First Quarter 2011
Management's Discussion and Analysis

As of June 13, 2011

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, 2011 should be read in conjunction with Corridor's unaudited financial statements and notes thereto for the three months ended March 31, 2011 and audited financial statements and notes thereto for the year ended December 31, 2010.

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, 2010 (the "Annual Information Form"), is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at www.sedar.com.

Introduction

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

Adoption of International Financial Reporting Standards

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

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

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 net earnings adjusted for non-cash items including depletion, depreciation and amortization, deferred income taxes, share-based compensation and other non-cash expenditures.

Selected Financial Information

thousands of dollars except per share amounts	Three months ended March 31 2011	2010
Revenues	**$8,024**	$9,648
Net loss	**$(2,178)**	$(396)
Net loss per share - basic and diluted	**$(0.025)**	$(0.005)
Cash flow from operations(1)	**$3,572**	$4,981
Capital expenditures	**$705**	$4,651
Total assets	**$301,260**	$309,037

[1]*See "Non-IFRS Financial Measures".*

Forward Looking Information

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

- revenues;
- production levels;
- resources and development of resources;
- Canadian – U.S. dollar exchange rate;
- natural gas prices;
- gathering, processing and transportation fees;
- royalty rates and expense;
- production expense;
- transportation expense;
- depletion, depreciation and amortization;
- general and administrative expenses;
- share-based compensation expense;
- timing that the Company will be cash taxable;
- capital expenditures;
- exploration and development drilling program;
- cash flow from operations;
- sources of funding;
- 2011 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 concerning the characteristics of the Frederick Brook shale and Old Harry prospect, 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 Canada Ltd. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Unknown risk and uncertainties include, but are not limited to: risks associated with oil and gas exploration, financial risks, substantial capital requirements and financing, third party risk, government regulation, environmental, prices, markets and marketing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, variations in exchange rates, management of growth, expiration of licenses and leases, reserves and resources estimates, seasonality, competition, 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 2011, which are provided for the purpose of forecasting the financial position of Corridor at the end of the 2011 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 2010 MD&A dated March 30, 2011 which is available on the Company's website at www.corridor.ca and on SEDAR at www.sedar.com.

Corridor's 2011 budget has been restated to comply with the IFRS accounting policies. The budget does not presently include Corridor's planned expenditures to drill two appraisal wells to evaluate the Frederick Brook shale in the Elgin area in New Brunswick. The budget will be updated at a later date.

First Quarter Summary

- During Q1 2011, natural gas production averaged 12.7 mmscfpd net to Corridor (including production from penalty wells) with an average natural gas sales price of $6.75/mscf, resulting in a net loss of $2,178 thousand and basic and diluted net loss per share of $0.025.

- Natural gas revenues for Q1 2011 decreased to $7,706 thousand from $9,097 thousand for Q1 2010 due to the decrease in natural gas production from 14.9 mmscfpd in Q1 2010 to 12.7 mmscfpd in Q1 2011. The average natural gas sales price was consistent at $6.75/mscf in Q1 2011 compared to $6.77/mscf in Q1 2010. The decrease in production is due to the decreased drilling activities at the McCully Field since 2009 following decreases in natural gas prices. The inlet compressor installed in Q3 2010 is performing as expected and slowing down production declines.

- Net loss for Q1 2011 increased to $2,178 thousand from $396 thousand for Q1 2010 reflecting mostly the decrease in revenues as well as an increase in share-based compensation expense due to the stock options granted in Q3 2010.

- On May 31, 2011, Apache Canada Ltd. advised Corridor that it had elected not to proceed with the second phase of the farm-out and option program with Corridor in respect of the potential shale gas resource development near Elgin, New Brunswick. Corridor remains confident that the shale gas resource has significant potential and plans to move forward with the drilling of two appraisal wells to commence late this year to confirm the well productivity required to proceed with a pilot phase.

Q1 2011 Financial Summary

thousands of dollars	Three months ended March 31 2011	2010
Revenues	**$8,024**	$9,648
Royalty expense	**(329)**	(292)
Revenues, net	**7,695**	9,356
Expenses		
Depletion, depreciation and amortization	**4,564**	5,139
Transportation expense	**1,691**	1,837
Production expense	**1,115**	1,230
General and administrative	**1,130**	1,126
Share-based compensation	**1,330**	257
Write-off of exploration and evaluation assets	**140**	-
Capital tax expense	**27**	72
	9,997	9,661
Loss before the following items	**(2,302)**	(305)
Interest and finance costs	**79**	91
Foreign exchange losses	**107**	57
Interest and other income	**(18)**	(17)
Loss before income taxes	**(2,470)**	(436)
Deferred income tax recovery	**(292)**	(40)
Net loss and comprehensive loss	**$(2,178)**	$(396)

Results of Operations

Revenues

thousands of dollars	Three months ended March 31 2011	2010
Natural gas	**$7,706**	$9,097
Condensate	**94**	124
Natural gas and gas liquids revenues	**$7,800**	$9,221
Gathering, processing & transportation fees	**224**	427
	$8,024	$9,648

Natural gas revenues decreased to $7,706 thousand in Q1 2011 from $9,097 thousand in Q1 2010 due to the decrease in the average daily natural gas production to 12.7 mmscfpd in Q1 2011 from 14.9 mmscfpd in Q1 2010. The average natural gas sales price was consistent at $6.75/mscf in Q1 2011 compared to $6.77/mscf in Q1 2010. The decrease in production is due to the decreased drilling activities at the McCully Field since 2009 following decreases in natural gas prices.

Production volumes and pricing

	Three months ended March 31 2011	2010
Total volumes		
Natural gas production (mmscf)	**1,141**	1,344
Condensate production (bbl)	**951**	1,658
Daily production averages		
Natural gas production per day (mmscfpd)	**12.7**	14.9
Condensate production per day (bblpd)	**10.6**	18.4
Average prices		
Natural gas selling price ($/mscf)	**$6.75**	$6.77
Condensate selling price ($/bbl)	**$98.70**	$74.59

Natural gas revenues and production for Q1 2011 were consistent with the budget for the quarter.

Outlook

Corridor maintains its forecast for revenues of $25 million for 2011. The budget for revenues is based on an estimate of the average natural gas sales price of $5.60/mscf (US$4.50/mmbtu at Henry Hub and an estimate of the exchange rate of $0.98 U.S. per Canadian dollar) and an average net daily gas production for 2011 of 12.0 mmscfpd.

Gathering, processing and transportation fees

	Three months ended March 31	
thousands of dollars	**2011**	2010
Gathering, processing and transportation fees	**$224**	$427

Corridor owns the midstream facilities which treat and flow gas from the McCully Field to the Maritimes and Northeast Pipeline ("M&NP"). Third party gas flowing through these facilities, which currently is Potash Corporation of Saskatchewan's ("PCS") share of gas from the McCully Field, is charged a cost of service, the terms of which are generally consistent with recommended practices in the oil and gas industry. The decrease in the gathering, processing and transportation ("GPT") fees to $224 thousand in Q1 2011 from $427 thousand in Q1 2010 reflects a decrease in PCS' share of production going through Corridor's midstream facilities due to PCS utilizing more of their share of natural gas production at their potash mill.

Outlook

Corridor maintains its 2011 budget for GPT fees from PCS's share of production of approximately $500 thousand based on an average estimated gross daily gas production of 16.0 mmscfpd for 2011.

Royalty Expense

	Three months ended March 31	
thousands of dollars	**2011**	2010
Crown royalties	**$329**	$292
Royalty expense per mscf ($/mscf)	**$0.29**	$0.22
Percentage of natural gas and gas liquids revenues	**4.2%**	3.2%

For Q1 2011, Corridor paid a royalty rate of 10% calculated based on the net amount of revenues after deductions for processing and transportation and a recovery of capital costs. The increase in the royalty expense per mscf for Q1 2011 to $0.29/mscf from $0.22/mscf for Q1 2010 is due to a decrease in the expenses allowable in the royalty calculation.

Outlook

An effective royalty rate of approximately 3% is budgeted for 2011. Since Q4 2008, the Company has been undergoing an audit by the New Brunswick Department of Finance ("DOF") for the periods from April 2003 to October 2009 in connection with the Company's crown royalty payments. The Company has received a proposed Notice of Debt by the DOF, which the Company is in the process of challenging with the help of expert advisors. While the amount assessed is material, the settlement of this claim is not reasonably determinable. The Company has not made a provision for any of the amount identified in the DOF's proposed reassessment as the Company believes its position on this matter to be valid.

Transportation Expense

	Three months ended March 31	
thousands of dollars	**2011**	2010
Transportation expense	**$1,691**	$1,837
Transportation expense per mscf ($/mscf)	**$1.48**	$1.37

Transportation expense decreased to $1,691 thousand for Q1 2011 from $1,837 thousand for Q1 2010 due to the decrease in natural gas production and a stronger Canadian dollar as compared to the U.S. dollar. This decrease in transportation expense was partially offset by the increase in the cost of Canadian transportation due to the expiry on October 31, 2010 of Corridor's agreement, in effect since December 1, 2009, for transportation on the M&NP, at a cost lower than firm tolls.

Transportation expense per mscf of $1.48/mscf is consistent with the forecast for Q1 2011. Corridor's 2011 transportation expense is expected to decrease starting April 1, 2011 as Corridor has entered into a transportation agreement to purchase

12,000 mmbtu per day of transportation on the Canadian side of the M&NP from April 1, 2011 to April 1, 2012 and 8,000 mmbtu per day from April 1, 2012 to March 31, 2013, at a cost lower than firm tolls.

Outlook
Corridor maintains its transportation expense estimate of approximately $1.35/mscf for 2011, based on an exchange rate of $0.98 U.S. per Canadian dollar and an average estimated net daily gas production of 12.0 mmscfpd for 2011.

Production Expense

	Three months ended March 31	
thousands of dollars	**2011**	2010
Gross production expense	**$1,254**	$1,430
Third party recoveries	**(139)**	(200)
Net production expense	**$1,115**	$1,230
Net production expense per mscf ($/mscf)	**$0.98**	$0.91

Gross production expense for Q1 2011 decreased to $1,254 thousand from $1,430 thousand for Q1 2010 due to the decrease in work-over activities in Q1 2011 partially offset by an increase in utilities expense resulting from the addition of the inlet compressor in Q3 2010. The decrease in third party recoveries for Q1 2011 compared to Q1 2010 reflects the decrease in PCS's share of production going through Corridor's midstream facilities.

Outlook
Corridor maintains its production expense estimate of approximately $1.00/mscf for 2011 based on an average estimated net daily gas production of 12.0 mmscfpd for 2011.

Depletion, Depreciation and Amortization

	Three months ended March 31	
thousands of dollars	**2011**	2010
Depletion, depreciation and amortization	**$4,564**	$5,139
Depletion, depreciation and amortization per mscf ($/mscf)	**$4.48**	$4.26

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 in Q1 2011 reflects the decrease in natural gas production partially offset by the decrease in Corridor's gross proved natural gas reserves as estimated by GLJ Petroleum Consultants Ltd. ("GLJ"). GLJ decreased proved natural gas reserves by 7.8 bscf to 62.2 bscf in its December 31, 2010 reserves report. This decrease in the proved natural gas reserves was partially offset by a decrease in GLJ's estimated future development costs relating to the development of proved reserves to $63,924 thousand from $86,593 thousand in 2009.

The DD&A rate per mscf for Q1 2011 is lower than the previous 2011 estimate of $5.40/mscf as the Company's 2011 budget had previously been prepared under GAAP. The 2011 budget has now been restated to comply with the IFRS accounting policies, and as a result, the DD&A rate for 2011 has been decreased to $4.50/mscf.

Outlook
The Company's outlook for the DD&A rate per mscf for 2011 has decreased from $5.40/mscf to $4.50/mscf to reflect the restatement of the Company's financial statements to IFRS.

General and Administrative Expenses

	Three months ended March 31	
thousands of dollars	**2011**	**2010**
Gross expenses	**$1,272**	$1,214
Capitalized overhead	**(131)**	(88)
Operator recoveries	**(11)**	-
Net expenses	**$1,130**	$1,126

During Q1 2011, gross general and administrative expenses ("G&A") increased to $1,272 thousand from $1,214 thousand during Q1 2010 due to an increase in Corridor's employee salaries. Capitalized overhead for Q1 2011 increased compared to Q1 2010 due to the increase in internal activity relating to the Old Harry capital program.

Outlook

Corridor has maintained its 2011 budget for G&A at $5,400 thousand.

Share-based Compensation

	Three months ended March 31	
thousands of dollars	**2011**	2010
Share-based compensation	**$1,330**	$257

The increase in share-based compensation expense to $1,330 thousand for Q1 2011 from $257 thousand for Q1 2010 results from the grant of 2,786 thousand stock options by Corridor late in Q3 2010.

Outlook

The 2011 budget was restated to comply with the IFRS accounting policies resulting in an increase in the share-based compensation expense for 2011, however, Corridor subsequently reduced its 2011 budget to reflect the surrender of 1,200 thousand stock options by the directors of Corridor on May 6, 2011. As a result, share-based compensation expense for 2011 will decrease from $3,100 thousand to $2,300 thousand.

Deferred Income Taxes

	Three months ended March 31	
thousands of dollars	**2011**	2010
Deferred income tax recovery	**$(292)**	$(40)
Effective tax rate	**11.8%**	9.2%
Canadian statutory income tax rate	**28.5%**	31.0%

The increase in the effective tax rate for Q1 2011 compared to Q1 2010 is due to the increase in share-based compensation expense in Q1 2011 which 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 in 2011 or 2012. On June 7, 2011, the substantially enacted income tax rates in New Brunswick changed following the Province's 2011-2012 budget. As a result, the Company will recognize a deferred income tax expense of approximately $1 million in Q2 2011.

Write-off of exploration and evaluation assets

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 in south-central New Brunswick. As 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.

Capital Expenditures

thousands of dollars	**Three months ended March 31** **2011**	2010
Development activities	**$ -**	$3,936
Fracture stimulation programs and work-overs	**89**	113
Exploration activities	**230**	-
Midstream facilities and tie-ins	**80**	254
Land and seismic	**160**	188
Capitalized overhead	**142**	88
Office and other equipment	**4**	72
	$705	$4,651

The decrease in total capital expenditures in Q1 2011 to $705 thousand from $4,651 thousand in Q1 2010 is due to the decrease in development activities, specifically drilling at the McCully Field. In Q1 2010, Corridor drilled the L-37 well in the McCully Field but no wells have been drilled since at the McCully Field.

Capital Expenditures Outlook

Corridor's preliminary 2011 capital budget consists of the following:

thousands of dollars	
Fracture stimulation and work-overs aimed at increasing production at the McCully Field	**$3,000**
Old Harry drilling advancement	**1,500**
Gas plant maintenance and corporate	**2,000**
Sally's Brook core hole drilling	**1,000**
Seismic program in New Brunswick	**500**
	$8,000

Corridor's 2011 capital budget is based on available working capital of $4,000 thousand at December 31, 2010 and forecasted 2011 cash flow from operations of $7,800 thousand which is based on an estimate of the natural gas sales price of US$4.50/mmbtu at Henry Hub for 2011, an exchange rate estimate of $0.98 U.S. per Canadian dollar, and an estimated average net daily gas production for 2011 of 12.0 mmscfpd. In addition, early in 2011, Corridor received $2,697 thousand on the exercise of 632,000 stock options.

At this time, Corridor has not finalized plans for additional capital expenditures for 2011, including the evaluation of its Frederick Brook shale gas resources in New Brunswick. Corridor intends to include in its 2011 capital budget plans to drill two appraisal wells in the Elgin area and will finalize its 2011 capital budget when these plans have been completed.

Balance Sheet Items

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

- $6,944 thousand increase in cash and cash equivalents, primarily reflecting decreased capital expenditures.
- $3,207 thousand decrease in receivables, primarily reflecting the decrease in natural gas prices in March 2011 compared to December 2010.
- $4,558 thousand decrease in property, plant and equipment, reflecting depletion and depreciation expenses as well as decreased capital expenditures in Q1 2011.
- $1,410 thousand decrease in accounts payable and accrued liabilities, reflecting decreased capital expenditures in Q1 2011.
- $4,836 thousand increase in capital stock, reflecting the exercise of 632 thousand stock options in Q1 2011.

Related Party Transactions

A director of Corridor is a partner in a law firm that provides legal services. There were no related party transactions in Q1 2011 and Q1 2010.

Cash Flow Summary

	Three months ended March 31	
thousands of dollars	**2011**	2010
Cash provided by operating activities	**$5,017**	$6,718
Cash provided by financing activities	**2,699**	-
Cash used in investing activities	**(772)**	(1,405)
Increase in cash and cash equivalents	**$6,944**	$5,313

The decrease in cash provided by operating activities for Q1 2011 compared to Q1 2010 is primarily the result of the decrease in natural gas revenues resulting from the decreased natural gas production.

The increase in cash provided by financing activities reflects the exercise of 632 thousand stock options in Q1 2011.

Cash used in investing activities decreased for Q1 2011 compared to Q1 2010 as a result of the decrease in capital spending.

Outstanding Share Information

As of June 14, 2011, the outstanding share information was as follows:

Common shares outstanding	**88,447,466**
Stock options to purchase common shares	**4,356,668**
Total common shares outstanding after exercise of all stock options	**92,804,134**
thousands of dollars	
Total proceeds due on exercise of all stock options	**$21,985**

Summary of Quarterly Information

	2011 (1)	**2010 (1)**				**2009 (2)**		
thousand of dollars, except per share amounts and average natural gas price	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 revenues	**$7,706**	$7,024	$5,021	$6,141	**$9,097**	$9,936	$5,167	$7,164
Net earnings (loss)	**$(2,178)**	$(3,038)	$(1,739)	$(1,739)	**$(396)**	$(1,825)	$(3,442)	$118
Net earnings (loss) per share basic and diluted	**$(0.025)**	$(0.034)	$(0.020)	$(0.020)	**$(0.005)**	$(0.021)	$(0.039)	$0.001
Natural gas production (mmscf)	**1,141**	1,223	1,012	1,240	**1,344**	1,797	1,336	1,450
Average natural gas price ($/mscf)	**$6.75**	$5.74	$4.96	$4.95	**$6.77**	$5.53	$3.87	$4.94
Capital expenditures	**$705**	$1,869	$7,366	$7,681	**$4,651**	$5,781	$9,823	$2,957

(1) As prepared under IFRS

(2) As prepared under GAAP, these amounts have not been restated in accordance with IFRS.

The decrease in Corridor's natural gas revenues, cash flow from operations and net earnings is primarily the result of the decrease in the average natural gas sales price from $11.21/mscf in 2008 to as low as $3.87/mscf during the three months ended September 2009 and to $6.75/mscf in the three months ended March 31, 2011. In response to these lower prices, Corridor has decreased drilling activities at the McCully Field since 2009, which has resulted in reduced capital expenditures and natural gas production.

Liquidity and Capital Resources

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

At March 31, 2011, Corridor had access to a $20 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 1.25% per annum, with interest payable monthly. This credit facility can be increased at any time up to the current approved borrowing base of $26 million, subject to the bank reconfirming this borrowing base. The credit facility will mature, subject to mutual agreement to extend, on July 30, 2011 and is subject to customary terms and conditions for borrowings of this nature and secured by the Company's property, plant and equipment. The Company is in compliance with all material terms of the agreements governing the 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 initial $20 million credit facility, the lender can recalculate the Company’s borrowing base and could, as a result, decrease the credit currently available to the Company. As of March 31, 2011, no amounts were drawn on this credit facility and $20 million remained available thereunder.

At this time, Corridor does not intend to access its credit facility in 2011, consistent with the Company’s preliminary 2011 capital budget. The 2011 budget assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales. However, Corridor will revisit such assumption once it finalizes the 2011 capital program to incorporate the drilling of two appraisal wells in the Elgin area in New Brunswick.

The Company has sufficient financial resources to undertake all of its planned exploration and development programs for 2011, other than the two appraisal wells planned later this year in the Elgin area. However, Corridor does not presently have sufficient financial resources to undertake by itself a comprehensive exploration and development of the Company's properties beyond 2011. 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 30 days or less to maturity. Corridor has no investments in asset-backed securities.

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. In connection with the adoption of IFRS, we maintained internal controls over financial reporting and validated the conversion to IFRS and the restatement of the 2010 comparative financial information and related disclosures. During the three months ended March 31, 2011, there were no significant 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.

Impact of IFRS on 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. Corridor’s significant accounting policies under IFRS have been disclosed in note 3 to the interim financial statements. The following significant critical accounting estimates have been impacted by the adoption of IFRS.

Asset impairments

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

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

Determination as to whether and how much an asset is impaired also involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles and reserves. An impairment loss could result in a material loss in future periods but future depletion expense would be reduced as a result.

Depletion

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

Decommissioning liabilities

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

Contingent liabilities

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

Changes in Accounting Policies

Adoption of IFRS

On January 1, 2011, IFRS became the generally accepted accounting principles in Canada for publicly accountable enterprises. The adoption of IFRS required the restatement of amounts, previously reported by Corridor under GAAP, for the year ended December 31, 2010. These interim financial statements are the Company's first financial statements reported under IFRS, having been prepared in accordance with International Accounting Standards ("IAS") 34 – *Interim Financial Reporting* and IFRS 1 - *First-time Adoption of International Financial Reporting Standards* ("IFRS 1").

Note 18 of the interim financial statements contains a detailed description of the impact of IFRS on Corridor's financial position as at January 1, 2010 (the date of Corridor's transition to IFRS) and December 31, 2010 and the financial results, changes in shareholders' equity and cash flows for the three months ended March 31, 2010 and the year ended December 31, 2010. Note 18 also includes detailed reconciliations between Corridor's financial statements previously reported under GAAP and its financial statements under IFRS.

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

Summary net loss reconciliation

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

a) DD&A Expense

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

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

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

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

DD&A Expense

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

b) Work-over activities

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

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

Production expense

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

c) Share-based compensation

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

d) Decommissioning liability

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

Business Conditions and Risks

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

Risks Associated with Oil and Gas Exploration

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

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

Substantial Capital Requirements and Financial Risks

The Company anticipates making substantial capital expenditures for the exploration, development and production of oil and natural gas reserves in the future. 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 the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Company's revenues, profitability and future growth and the carrying value of its properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company.

Risks May Not be Insurable

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

Statements of Comprehensive Loss (Unaudited)

(thousands of Canadian dollars, except per share data)

For the	Three months ended March 31 2011	2010 *(note 18)*
Revenues	**$ 8,024**	$ 9,648
Royalty expense	**(329)**	(292)
Revenues, net	**7,695**	9,356
Expenses		
Depletion, depreciation and amortization	**4,564**	5,139
Transportation expense	**1,691**	1,837
Production expense	**1,115**	1,230
General and administrative	**1,130**	1,126
Share-based compensation	**1,330**	257
Write-off of exploration and evaluation assets	**140**	-
Capital tax expense	**27**	72
	9,997	9,661
Loss before the following items	**(2,302)**	(305)
Interest and finance costs	**79**	91
Foreign exchange losses	**107**	57
Interest and other income	**(18)**	(17)
Loss before income taxes	**(2,470)**	(436)
Deferred income tax recovery (*note 6*)	**(292)**	(40)
Net loss and comprehensive loss	**$ (2,178)**	$ (396)
Net loss per share		
Basic	**$ (0.025)**	$ (0.005)
Diluted	**$ (0.025)**	$ (0.005)
Weighted average number of common shares		
Basic	**88,357**	87,767
Diluted *(note 5)*	**88,787**	88,104

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

Statements of Financial Position (Unaudited)

(thousands of Canadian dollars)

As at	**March 31 2011**	December 31 2010	January 1 2010
		(note 18)	*(note 18)*
Assets			
Current assets			
Cash and cash equivalents	**$ 7,809**	$ 865	$ 8,484
Restricted cash	**650**	650	1,350
Receivables *(note 14 a iv)*	**2,361**	5,568	6,624
Capital taxes receivable	**174**	173	85
Prepaids and security deposits	**491**	82	120
	11,485	7,338	16,663
Non-current assets			
Property, plant and equipment *(notes 7& 9)*	**220,442**	225,000	233,284
Exploration and evaluation assets *(note 8)*	**66,099**	65,707	55,913
Investment tax credits	**1,723**	1,715	1,227
Intangible assets	**381**	393	425
Restricted cash and security deposits	**1,130**	1,130	1,230
Total assets	**$ 301,260**	$ 301,283	$ 308,742
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	**$ 1,785**	$ 3,195	$ 5,636
Obligations under finance lease	**114**	141	145
	1,899	3,336	5,781
Non-current liabilities			
Obligations under finance lease	**4**	14	155
Deferred income taxes	**23,123**	23,415	24,886
Decommissioning liability *(note 10)*	**4,349**	4,482	3,772
Total liabilities	**29,375**	31,247	34,594
Shareholders' Equity			
Capital stock *(note 11)*	**247,425**	242,589	242,381
Contributed surplus	**7,365**	8,174	5,582
Retained earnings	**17,095**	19,273	26,185
	271,885	270,036	274,148
Total liabilities and shareholders' equity	**$ 301,260**	$ 301,283	$ 308,742

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

Commitments and contingency *(note 16)*
Subsequent events *(note 17)*

On behalf of the Board

Signed *"Phillip R. Knoll"* Director

Signed *"Robert D. Penner"* Director

Statements of Changes in Shareholders' Equity (Unaudited)

(thousands of Canadian dollars)

For the	Three months ended March 31 2011	2010 *(note 18)*
Capital stock, beginning of period	**$ 242,589**	$ 242,381
Exercise of stock options for cash	**2,697**	-
Amount previously expensed for stock options exercised	**2,139**	-
Capital stock, end of period	**$ 247,425**	$ 242,381
Contributed surplus, beginning of period	**$ 8,174**	$ 5,582
Share-based compensation	**1,330**	257
Amount previously expensed for stock options exercised	**(2,139)**	-
Contributed surplus, end of period	**$ 7,365**	$ 5,839
Retained earnings, beginning of period	**$ 19,273**	$ 26,185
Net loss and comprehensive loss	**(2,178)**	(396)
Retained earnings, end of period	**$ 17,095**	$ 25,789
Shareholders' equity, end of period	**$ 271,885**	$ 274,009

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

Statements of Cash Flows (Unaudited)

(thousands of Canadian dollars)

For the	Three months ended March 31 **2011**	2010
		(note 18)
Operating Activities		
Net loss and comprehensive loss	**$ (2,178)**	$ (396)
Depletion, depreciation and amortization	**4,564**	5,139
Share-based compensation	**1,330**	257
Write-off of exploration and evaluation assets	**140**	-
Deferred income tax recovery	**(292)**	(40)
Amortization of debt issue costs	**8**	21
	3,572	4,981
Decrease in non-cash operating working capital *(note 13)*	**1,445**	1,737
Cash provided by operating activities	**5,017**	6,718
Financing Activities		
Proceeds from capital stock issues	**2,697**	-
Other financing activities	**2**	-
Cash provided by financing activities	**2,699**	-
Investing Activities		
Property, plant and equipment expenditures	**(173)**	(4,394)
Exploration and evaluation expenditures	**(532)**	(257)
Decrease in restricted cash	**-**	1,000
Decrease (increase) in non-cash investing working capital *(note 13)*	**(67)**	2,246
Cash used in investing activities	**(772)**	(1,405)
Increase in cash and cash equivalents	**6,944**	5,313
Cash and cash equivalents, beginning of period	**865**	8,484
Cash and cash equivalents, end of period	**$ 7,809**	$ 13,797
Cash and cash equivalents consists of:		
Cash	**$ 7,789**	$ 8,027
Short-term investments	**20**	5,770
Cash and cash equivalents, end of period	**$ 7,809**	$ 13,797

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

Notes to the Unaudited Financial Statements
March 31, 2011

1. Nature of operations

Corridor Resources Inc. (“Corridor” or the “Company”) is an Eastern Canadian oil and gas 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 Suite 301, 5475 Spring Garden Road, Halifax, Nova Scotia, B3J 3T2.

2. Basis of presentation

These interim financial statements are the Company’s first financial statements reported under International Financial Reporting Standards (“IFRS”), having been prepared in accordance with International Accounting Standards (“IAS”) 34 – *Interim Financial Reporting* and IFRS 1 - *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”). These interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2010.

The preparation of the financial statements under IFRS has resulted in changes to the financial statements previously reported under Canadian generally accepted accounting principles (“GAAP”). Consequently, the unaudited Statement of Comprehensive Loss for the three months ended March 31, 2010 and the unaudited Statements of Financial Position as at January 1, 2010 and as at December 31, 2010 have been restated to comply with IFRS. Note 18 provides more information on the nature of these changes.

The timely preparation of financial statements in accordance with IFRS requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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

On June 13, 2011, the interim financials statements were approved by the Board of Directors and signed by the chair of the Audit Committee and the President and Chief Executive Officer.

3. Significant accounting policies

The financial statements have been prepared by management using the following IFRS accounting policies. The accounting policies have been applied consistently for all periods presented in these unaudited financial statements with the exception of the IFRS 1 exemptions applied by the Company, as disclosed in note 18.

a) Exploration and evaluation assets

Once the legal right to explore has been acquired, costs directly associated with an exploration activity are capitalized as exploration and evaluation intangible assets by licensed exploration area. Capitalized costs include lease acquisition costs, geological and geophysical expenses, the portion of general and administrative expenses directly related to exploration activities and costs of drilling both productive and non-productive wells. Costs are capitalized until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the determination of reserves is evaluated, and are then transferred to oil and gas properties after being assessed for impairment. Exploration and evaluation assets are assessed for impairment based on a technical, commercial and management review. When the Company believes that exploration and evaluation assets are no longer viable for future economic development the assets are derecognized.

3. Significant accounting policies (continued)

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

Exploration and evaluation assets are not depleted.

b) Oil and gas properties

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

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

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

c) Property, plant and equipment

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

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

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

Asset	Method	Basis
Buildings	Declining Balance	10%
Equipment and furniture	Declining Balance	20% - 30%
Computer hardware and software	Declining Balance	30% - 50%
Vehicles	Declining Balance	30%
Production facilities	Unit of Production	Proved reserves

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

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

d) Investment tax credits

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

3. Significant accounting policies (continued)

e) Impairment of non-financial assets

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

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

f) Jointly controlled assets

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

g) Intangible assets

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

h) Deferred financing costs

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

i) Financial assets and liabilities

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

i) Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash on hand, restricted cash and short-term investments with maturities of less than 90 days at acquisition. These are recorded at fair value with any gains or losses recognized in the Statement of Comprehensive Loss.

ii) Loans and receivables

Receivables have fixed or determinable payments and are included in current assets. Receivables are measured at amortized cost using the effective interest rate method, which generally corresponds to cost.

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

3. Significant accounting policies (continued)

iii) Other financial liabilities

The carrying values of accounts payable and accrued liabilities and obligations under finance lease approximate their fair values because of their short term to maturity or because the interest rate approximates market rates at the end of the year. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method, which generally corresponds to cost.

iv) Equity

Equity instruments issued by the Company are recorded based on the proceeds received, net of the related after-tax issue costs.

j) Provisions

i) General:

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

ii) Decommissioning provision:

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

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

k) Share-based compensation

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

l) Revenue recognition

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

3. Significant accounting policies (continued)

m) Current taxes

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

n) Deferred taxes

Deferred income tax is recorded using the liability method of accounting. Deferred income tax is recognized for the temporary differences between the tax basis and carrying value of assets and liabilities and is measured using the substantively enacted tax rates expected to be in effect when the deferred income tax liability is estimated to be settled. Changes in income tax rates that are substantively enacted are reflected in the accumulated deferred income tax balance in the period the change occurs. Deferred income tax assets and liabilities are presented as non-current. Deferred income tax relating to items recognized directly in equity is recognized in equity.

o) Flow-through common shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares whereby the related resource expenditure deductions normally available for income tax purposes are renounced to investors in accordance with flow-through share agreements. When the resource expenditure deductions are renounced a deferred income tax liability is recognized for the estimated tax benefits transferred to investors and capital stock is reduced net of the deferred income tax expense recognized. Deferred income tax expense is calculated for any premium received on the flow-through shares.

p) Earnings per share

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

q) Foreign currency translation

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

r) Leases

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

4. Critical judgments and accounting estimates

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

4. Critical judgments and accounting estimates (continued)

Recoverability of asset carrying values

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

Oil and gas reserves

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

Decommissioning liability

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

Income taxes

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

Share-based compensation

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

Contingencies

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

5. Earnings per share

For the three months ended March 31, 2011, stock options of 775 thousand (March 31, 2010 – 1,446 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 Financial Statements
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6. 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)

	Three months ended March 31	
	2011	2010
Loss before income taxes	**$ (2,470)**	$ (436)
Blended Canadian statutory income tax rate	**28.5%**	31.0%
Expected income tax recovery	**$ (704)**	$ (135)
Increase resulting from:		
Non-deductible share-based compensation	**379**	80
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**29**	9
Other	**4**	6
	$ (292)	$ (40)

7. Property, plant and equipment

(thousands of Canadian dollars)

	Oil and gas properties	**Production facilities**	**Inventory**	**Office and other assets**	**Total**
Cost					
Balance at January 1, 2010	$ 209,755	$ 71,779	$ 6,690	$ 2,598	$ 290,822
Additions	6,960	4,925	388	85	12,358
Disposals or sales	-	-	(848)	(18)	(866)
Changes in future abandonment costs	355	-	-	-	355
Investment tax credits	-	(488)	-	-	(488)
Transfers to exploration and evaluation assets	-	-	(945)	-	(945)
Balance at December 31, 2010	$ 217,070	$ 76,216	$ 5,285	$ 2,665	$ 301,236
Additions	89	80	-	4	173
Changes in future abandonment costs	(172)	-	-	-	(172)
Investment tax credits	-	(8)	-	-	(8)
Balance at March 31, 2011	**$ 216,987**	**$ 76,288**	**$ 5,285**	**$ 2,669**	**$ 301,229**
Accumulated depletion and depreciation					
Balance at January 1, 2010	$ 44,246	$ 12,456	$ -	$ 836	$ 57,538
Depletion or depreciation expense	14,717	3,729	-	256	18,702
Disposals	-	-	-	(4)	(4)
Balance at December 31, 2010	$ 58,963	$ 16,185	$ -	$ 1,088	$ 76,236
Depletion or depreciation expense	3,516	984	-	51	4,551
Balance at March 31, 2011	**$ 62,479**	**$ 17,169**	**$ -**	**$ 1,139**	**$ 80,787**
Net book value					
At January 1, 2010 *(note 18)*	$ 165,509	$ 59,323	$ 6,690	$ 1,762	$ 233,284
At December 31, 2010 *(note 18)*	$ 158,107	$ 60,031	$ 5,285	$ 1,577	$ 225,000
At March 31, 2011	**$ 154,508**	**$ 59,119**	**$ 5,285**	**$ 1,530**	**$ 220,442**

7. Property, plant and equipment (continued)

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $63,924 thousand for the three months ended March 31, 2011 (March 31, 2010 - $86,593 thousand). Costs of property, plant and equipment excluded from costs subject to depletion, depreciation and amortization amounted to $7,026 thousand at March 31, 2011 (March 31, 2010 - $3,773 thousand).

8. Exploration and evaluation assets

(thousands of Canadian dollars)

	March 31, 2011	December 31, 2010
Balance, beginning of period *(note 18)*	**$ 65,707**	$ 55,913
Additions	**532**	8,648
Transfers from inventory	**-**	945
Write-off of exploration and evaluation assets	**(140)**	-
Changes in future abandonment costs	**-**	201
Balance, end of period	**$ 66,099**	$ 65,707

9. Credit facility

Corridor has a $20 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 1.25% and the credit facility expires, subject to mutual agreement to extend, on July 30, 2011. 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, 2011, there was no amount drawn on the credit facility.

10. Decommissioning liability

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

(thousands of Canadian dollars)

	March 31 2011	December 31 2010
Balance, beginning of period *(note 18)*	**$ 4,482**	$ 3,772
Liabilities incurred	**-**	344
Change in discount rate	**(172)**	311
Change in estimate	**-**	30
Liabilities settled	**-**	(130)
Finance costs	**39**	155
Balance, end of period	**$ 4,349**	$ 4,482

The total undiscounted amount of estimated cash flows required to settle these obligations is $10,488 thousand (December 31, 2010 - $10,488 thousand). Management estimates the settlement of these obligations between 2013 and 2035. A risk-free rate of 3.89% (December 31, 2010 – 3.68%) and an inflation rate of 2% (December 31, 2010 – 2%) was used to calculate the estimated fair value of the decommissioning liability.

11. Capital stock

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

b) Issued and outstanding

(thousands of Canadian dollars and thousands of shares)

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of period *(note 18)*	**87,815**	**$ 242,589**	87,767	$ 242,381
Exercise of stock options for cash and	**632**	**2,697**	48	125
amount recognized from contributed surplus	**-**	**2,139**	-	83
Balance, end of period	**88,447**	**$ 247,425**	87,815	$ 242,589

12. 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, 2011		December 31, 2010	
	Number of options (000's)	**Weighted average exercise price**	Number of options (000's)	Weighted average exercise price
Outstanding at the beginning of period	**4,989**	**$ 4.95**	2,299	$ 4.58
Exercised	**(632)**	**$ 4.27**	(48)	$ 2.58
Forfeited	**-**	**-**	(48)	$ 4.87
Granted	**-**	**-**	2,786	$ 5.21
Outstanding at the end of period	**4,357**	**$ 5.05**	4,989	$ 4.95
Options exercisable, end of period	**1,235**	**$ 5.60**	1,859	$ 5.16

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

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

For the three months ended March 31, 2011, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of $1,330 thousand (March 31, 2010 - $257 thousand).

12. Share-based compensation (continued)

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

	Outstanding options			Exercisable options	
Exercise prices	Number of options outstanding (000's)	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable (000's)	Weighted average exercise price
$ 1.00 - $ 2.99	716	3.28	$ 2.56	184	$ 2.56
$ 3.00 - $ 4.99	38	1.67	$ 4.67	27	$ 4.65
$ 5.00 - $ 5.99	3,286	3.85	$ 5.25	758	$ 5.38
$ 6.00 - $ 6.99	109	2.01	$ 6.80	107	$ 6.80
$ 7.00 - $10.99	208	2.11	$ 9.54	159	$ 9.54
	4,357	3.60	$ 5.05	1,235	$ 5.60

13. Supplemental cash flow information

(thousands of Canadian dollars)

	Three months ended March 31	
	2011	2010
Change in non-cash operating working capital:		
Receivables	**$ 2,594**	$ 2,582
Prepaids and security deposits	**(409)**	(376)
Accounts payable and accrued liabilities	**(739)**	(513)
Capital taxes receivable	**(1)**	44
	$ 1,445	$ 1,737
Change in non-cash investing working capital:		
Receivables	**$ 613**	$ 1,270
Inventory	**-**	161
Accounts payable and accrued liabilities	**(680)**	815
	$ (67)	$ 2,246
Interest and taxes paid:		
Interest paid	**$ 24**	$ 25
Capital and other taxes paid	**$ 24**	$ 28

14. 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.

14. Risk management (continued)

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

(thousands of U.S. dollars)

	March 31, 2011	December 31, 2010
Cash	**$ 2,083**	$ 2
Receivables	**1,475**	3,190
Financial instruments in U.S. dollars	**$ 3,558**	$ 3,192

At March 31, 2011, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately $100 thousand (March 31, 2010 – $200 thousand) in the Company's net loss due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately $100 thousand (March 31, 2010 – $200 thousand) in the Company's net loss.

iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At March 31, 2011, the Company was holding cash and cash equivalents of $7,809 thousand and had $20 million available from its revolving credit facility. The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependant on the Company's petroleum and natural gas reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the current approved borrowing base of $26 million has declined below the credit facility limit of $20 million, the lender can recalculate the Company's borrowing base and could, as a result, decrease the credit currently available to the Company.

Given the Company's available liquid resources and the Company's 2011 budget, management expects to have sufficient available funds to meet the current and foreseeable financial contractual obligations, as disclosed in the Company's December 31, 2010 audited financial statements.

iv) Credit risk

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

The cash equivalents consist mainly of guaranteed investment certificates held with reputable financial institutions. None of the cash equivalents are in asset-backed commercial paper products. Management believes the risk of loss is low.

b) Management of capital

Management's objective when managing capital is to provide an adequate return to its shareholders and to safeguard the Company's ability to obtain financing and have access to capital. In the management of capital, the Company includes shareholders' equity, its credit facility as well as cash and cash equivalents.

To facilitate the management of its capital structure the Company prepares annual expenditure and operating budgets that are updated as necessary depending on success factors, industry conditions and operating cash flow. These annual and updated budgets are approved by the Board of Directors. Corridor has the ability to adjust its capital structure by making modifications to its capital expenditure program. To maximize ongoing development and exploration activities, the Company will not pay out dividends during the year.

15. 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, 2011 and March 31, 2010, no legal expenses are included in general and administrative expenses. At March 31, 2011, no amount was included in accounts payable and accrued liabilities (December 31, 2010 - $240 thousand). The amounts paid are recorded at the amount agreed to between the parties which management believes is representative of fair value.

16. Commitments and contingency

a) Transportation and gas sales

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

b) Contingency

Since Q4 2008, the Company has been undergoing an audit by the New Brunswick Department of Finance ("DOF") for the periods from April 2003 to October 2009 in connection with the Company's crown royalty payments. The Company has received a proposed Notice of Debt by the DOF, which the Company is in the process of challenging with the help of expert advisors. While the amount assessed is material, the settlement of this claim is not reasonably determinable. The Company has not made a provision for any of the amount identified in the DOF's proposed reassessment as the Company believes its position on this matter to be valid.

17. Subsequent events

On May 6, 2011, 1.2 million stock options were surrendered for no consideration. As a result, share-based compensation expense will decrease by approximately $1 million subsequent to the quarter end. In addition, on June 7, 2011, the substantially enacted income tax rates in New Brunswick changed following the Province's 2011-2012 budget. As a result, the Company will recognize a deferred income tax expense of approximately $1 million in Q2 2011.

18. First time adoption of IFRS

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

1) First time adoption

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

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

Notes to the Unaudited Financial Statements
March 31, 2011

18. First time adoption of IFRS (continued)

2) Reconciliations

Reconciliation of Balance Sheet at January 1, 2010

(thousands of Canadian dollars)

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

18. First time adoption of IFRS (continued)

Reconciliation of Statement of Comprehensive Loss
Three months ended March 31, 2010

(thousands of Canadian dollars)

	GAAP	Effects of transition to IFRS	IFRS
Revenues	$ 9,648	-	$ 9,648
Royalty expense	(292)	-	(292)
Revenues, net	9,356	-	9,356
Expenses			
Depletion, depreciation and amortization *(g)*	6,022	(883)	5,139
Transportation expense	1,837	-	1,837
Production expense *(d)*	919	311	1,230
General and administrative	1,126	-	1,126
Share-based compensation *(h)*	160	97	257
Capital tax expense	72	-	72
	10,136	(475)	9,661
Earnings (loss) before the following items	(780)	475	(305)
Interest and finance costs *(e)*	55	36	91
Foreign exchange losses	57	-	57
Interest and other income	(17)	-	(17)
Earnings (loss) before income taxes	(875)	439	(436)
Deferred income tax expense (recovery) *(i)*	(180)	140	(40)
Net earnings (loss), being comprehensive income (loss)	$ (695)	$ 299	$ (396)

Reconciliation of Statement of Changes in Shareholders' Equity
Three months ended March 31, 2010

(thousands of Canadian dollars)

	GAAP	Effects of transition to IFRS	IFRS
Capital stock at March 31, 2010	$ 242,381	$ -	$ 242,381
Contributed surplus at January 1, 2010	$5,148	$ 434	$ 5,582
Share-based compensation expense *(h)*	160	97	257
Contributed surplus at March 31, 2010	$ 5,308	$ 531	$ 5,839
Retained earnings at January 1, 2010	$ 22,489	$ 3,696	$ 26,185
Net earnings (loss), being comprehensive income (loss)	(695)	299	(396)
Retained earnings at March 31, 2010	$ 21,794	$ 3,995	$ 25,789
Shareholders equity at March 31, 2010	$ 269,483	$ 4,526	$ 274,009

Notes to the Unaudited Financial Statements
March 31, 2011

18. First time adoption of IFRS (continued)

Reconciliation of Balance Sheet
As at December 31, 2010

(thousands of Canadian dollars)

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

Notes to the Unaudited Financial Statements
March 31, 2011

18. First time adoption of IFRS (continued)

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

(thousands of Canadian dollars)

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

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

(thousands of Canadian dollars)

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

Notes to the Unaudited Financial Statements
March 31, 2011

18. First time adoption of IFRS (continued)

3) Explanation of IFRS adjustments

(a) Exploration and evaluation assets

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

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

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

(b) Depletion

Consistent with GAAP, the Company will continue to calculate depletion expense using the unit-of-production method based on estimated proved natural gas reserves. However E&E assets, which were accumulated in the country cost centre and depleted by the Company under GAAP, will not be depleted under IFRS. As a result, PP&E and retained earnings increased by $11,346 thousand at January 1, 2010 and $14,927 thousand at December 31, 2010. Consequently, depletion, depreciation and amortization expense decreased by $840 thousand for the three months ended March 31, 2010 and $3,560 thousand for the year ended December 31, 2010.

(c) Sale of assets

Under GAAP, proceeds from the sale of petroleum and natural gas properties were deducted from capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion. Under IFRS, gains or losses on the disposition of assets are recognized in the Statement of Comprehensive Loss. As a result of this difference and the resulting impact on depletion expense, PP&E and retained earnings decreased by $377 thousand at January 1, 2010 and $366 thousand at December 31, 2010 and depletion, depreciation and amortization expense decreased by $20 thousand for the three months ended March 31, 2010 and $11 thousand for the year ended December 31, 2010.

(d) Work-overs

Under GAAP, work-over activities were capitalized by the Company and depleted along with the related asset if the work resulted in an increase in the productive life of the well. Under IFRS, work-over activities are also capitalized if the work results in an increase in the productive life but are only amortized until the next scheduled work-over activity. As a result of this difference and the resulting impact on depletion expense, the net book value of capitalized work-over activities in the amount of $311 thousand for the three months ended March 31, 2010 and $302 thousand for the year ended December 31, 2010, was removed from PP&E and included in production expenses. As a result, depletion, depreciation and amortization expense decreased by $5 thousand for the three months ended March 31, 2010 and $20 thousand for the year ended December 31, 2010.

18. First time adoption of IFRS (continued)

(e) Decommissioning

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

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

The higher future abandonment costs balance resulted in an increase in the depletion, depreciation and amortization expense of $13 thousand for the three months ended March 31, 2010 and $63 thousand for the year ended December 31, 2010.

The higher decommissioning liability balance resulted in an increase in accretion of $5 thousand for the three months ended March 31, 2010 and $39 thousand for the year ended December 31, 2010. Accretion is recorded as a finance cost under IFRS. As a result, accretion expense previously recorded under GAAP of $31 thousand for the three months ended March 31, 2010 and $116 thousand for the year ended December 31, 2010 was reclassified from depletion, depreciation and amortization expense to finance costs.

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

(thousands of Canadian dollars)

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

(f) PP&E

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

(thousands of Canadian dollars)

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

18. First time adoption of IFRS (continued)

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

(g) Depletion, depreciation and amortization ("DD&A")

The following summarizes the decreases (increases) to DD&A caused by the transition to IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010:

(thousands of Canadian dollars)

	Year ended December 31, 2010	Three months ended March 31, 2010
Exploration and evaluation assets not amortized *(b)*	$ 3,560	$ 840
Decrease in PP&E balance *(c&d)*	31	25
Increase in future abandonment costs *(e)*	(63)	(13)
Reclassification of accretion expense to finance costs *(e)*	116	31
Decrease in DD&A	$ 3,644	$ 883

(h) Stock based compensation

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

At January 1, 2010, this difference resulted in an increase to contributed surplus of $434 thousand with a corresponding decrease to retained earnings. In addition, share-based compensation expense increased by $97 thousand for the three months ended March 31, 2010 and $665 thousand for the year ended December 31, 2010 with a corresponding increase to contributed surplus. Accordingly, contributed surplus increased by $1,093 thousand at December 31, 2010.

(i) Deferred income tax

The effects of the transition to IFRS on PP&E and E&E assets resulted in an increase in the deferred income tax liability and a corresponding decrease in retained earnings of $1,735 thousand at January 1, 2010. The decrease in the Company's net loss for the three months ended March 31, 2010 and the year ended December 31, 2010 resulted in a decrease in the deferred income tax recovery of $140 thousand and $829 thousand respectively. Accordingly, the deferred income tax liability increased by $2,565 thousand at December 31, 2010.

(j) Statement of cash flows

The effects of the transition to IFRS on the Statements of Financial Position, Statements of Comprehensive Loss and Statements of Changes in Shareholders' Equity have resulted in reclassifications and adjustments of various amounts on the Statements of Cash Flow, however, as there have been no changes to the net cash flow, no reconciliation has been presented.