Second Quarter 2012
Management's Discussion and Analysis

As of August 14, 2012

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the three and six months ended June 30, 2012 should be read in conjunction with Corridor's unaudited condensed financial statements and notes thereto for the three and six months ended June 30, 2012, audited financial statements and notes thereto for the year ended December 31, 2011 and the MD&A for the year ended December 31, 2011 ("2011 Annual MD&A"), copies of which are available on the Company's website at www.corridor.ca and through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All amounts referred to in this MD&A are in Canadian dollars unless otherwise stated.

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

Introduction

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

Selected Financial Information

	Three months ended June 30		Six months ended June 30	
thousands of dollars except per share amounts	**2012**	2011	**2012**	2011
Total sales	**$ 2,708**	$ 5,547	**$ 6,864**	$ 13,571
Net loss	**$ (2,435)**	$ (3,643)	**$ (4,089)**	$ (5,821)
Net loss per share - basic and diluted	**$ (0.028)**	$ (0.041)	**$ (0.046)**	$ (0.066)
Cash flow from operations[(1)]	**$ 104**	$ 1,942	**$ 1,394**	$ 5,514
Capital expenditures	**$ 853**	$ 873	**$ 1,640**	$ 1,578
Total assets	**$ 199,345**	$ 296,928	**$ 199,345**	$ 296,928

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

Non-IFRS Financial Measures

This MD&A refers to "cash flow from operations" which is a financial measure that is not determined in accordance with IFRS. This measure does not have a standardized meaning and may not be comparable to similar measures presented by other companies. "Cash flow from operations" is used by the Company to analyse operating performance, leverage and liquidity and is included in this MD&A because it is believed to facilitate the understanding of the results of Corridor's operations and financial position. Cash flow from operations represents cash provided by operating activities excluding the change in non-cash operating working capital, as follows:

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Cash provided by operating activities	**$ 119**	$ 2,488	**$ 2,274**	$ 7,505
Less: Decrease in non-cash operating working capital	**15**	546	**880**	1,991
Cash flow from operations	**$ 104**	$ 1,942	**$ 1,394**	$ 5,514

Forward Looking Information

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

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

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

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

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

Certain of the forward-looking statements in this MD&A may constitute "financial outlooks" as contemplated by National Instrument 51-102 *Disclosure Obligations*, including information related to projected revenues, expenses, capital expenditures and production for 2012, which are provided for the purpose of forecasting the financial position of Corridor at the end of the

2012 financial year. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

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

Outlook Information

The outlook sections of this MD&A contain revisions to the outlook information disclosed in the First Quarter 2012 MD&A dated May 14, 2012.

Q2 2012 Financial Summary

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Sales	**$ 2,708**	$ 5,547	**$ 6,864**	$ 13,571
Royalty expense	**-**	(127)	**(8)**	(456)
Revenues, net	**2,708**	5,420	**6,856**	13,115
Expenses				
Depletion, depreciation and amortization	**2,782**	4,267	**5,793**	8,831
Transportation expense	**1,018**	1,359	**2,114**	3,050
Production expense	**706**	1,103	**1,501**	2,218
General and administrative expenses	**841**	964	**1,732**	2,094
Share-based compensation expense (recovery)	**477**	(119)	**860**	1,211
Write-down of inventory	**-**	1,600	**-**	1,600
Write-off (recovery) of exploration and evaluation assets	**-**	-	**(14)**	140
Capital tax expense	**7**	27	**20**	54
	5,831	9,201	**12,006**	19,198
Loss before the following items	**(3,123)**	(3,781)	**(5,150)**	(6,083)
Interest and finance costs	**68**	79	**133**	158
Foreign exchange losses (gains)	**(5)**	(8)	**38**	99
Interest and other income	**(28)**	(38)	**(48)**	(56)
Loss before income taxes	**(3,158)**	(3,814)	**(5,273)**	(6,284)
Deferred income tax recovery	**(723)**	(171)	**(1,184)**	(463)
Net loss and comprehensive loss	**$ (2,435)**	$ (3,643)	**$ (4,089)**	$ (5,821)

Second Quarter Summary

- Natural gas sales for Q2 2012 decreased to $2,361 thousand from $5,155 thousand for Q2 2011 due to the decrease in the average natural gas sales price to $2.86/mscf in Q2 2012 from $4.83/mscf in Q2 2011 and the decrease in the average daily natural gas production to 9.1 mmscfpd in Q2 2012 from 11.7 mmscfpd in Q2 2011. During the quarter, natural gas prices at Henry Hub dropped below US$2.00/mmbtu which resulted in Corridor's decision to shut-in four McCully wells during May and June with a gross average lost daily production of approximately 1 mmscfpd. Corridor expects to resume production of these wells late in Q3 2012. Premiums at Dracut remained strong and averaged US$1.00/mmbtu for the six months ended June 30, 2012. Natural gas prices at Henry Hub and Dracut began to increase towards the latter half of June 2012 averaging over US$4.00/mmbtu at Dracut during this period.

- Despite low natural gas prices in Q2 2012, Corridor had cash flow from operations of $104 thousand. Cash flow from operations decreased from $1,942 thousand in Q2 2011 due to lower natural gas sales partially offset by lower transportation, production and general and administrative expenses. Corridor had cash and cash equivalents as at June 30, 2012 of $7,958 thousand, working capital of $9,350 thousand and no outstanding debt.

- Net loss for Q2 2012 decreased to $2,435 thousand from $3,643 thousand for Q2 2011 as the decrease in expenses, including transportation, production, depletion and write-down of inventory offset the lower natural gas revenues.

Results of Operations

Sales

thousands of dollars	Three months ended June 30 **2012**	2011	Six months ended June 30 **2012**	2011
Natural gas	**$ 2,361**	$ 5,155	**$ 6,125**	$ 12,861
Condensate	**70**	115	**154**	209
Natural gas and gas liquids sales	**$ 2,431**	$ 5,270	**$ 6,279**	$ 13,070
Oil recovered from testing	**-**	54	**-**	54
Gathering, processing & transportation fees	**277**	223	**585**	447
	$ 2,708	$ 5,547	**$ 6,864**	$ 13,571

Production volumes and pricing

	Three months ended June 30 **2012**	2011	Six months ended June 30 **2012**	2011
Total volumes				
Natural gas production (mmscf)	**826**	1,067	**1,730**	2,208
Condensate production (bbl)	**665**	1,058	**1,410**	2,009
Daily production averages				
Natural gas production per day (mmscfpd)	**9.1**	11.7	**9.5**	12.2
Condensate production per day (bblpd)	**7.3**	11.6	**7.7**	11.1
Average prices				
Natural gas selling price ($/mscf)	**$ 2.86**	$ 4.83	**$ 3.54**	$ 5.82
Condensate selling price ($/bbl)	**$ 105.11**	$ 108.70	**$ 109.43**	$ 104.03

Natural gas sales decreased to $2,361 thousand in Q2 2012 from $5,155 thousand in Q2 2011 due to the decrease in the average natural gas sales price to $2.86/mscf in Q2 2012 from $4.83/mscf in Q2 2011 and the decrease in the average daily natural gas production to 9.1 mmscfpd in Q2 2012 from 11.7 mmscfpd in Q2 2011.

Natural gas sales decreased for the six months ended June 30, 2012 to $6,125 thousand from $12,861 thousand for the six months ended June 30, 2011 due to a decrease in the average daily natural gas production and the average natural gas sales price. The average natural gas sales price realized decreased to $3.54/mscf for the six months ended June 30, 2012 from $5.82/mscf for the six months ended June 30, 2011 due to record low natural gas sales prices at Henry Hub with prices dropping below US$2.00/mmbtu. As a result, Corridor decided to shut-in four McCully wells during May and June resulting in a gross average lost daily production of approximately 1 mmscfpd. Premiums at Dracut remained strong and averaged US$1.00/mmbtu for the six months ended June 30, 2012. Natural gas prices at Henry Hub and Dracut began to increase towards the latter half of June 2012 averaging over US$4.00/mmbtu at Dracut during this period. The decrease in the average daily natural gas production to 9.5 mmscfpd for the six months ended June 30, 2012 from 12.2 mmscfpd for the six months ended June 30, 2011 is also due to the Company's decision to decrease drilling activities at the McCully Field since 2009 following decreases in natural gas prices.

Revenues for Q2 2012 were higher than anticipated by almost $400 thousand due to the higher than expected average natural gas sales price in June. Natural gas production for Q2 2012 was also higher than the anticipated natural gas production of 8.3 mmscfpd as Corridor's annual shut-down planned for Q2 2012 was rescheduled to Q3 2012 to take advantage of the higher than expected natural gas prices in June. In addition, the shut-in of 1 mmscfpd of gross average natural gas production during May and June was lower than expected due to the higher natural gas prices.

Outlook

Corridor has increased its forecast for revenues for 2012 from approximately $13 million to $14 million to reflect the higher than expected natural gas sales in Q2 2012 and an increase in the future estimated average natural gas sales price for 2012. Corridor has increased its forecast average natural gas sales price for 2012 from $3.55/mscf to $3.70/mscf (consisting of US$2.68/mmbtu at Henry Hub, a premium at Dracut of US$0.78/mmbtu and an estimate of the exchange rate at $0.98 U.S. per Canadian dollar). Corridor has also increased its forecast average net daily natural gas production for 2012 from 9.0 mmscfpd to 9.1 mmscfpd.

Gathering, processing and transportation fees

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Gathering, processing and transportation fees	**$ 277**	$ 223	**$ 585**	$ 447

Corridor owns the midstream facilities which process and transport gas from the McCully Field to the Maritimes and Northeast Pipeline ("M&NP"). Third party gas flowing through these facilities, which currently is limited to Potash Corporation of Saskatchewan's ("PCS") share of gas from the McCully Field, is charged a cost of service, the terms of which were amended in 2011. The increase in the gathering, processing and transportation ("GPT") fees to $277 thousand in Q2 2012 from $223 thousand in Q2 2011 and to $585 thousand for the six months ended June 30, 2012 from $447 thousand for the six months ended June 30, 2011 is due to the amendment of the terms of the cost of service calculation in 2011 which results in increased GPT fees.

Outlook

Corridor maintains its 2012 budget for GPT fees from PCS' share of production of $1,000 thousand based on an average estimated gross daily gas production of 12 mmscfpd for 2012.

Royalty Expense

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Crown royalties	**-**	$ 127	**$ 8**	$ 456
Royalty expense per mscf ($/mscf)	**-**	$ 0.12	**$ -**	$ 0.21
Percentage of natural gas and gas liquids revenues	**-**	2.4%	**0.1%**	3.5%

Corridor's royalty payments are currently based on a royalty rate of 10% calculated on the net amount of revenues after deductions for processing and transportation and a recovery of capital costs. The decrease in the royalty expense per mscf for the three and six months ended June 30, 2012 to nil from $0.12/mscf and $0.21/mscf for the three and six months ended June 30, 2011, respectively, is due to the significant decrease in the natural gas sales resulting from low natural gas prices and lower production in 2012, while the deductions allowable in the royalty calculation did not decrease significantly.

Outlook

The Company maintains its effective royalty rate for 2012 of approximately 0.5%.

While the Company reached a settlement in 2011 with the New Brunswick Department of Finance in respect of royalty payments for the periods from April 2003 to October 2009, negotiations are still ongoing relating to the calculation of the royalty payments for the periods subsequent to October 2009. The Company has not made any provision for additional royalty payments as the royalty amounts payable during this period were based on management's best estimate.

Transportation Expense

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Transportation expense	**$ 1,018**	$ 1,359	**$ 2,114**	$ 3,050
Transportation expense per mscf ($/mscf)	**$ 1.23**	$ 1.27	**$ 1.22**	$ 1.38

Transportation expense decreased to $1,018 thousand for Q2 2012 from $1,359 thousand for Q2 2011 and to $2,114 thousand for the six months ended June 30, 2012 from $3,050 thousand for the six months ended June 30, 2011 due to the decrease in natural gas production and a decrease of $0.06/mmbtu in the cost of the firm transportation toll on the Canadian side of the M&NP effective January 1, 2012. For the six months ended June 30, 2012, the decrease was also due to Corridor not having a transportation agreement in place during Q1 2011. Corridor entered into a transportation agreement on April 1, 2011 to purchase 12,000 mmbtu per day of transportation on the Canadian side of the M&NP until March 31, 2012 at a cost significantly lower than firm tolls.

Transportation expense for Q2 2012 was higher than the latest forecast of $1.19/mscf as Corridor paid a higher transportation rate for the additional production of natural gas in Q2 2012 as these volumes were not covered by Corridor's current firm transportation volume of 8,000 mmbtupd effective April 1, 2012 to March 31, 2013.

Outlook
Corridor has increased its transportation expense estimate for 2012 from $1.19/mscf to $1.22/mscf to reflect the higher than expected transportation expense incurred in the six months ended June 30, 2012 and the increase in the estimated average net daily natural gas production for 2012 from 9.0 mmscfpd to 9.1 mmscfpd.

Production Expense

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Gross production expense	**$ 834**	$ 1,240	**$ 1,759**	$ 2,494
Third party recoveries	**(128)**	(137)	**(258)**	(276)
Net production expense	**$ 706**	$ 1,103	**$ 1,501**	$ 2,218
Net production expense per mscf ($/mscf)	**$ 0.85**	$ 1.03	**$ 0.87**	$ 1.00

Gross production expense for Q2 2012 decreased to $834 thousand from $1,240 thousand in Q2 2011 and to $1,759 thousand for the six months ended June 30, 2012 from $2,494 thousand for the six months ended June 30, 2011 due to the decrease in work-over activities in 2012 and the decrease in repairs and maintenance expenses as Corridor's annual shut-down was completed in the second quarter of 2011 but this year will be completed in the third quarter. The decreased production expenses were also due to a decrease in utilities expense resulting from modifications made to Corridor's compressor in Q2 2011, which were successful in reducing energy costs subsequent to that date.

Net production expense per mscf of $0.85/mscf in Q2 2012 is lower than Corridor's previous expectation of $1.12/mscf for 2012 due to lower than expected repairs and maintenance expenses as Corridor's annual shut-down originally planned for Q2 2012 was rescheduled to Q3 2012 to take advantage of higher expected natural gas prices during the summer months.

Outlook
Corridor has decreased its production expense estimate for 2012 from $1.12/mscf to $1.06/mscf to reflect lower production expenses for the six months ended June 30, 2012 and the increase in the estimated average net daily natural gas production for 2012 from 9.0 mmscfpd to 9.1 mmscfpd.

Depletion, Depreciation and Amortization

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Depletion, depreciation and amortization	**$ 2,782**	$ 4,267	**$ 5,793**	$ 8,831
Depletion, depreciation and amortization per mscf ($/mscf)	**$ 3.83**	$ 4.49	**$ 3.79**	$ 4.49

Depletion expense is calculated using the unit-of-production method which is based on production volumes (excluding penalty wells) in relation to the proved reserve base. The decrease in depletion, depreciation and amortization ("DD&A") expense for the three and six months ended June 30, 2012 is primarily due to the decrease in natural gas production compared to the three and six months ended June 30, 2011 and the decrease in the net book value of the depletion asset base following the Q4 2011 impairment charge of $51,967 thousand.

The DD&A rate per mscf of $3.83/mscf for Q2 2012 is higher than Corridor's previous expectation of $3.60/mscf for 2012 due in part to the higher natural gas production in Q2 2012.

Outlook
Corridor has increased its DD&A rate estimate for 2012 from $3.60/mscf to $3.75/mscf to reflect the higher than expected DD&A expense for the six months ended June 30, 2012 and the increase in the estimated average net daily natural gas production for 2012 from 9.0 mmscfpd to 9.1 mmscfpd.

General and Administrative Expenses

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Gross expenses	**$ 921**	$ 1,109	**$ 1,916**	$ 2,381
Capitalized overhead	**(80)**	(144)	**(178)**	(285)
Operator recoveries	**-**	(1)	**(6)**	(2)
Net expenses	**$ 841**	$ 964	**$ 1,732**	$ 2,094

Gross general and administrative expenses ("G&A") decreased to $921 thousand in Q2 2012 from $1,109 thousand during Q2 2011 and to $1,916 thousand for the six months ended June 30, 2012 from $2,381 thousand for the six months ended June 30, 2011 due to a decrease in the use of consultants in 2012 and the reduced number of employees of Corridor, reflecting management's commitment to lower G&A expenses during this time of lower natural gas prices. Capitalized overhead decreased for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011 due to a reduction in internal activity relating to the Old Harry capital program.

Outlook

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

Share-based Compensation

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Share-based compensation	**$ 477**	$ (119)	**$ 860**	$ 1,211

In Q2 2011, the directors surrendered 1,200 thousand stock options which resulted in a reversal of approximately $1,200 thousand of previously expensed share-based compensation. As a result, share based compensation for Q2 2011 was a recovery of $119 thousand compared to an expense of $477 thousand for Q2 2012. The decrease in share-based compensation expense to $860 thousand for the six months ended June 30, 2012 from $1,211 thousand for the six months ended June 30, 2011 is due to the reduced level of stock options being granted in the immediately preceding years and a reduced number of employees. In Q4 2011, stock options of 1,112 thousand were granted while late in Q3 2010, Corridor had granted 2,786 thousand stock options.

Outlook

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

Deferred Income Taxes

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2012**	2011	**2012**	2011
Deferred income tax recovery	**$ (723)**	$ (171)	**$ (1,184)**	$ (463)
Effective tax rate	**22.9%**	4.5%	**22.5%**	7.4%
Canadian statutory income tax rate	**26.75%**	28.5%	**26.75%**	28.5%

The increase in the effective tax rate for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011 is due to $850 thousand of deferred income tax expense being recognized in Q2 2011 following an increase in the Company's deferred income tax rate from 26% to 27% resulting from an increase in New Brunswick's corporate income tax rates effective July 1, 2012. The effective tax rates were also impacted by share-based compensation 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 for the foreseeable future.

Write-off of Assets

Corridor had no write-offs in 2012. However, in the six months ended June 30, 2012, Corridor recognized $14 thousand of credits relating to an exploration and evaluation project, the costs of which were previously written-off in Q4 2011.

In the six months ended June 30, 2011, the Company determined to sell excess casing inventory and, as a result, wrote-down inventory by $1,600 thousand to reflect the decrease in the net realizable value. Corridor also wrote-off $140 thousand of exploration and evaluation expenditures relating to costs incurred on a potential natural gas storage project located in Salt Springs, New Brunswick. Since these licenses expired on March 7, 2011, and were not renewed by New Brunswick's Department of Natural Resources, previously capitalized costs were written-off.

Statement of Financial Position Changes

Significant changes between Corridor's June 30, 2012 Statement of financial position and its December 31, 2011 Statement of financial position include:

- $1,562 thousand increase in cash and cash equivalents and $1,500 thousand decrease in restricted cash, primarily reflecting the expiry of a letter of credit guarantee in connection with a drilling rig agreement.
- $2,065 thousand decrease in receivables, primarily reflecting the decrease in natural gas prices in June 2012 compared to December 2011 and higher GPT fees receivable in Q4 2011 due to the amendment of the terms of the GPT agreement.
- $1,701 thousand decrease in accounts payable and accrued liabilities, reflecting decreased capital expenditures in Q2 2012 compared to Q4 2011.

Capital Expenditures

	Three months ended June 30		**Six months ended June 30**	
thousands of dollars	**2012**	2011	**2012**	2011
Exploration activities	**$ 727**	$ 544	**$ 1,309**	$ 935
Development activities	**(9)**	160	**38**	249
Production facilities	**34**	24	**90**	104
Capitalized overhead	**80**	144	**178**	285
Office and other equipment	**21**	1	**25**	5
	$ 853	$ 873	**$ 1,640**	$ 1,578

Capital expenditures for the three and six months ended June 30, 2012 are consistent when compared to the same prior period due to the Company's decision since 2009 to reduce capital expenditures following decreases in natural gas prices.

Capital Expenditures Outlook

Corridor has increased its 2012 capital budget by $500 thousand to approximately $2,000 thousand to reflect higher capital expenditures incurred in the six months ended June 30, 2012. At this time, the only items included in the 2012 capital budget consist of the testing of the Green Road B-41 shale gas well near Elgin, New Brunswick, gas plant maintenance and corporate expenditures. However, Corridor's board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

Cash Flow Summary

	Three months ended June 30		**Six months ended June 30**	
thousands of dollars	**2012**	2011	**2012**	2011
Cash provided by operating activities	**$ 119**	$ 2,488	**$ 2,274**	$ 7,505
Cash provided by financing activities	**44**	43	**79**	2,742
Cash used in investing activities	**26**	(1,170)	**(791)**	(1,942)
Increase in cash and cash equivalents	**$ 189**	$ 1,361	**$ 1,562**	$ 8,305

The decrease in cash provided by operating activities for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011 is primarily the result of the decrease in natural gas revenues resulting from the decreased natural gas prices and production.

The decrease in cash provided by financing activities for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 reflects the exercise of 649 thousand stock options in the first quarter of 2011. No financing activities took place in 2012.

Cash used in investing activities has decreased for the three and six months ended June 30, 2012 as a result of the decrease in capital spending.

Outlook

Corridor has increased its forecasted 2012 cash flow from operations from $1,500 thousand to $2,500 thousand to reflect the increase in the 2012 forecast natural gas sales. Corridor has increased its forecast average natural gas sales price for 2012 from $3.55/mscf to $3.70/mscf (consisting of US$2.68/mmbtu at Henry Hub, a premium at Dracut of US$0.78/mmbtu and an estimate of the exchange rate at $0.98 U.S. per Canadian dollar). Corridor has also increased its forecast average net daily gas production for 2012 from 9 mmscfpd to 9.1 mmscfpd.

Based on available working capital of $9.5 million at December 31, 2011 and Corridor's current capital budget of approximately $2.0 million, Corridor is forecasting a net positive working capital of approximately $10 million at December 31, 2012 with no outstanding debt. However, Corridor's board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor's prospects.

Related Party Transactions

A director of Corridor is a partner in a law firm that provides legal services to the Company which amounted to $39 thousand for the three and six months ended June 30, 2012 (three and six months ended June 30, 2011 - nil). The amounts paid are recorded at the amount agreed to between parties and approximate fair value.

Summary of Quarterly Information

	2012		2011				2010	
thousands of dollars, except per share amounts and average natural gas price	Three months ended		Three months ended				Three months ended	
	Jun. 30	Mar. 31	Dec. 31	Sep. 30	**Jun. 30**	Mar. 31	Dec. 31	Sep. 30
Natural gas sales	**$ 2,361**	$ 3,764	$ 4,194	$ 4,722	**$ 5,155**	$ 7,706	$ 7,024	$ 5,021
Net loss	**$ (2,435)**	$ (1,654)	$ (71,416)	$ (2,348)	**$ (3,643)**	$ (2,178)	$ (3,038)	$ (1,739)
Net loss per share - basic and diluted	**$ (0.028)**	$ (0.019)	$ (0.807)	$ (0.027)	**$ (0.041)**	$ (0.025)	$ (0.034)	$ (0.020)
Natural gas production (mmscf)	**826**	904	985	1,020	**1,067**	1,141	1,223	1,012
Average natural gas price ($/mscf)	**$ 2.86**	$ 4.16	$ 4.26	$ 4.63	**$ 4.83**	$ 6.75	$ 5.74	$ 4.96
Capital expenditures	**$ 853**	$ 787	$ 4,383	$ 2,990	**$ 873**	$ 705	$ 1,840	$ 6,834

The decrease in Corridor's natural gas sales and cash flow from operations in 2011 and 2012 is primarily the result of the decrease in the average natural gas sales price from as high as $11.21/mscf for the year ended December 31, 2008 to as low as $2.86/mscf in the three months ended June 30, 2012. In response to these lower prices, Corridor has decreased drilling activities at the McCully Field since Q2 2009, which has resulted in reduced capital expenditures, natural gas production and natural gas sales.

Outstanding Share Information

As of July 31, 2012, the outstanding share information was as follows:

Common shares outstanding	**88,464,133**
Stock options to purchase common shares	**3,127,833**
Total common shares outstanding after exercise of all stock options	**91,591,966**

thousands of dollars	
Total proceeds due on exercise of all stock options	**$12,801**

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.

During the quarter, Corridor renewed its revolving credit facility with a Canadian chartered bank for $8 million. The credit facility now provides that any principal amount outstanding from time to time under the credit facility will bear interest at the lender's prime rate plus 1% per annum, with interest payable monthly. The credit facility will mature, subject to mutual agreement to extend, on July 27, 2013 and is subject to customary terms and conditions for borrowings of this nature and secured by the Company's property, plant and equipment. The Company is in compliance with all material terms of the agreements governing the credit facility.

The credit currently available to the Company is in part determined by the Company’s borrowing base which is largely dependant on the Company’s reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the borrowing base has materially declined below the $8 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 June 30, 2012, no amounts were drawn on this credit facility and $8 million remained available thereunder.

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

At this time, the directors of the Company have approved a nominal capital budget for 2012 of approximately $2,000 thousand in recognition of low gas prices with the goal of preserving cash. The Company has sufficient financial resources to undertake its planned activities in 2012. However, the board of directors may approve additional capital expenditures in 2012 relating to one or more of Corridor’s prospects.

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

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

Internal Controls over Financial Reporting

The President and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. During the three months ended June 30, 2012, there were no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to affect, the Company’s internal control over financial reporting.

Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies and commitments. Actual results could differ materially from those estimates. During the three months ended June 30, 2012, there were no changes in the critical accounting estimates disclosed in Corridor's 2011 Annual MD&A.

Changes in Accounting Policies

Corridor's interim unaudited condensed financial statements for the six months ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and in accordance with IAS 34 – *Interim Financial Reporting*. These interim unaudited condensed financial statements have been prepared following the same accounting policies disclosed in note 3 of Corridor's audited financial statements for the year ended December 31, 2011.

Business Conditions and Risks

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

Risks Associated with Oil and Gas Exploration

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

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

Substantial Capital Requirements and Financing

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

Third Party Risk

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

Environmental

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

Prices, Markets and Marketing

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

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

Risks May Not be Insurable

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

Unaudited Statements of Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)

For the	**Three months ended June 30** **2012**	2011	**Six months ended June 30** **2012**	2011
Sales	**$ 2,708**	$ 5,547	**$ 6,864**	$ 13,571
Royalty expense	**-**	(127)	**(8)**	(456)
Revenues, net	**2,708**	5,420	**6,856**	13,115
Expenses				
Depletion, depreciation and amortization	**2,782**	4,267	**5,793**	8,831
Transportation expense	**1,018**	1,359	**2,114**	3,050
Production expense	**706**	1,103	**1,501**	2,218
General and administrative expenses	**841**	964	**1,732**	2,094
Share-based compensation expense (recovery) (*note 10*)	**477**	(119)	**860**	1,211
Write-down of inventory	**-**	1,600	**-**	1,600
Write-off (recovery) of exploration and evaluation assets	**-**	-	**(14)**	140
Capital tax expense	**7**	27	**20**	54
	5,831	9,201	**12,006**	19,198
Loss before the following items	**(3,123)**	(3,781)	**(5,150)**	(6,083)
Interest and finance costs	**68**	79	**133**	158
Foreign exchange losses (gains)	**(5)**	(8)	**38**	99
Interest and other income	**(28)**	(38)	**(48)**	(56)
Loss before income taxes	**(3,158)**	(3,814)	**(5,273)**	(6,284)
Deferred income tax recovery (*note 3*)	**(723)**	(171)	**(1,184)**	(463)
Net loss and comprehensive loss	**$ (2,435)**	$ (3,643)	**$ (4,089)**	$ (5,821)
Net loss per share – basic and diluted	**$ (0.028)**	$ (0.041)	**$ (0.046)**	$ (0.066)
Weighted average number of common shares				
Basic	**88,464**	88,457	**88,464**	88,407
Diluted (*note 4*)	**88,464**	88,699	**88,464**	88,720

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

Unaudited Statements of Financial Position

(thousands of Canadian dollars)

As at	**June 30 2012**	December 31 2011
Assets		
Current assets		
Cash and cash equivalents	**$ 7,958**	$ 6,396
Restricted cash	**650**	2,150
Receivables *(note 12 a iv)*	**1,163**	3,228
Inventory	**835**	870
Capital taxes receivable	**71**	229
Prepaids and security deposits	**431**	107
	11,108	12,980
Non-current assets		
Property, plant and equipment *(notes 5 & 7)*	**148,265**	153,711
Exploration and evaluation assets *(note 6)*	**32,483**	30,982
Investment tax credits	**1,669**	1,660
Deferred income tax assets	**5,119**	3,959
Intangible assets	**321**	345
Restricted cash and security deposits	**380**	380
Total assets	**$ 199,345**	$ 204,017
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,758**	$ 3,459
Obligations under finance lease	**-**	14
	1,758	3,473
Non-current liabilities		
Decommissioning liability *(note 8)*	**5,680**	5,408
Total liabilities	**7,438**	8,881
Shareholders' Equity		
Capital stock *(note 9)*	**247,496**	247,496
Contributed surplus	**8,812**	7,952
Deficit	**(64,401)**	(60,312)
Total shareholders' equity	**191,907**	195,136
Total liabilities and shareholders' equity	**$ 199,345**	$ 204,017

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

Contingency *(note 14)*
Subsequent event *(note 15)*

On behalf of the Board

Signed *"Phillip R. Knoll"* Director

Signed "*Robert D. Penner"* Director

Unaudited Statements of Changes in Shareholders' Equity

(thousands of Canadian dollars)

For the	Six months ended June 30 **2012**	2011
Capital stock, beginning of period	**$ 247,496**	$ 242,589
Exercise of stock options for cash	**-**	2,739
Amount previously expensed for stock options exercised	**-**	2,168
Capital stock, end of period	**$ 247,496**	$ 247,496
Contributed surplus, beginning of period	**$ 7,952**	$ 8,174
Share-based compensation	**860**	1,211
Amount previously expensed for stock options exercised	**-**	(2,168)
Contributed surplus, end of period	**$ 8,812**	$ 7,217
Retained earnings (deficit), beginning of period	**$ (60,312)**	$ 19,273
Net loss	**(4,089)**	(5,821)
Retained earnings (deficit), end of period	**$ (64,401)**	$ 13,452
Shareholders' equity, end of period	**$ 191,907**	$ 268,165

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

Unaudited Statements of Cash Flows

(thousands of Canadian dollars)

For the	Six months ended June 30 2012	2011
Operating Activities		
Net loss	**$ (4,089)**	$ (5,821)
Adjustments not affecting cash:		
Depletion, depreciation and amortization	**5,793**	8,831
Share-based compensation	**860**	1,211
Write-down (recovery) of assets	**(14)**	1,740
Deferred income tax recovery	**(1,184)**	(463)
Other operating activities	**28**	16
	1,394	5,514
Decrease in non-cash operating working capital *(note 11)*	**880**	1,991
Cash provided by operating activities	**2,274**	7,505
Financing Activities		
Proceeds from capital stock issues	**-**	2,739
Other financing activities	**79**	3
Cash provided by financing activities	**79**	2,742
Investing Activities		
Property, plant and equipment expenditures	**(153)**	(358)
Exploration and evaluation expenditures	**(1,487)**	(1,220)
Decrease in restricted cash	**1,500**	-
Proceeds from sale of inventory	**31**	-
Decrease in non-cash investing working capital *(note 11)*	**(682)**	(364)
Cash used in investing activities	**(791)**	(1,942)
Increase in cash and cash equivalents	**1,562**	8,305
Cash and cash equivalents, beginning of period	**6,396**	865
Cash and cash equivalents, end of period	**$ 7,958**	$ 9,170
Cash and cash equivalents consists of:		
Cash	**$ 2,908**	$ 4,170
Short-term investments	**5,050**	5,000
Cash and cash equivalents, end of period	**$ 7,958**	$ 9,170

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

Notes to the Unaudited Condensed Financial Statements
June 30, 2012

1. Nature of operations

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

2. Basis of presentation

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

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

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

3. Income taxes

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

(thousands of Canadian dollars)

	Three months ended June 30		**Six months ended June 30**	
	2012	2011	**2012**	2011
Loss before income taxes	**$ (3,158)**	$ (3,814)	**$ (5,273)**	$ (6,284)
Blended Canadian statutory income tax rate	**26.75%**	28.5%	**26.75%**	28.5%
Expected income tax recovery	**$ (845)**	$ (1,087)	**$ (1,411)**	$ (1,791)
Increase resulting from:				
Non-deductible share-based compensation	**128**	(34)	**230**	345
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**(7)**	98	**(11)**	127
Effect of provincial tax rate change	**-**	850	**-**	850
Other	**1**	2	**8**	6
	$ (723)	$ (171)	**$ (1,184)**	$ (463)

4. Loss per share

For the three and six months ended June 30, 2012, stock options of 3,199 thousand (three and six months ended June 30, 2011 – 2,326 thousand and 2,318 thousand) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

Notes to the Unaudited Condensed Financial Statements
June 30, 2012

5. Property, plant and equipment

(thousands of Canadian dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at December 31, 2010	$ 217,070	$ 76,216	$ 5,431	$ 2,665	$ 301,382
Additions	917	242	1	5	1,165
Transfer to current assets	-	-	(1,748)	-	(1,748)
Disposals, sales or use of inventory	55	-	(55)	-	-
Changes in future abandonment costs	1,070	-	-	-	1,070
Investment tax credits	-	55	-	-	55
Transfers to exploration and evaluation assets	(356)	-	(444)	-	(800)
Balance at December 31, 2011	$ 218,756	$ 76,513	$ 3,185	$ 2,670	$ 301,124
Additions	38	90	-	25	153
Changes in future abandonment costs	179	-	-	-	179
Investment tax credits	-	(9)	-	-	(9)
Balance at June 30, 2012	**$ 218,973**	**$ 76,594**	**$ 3,185**	**$ 2,695**	**$ 301,447**
Accumulated impairment, depletion and depreciation					
Balance at December 31, 2010	$ 58,963	$ 16,185	$ 146	$ 1,088	$ 76,382
Depletion or depreciation expense	13,102	3,625	-	207	16,934
Impairment losses	38,272	13,695	-	-	51,967
Write-down of inventory	-	-	2,130	-	2,130
Balance at December 31, 2011	$ 110,337	$ 33,505	$ 2,276	$ 1,295	$ 147,413
Depletion or depreciation expense	4,518	1,121	-	130	5,769
Balance at June 30, 2012	**$ 114,855**	**$ 34,626**	**$ 2,276**	**$ 1,425**	**$ 153,182**
Net book value					
At December 31, 2011	$ 108,419	$ 43,008	$ 909	$ 1,375	$ 153,711
At June 30, 2012	**$ 104,118**	**$ 41,968**	**$ 909**	**$ 1,270**	**$ 148,265**

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $72,193 thousand for the three and six months ended June 30, 2012 (three and six months ended June 30, 2011- $63,924 thousand). Costs of property, plant and equipment excluded from costs subject to depletion, depreciation and amortization amounted to $7,366 thousand at June 30, 2012 (June 30, 2011 - $7,026 thousand).

6. Exploration and evaluation assets

(thousands of Canadian dollars)

	June 30 2012	December 31 2011
Balance, beginning of period	**$ 30,982**	$ 65,707
Impairment losses	**-**	(42,814)
Additions	**1,487**	7,786
Transfers from property, plant and equipment	**-**	800
Recovery (write-off) of exploration and evaluation assets	**14**	(196)
Changes in future abandonment costs	**-**	(301)
Balance, end of period	**$ 32,483**	$ 30,982

7. Credit facility

Corridor has an $8 million revolving short term credit facility with a Canadian chartered bank. The interest rate on the loan is currently based on the bank's prime rate plus 1% and the credit facility expires, subject to mutual agreement to extend, on July 27, 2013. Outstanding amounts drawn on the credit facility are secured by a $75 million demand debenture on the Company's property, plant and equipment. At June 30, 2012 and December 31, 2011, there was no amount drawn on the credit facility.

8. Decommissioning liability

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

(thousands of Canadian dollars)

	June 30 2012	December 31 2011
Balance, beginning of period	**$ 5,408**	$ 4,482
Liabilities incurred	**-**	190
Change in discount rate	**179**	669
Change in estimate	**-**	(90)
Finance costs	**93**	157
Balance, end of period	**$ 5,680**	$ 5,408

The total undiscounted amount of estimated cash flows required to settle these obligations is $11,101 thousand (December 31, 2011 - $11,101 thousand). Management estimates the settlement of these obligations between 2013 and 2036. A risk-free rate of 2.81% (December 31, 2011 – 2.98%) and an inflation rate of 2% (December 31, 2011 – 2%) was used to calculate the estimated fair value of the decommissioning liability.

9. Capital stock

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

b) Issued and outstanding

(thousands of Canadian dollars and thousands of shares)

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of period	**88,464**	**$ 247,496**	87,815	$ 242,589
Exercise of stock options for cash and	**-**	**-**	649	2,739
amount recognized from contributed surplus	**-**	**-**	-	2,168
Balance, end of period	**88,464**	**$ 247,496**	88,464	$ 247,496

10. Share-based compensation

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. The stock option plan is limited to 8,262,513 common shares with no more than 5% being issued to any one officer, director or employee. The exercise price of each option is based on the market price for the common share on the close of the day prior to the date the option was granted. Options granted under the plan generally vest over a three year period and expire five years after the grant date. Participants of the stock option plan can elect to surrender any vested option in exchange for a cash payment based on the difference between the market value of the common share and the exercise price of the option. The Board of Directors has the sole discretion to consent or deny this election.

The following table summarizes the changes in the outstanding stock options:

	June 30, 2012		December 31, 2011	
	Number of options (000's)	**Weighted average exercise price**	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of period	**3,489**	**$ 4.14**	4,989	$ 4.95
Exercised	**-**	**-**	(649)	$ 4.22
Forfeited and cancelled	**(290)**	**$ 4.92**	(1,435)	$ 5.13
Expired	**-**	**-**	(528)	$ 5.43
Granted	**-**	**-**	1,112	$ 2.46
Options outstanding, end of period	**3,199**	**$ 4.07**	3,489	$ 4.14
Options exercisable, end of period	**1,257**	**$ 5.06**	1,444	$ 5.12

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

	June 30, 2012	December 31, 2011
Weighted average fair value of options granted	**-**	$ 1.38
Risk-free interest rate	**-**	1.6%
Expected life (years)	**-**	4.9
Expected volatility	**-**	68%

For the three and six months ended June 30, 2012, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $477 thousand and $860 thousand (six months ended June 30, 2011 - $1,211 thousand). For the three months ended June 30, 2011, the Company recorded a recovery of stock-based compensation with an offsetting decrease to contributed surplus of $119 thousand following the cancellation of 1,200 thousand stock options during this period.

The range of exercise prices of stock options outstanding and exercisable as at June 30, 2012 is as follows:

	Outstanding options			**Exercisable options**	
Exercise prices	**Number of options outstanding (000's)**	**Weighted average remaining term (years)**	**Weighted average exercise price**	**Number of options exercisable (000's)**	**Weighted average exercise price**
$ 1.00 - $ 2.99	1,622	3.54	$ 2.50	358	$ 2.56
$ 3.00 - $ 4.99	8	3.19	$ 4.77	3	$ 4.77
$ 5.00 - $ 5.99	1,388	3.27	$ 5.21	715	$ 5.21
$ 6.00 - $ 6.99	9	0.76	$ 6.80	9	$ 6.80
$ 7.00 - $10.99	172	0.85	$ 9.55	172	$ 9.55
	3,199	3.27	$ 4.07	1,257	$ 5.06

11. Supplemental cash flow information

(thousands of Canadian dollars)

	Six months ended June 30 2012	2011
Change in non-cash operating working capital:		
Receivables	**$ 1,448**	$ 3,045
Prepaids and security deposits	**(324)**	(306)
Accounts payable and accrued liabilities	**(402)**	(725)
Capital taxes receivable	**158**	(23)
	$ 880	$ 1,991
Change in non-cash investing working capital:		
Receivables	**$ 617**	$ 780
Inventory in property, plant and equipment	**-**	1,625
Inventory transferred to current assets	**-**	(1,625)
Accounts payable and accrued liabilities	**(1,299)**	(1,144)
	$ (682)	$ (364)
Interest and taxes paid:		
Interest paid	**$ 41**	$ 54
Interest received	**$ 72**	$ 60
Capital and other taxes paid (received)	**$ (162)**	$ 73

12. Risk management

a) The Company is exposed to the following risks:

i) Commodity price risk

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

ii) Foreign currency risk

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

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

(thousands of U.S. dollars)

	June 30, 2012	December 31, 2011
Cash	**$ 417**	$ 9
Receivables	**531**	909
Financial instruments in U.S. dollars	**$ 948**	$ 918

At June 30, 2012, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately $35 thousand (June 30, 2011 – $50 thousand) in the Company's net loss due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately $35 thousand (June 30, 2011 – $50 thousand) in the Company's net loss.

12. Risk management (continued)

iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At June 30, 2012, the Company was holding cash and cash equivalents of $7,958 thousand and had $8 million available from its revolving credit facility. The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependant on the Company's petroleum and natural gas reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the current approved borrowing base has declined below the credit facility limit of $8 million, the lender can recalculate the Company's borrowing base and could, as a result, decrease the credit currently available to the Company.

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

iv) Credit risk

Corridor sells all of its production to one large credit-worthy purchaser under normal industry payment terms. Corridor's receivables from joint venture partners are also subject to normal credit risks in the natural gas industry. Management believes credit risk on these amounts is low and has not made any provision for an allowance for bad debts. The cash equivalents consist mainly of guaranteed investment certificates held with banks with high credit-ratings assigned by international credit-rating agencies. Management believes the risk of loss is low.

b) Management of capital

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

13. Related parties

A director of Corridor is a partner in a law firm that provides legal services to the Company. For the three and six months ended June 30, 2012 legal expenses of $39 thousand are included in general and administrative expenses (nil – June 30, 2011). At June 30, 2012, $39 thousand was included in accounts payable and accrued liabilities (December 31, 2011 - $32 thousand). The amounts paid are recorded at the amount agreed to between the parties which management believes is representative of fair value.

14. Contingency

In 2011, the Company reached a settlement of $188 thousand with the New Brunswick Department of Finance in connection with their audit of the Company's crown royalty payments for the periods from April 2003 to October 2009. However, negotiations are still ongoing relating to the calculation of the royalty payments for the periods subsequent to October 2009. The Company has not made any provision as the royalty amounts payable during this period were based on management's best estimate.

15. Subsequent event

On August 14, 2012, 977,000 stock options were granted to officers, employees and consultants of the Company at an exercise price of $0.76 per share. These options vest over three years and will expire on August 14, 2017.