water to be recycled, and induced seismicity associated with fracturing. The U.S. and Canadian federal governments and certain U.S. state and Canadian provincial governments are currently reviewing certain aspects of the scientific, regulatory and policy framework under which hydraulic fracturing operations are conducted. At present, most of these governments are primarily engaged in the collection, review and assessment of technical information regarding the hydraulic fracturing process and, with the exception of increased chemical disclosure requirements in certain of the jurisdictions in which the Company operates, have not provided specific details with respect to any significant actual, proposed or contemplated changes to the hydraulic fracturing regulatory construct.

It is anticipated that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. While the Company is unable to predict the impact of any potential regulations upon its business, the implementation of new laws, regulations or permitting regulations with respect to water usage or disposal, or hydraulic fracturing generally could increase the Company's costs of compliance, operating costs, the risk of litigation and environmental liability, or negatively impact the Company's production and prospects, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

On May 27, 2016, the New Brunswick Government announced its decision to extend the moratorium on the use of hydraulic fracturing for an indefinite period. Corridor utilizes hydraulic fracturing in connection with its drilling and completion activities in New Brunswick. As a result of the moratorium, management has not forecast any capital spending in New Brunswick. While the moratorium is in effect, Corridor's ability to continue to maintain or increase production through the development of the McCully Field is materially and adversely affected and the ability to obtain a joint venture partner to develop the Frederick Brook prospect in the Elgin Sub-Basin is negatively affected.

## **Environmental**

Corridor's natural gas and oil operations are subject to significant environmental local, provincial and federal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills and releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be constructed, operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with environmental legislation can require significant expenditures and failure to comply with these laws and regulations may result in the assessment of fines and penalties, orders to remediate property contamination and the issuance of injunctions that could limit or prohibit our operations, all of which could have a material impact on Corridor. 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 Corridor to incur costs to remedy such discharge. It is likely the trend to stricter environmental legislation will continue. Changes in environmental laws and regulations may be enacted which could impose higher environmental standards which may increase the cost of the Company's operations and have a material adverse effect on our business, financial condition, results of operations and cash flows. No assurance can be given that future environmental laws and regulations will not adversely impact Corridor's ability to develop or operate its properties.

Corridor believes that it is reasonably likely that a trend towards stricter standards in environmental legislation will continue and the Company anticipates making increased expenditures of both a capital and an expense nature as a result of increasingly stringent environmental laws, and such legislation may have a material adverse effect on its business, financial condition, results of operations and cash flows.

In January 2017, the Québec Government announced its decision to support the designation of Anticosti Island as a UNESCO World Heritage site. If designated as a UNESCO World Heritage site, the Anticosti Joint Venture would not be permitted to engage in development or production of oil and gas on Anticosti Island.

## **Third Party Risk**

In the normal course of its 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 large credit-worthy purchasers under normal industry payment terms.

Corridor is dependent upon the Anticosti Joint Venture partners to fund their contractual share of the planned exploration expenditures related to the Anticosti Joint Venture. If these partners do not approve or are unable to fund their share of certain

expenditures or otherwise fulfill their obligations, this may result in delays or additional future costs to Corridor in respect of the development of the properties on Anticosti Island.

In addition, Corridor can give no assurance that the negotiations with the Québec Government for termination of the Anticosti Joint Venture will be successfully concluded.

### **Variations in Exchange Rates**

The Company's sales of natural gas from the McCully Field are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the prices received by the Company. Any material increase in the value of the Canadian dollar will negatively impact the Company's natural gas revenues. This increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators. The Company has not engaged in any risk management activities related to the Canada/United States exchange rate.

# Unaudited Statements of Income and Comprehensive Income

(thousands of dollars, except per share data)

For the	Three months ended March 31	
	2017	2016
Sales	\$ 4,467	\$ 6,495
Royalties	(92)	(137)
Revenues, net	<b>4,375</b>	6,358
Expenses		
Depletion, depreciation and amortization	1,932	2,152
Transportation expense	428	1,355
Production expense	789	717
General and administrative expense	651	720
Financial derivatives gain (note 13a i)	(1,347)	-
Share-based compensation expense (note 11)	70	125
	<b>2,523</b>	5,069
Income before the following items	1,852	1,289
Gain on sale of exploration assets (note 8)	-	110
Interest and other (note 3)	6	(290)
Equity loss (note 8)	(33)	(32)
Income before income taxes	1,825	1,077
Deferred income tax recovery (note 4)	-	(206)
Net income and comprehensive income	<b>\$ 1,825</b>	\$ 1,283
Net income per share – basic and diluted	<b>\$ 0.021</b>	\$ 0.014
Weighted average number of common shares		
Basic	88,649	88,622
Diluted (note 5)	88,752	88,712

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

# Unaudited Statements of Financial Position

(thousands of dollars)

As at	March 31 2017	December 31 2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 30,669	\$ 27,272
Restricted cash	650	650
Receivables (note 13a iv)	2,069	2,169
Inventory held for sale	339	339
Prepays and security deposits	339	113
	<b>34,066</b>	30,543
Non-current assets		
Property, plant and equipment (note 6)	48,136	50,881
Exploration and evaluation assets (note 7)	8,778	8,813
Investment in Anticosti partnership (note 8)	13,865	13,898
Intangible assets	91	103
Restricted cash	380	380
Total assets	<b>\$ 105,316</b>	\$ 104,618
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 840	\$ 925
Financial derivatives (note 13a i)	-	253
	<b>840</b>	1,178
Non-current liabilities		
Decommissioning liability (note 9)	8,753	9,636
Total liabilities	<b>9,593</b>	10,814
Shareholders' Equity		
Capital stock (note 10)	247,704	247,685
Contributed surplus (note 11)	10,822	10,747
Deficit	(162,803)	(164,628)
Total shareholders' equity	<b>95,723</b>	93,804
Total liabilities and shareholders' equity	<b>\$ 105,316</b>	\$ 104,618

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

Contingencies (note 15)  
Subsequent event (note 16)

On behalf of the Board

Signed "Stephen J. Moran" Director

Signed "Robert D. Penner" Director



# Unaudited Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the	Three months ended March 31	
	2017	2016
Capital stock, beginning of period	\$ 247,685	\$ 247,685
Exercise of stock options for cash	13	-
Amount previously expensed for stock options exercised	6	-
Capital stock, end of period	\$ 247,704	\$ 247,685
Contributed surplus, beginning of period	\$ 10,747	\$ 10,470
Share-based compensation expense (note 11)	81	84
Amount previously expensed for stock options exercised	(6)	-
Contributed surplus, end of period	\$ 10,822	\$ 10,554
Deficit, beginning of period	\$ (164,628)	\$ (135,337)
Net income and comprehensive income	1,825	1,283
Deficit, end of period	\$ (162,803)	\$ (134,054)
Shareholders' equity, end of period	\$ 95,723	\$ 124,185

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

# Unaudited Statements of Cash Flows

(thousands of dollars)

For the	Three months ended March 31	
	2017	2016
<b>Operating Activities</b>		
Net income	\$ 1,825	\$ 1,283
Adjustments not affecting cash:		
Depletion, depreciation and amortization	1,932	2,152
Share-based compensation expense	70	125
Change in unrealized gain on financial derivatives	(253)	-
Deferred income tax recovery	-	(206)
Gain on sale of exploration assets	-	(110)
Equity loss	33	32
Other operating activities	76	77
	<b>3,683</b>	3,353
Increase in non-cash operating working capital (note 12)	(238)	(104)
Cash provided by operating activities	<b>3,445</b>	3,249
<b>Financing Activities</b>		
Proceeds from the exercise of stock options	13	-
Cash provided by financing activities	<b>13</b>	-
<b>Investing Activities</b>		
Property, plant and equipment expenditures	(30)	(20)
Exploration and evaluation expenditures	(69)	(61)
Contribution in Anticosti partnership	-	(32)
Proceeds on the sale of assets	-	7
Decrease in non-cash investing working capital (note 12)	38	4
Cash used in investing activities	<b>(61)</b>	(102)
Increase in cash and cash equivalents	<b>3,397</b>	3,147
Cash and cash equivalents, beginning of period	27,272	24,059
Cash and cash equivalents, end of period	<b>\$ 30,669</b>	\$ 27,206
Cash and cash equivalents consists of:		
Cash	\$ 11,422	\$ 8,013
Short-term investments	19,247	19,193
Cash and cash equivalents, end of period	<b>\$ 30,669</b>	\$ 27,206

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

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 1. Nature of operations

Corridor Resources Inc. ("Corridor" or the "Company") is a 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 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, 2016. These unaudited condensed financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2016.

On May 10, 2017, 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. Interest and other

Interest and other consist of the following:

*(thousands of dollars)*

	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gains (losses)	<b>\$ 24</b>	\$ (278)
Interest and finance costs	<b>(76)</b>	(77)
Interest and other income	<b>58</b>	65
	<b>\$ 6</b>	\$ (290)

### 4. Income taxes

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

*(thousands of dollars)*

	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Income before income taxes	<b>\$ 1,825</b>	\$ 1,077
Blended Canadian statutory tax rate	<b>29.3%</b>	28%
Expected income tax expense	<b>\$ 535</b>	\$ 302
Increase (decrease) resulting from:		
Deferred incomes taxes not recognized	<b>(561)</b>	-
Effect of provincial tax rate change	<b>-</b>	(547)
Non-deductible (non-taxable)		
-gain on sale of exploration assets	<b>-</b>	(15)
-share-based compensation expense	<b>21</b>	35
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	<b>5</b>	19
	<b>-</b>	\$ (206)

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 4. Income taxes (continued)

Following a decrease in estimated future natural gas prices and the announcement by the Government of New Brunswick of its decision to continue a moratorium on hydraulic fracturing for an indefinite period, the Company wrote-down its deferred income tax assets balance in 2016 as management determined it was no longer probable that there would be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax deductible amounts. As a result, the Company did not recognize deferred income tax expenses of \$561 thousand for the three months ended March 31, 2017.

In Q1 2016, the Company increased its deferred income tax rate from 28.25% to 29.60% following the New Brunswick Government's 2016 budget which resulted in the Province's corporate income tax rate being increased from 12% to 14% effective April 1, 2016. As a result, Corridor recognized a deferred income tax recovery of \$547 thousand during the three months ended March 31, 2016.

### 5. Income per share

For the three months ended March 31, 2017, stock options of 2,741 thousand (three months ended March 31, 2016 – 3,123 thousand) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

### 6. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
<b>Cost</b>					
Balance at December 31, 2015	\$ 242,842	\$ 77,342	\$ 2,829	\$ 2,896	\$ 325,909
Additions	3	-	-	60	63
Sale of assets	-	-	-	(67)	(67)
Transfer from current assets	-	-	176	-	176
Changes in future abandonment costs	127	-	-	-	127
Balance at December 31, 2016	\$ 242,972	\$ 77,342	\$ 3,005	\$ 2,889	\$ 326,208
Additions	8	19	-	3	30
Changes in future abandonment costs	(855)	-	-	-	(855)
<b>Balance at March 31, 2017</b>	<b>\$ 242,125</b>	<b>\$ 77,361</b>	<b>\$ 3,005</b>	<b>\$ 2,892</b>	<b>\$ 325,383</b>
<b>Accumulated impairment, depletion and depreciation</b>					
Balance at December 31, 2015	\$ 191,465	\$ 58,823	\$ 2,534	\$ 1,848	\$ 254,670
Depletion or depreciation expense	3,995	976	-	126	5,097
Impairment losses	11,100	4,500	-	-	15,600
Sale of assets	-	-	-	(40)	(40)
Balance at December 31, 2016	\$ 206,560	\$ 64,299	\$ 2,534	\$ 1,934	\$ 275,327
Depletion or depreciation expense	1,416	476	-	28	1,920
<b>Balance at March 31, 2017</b>	<b>\$ 207,976</b>	<b>\$ 64,775</b>	<b>\$ 2,534</b>	<b>\$ 1,962</b>	<b>\$ 277,247</b>
<b>Net book value</b>					
At December 31, 2016	\$ 36,412	\$ 13,043	\$ 471	\$ 955	\$ 50,881
<b>At March 31, 2017</b>	<b>\$ 34,149</b>	<b>\$ 12,586</b>	<b>\$ 471</b>	<b>\$ 930</b>	<b>\$ 48,136</b>

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$3,437 thousand for the three months ended March 31, 2017 (three months ended March 31, 2016 - \$63,165 thousand).

During the quarter, no indicators of impairment were identified.

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 7. Exploration and evaluation assets

(thousands of dollars)

	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 8,813	\$ 8,493
Additions	69	357
Impairment losses	-	(100)
Changes in future abandonment costs	(104)	63
Balance, end of period	<b>\$ 8,778</b>	\$ 8,813

During the quarter, no indicators of impairment were identified.

### 8. Investment in Anticosti partnership

(thousands of dollars)

	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 13,898	\$ 13,790
Gain on sale of exploration assets	-	110
Contributions	-	135
Equity loss	(33)	(137)
Balance, end of period	<b>\$ 13,865</b>	\$ 13,898

On April 1, 2014, the Company entered into a joint venture with the Government of Québec, through its affiliate Ressources Québec ("RQ"), Pétrolia Inc. ("Pétrolia") and Saint-Aubin E&P Québec Inc. ("Saint-Aubin"). In connection with the establishment of the joint venture, Pétrolia and Corridor transferred their respective Anticosti exploration licenses to Anticosti Hydrocarbons L.P. ("Anticosti Hydrocarbons") and RQ and Saint-Aubin made a commitment to spend up to an aggregate \$100 million on an exploration program. In exchange, Corridor received an interest of 21.67% in Anticosti Hydrocarbons and net cash proceeds of \$13,479 thousand. During the quarter, the Company entered into negotiations with the Government of Québec with the goal of terminating the joint venture. Management believes the investment in the Anticosti partnership is recoverable.

During the year ended December 31, 2016, a gain on sale of \$110 thousand was recognized to reflect the benefit received by Corridor from the funding by RQ and Saint-Aubin of \$4,641 thousand in connection with their commitment to the Anticosti Hydrocarbons' exploration program.

### 9. Decommissioning liability

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

(thousands of dollars)

	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 9,636	\$ 9,121
Change in discount rate	(959)	455
Change in estimate	-	(265)
Finance costs	76	325
Balance, end of period	<b>\$ 8,753</b>	\$ 9,636

The total undiscounted amount of estimated cash flows required to settle these obligations is \$14,336 thousand (December 31, 2016 - \$14,406 thousand). Management estimates the settlement of these obligations between 2017 and 2038. At March 31, 2017, a risk-free rate of 2.46% (December 31, 2016 - 1.97%) and an inflation rate of 2% (December 31, 2016 - 2%) was used to calculate the estimated fair value of the decommissioning liability.

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 10. Capital stock

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

b) **Issued and outstanding**

*(thousands of dollars and thousands of shares)*

	Three months ended March 31, 2017		Year ended December 31, 2016	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	88,622	\$ 247,685	88,622	\$ 247,685
Exercise of stock options for cash and amount recognized from contributed surplus	33 -	13 6	- -	- -
Balance, end of period	88,655	\$ 247,704	88,622	\$ 247,685

### 11. Share-based compensation

a) **Stock options**

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. The stock option plan is limited to 8,262,513 common shares with no more than 5% being issued to any one officer, director or employee. On May 12, 2014, the Board of Directors determined that non-employee directors would no longer be eligible to receive stock option grants. 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:

*(thousands of options)*

	Three months ended March 31, 2017		Year ended December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	3,775	\$ 1.12	3,431	\$ 1.28
Granted	508	\$ 0.52	827	\$ 0.40
Forfeited and cancelled	(852)	\$ 2.15	(483)	\$ 1.07
Exercised	(33)	\$ 0.40	-	-
Options outstanding, end of period	3,398	\$ 0.78	3,775	\$ 1.12
Options exercisable, end of period	2,152	\$ 0.85	2,950	\$ 1.23

The range of exercise prices of stock options outstanding and exercisable as at March 31, 2017 is as follows:

*(thousands of options)*

Exercise prices	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
\$ 0.40 - \$ 0.99	2,498	2.27	\$ 0.61	1,552	\$ 0.70	
\$ 1.00 - \$ 1.99	900	2.63	\$ 1.24	600	\$ 1.24	
	3,398	2.37	\$ 0.78	2,152	\$ 0.85	



# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 11. Share-based compensation (continued)

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

	Three months ended March 31, 2017	Year ended December 31, 2016
Weighted average fair value of options granted	\$ 0.27	\$ 0.21
Risk-free interest rate	1.0%	0.4%
Expected life (years)	4.0	4.0
Expected volatility	69%	72%

For the three months ended March 31, 2017, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$81 thousand relating to the stock option plan (three months ended March 31, 2016 - \$84 thousand).

#### b) Deferred share units

The Company has a deferred share unit ("DSU") plan for directors. Each vested DSU will automatically be redeemed on the third business day after the date the director ceases to be a director of Corridor. When redeemed, each vested DSU will be paid based on the weighted average trading price of the common shares over the five previous trading days. During the period, the fair value of the DSUs granted and the changes in their fair value were recognized as share-based compensation expense on the Statement of Income with a corresponding amount recorded in accounts payable and accrued liabilities on the Statement of Financial Position.

The following table summarizes the changes in the outstanding DSUs:

*(thousands of dollars and thousands of DSUs)*

	Three months ended March 31, 2017		Year ended December 31, 2016	
	Number of DSUs	Amount	Number of DSUs	Amount
DSUs, beginning of period	137	\$ 77	-	-
DSUs granted during the period	24	10	137	\$ 64
Fair value adjustment during the period	-	(21)	-	13
DSUs, end of period	161	\$ 66	137	\$ 77

The DSU liability as of March 31, 2017 is based on a fair value of \$0.41 which is the Company's closing share price at March 31, 2017.

### 12. Supplemental cash flow information

*(thousands of dollars)*

	Three months ended March 31	
	2017	2016
Change in non-cash operating working capital:		
Receivables	\$ 78	\$ 271
Prepays and security deposits	(226)	(219)
Accounts payable and accrued liabilities	(90)	(156)
	\$ (238)	\$ (104)
Change in non-cash investing working capital:		
Receivables	\$ 22	\$ 5
Accounts payable and accrued liabilities	16	(1)
	\$ 38	\$ 4

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 13. Risk management

a) The Company is exposed to the following risks:

#### i) Commodity price risk

With the Board of Directors' approval, and when appropriate, Corridor will enter into financial derivative contracts or physical delivery contracts to manage the risks associated with fluctuations in natural gas prices. The Company does not use derivative financial instruments for speculative purposes.

#### *Financial derivatives*

The Company has no outstanding financial derivative contracts at March 31, 2017. The following financial derivatives gain is reflected in the Statement of Income:

*(thousands of dollars)*

	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Realized financial derivatives gain	<b>\$ 1,094</b>	-
Change in unrealized gain on financial derivatives	<b>253</b>	-
Financial derivatives gain	<b>\$ 1,347</b>	-

#### 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 Statement of Financial Position dates.

*(thousands of U.S. dollars)*

	<b>March 31, 2017</b>	December 31, 2016
Cash	<b>\$ 4,408</b>	\$ 200
Receivables	<b>1,230</b>	1,286
Payables	<b>-</b>	(188)
Financial instruments in U.S. dollars	<b>\$ 5,638</b>	\$ 1,298

At March 31, 2017, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of \$375 thousand in the Company's net income (March 31, 2016 – \$95 thousand) 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 an increase of \$375 thousand in the Company's net income (March 31, 2016 – \$95 thousand).

#### 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, 2017, the Company was holding cash and cash equivalents of \$30,669 thousand.

Given the Company's available liquid resources and the Company's 2017 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities as disclosed in the Company's December 31, 2016 audited financial statements.

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 13. Risk management (continued)

#### 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 objectives when managing capital are 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 and 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.

### 14. Financial instruments

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 trade receivables. Their carrying values approximate fair values because of their short term to maturity.

#### ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. 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 period.

#### iii) Fair value through profit or loss

The Company's financial derivative contracts are classified as fair value through profit or loss and are recognized at fair value based on quoted market prices at each reporting date. Financial derivatives are included in current assets or liabilities with any changes in fair value included in the Statement of Income. The Company does not apply hedge accounting to its derivative instruments.

### 15. Contingencies

An audit by the New Brunswick Department of Finance ("DOF") of the calculation of the royalty payments for the periods between November 1, 2009 and December 31, 2014 is ongoing. The Company has filed a Notice of Appeal to object to the Notice of Debt received by the DOF for a total of \$300 thousand, with Corridor's share estimated at \$200 thousand. Corridor has not made a provision for any of the amount identified in the DOF's Notice of Debt, as management believes a successful claim by the DOF is not probable.

On August 23, 2013, the Company was served with a statement of claim by Geophysical Services Incorporated ("GSI") relating to the access and disclosure of confidential seismic information. GSI is seeking damages of \$1.7 million. The Company has not recorded any liability as management believes a successful claim is not probable.

### 16. Subsequent event

Subsequent to the quarter end, the Company entered into a financial swap for the period from December 1, 2017 to March 31, 2018 for 2,500 mmbtu per day of natural gas production at a fixed price of \$US7.40/mmbtu. As security for this financial hedge, the bank has the authority to hold Corridor funds in the amount of \$US3.7 million.