2016 Management's Discussion and Analysis

As of March 30, 2017

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the year ended December 31, 2016 should be read in conjunction with Corridor's audited financial statements and notes thereto for the year ended December 31, 2016.

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, 2016 (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 a Canadian junior resource company engaged in the exploration for and development and production of petroleum and natural gas onshore in New Brunswick and Québec and offshore in the Gulf of St. Lawrence. Corridor currently has natural gas production and reserves in the McCully Field near Sussex, New Brunswick. In addition, Corridor has a shale gas prospect in New Brunswick, an offshore conventional hydrocarbon prospect in the Gulf of St. Lawrence and an unconventional hydrocarbon prospect through a 21.67% interest in Anticosti Hydrocarbons L.P. ("Anticosti Hydrocarbons"), a joint venture with undeveloped lands on Anticosti Island, Québec ("Anticosti Joint Venture").

Selected Financial Information

	Three months ended December 31		**Twelve months ended December 31**		
thousands of dollars except per share amounts	**2016**	2015	**2016**	2015	2014
Sales	**$ 2,356**	$ 3,630	**$ 13,541**	$ 15,876	$ 23,253
Net income (loss)	**$ 12,316**	$ (33,952)	**$ (29,291)**	$ (31,879)	$ (17,706)
Net income (loss) per share - basic	**$ 0.139**	$ (0.383)	**$ (0.330)**	$ (0.360)	$ (0.200)
Net income (loss) per share - diluted	**$ 0.139**	$ (0.383)	**$ (0.330)**	$ (0.360)	$ (0.197)
Cash flow from operations (1)	**$ 722**	$ 984	**$ 4,307**	$ 6,726	$ 12,244
Capital expenditures	**$ 175**	$ 163	**$ 420**	$ 937	$ 23,449
Total assets	**$ 104,618**	$ 133,066	**$ 104,618**	$ 133,066	$ 166,267

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

Since 2014, natural gas prices at Algonquin city-gates ("AGT") have trended down resulting in reduced natural gas prices year over year. The average natural gas price at AGT in 2016 was $US3.11/mmbtu as compared to $US4.74/mmbtu in 2015 and $US8.06/mmbtu in 2014. To take advantage of the expected significant differential in the sale price of natural gas at AGT for the summer and fall relative to the winter, management shut-in most of Corridor's producing natural gas wells in the McCully Field in New Brunswick from May 1, 2015 to October 29, 2015 and partially shut-in production from September 2016 to November 2016. As a result, Corridor's average daily gas production decreased to 4.0 mmscfpd in 2015 from 7.1 mmscfpd in 2014 and natural gas revenues for the year ended December 31, 2015 decreased to $15,086 thousand from $22,135 thousand for the year ended December 31, 2014. Corridor's average daily gas production increased to 5.8 mmscfpd in 2016, however natural gas revenues decreased to $12,596 thousand due to lower natural gas prices at AGT in 2016.

Late in 2014, the forecast for future natural gas prices decreased and the New Brunswick Government announced a moratorium on hydraulic fracturing contributing in part to a decrease in the Company's proved plus probable natural gas reserves which resulted in the recognition of an impairment loss of $39,150 thousand and a net loss of $17,706 thousand for the year ended December 31, 2014. A further decrease in the forecast for natural gas prices at AGT in 2015 resulted in the recognition of an impairment loss of $21,300 thousand, a write-down of deferred income tax assets of $10,654 thousand and a net loss of $31,879 thousand for the year ended December 31, 2015.

In Q2 2016, the New Brunswick Government announced its decision to continue the moratorium on hydraulic fracturing for an indefinite period. As a result, GLJ Petroleum Consultants Ltd. ("GLJ") provided an updated reserves report dated June 15, 2016 and effective December 31, 2015 ("GLJ 2015 Updated Reserves Report") to take into account the impact of the New Brunswick Government's announcement which resulted in a decrease in the estimate of the Company's proved plus probable natural gas reserves from its initial reserves report and the recognition of an impairment loss of $28,400 thousand and a write-down of deferred income tax assets of $11,654 thousand in Q2 2016. In its reserves report dated March 1, 2017 in respect of the McCully Field in New Brunswick effective as at December 31, 2016 ("2016 GLJ Reserves Report"), GLJ increased the estimate of future natural gas revenues due to lower future transportation costs expected as a result of an anticipated increase in the Company's sales to the local Maritimes market as opposed to the New England market resulting in the recognition of an impairment loss reversal of $12,700 thousand and a net income of $12,316 thousand in Q4 2016.

Non-IFRS Financial Measures

This MD&A refers to "cash flow from operations" which is a financial measure that is not determined in accordance with International Financial Reporting Standards ("IFRS"). This measure does not have a standardized meaning and may not be comparable to similar measures presented by other companies. "Cash flow from operations" is used by the Company to analyse operating performance, leverage and liquidity and is included in this MD&A because it is believed to facilitate the understanding of the results of Corridor's operations and financial position.

Cash flow from operations represents cash provided by operating activities excluding the change in non-cash operating working capital, as follows:

	Three months ended December 31		**Twelve months ended December 31**		
thousands of dollars	**2016**	2015	**2016**	2015	2014
Cash provided by (used in) operating activities	**$ (604)**	$ 546	**$ 3,579**	$ 7,797	$ 12,805
Less: Decrease (increase) in non-cash operating working capital	**(1,326)**	(438)	**(728)**	1,071	561
Cash flow from operations	**$ 722**	$ 984	**$ 4,307**	$ 6,726	$ 12,244

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:

- production levels;
- exploration and development plans of Corridor and Anticosti Hydrocarbons;
- Canadian – U.S. dollar exchange rate;
- natural gas prices and premiums;
- royalty payments in respect of historical production;
- future development costs and reserves;
- future taxable profits;
- capital expenditures;
- sources of funding;
- reserves; and
- government regulation.

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

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

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

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

Outlook Information

Corridor has revised its guidance for the period from April 1, 2016 to March 31, 2017 from the guidance previously disclosed in the press release dated October 7, 2016 (available on the Company's website at www.corridor.ca and on SEDAR at www.sedar.com) to reflect actual results to December 31, 2016 and revised natural gas prices from January 1, 2017 to March 31, 2017, as follows:

	October 7, 2016 guidance	**Revised guidance**
AGT average natural gas price	$US 4.00/mmbtu	**$US 3.40/mmbtu**
USD/CAD exchange rate	$ 1.30 USD/CAD	**$ 1.31 USD/CAD**
Average natural gas price realized	$ 5.63/mscf	**$ 5.70/mscf**
Average daily natural gas production	5.9 mmscfpd	**5.5 mmscfpd**
Field operating netback	$ 7.8 million	**$ 7.2 million**
Cash flow from operations(1)	$ 4.6 million	**$ 4.4 million**
Field operating netback per mscf	$ 3.63/mscf	**$ 3.55/mscf**
Cash flow from operations(1) per mscf	$ 2.13/mscf	**$ 2.20/mscf**
Capital expenditures (for the calendar year 2016)	$ 0.6 million	**$ 0.4 million**
Working capital estimate (as at March 31, 2017)	$ 33.8 million	**$ 33.2 million**

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

Notwithstanding a significant decrease in natural gas prices at AGT from those previously forecasted for Q1 2017, Corridor's cash flow from operations for the period from April 1, 2016 to March 31, 2017 is only expected to decrease by $0.2 million to $4.4 million due to the financial hedges Corridor put in place and to lower general and administrative expenses.

2016 Summary

- Sales for 2016 decreased to $13,541 thousand from $15,876 thousand for 2015 due to the decrease in the average natural gas price to $5.96/mscf in 2016 from $10.23/mscf in 2015. The average daily natural gas production increased to 5.8 mmscfpd in 2016 from 4.0 mmscfpd in 2015 as a result of management's decision to shut-in most of the McCully wells from May 1 to October 29, 2015 as opposed to only partially shutting-in its natural gas production between September 2016 and November 2016. Management had determined in each of 2015 and 2016 to selectively shut-in its producing natural gas wells in the McCully Field as a long-term optimization strategy to take advantage of the expected significant differential in the sale price of natural gas at AGT for the summer/fall relative to the winter.

- Cash flow from operations decreased to $4,307 thousand for the year ended December 31, 2016 from $6,726 thousand for the year ended December 31, 2015 due to the lower natural gas sales. As at December 31, 2016, Corridor had cash and cash equivalents of $27,272 thousand, net working capital of $29,365 thousand and no outstanding debt.

- Corridor entered into a forward sale agreement from December 1, 2016 to March 31, 2017 for an average of 4,755 mmbtupd of natural gas production. The forward sale volumes will be based on AGT pricing but will be subject to lower transportation costs, resulting in an estimated increase of approximately $800 thousand of cash flow from operations over the term of the forward sale agreement.

- Net general and administrative expenses returned to a normal level in 2016 decreasing to $2,969 thousand from $4,175 thousand in 2015 due mostly to the costs associated with the establishment of the New Brunswick Responsible Energy Development Alliance ("NBREDA") in 2015 and to lower salary expenses in 2016 following a reduction in the personnel of the Company in Q2 2015.

- The Company recognized impairment losses of $15.7 million for the year ended December 31, 2016 which are the result of an initial impairment loss of $28.4 million recognized in Q2 2016 following the announcement by the Government of New Brunswick on May 27, 2016 of its decision to continue a moratorium on hydraulic fracturing for an indefinite period resulting in a material reduction in the Company's undeveloped reserves. However, this impairment was partially offset by a reversal of impairment loss of $12.7 million in Q4 2016 due to an increase in the 2016 GLJ Reserves Report of the estimated future natural gas revenues due to lower future transportation costs expected as a result of an anticipated increase in the Company's sales to the local Maritimes market as opposed to the New England market.

- Corridor's net loss decreased to $29,291 thousand for the year ended December 31, 2016 from $31,879 thousand for the year ended December 31, 2015 due primarily to the recognition of impairment losses of $15.7 million during the year ended December 31, 2016 compared to impairment losses of $21.3 million during the year ended December 31, 2015.

- As part of its optimization strategy and to mitigate the risks associated with the volatility of natural gas prices, Corridor entered into the following financial hedges; 2,500 mmbtupd of natural gas production at a fixed price of $US6.50/mmbtu for the period from December 1, 2016 to March 31, 2017; 1,000 mmbtupd at a fixed price of $US7.30/mmbtu for the period from January 1, 2017 to February 28, 2017, and 1,000 mmbtupd at a fixed price of $US9.55/mmbtu for January 2017.

- In January 2017, the Québec Government announced its decision to support the designation of Anticosti Island as a UNESCO World Heritage site. If designated as a UNESCO World Heritage site, the Anticosti Joint Venture would not be permitted to engage in development or production of oil and gas on Anticosti Island. While the Québec Government confirmed its intention to respect the Anticosti Joint Venture agreements, there is uncertainty that Anticosti Hydrocarbons' drilling program will proceed in 2017. Corridor is reviewing its options to ensure the value of its investment in Anticosti Hydrocarbons is protected.

- On January 15, 2017, the Canada-Newfoundland and Labrador Offshore Petroleum Board issued exploration license EL-1153 to Corridor in exchange for the surrender of exploration license EL-1105 covering the Newfoundland and Labrador sector of the Old Harry Prospect in the Gulf of St. Lawrence. The new exploration license expires on January 14, 2020, subject to extension by Corridor for an additional one year period (January 14, 2021) with the payment of a $1 million deposit.

Fourth Quarter Summary

- Natural gas sales for Q4 2016 decreased to $2,199 thousand from $3,433 thousand in Q4 2015 due to the decrease in natural gas production to 3.0 mmscfpd in Q4 2016 from 5.3 mmscfpd in Q4 2015 partially offset by an increase in the average natural gas price to $7.88/mscf in Q4 2016 from $6.99/mscf in Q4 2015. The decrease in the average daily natural gas production is due to management's decision to partially shut-in its natural gas production from September to November 2016 due to higher anticipated pricing in the winter of 2016/2017.

- Corridor's cash flow from operations for Q4 2016 decreased to $722 thousand from $984 thousand in Q4 2015 due primarily to lower natural gas sales in Q4 2016.

- Net income for Q4 2016 increased to $12,316 thousand from a net loss of $33,952 thousand for Q4 2015 due to the reversal of impairment losses of $12.7 million in Q4 2016 as compared to the recognition of impairment losses of $21.3 million and a write-down of $10,654 thousand in deferred income tax assets in Q4 2015.

Q4 2016 Financial Summary

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Sales	**$ 2,356**	$ 3,630	**$ 13,541**	$ 15,876
Royalty expense	**(54)**	(70)	**(276)**	(371)
Revenues, net	**2,302**	3,560	**13,265**	15,505
Expenses				
Impairment losses (reversal)	**(12,700)**	21,300	**15,700**	21,300
Depletion, depreciation and amortization	**616**	1,606	**5,145**	5,178
Transportation expense	**239**	931	**3,443**	2,781
Production expense	**616**	785	**2,421**	2,428
General and administrative expenses	**704**	992	**2,969**	4,175
Financial derivatives loss	**374**	-	**374**	-
Share-based compensation expense	**81**	88	**354**	427
Other write-downs and losses	**28**	1,922	**318**	1,922
	(10,042)	27,624	**30,724**	38,211
Income (loss) before the following items	**12,344**	(24,064)	**(17,459)**	(22,706)
Gain on sale of exploration assets	**-**	-	**110**	1,260
Interest and other	**9**	67	**(349)**	365
Equity loss	**(37)**	(30)	**(137)**	(144)
Income (loss) before income taxes	**12,316**	(24,027)	**(17,835)**	(21,225)
Deferred income tax expense	**-**	9,925	**11,456**	10,654
Net income (loss)	**$ 12,316**	$ (33,952)	**$ (29,291)**	$ (31,879)

Results of Operations

Sales

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Natural gas	**$ 2,199**	$ 3,433	**$ 12,596**	$ 15,086
Condensate	**4**	15	**69**	57
Natural gas and gas liquids sales	**2,203**	3,448	**12,665**	15,143
Gathering, processing & transportation fees	**153**	182	**876**	733
Sales	**$ 2,356**	$ 3,630	**$ 13,541**	$ 15,876

Production volumes and pricing

	Three months ended December 31		Twelve months ended December 31	
	2016	2015	**2016**	2015
Natural gas production (mmscf)	**279**	491	**2,114**	1,474
Natural gas production per day (mmscfpd)	**3.0**	5.3	**5.8**	4.0
Natural gas selling price ($/mscf)	**$ 7.88**	$ 6.99	**$ 5.96**	$ 10.23

Natural gas sales decreased to $2,199 thousand in Q4 2016 from $3,433 thousand in Q4 2015 due to lower natural gas production partially offset by an increase in the average natural gas price to $7.88/mscf in Q4 2016 from $6.99/mscf in Q4 2015. The decrease in the average daily natural gas production to 3.0 mmscfpd in Q4 2016 from 5.3 mmscfpd in Q4 2015 is due to management's optimization strategy to partially shut-in its natural gas production from September 2016 to November 2016 due to higher anticipated pricing in the winter of 2016/2017.

For the year ended December 31, 2016, natural gas sales decreased to $12,596 thousand from $15,086 thousand for the year ended December 31, 2015 due to the decrease in the average natural gas sales price to $5.96/mscf in 2016 from $10.23/mscf in 2015 partially offset by the increase in the average daily natural gas production to 5.8 mmscfpd in 2016 from 4.0 mmscfpd in 2015. The increase in natural gas production is due to management's decision to shut-in most of Corridor's natural gas wells at the McCully Field from May 1, 2015 to October 29, 2015 as opposed to only partially shutting-in some McCully wells from September to November 2016. Management had determined in each of 2015 and 2016 to partially shut-in its producing natural gas wells in the McCully Field to take advantage of the expected significant differential in the sale price of natural gas at AGT for the summer/fall relative to the winter. The significant decrease in Corridor's average realized natural gas sales price from $10.23/mscf in 2015 is due in part to lower natural gas prices at AGT which decreased to $US3.11/mmbtu in 2016 from $US4.74/mmbtu in 2015 and also to management's decision to shut-in most of Corridor's natural gas wells in 2015 during periods of lower natural gas prices and increase production during periods of higher natural gas prices.

Corridor owns the midstream facilities which process and transport gas from the McCully Field to the M&NP. Third party gas flowing through these facilities, which currently is limited to Potash Corporation of Saskatchewan Inc.'s ("PCS") share of gas from the McCully Field, is charged a cost of service. The decrease in the gathering, processing and transportation ("GPT") fees to $153 thousand for Q4 2016 from $182 thousand for Q4 2015 is due to a decrease in PCS's share of natural gas production as a result of the lower natural gas production in Q4 2016. The increase in GPT fees to $876 thousand for the year ended December 31, 2016 from $733 thousand for the year ended December 31, 2015 is due to increased natural gas production in 2016.

Royalty Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Crown royalties	**$ 54**	$ 70	**$ 276**	$ 371
Royalty expense per mscf ($/mscf)	**$ 0.19**	$ 0.14	**$ 0.13**	$ 0.25
Percentage of natural gas and gas liquids sales	**2.4%**	2.1%	**2.2%**	2.5%

Corridor's royalty expense for Q4 2016 decreased to $54 thousand from $70 thousand for Q4 2015 and to $276 thousand for the year ended December 31, 2016 from $371 thousand for the year ended December 31, 2015 due to lower natural gas sales in 2016.

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

Transportation Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Transportation expense	**$ 239**	$ 931	**$ 3,443**	$ 2,781
Transportation expense per mscf ($/mscf)	**$ 0.86**	$ 1.90	**$ 1.63**	$ 1.89

Transportation expense for Q4 2016 decreased significantly to $239 thousand from $931 thousand for Q4 2015 due to the decrease in the natural gas production in Q4 2016 and to the Company's forward sale agreement in effect from December 1, 2016 to March 31, 2017 for the sale of 4,755 mmbtupd of natural gas production to the local Maritimes market as opposed to the New England market. As a result, transportation expense per mscf decreased from $1.90/mscf in Q4 2015 to $0.86/mscf in Q4 2016.

Transportation expense increased to $3,433 thousand for the year ended December 31, 2016 from $2,781 thousand for the year ended December 31, 2015 due to the increase in natural gas production in 2016 partially offset by the impact of the forward sale agreement in effect on December 1, 2016.

Production Expense

thousands of dollars	**Three months ended December 31** **2016**	2015	**Twelve months ended December 31** **2016**	2015
Gross production expense	**$ 742**	$ 836	**$ 2,932**	$ 2,719
Third party recoveries	**(126)**	(51)	**(511)**	(291)
Net production expense	**$ 616**	$ 785	**$ 2,421**	$ 2,428
Net production expense per mscf ($/mscf)	**$ 2.21**	$ 1.60	**$ 1.15**	$ 1.65

The decrease in gross production expense to $742 thousand in Q4 2016 from $836 thousand in Q4 2015 is due to the cost of workover operations of $114 thousand during Q4 2015. Gross production expense increased to $2,932 thousand for the year ended December 31, 2016 from $2,719 thousand for the year ended December 31, 2015 due primarily to the shut-in of most of the wells in the McCully Field from May 1, 2015 to October 29, 2015 as opposed to only partially shutting in wells from September to November 2016 which resulted in lower production expenses during 2015. However, this was partially offset by lower salary expenses in 2016 following a reduction in the personnel of the Company in Q2 2015.

Impairment Losses

thousands of dollars	**Three months ended December 31** **2016**	2015	**Twelve months ended December 31** **2016**	2015
Impairment losses (reversal)	**$ (12,700)**	$ 21,300	**$ 15,700**	$ 21,300

The Company recognized impairment losses of $15.7 million for the year ended December 31, 2016 relating to the Company's New Brunswick cash generating unit ("CGU") which includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The impairment losses for the year ended December 31, 2016 resulted from an initial impairment loss of $28.4 million in Q2 2016 following the announcement by the Government of New Brunswick on May 27, 2016 of its decision to continue a moratorium on hydraulic fracturing for an indefinite period resulting in a material reduction in the Company's undeveloped reserves. This decrease in reserves was partially offset by an increase in estimated future natural gas revenues in the 2016 GLJ Reserves Report due to lower future transportation costs expected as a result of an anticipated increase in the Company's sales to the local Maritimes market as opposed to the New England market resulting in a reversal of impairment losses of $12.7 million in Q4 2016. The estimate of proved plus probable natural gas reserves decreased from 61.8 bscf effective as at December 31, 2015 to 20.0 bscf effective as at December 31, 2016.

The calculation of impairment losses for the years ended December 31, 2016 and 2015 were based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves using forecast prices and costs and discounted using 10%.

For the year ended December 31, 2016, the Company utilized the following forecast prices in the fair value calculation:

	2017	2018	2019	2020	2021	2022-2027	Thereafter
AGT ($US/mmbtu)	$ 4.60	$ 4.20	$ 4.40	$ 4.60	$ 4.80	$ 5.00-$ 5.48	+2%/year
McCully ($CDN/mscf)	$ 8.76	$ 7.83	$ 6.11	$ 6.14	$ 6.20	$ 6.43-$ 7.07	+2%/year
Exchange rate ($US/$CDN)	$ 0.750	$ 0.775	$ 0.800	$ 0.825	$ 0.850	$ 0.850	$ 0.850

The forecast McCully gas prices were calculated by adjusting the Henry Hub gas prices to reflect the expected premiums received at Corridor's delivery point, transportation costs, if applicable, and heat content.

Depletion, Depreciation and Amortization

thousands of dollars	**Three months ended December 31** **2016**	2015	**Twelve months ended December 31** **2016**	2015
Depletion, depreciation and amortization	**$ 616**	$ 1,606	**$ 5,145**	$ 5,178
Depletion, depreciation and amortization per mscf ($/mscf)	**$ 2.65**	$ 3.76	**$ 2.75**	$ 3.92

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 Q4 2016 to $616 thousand from $1,606 thousand in Q4 2015 is due to the decrease in natural gas production in Q4 2016 and the decrease in the net book value of the depletion asset base following the recognition of impairment losses of $21.1 million in Q4 2015 and $28.3 million in Q2 2016. For the year ended December 31, 2016, the depletion expense decreased to $5,145 thousand from $5,178 thousand in 2015 as the lower net book value in 2016 was mostly offset by higher natural gas production in 2016.

In the GLJ 2015 Updated Reserves report, GLJ decreased the estimate of gross proved natural gas reserves from 41.9 bscf in Q4 2015 to 18.8 bscf and the estimate of future development costs relating to the development of proved reserves from $63,165 thousand in Q4 2015 to $3,518 thousand in Q2 2016. In the 2016 GLJ Reserves Report, GLJ further decreased the estimate of gross proved natural gas reserves by 2.9 bscf to 15.9 bscf, mostly to account for the 2016 production, and revised the estimated future development costs relating to the development of proved reserves to $3,437 thousand. The impact on DD&A expense in 2016 of the lower proved natural gas reserves was largely offset by the decrease in the related future development costs.

General and Administrative Expenses

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Gross expenses	**$ 723**	$ 1,026	**$ 3,078**	$ 4,354
Capitalized overhead	**(19)**	(7)	**(73)**	(89)
Operator recoveries	**-**	(27)	**(36)**	(90)
Net expenses	**$ 704**	$ 992	**$ 2,969**	$ 4,175

Gross general and administrative expenses ("G&A") returned to a normal level in 2016 decreasing to $723 thousand and $3,078 for the three and twelve months ended December 31, 2016 from $1,026 thousand and $4,354 thousand for the three and twelve months ended December 31, 2015, respectively. The lower G&A is due to a decrease in costs incurred relating to the establishment of NBREDA which amounted to $400 thousand in 2015 and to lower salary expenses following a reduction in the personnel of the Company and the resulting payment of severances of approximately $400 thousand in Q2 2015.

Financial Derivatives Loss

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Realized financial derivatives loss	**$ 121**	-	**$ 121**	-
Unrealized financial derivatives loss	**253**	-	**253**	-
Financial derivatives loss	**$ 374**	-	**$ 374**	-

In 2016, Corridor entered into financial derivative contracts to manage the risks associated with fluctuations in natural gas prices. During Q4 2016, the settlement of contracts resulted in a realized loss of $121 thousand due to a higher average market price for natural gas than the contract price. Contracts outstanding at December 31, 2016 were valued using the current estimated natural gas prices resulting in an unrealized loss of $253 thousand.

Gain on Sale of Exploration Assets

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Gain on sale of exploration assets	**-**	-	**$ 110**	$ 1,260

In connection with the establishment of the Anticosti Joint Venture on April 1, 2014, Corridor transferred its Anticosti exploration licenses to Anticosti Hydrocarbons in exchange for an interest of 21.67% in Anticosti Hydrocarbons and net cash proceeds of $13,479 thousand. In accordance with their obligations under the agreements governing the Anticosti Joint Venture, Ressources Québec and Saint-Aubin E&P Québec Inc. contributed $4,641 thousand and $9,255 thousand during the years ended December 31, 2016 and December 31, 2015, respectively, towards an exploration program on Anticosti

Island. As a result, Corridor recognized a gain on sale of $110 thousand during the year ended December 31, 2016 and $1,260 thousand during the year ended December 31, 2015.

Other Write-downs and Losses

thousands of dollars	**Three months ended December 31** **2016**	2015	**Twelve months ended December 31** **2016**	2015
Inventory write-down	**$ 28**	$ 228	**$ 318**	$ 228
Investment tax credits write-down	**-**	1,694	**-**	1,694
	$ 28	$ 1,922	**$ 318**	$ 1,922

Management wrote down its casing inventory by $318 thousand in 2016 and $228 thousand in 2015 to reflect a decrease in the net realizable value.

The investment tax credit balance of $1,694 thousand was expensed in 2015 as management determined it was no longer probable that there would be sufficient taxable profits to utilize the investment tax credits following a decrease in estimated future natural gas prices at December 31, 2015.

Deferred Income Taxes

thousands of dollars	**Three months ended December 31** **2016**	2015	**Twelve months ended December 31** **2016**	2014
Deferred income tax expense	**-**	$ 9,925	**$ 11,456**	$ 10,654
Effective tax rate	**-**	(41.3)%	**(64.2)%**	(50.2)%
Canadian statutory income tax rate	**-**	28.0%	**29.3%**	28.0%

Following a decrease in estimated future natural gas prices in 2015, the Company wrote-down its deferred income tax assets by $10,654 thousand as management determined it was no longer probable that there would be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax deductible amounts. In 2016, the Company wrote-down its remaining deferred income tax asset balance of $11,456 thousand following the announcement by the Government of New Brunswick in Q2 2016 of its decision to continue a moratorium on hydraulic fracturing for an indefinite period.

At December 31, 2016, the Company had approximately $182 million of tax pools available to be applied against future taxable income. Based on planned capital expenditure programs and current natural gas price assumptions, the Company does not expect to be cash taxable for several years.

Capital Expenditures

thousands of dollars	**Three months ended December 31** **2016**	2015	**Twelve months ended December 31** **2016**	2015
Exploration, development and production	**$ 152**	$ 151	**$ 287**	$ 788
Capitalized overhead	**19**	7	**73**	89
Office and other assets	**4**	5	**60**	60
	$ 175	$ 163	**$ 420**	$ 937

The decrease in capital expenditures to $420 thousand for the year ended December 31, 2016 from $937 thousand for the year ended December 31, 2015 is the result of a decision by the Company to reduce capital expenditures in New Brunswick following the New Brunswick Government's announcement of a moratorium on hydraulic fracturing in December 2014. The Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place.

Statement of Financial Position Changes

Significant changes between Corridor's December 31, 2016 statement of financial position and its December 31, 2015 statement of financial position include:

- $606 thousand increase in receivables, primarily reflecting higher natural gas prices in December 2016 compared to December 2015.
- $20,358 thousand decrease in property, plant and equipment, primarily reflecting impairment losses of $15.6 million in 2016.
- $11,456 thousand decrease in deferred income tax assets, reflecting the write-down of the remaining deferred income tax asset balance in 2016.

Cash Flow Summary

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2016**	2015	**2016**	2015
Cash provided by (used in) operating activities	**$ (604)**	$ 546	**$ 3,579**	$ 7,797
Cash provided by (used in) investing activities	**92**	222	**(366)**	(2,945)
Increase (decrease) in cash and cash equivalents	**$ (512)**	$ 768	**$ 3,213**	$ 4,852

The decrease in cash provided by operating activities to $3,579 thousand for the year ended December 31, 2016 from $7,797 thousand for the year ended December 31, 2015 is primarily the result of the decrease in natural gas sales resulting from the decrease in natural gas prices in 2016.

The decrease in cash used in investing activities to $366 thousand for the year ended December 31, 2016 from $2,945 thousand for the year ended December 31, 2015 is due to the payment of amounts owing during 2015 relating to the Company's 2014 well re-entry and fracturing program.

Outstanding Share Information

As of February 28, 2017, the outstanding share information was as follows:

Common shares outstanding	**88,655,299**
Stock options to purchase common shares	**3,398,167**
Total common shares outstanding after exercise of all stock options	**92,053,466**

thousands of dollars	
Total proceeds due on exercise of all stock options	**$ 2,638**

Summary of Quarterly Information

	2016				**2015**			
thousands of dollars, except per share amounts and average natural gas price	Three months ended				Three months ended			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	**Dec. 31**	Sep. 30	Jun. 30	Mar. 31
Natural gas sales	**$ 2,199**	$ 1,878	$ 2,205	$ 6,314	**$ 3,433**	$ 595	$ 1,170	$ 9,889
Net income (loss)	**$ 12,316**	$ (1,261)	$ (41,629)	$ 1,283	**$ (33,952)**	$ (1,150)	$ (469)	$ 3,692
Net income (loss) per share - basic	**$ 0.139**	$ (0.014)	$ (0.469)	$ 0.014	**$ (0.383)**	$ (0.013)	$ (0.005)	$ 0.042
Net income (loss) per share - diluted	**$ 0.139**	$ (0.014)	$ (0.469)	$ 0.014	**$ (0.383)**	$ (0.013)	$ (0.005)	$ 0.042
Natural gas production (mmscfpd)	**3.0**	5.1	6.9	8.1	**5.3**	1.1	2.9	6.9
Average natural gas price ($/mscf)	**$ 7.88**	$ 3.98	$ 3.53	$ 8.54	**$ 6.99**	$ 6.10	$ 4.48	$ 15.84
Capital expenditures	**$ 175**	$ 41	$ 123	$ 81	**$ 163**	$ 62	$ 167	$ 545

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

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

Liquidity and Capital Resources

Corridor's liquidity depends upon cash flow from operations, supplemented as necessary by equity and debt financings and bank debt. At December 31, 2016, the Company was holding cash and cash equivalents of $27,272 thousand and working capital of $29,365 thousand. The Company has sufficient financial resources to undertake its planned activities in 2017 and assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales, recognizing that the Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place. However, Corridor does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties or any additional properties to be acquired in the future. Future exploration and development of the Company's properties will depend, therefore, on the termination of the moratorium in New Brunswick, the receipt of required government approvals, the 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.

As of December 31, 2016, Corridor had the following contractual obligations and commitments:

(thousands of dollars)	**Total**	2017	2018	2019	2020	2021	Thereafter
Operating leases	**$ 959**	$ 253	$ 187	$ 173	$ 75	$ 70	$ 201
Decommissioning liabilities	**14,406**	233	-	-	-	-	14,173
	$ 15,365	$ 486	$ 187	$ 173	$ 75	$ 70	$ 14,374

Given the Company’s available liquid resources and the Company’s current plans, management expects to have sufficient available funds to meet the current and foreseeable contractual obligations.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The President and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109 - *Certification of Disclosure in Issuers’ Annual and Interim Filings* ("NI 52-109").

As of the year ended December 31, 2016, an evaluation of the effectiveness of Corridor’s disclosure controls and procedures, as defined by NI 52-109, was performed. Based on that evaluation, each of the President and the Chief Financial Officer of Corridor has concluded that the disclosure controls and procedures are effective and provide reasonable assurance that material information was made known to them and recorded, processed, summarized and reported within the time periods required particularly during the period in which the annual filings are being prepared.

The President and the Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The President and the Chief Financial Officer evaluated the effectiveness of Corridor's internal controls over financial reporting and concluded that the Company's internal controls over financial reporting are effective as at December 31, 2016. In making its assessment, management used the updated *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in May 2013.

During the year ended December 31, 2016, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies and commitments. Actual results could differ materially from those estimates. The Company has identified the following significant critical accounting estimates.

Depletion

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

Asset Impairments

Determination as to whether and how much an asset is impaired, or no longer impaired, involves management estimates on highly uncertain matters such as future commodity prices, discount rates, future production, operating costs, future capital costs, governmental and regulatory factors, and reserves. Changes in circumstances may impact these estimates which may impact the recoverable amount of assets. An impairment loss or reversal of impairment loss could have a material financial impact in future periods but future depletion expense would be impacted as a result.

For the year ended December 31, 2016, the Company recognized impairment losses of $15.7 million relating to the Company's New Brunswick CGU. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves using forecast prices and costs and discounted using 10%. The discount rate is based on Corridor's post-tax weighted average cost of capital and is consistent with Corridor's peer group.

The following table demonstrates the impact on the impairment losses for the year ended December 31, 2016 of a one percent change in the discount rate:

(thousands of dollars)

	2016	
	1% rate increase	1% rate decrease
Increase (decrease) in impairment losses	$ 2,189	$ (2,408)

Decommissioning Liabilities

The decommissioning liability is measured based on the estimated cost of abandonment discounted to its net present value. The determination of decommissioning liabilities requires the recalculation of the decommissioning liability and related asset at each Statement of Financial Position date using a current discount rate. Future changes in interest rates, or in the assumptions relating to the expected timing of the future abandonment costs, could result in a material change in the decommissioning liability and related asset. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results.

Contingent Liabilities

Provisions for contingent liabilities are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the obligation can be reliably estimated. Provisions are measured at management’s best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Deferred Income tax

The Company calculates deferred income taxes based on rates substantively enacted at each reporting period and expected to be in effect when temporary differences reverse. Any changes in the estimated timing of these reversals could impact the deferred income tax rate and could materially impact the Company’s deferred income tax recovery. The recognition of deferred income tax assets is based on the probability that future taxable profits will be sufficient to utilize the underlying taxable amounts. Changes in the estimated future taxable profits could materially impact the Company’s deferred income tax assets.

Business Conditions and Risks

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

The following is a summary of certain risk factors and should not be construed as exhaustive. There are numerous factors both known and unknown, that could cause actual results or events to differ materially from forecast results. Additional risk factors are included in the Annual Information Form under the heading "Risk Factors" and include, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, expiration of licenses and leases, trading of common shares, seasonality, competition, management of growth, conflicts of interest, issuance of debt, title to properties and hedging. See also "*Forward-Looking Statements*" in this MD&A.

Risks Associated with Oil and Gas Exploration, Development and Production

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

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

Operational Risks

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

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

Substantial Capital Requirements and Financing

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

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

Volatility of Natural Gas and Oil Prices

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

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

Government Regulation

The oil and natural gas industry (exploration, production, pricing, marketing and transportation) is subject to extensive controls and regulations imposed by various levels of government. These regulations include, among other things, matters related to land tenure, drilling, production practices, environmental protection, royalties, carbon tax, marketing and pricing and various taxes and levies. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could have a material adverse impact on Corridor's business, financial condition, results of operations and cash flows.

Hydraulic Fracturing

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

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

On May 27, 2016, the New Brunswick Government announced its decision to extend the moratorium for an indefinite period.

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

Environmental

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

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

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

Third Party Risk

In the normal course of its business, Corridor has entered into contractual arrangements with third parties which subject Corridor to the risk that such parties may default on their obligations. Corridor sells all of its production to large credit-worthy purchasers under normal industry payment terms.

In addition, Corridor is dependent upon the Anticosti Joint Venture partners to fund their contractual share of the planned exploration expenditures related to the Anticosti Joint Venture. If these partners do not approve or are unable to fund their share of certain expenditures or otherwise fulfill their obligations, this may result in delays or additional future costs to Corridor in respect of the development of the properties on Anticosti Island.

Variations in Exchange Rates

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

Reserves Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves, including many factors beyond the Company's control. The reserve and associated cash flow information of the Company represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of gas and oil, royalty rates, environmental conditions, governmental and other regulatory factors and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes, capital development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

In accordance with applicable securities laws, GLJ has used forecast price and cost estimates in calculating reserve quantities included in the Annual Information Form. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the effect of inflation on costs. Actual production and revenues derived therefrom will vary from the estimates contained in the 2016 GLJ Reserves Report and the estimated present value associated with such reserves and such variations could be material. The reserves and estimated cash flows to be derived therefrom contained in the 2016 GLJ Reserves Report will be reduced to the extent that such activities do not achieve the level of success assumed in such report.

Management's Report

The accompanying financial statements are the responsibility of management. The financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include amounts based on management's best estimates and judgments. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the financial statements and the safeguarding of the Company's assets.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The financial statements have been approved by the Board of Directors on recommendation from the Audit Committee. The external auditors have full and free access to the Audit Committee.

PricewaterhouseCoopers LLP has been appointed to serve as the Company's external auditors. They have examined the financial statements and the Company's internal control over financial reporting and provided their auditor's report.

March 30, 2017

Signed *"Stephen J. Moran"*
Stephen J. Moran
President and Chief Executive Officer

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

March 30, 2017

Independent Auditor's Report

To the Shareholders
of Corridor Resources Inc.

We have audited the accompanying financial statements of Corridor Resources Inc., which comprise the statements of financial position as at December 31, 2016 and December 31, 2015 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Corridor Resources Inc. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants

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Statements of Loss and Comprehensive Loss

(thousands of dollars, except per share data)

For the years ended December 31	**2016**	2015
Sales *(note 5)*	**$ 13,541**	$ 15,876
Royalty expense	**(276)**	(371)
Revenues, net	**13,265**	15,505
Expenses		
Impairment losses *(notes 12 & 13)*	**15,700**	21,300
Depletion, depreciation and amortization	**5,145**	5,178
Transportation expense	**3,443**	2,781
Production expense *(note 6)*	**2,421**	2,428
General and administrative expenses *(note 6)*	**2,969**	4,175
Financial derivatives loss *(note 21a ii)*	**374**	-
Share-based compensation expense *(note 19)*	**354**	427
Other write-downs and losses *(notes 8, 11 & 12)*	**318**	1,922
	30,724	38,211
Loss before the following items	**(17,459)**	(22,706)
Gain on sale of exploration assets *(note 14)*	**110**	1,260
Interest and other *(note 7)*	**(349)**	365
Equity loss *(note 14)*	**(137)**	(144)
Loss before income taxes	**(17,835)**	(21,225)
Deferred income tax expense *(note 8)*	**11,456**	10,654
Net loss and comprehensive loss	**$ (29,291)**	$ (31,879)
Net loss per share *(note 9)*		
Basic	**$ (0.330)**	$ (0.360)
Diluted	**$ (0.330)**	$ (0.360)
Weighted average number of common shares *(note 9)*		
Basic	**88,622**	88,622
Diluted	**88,694**	88,622

See accompanying notes to the financial statements.

Statements of Financial Position

(thousands of dollars)

As at December 31	**2016**	2015
Assets		
Current assets		
Cash and cash equivalents	**$ 27,272**	$ 24,059
Restricted cash *(note 23b)*	**650**	650
Receivables *(notes 10 & 21a i)*	**2,169**	1,563
Inventory held for sale *(note 11)*	**339**	1,176
Prepaids and security deposits	**113**	109
	30,543	27,557
Non-current assets		
Property, plant and equipment *(note 12)*	**50,881**	71,239
Exploration and evaluation assets *(note 13)*	**8,813**	8,493
Investment in Anticosti partnership *(note 14)*	**13,898**	13,790
Deferred income tax assets *(note 8)*	**-**	11,456
Intangible assets *(note 15)*	**103**	151
Restricted cash *(note 23b)*	**380**	380
Total assets	**$ 104,618**	$ 133,066
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities *(note 16)*	**$ 925**	$ 1,127
Financial derivatives *(note 21a ii)*	**253**	-
	1,178	1,127
Non-current liabilities		
Decommissioning liability *(note 17)*	**9,636**	9,121
Total liabilities	**10,814**	10,248
Shareholders' Equity		
Capital stock *(note 18)*	**247,685**	247,685
Contributed surplus *(note 19)*	**10,747**	10,470
Deficit	**(164,628)**	(135,337)
Total shareholders' equity	**93,804**	122,818
Total liabilities and shareholders' equity	**$ 104,618**	$ 133,066

See accompanying notes to the financial statements.

Commitments *(note 23)*
Contingencies *(note 24)*

On behalf of the Board

Signed *"Stephen J. Moran"* Director   Signed *"Robert D. Penner"* Director

Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the years ended December 31	**2016**	2015
Capital stock, beginning and end of year	**$ 247,685**	$ 247,685
Contributed surplus, beginning of year	**$ 10,470**	$ 10,043
Share-based compensation expense *(note 19)*	**277**	427
Contributed surplus, end of year	**$ 10,747**	$ 10,470
Deficit, beginning of year	**$ (135,337)**	$ (103,458)
Net loss and comprehensive loss	**(29,291)**	(31,879)
Deficit, end of year	**$ (164,628)**	$ (135,337)
Shareholders' equity, end of year	**$ 93,804**	$ 122,818

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of dollars)

For the years ended December 31	**2016**	2015
Operating Activities		
Net loss	**$ (29,291)**	$ (31,879)
Adjustments not affecting cash:		
Write-downs of assets and impairment losses	**16,018**	23,222
Deferred income tax expense	**11,456**	10,654
Depletion, depreciation and amortization	**5,145**	5,178
Share-based compensation expense	**354**	427
Gain on sale of assets	**(90)**	(1,260)
Equity loss	**137**	144
Unrealized financial derivatives loss	**253**	-
Other operating activities	**325**	240
	4,307	6,726
Decrease (increase) in non-cash operating working capital *(note 20)*	**(728)**	1,071
Cash provided by operating activities	**3,579**	7,797
Investing Activities		
Property, plant and equipment expenditures	**(63)**	(399)
Exploration and evaluation expenditures	**(357)**	(538)
Proceeds from sale of assets	**350**	-
Contribution in Anticosti partnership	**(135)**	(163)
Increase in non-cash investing working capital *(note 20)*	**(161)**	(1,845)
Cash used in investing activities	**(366)**	(2,945)
Increase in cash and cash equivalents	**3,213**	4,852
Cash and cash equivalents, beginning of year	**24,059**	19,207
Cash and cash equivalents, end of year	**$ 27,272**	$ 24,059
Cash and cash equivalents consists of:		
Cash	**$ 8,025**	$ 4,866
Short-term investments	**19,247**	19,193
Cash and cash equivalents, end of year	**$ 27,272**	$ 24,059

See accompanying notes to the financial statements.

Notes to the Financial Statements
Years ended December 31, 2016 and 2015

1. Nature of operations

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

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

On March 30, 2017, the 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.

3. Significant accounting policies

The financial statements have been prepared by management using the following IFRS accounting policies. The accounting policies have been applied consistently for all periods presented in these financial statements.

a) Basis of measurement

These financial statements are prepared on a going concern basis under the historical cost basis. These financial statements are presented in Canadian dollars, the Company's functional currency, and all information is presented in thousands of Canadian dollars unless otherwise indicated.

b) Exploration and evaluation assets

Once the legal right to explore has been acquired, costs directly associated with an exploration activity are capitalized as exploration and evaluation intangible assets and grouped by licensed exploration area. Capitalized costs include lease acquisition costs, geological and geophysical expenses, the portion of general and administrative expenses directly related to exploration activities and costs of drilling both productive and non-productive wells. Costs are capitalized until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the presence of reserves has been established, after which capitalized costs are transferred to oil and gas properties following an assessment for impairment.

All exploration and evaluation assets are subject to a review for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Exploration and evaluation assets are assessed for impairment based on a technical, commercial and management review. When the Company believes that exploration and evaluation assets are no longer viable for future economic development, the assets are written-off to the Statement of Loss and Comprehensive Loss.

Exploration and evaluation assets are not depleted.

c) Oil and gas properties

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

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

3. Significant accounting policies (continued)

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

d) Property, plant and equipment

The initial 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 capitalized in property, plant and equipment and stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price less applicable selling expenses.

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

Asset	Method	Basis
Buildings	Declining Balance	4%
Equipment and furniture	Declining Balance	10% - 30%
Computer hardware and software	Declining Balance	30% - 50%
Vehicles	Declining Balance	30%
Production facilities	Unit of Production	Proved reserves

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

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

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

e) Joint arrangements

Corridor has a joint arrangement with Potash Corporation of Saskatchewan Inc. (“PCS”). As of December 31, 2016, Corridor and PCS jointly own 22 of the 40 wells drilled in the McCully Field in New Brunswick. The Company only accounts for its share of the jointly controlled assets and liabilities and its proportionate share of the revenues and expenses incurred in relation to the activities in the jointly held assets.

f) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset or cash-generating unit (“CGU”) may be impaired. A CGU includes a group of assets that generates cash flows that are largely independent of the cash inflows from other groups of assets. A CGU may also include certain aggregated exploration and evaluation assets. If any indication of impairment exists, the Company estimates the asset’s or CGU’s recoverable amount. The recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value-in-use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is written down to its recoverable amount with the impairment loss recognized in the Statement of Loss and Comprehensive Loss.

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

3. Significant accounting policies (continued)

g) Investment tax credits

Investment tax credits are accrued when the Company has made qualifying expenditures and there is reasonable assurance that the credits will be realized. When it is no longer probable that the credits will be realized, the asset is written down to its recoverable amount with any loss recognized in the Statement of Loss and Comprehensive Loss. Investment tax credits are deducted from the related qualifying assets with depletion calculated on the net amount.

h) Intangible assets

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

i) Revenue recognition

Revenue from the sale of natural gas is recognized when the title passes to the customer and delivery has taken place. Revenue reported represents only the Company's share of the joint operations 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.

j) Share-based compensation

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

The fair value of deferred share units granted to directors are calculated based on the weighted average share price of the Company's common shares over the five previous trading days. At each reporting period, the deferred share units outstanding are measured at the Company's share price at that date. The fair value of the deferred share units granted and any changes in their fair value during the period are recognized in share-based compensation expense on the Statement of Loss and Comprehensive Loss with a corresponding amount recorded in accounts payable and accrued liabilities on the Statement of Financial Position.

k) Investment in Anticosti partnership

The Company has a partnership interest of 21.67% in Anticosti Hydrocarbons L.P., a joint venture created for the purpose of exploring and developing hydrocarbons on Anticosti Island, Québec. The Company accounts for this investment using the equity method. At each reporting period, the Company assesses whether there is any objective evidence that the investment in the Anticosti partnership is impaired. When the carrying amount exceeds its recoverable amount, the investment is written-down to its recoverable amount with any impairment losses recorded in the Statement of Loss and Comprehensive Loss.

l) Deferred taxes

Deferred income tax is recorded using the liability method of accounting. Deferred income tax is recognized for the temporary differences between the tax basis and carrying value of assets and liabilities. Deferred income tax is measured using the enacted or substantively enacted tax rates expected to be in effect when the deferred income tax assets are estimated to be realized or the deferred income tax liabilities are estimated to be settled. Deferred income tax assets are recognized to the extent future recovery is probable. The effect of a change in income tax rates that are substantively enacted is recognized in the Statement of Loss and Comprehensive Loss in the period the change occurs. Deferred income tax assets and liabilities are presented as non-current. Deferred income tax relating to items recognized directly in equity is recognized in equity.

3. Significant accounting policies (continued)

m) Earnings per share

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

n) Operating segment

In measuring performance, Corridor does not distinguish or group its operations on a geographic or any other basis, and accordingly, results have been aggregated into a single reportable segment.

o) Foreign currency translation

Foreign currency transactions are translated using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at each reporting date at the exchange rate prevailing at the Statement of Financial Position 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 Statement of Financial Position date are recognized in the Statement of Loss and Comprehensive Loss.

p) Financial assets and liabilities

All financial instruments, including derivatives and embedded derivatives in certain contracts, must initially be recognized in the Statement of Financial Position at fair value which is based on the following hierarchy:

-Level 1 - quoted prices in active markets;
-Level 2 - internal models using observable market information as inputs; and
-Level 3 - internal models without observable market information as inputs.

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

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets and consist of trade receivables. Their carrying values approximate fair values because of their short term to maturity. Loans and receivables are initially recognized at the amount expected to be received less a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

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

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. They approximate their fair values because of their short term to maturity or because the interest rates approximate market rates at the end of the year. Trade payables are initially recognized at the amount required to be paid less a discount to reduce the payables to fair value. Subsequently, they are measured at amortized cost using the effective interest rate method, which generally corresponds to cost.

3. Significant accounting policies (continued)

iii) Fair value through profit or loss

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

q) Provisions

i) Decommissioning provision

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

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

ii) 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.

r) New accounting standards and amendments

i) Future accounting standards and amendments not yet adopted

The following listing of standards and amendments are those the Company reasonably expects may have an impact on disclosure, financial position and/or financial performance when applied at a future date. The Company has not yet fully assessed the impact of these standards and amendments but does not expect any material impact.

- In May 2014, the IASB issued IFRS 15 "*Revenue from Contracts with Customers*" which replaces IAS 18 "*Revenue*". The standard requires an entity to recognize revenue to reflect the transfer of goods for the amount it expects to receive, when control is transferred to the purchaser. The standard will come into effect for years beginning on or after January 1, 2018 with earlier adoption permitted. The extent of the impact of adoption of IFRS 15 has not yet been determined.

- In July 2014, the IASB completed its three-phase project to replace IAS 39 "*Financial Instruments: Recognition and Measurement*" with IFRS 9 "*Financial Instruments*". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single-expected loss impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for years beginning on or after January 1, 2018 with earlier adoption permitted. The extent of the impact of adoption of IFRS 9, if any, has not yet been determined.

- In January 2016, the IASB issued IFRS 16 "*Leases*" which replaces IAS 17 "*Leases*". IFRS 16 will require the recognition of assets and liabilities for most leases. The standard will come into effect for years beginning on or after January 1, 2019 with earlier adoption permitted. The extent of the impact of adoption of IFRS 16 has not yet been determined.

4. Critical judgments and accounting estimates

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

Recoverability of asset carrying values

At each reporting date, the Company assesses its property, plant and equipment, oil and gas properties and exploration and evaluation assets to determine if there is any indication that the carrying amount of the assets may not be recoverable. An assessment is also made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. Determination as to whether and how much an asset is impaired, or no longer impaired, involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles, operating costs, future capital costs and reserves. Changes in circumstances may impact these estimates which may impact the recoverable amount of assets. Any change in the impairment loss or reversal of impairment loss could have a material financial impact in future periods but future depletion expense would be impacted as a result.

Natural gas and oil reserves

All of Corridor's reserves are evaluated and reported on by independent reserves engineers. Reserves estimates have a material impact on the depletion expense, impairment test calculation and decommissioning liability, all of which could have a material impact on financial results. The estimation of economically recoverable natural gas and oil reserves is based on a number of variable factors and assumptions, such as future production, ultimate reserve recovery, commodity prices, royalty rates, future costs and the timing and amount of capital expenditures, and the ability to undertake such expenditures in the future given the hydraulic fracturing moratorium in effect in New Brunswick. All of these assumptions may vary from actual results or 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 assets. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing can also change in response to changes in reserves or changes in laws and regulations. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results.

Income taxes

The Company calculates deferred income taxes based on rates substantively enacted at each reporting period and expected to be in effect when temporary differences reverse. Any changes in the estimated timing of these reversals could impact the deferred income tax rate and could materially impact the Company's deferred income tax recovery. The recognition of deferred income tax assets is based on the probability that future taxable profits will be sufficient to utilize the underlying taxable amounts. Changes in the estimated future taxable profits could materially impact the Company's deferred income tax assets. In addition, all income tax filings are subject to audit and potential reassessment by the Canada Revenue Agency. As a result, the actual deferred income tax asset could differ from the amount estimated by management and the impact on the Company's deferred income tax recovery could be material.

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.

4. Critical judgments and accounting estimates (continued)

Share-based compensation

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

5. Sales

Sales consist of the following:

(thousands of dollars)

	2016	2015
Natural gas sales	**$ 12,596**	$ 15,086
Gathering, processing and transportation fees	**876**	733
Natural gas liquids sales	**69**	57
	$ 13,541	$ 15,876

6. Expenses by nature

Production expenses by nature consist of the following:

(thousands of dollars)

	2016	2015
Wages and benefits	**$ 551**	$ 675
Utilities expense	**840**	560
Repairs and maintenance	**257**	215
Property taxes and insurance	**413**	419
Office expenses	**94**	95
Workover activities and field maintenance	**195**	258
Other production expenses	**582**	497
	2,932	2,719
Third party recoveries	**(511)**	(291)
	$ 2,421	$ 2,428

General and administrative expenses by nature consist of the following:

(thousands of dollars)

	2016	2015
Wages and benefits	**$ 1,068**	$ 1,796
Directors fees	**229**	299
Consultants	**562**	624
Legal and accounting	**541**	470
Office expenses	**166**	234
Software maintenance and licensing	**106**	128
Social acceptability program	**92**	400
Other general and administrative expenses	**314**	403
	3,078	4,354
Third party recoveries & capitalized overhead	**(109)**	(179)
	$ 2,969	$ 4,175

7. Interest and other

Interest and other consist of the following:

(thousands of dollars)

	2016	2015
Interest and other income	**$ 245**	$ 297
Foreign exchange gains (losses)	**(266)**	317
Interest and finance costs	**(328)**	(249)
	$ (349)	$ 365

8. Income taxes

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

(thousands of dollars)

	2016	2015
Loss before income taxes	**$ (17,835)**	$ (21,225)
Blended Canadian statutory income tax rate	**29.3%**	28.0%
Expected income tax recovery	**$ (5,226)**	$ (5,943)
Increase (decrease) resulting from:		
Write-down of deferred income tax assets	**11,456**	10,654
Deferred income tax assets not recognized	**5,734**	5,555
Effect of provincial tax rate change	**(547)**	-
Non-deductible (non-taxable)		
- write-down of investment tax credits	**-**	474
- gain on sale of exploration assets	**(15)**	(160)
- share-based compensation	**104**	120
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**(52)**	(48)
Other	**2**	2
	$ 11,456	$ 10,654

Following a decrease in estimated future natural gas prices in 2015, the Company wrote-down its deferred income tax assets by $10,654 thousand and its investment tax credit balance by $1,694 thousand as management determined it was no longer probable that there would be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax deductible amounts. In addition, the Company did not recognize deferred income tax assets of $5,555 thousand for the year ended December 31, 2015.

In 2016, the Company wrote-down its remaining deferred income tax asset balance of $11,456 thousand following the announcement by the Government of New Brunswick of its decision to continue a moratorium on hydraulic fracturing for an indefinite period. In addition, the Company did not recognize deferred income tax assets of $5,734 thousand for the year ended December 31, 2016.

During the year, the Company increased its deferred income tax rate from 28.25% to 29.60% following the New Brunswick Government's 2016 budget which resulted in the Province's corporate income tax rate being increased from 12% to 14% effective April 1, 2016. As a result, Corridor recognized a deferred income tax recovery of $547 for the year ended December 31, 2016.

At December 31, 2016, the Company has $115 million of unrecognized deductible temporary differences for which no deferred tax asset is recognized. In addition, the Company has $1,694 thousand of unrecognized investment tax credits which will expire between 2028 and 2034.

8. Income taxes (continued)

The continuity of the Company's deferred income tax assets is as follows:

(thousands of dollars)

	December 31 2014 deferred income tax balance	2015 deferred income tax expense	December 31 2015 deferred income tax balance	**2016 deferred income tax expense**	**December 31 2016 deferred income tax balance**
Property, plant and equipment and exploration and evaluation assets	$ 20,444	$ (10,893)	$ 9,551	**$ (9,551)**	**-**
Decommissioning liability	1,666	239	1,905	**(1,905)**	**-**
	$ 22,110	$ (10,654)	$ 11,456	**$ (11,456)**	**-**

9. Loss per share

For the year ended December 31, 2016, stock options of 3,075 thousand (December 31, 2015 – 3,431 thousand) were excluded from the dilution calculation since the average market price for the year was lower than the exercise price.

10. Receivables

Receivables consist of the following:

(thousands of dollars)

	December 31 2016	December 31 2015
Trade receivables	**$ 1,731**	$ 1,246
Receivables from joint venture partners	**313**	89
Sales and capital taxes receivable from government	**24**	110
Interest receivable	**101**	118
	$ 2,169	$ 1,563

Receivables generally have a 30 day term and have mostly all been received subsequent to the year end. Corridor sells all of its production to one large credit-worthy purchaser under normal industry payment terms. Corridor's receivables from joint venture partners are also subject to normal credit risks in the natural gas industry. Management believes credit risk on these amounts is low and has not made any provision for an allowance for bad debts.

11. Inventory held for sale

(thousands of dollars)

	2016	2015
Balance, beginning of year	**$ 1,176**	$ 1,278
Transfer to property, plant and equipment	**(176)**	-
Write-downs	**(318)**	(102)
Sales	**(343)**	-
Balance, end of year	**$ 339**	$ 1,176

During the year, the Company reclassified $176 thousand of inventory from current assets to property, plant and equipment as the Company is no longer actively pursuing the sale of this inventory. In addition, the Company wrote-down its inventory held for sale by $318 thousand to reflect a decrease in the net realizable value (December 31, 2015 - $102 thousand).

12. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at December 31, 2014	$ 243,168	$ 77,005	$ 2,829	$ 2,836	$ 325,838
Additions	(19)	358	-	60	399
Transfers	(898)	-	-	-	(898)
Investment tax credits	-	(21)	-	-	(21)
Changes in future abandonment costs	591	-	-	-	591
Balance at December 31, 2015	$ 242,842	$ 77,342	$ 2,829	$ 2,896	$ 325,909
Additions	3	-	-	60	63
Sale of assets	-	-	-	(67)	(67)
Transfer from current assets *(note 11)*	-	-	176	-	176
Changes in future abandonment costs	127	-	-	-	127
Balance at December 31, 2016	**$ 242,972**	**$ 77,342**	**$ 3,005**	**$ 2,889**	**$ 326,208**
Accumulated depletion and depreciation					
Balance at December 31, 2014	$ 172,885	$ 52,176	$ 2,408	$ 1,744	$ 229,213
Depletion or depreciation expense	4,278	747	-	104	5,129
Transfers	(898)	-	-	-	(898)
Impairment losses	15,200	5,900	-	-	21,100
Write-down of inventory	-	-	126	-	126
Balance at December 31, 2015	$ 191,465	$ 58,823	$ 2,534	$ 1,848	$ 254,670
Depletion or depreciation expense	3,995	976	-	126	5,097
Impairment losses	11,100	4,500	-	-	15,600
Sales of assets	-	-	-	(40)	(40)
Balance at December 31, 2016	**$ 206,560**	**$ 64,299**	**$ 2,534**	**$ 1,934**	**$ 275,327**
Net book value at December 31, 2015	$ 51,377	$ 18,519	$ 295	$ 1,048	$ 71,239
Net book value at December 31, 2016	**$ 36,412**	**$ 13,043**	**$ 471**	**$ 955**	**$ 50,881**

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $3,437 thousand for the year ended December 31, 2016 (December 31, 2015 - $63,165 thousand).

During the year ended December 31, 2016, the Company recognized impairment losses relating to the Company’s New Brunswick cash generating unit ("CGU") which includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The impairment losses resulted primarily from the Government of New Brunswick’s announcement, on May 27, 2016, of its decision to continue a moratorium on hydraulic fracturing for an indefinite period resulting in a material reduction in the Company’s undeveloped reserves. This decrease in reserves was partially offset by an increase in estimated future natural gas revenues due to lower transportation costs expected as a result of an anticipated increase in the Company’s sales to local markets.

The impairment losses were based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount of $43 million. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves, using forecast prices and costs and a discount rate of 10 percent. The key values used to determine the recoverable amount are classified as level 2 and level 3 in the fair value hierarchy classifications (see December 31, 2016 financial statements note 3p). The impairment losses were allocated as follows:

(thousands of dollars)

	2016	2015
Oil and gas properties and production facilities	**$ 15,600**	$ 21,100
Exploration and evaluation assets	**100**	200
	$ 15,700	$ 21,300

12. Property, plant and equipment (continued)

For the year ended December 31, 2016, the Company utilized the following forecast prices in the fair value calculation:

	2017	2018	2019	2020	2021	2022-2027	Thereafter
AGT ($US/mmbtu)	$ 4.60	$ 4.20	$ 4.40	$ 4.60	$ 4.80	$ 5.00-$5.48	+2%/year
McCully ($CDN/mscf)	$ 8.76	$ 7.83	$ 6.11	$ 6.14	$ 6.20	$ 6.43-$ 7.07	+2%/year
Exchange rate ($US/$CDN)	$ 0.750	$ 0.775	$ 0.800	$ 0.825	$ 0.850	$ 0.850	$ 0.850

The McCully gas prices were calculated by adjusting the Henry Hub gas prices to reflect the expected premiums received at Corridor's delivery point, transportation costs, if applicable, and heat content.

The fair value calculation was based on the following proved plus probable natural gas reserves, as updated by GLJ:

	2016	2015
Proved plus probable natural gas reserves (bscf)	**20.0**	61.8

The following table demonstrates the impact of a 1% change in the discount rate on the calculation of the impairment losses for the year ended December 31, 2016:

(thousands of dollars)

	2016	
	1% rate increase	**1% rate decrease**
Increase (decrease) in impairment losses	$ 2,189	$ (2,408)

13. Exploration and evaluation assets

(thousands of dollars)

	2016	2015
Balance, beginning of year	**$ 8,493**	$ 8,141
Additions	**357**	538
Impairment losses	**(100)**	(200)
Changes in future abandonment costs	**63**	14
Balance, end of year	**$ 8,813**	$ 8,493

For the year ended December 31, 2016, the Company recorded impairment losses of $100 thousand (December 31, 2015 - $200 thousand) relating to the impairment of the Company's New Brunswick CGU, as explained in note 12.

14. Investment in Anticosti partnership

(thousands of dollars)

	2016	2015
Balance, beginning of year	**$ 13,790**	$ 12,511
Gain on sale of exploration assets	**110**	1,260
Contributions	**135**	163
Equity loss	**(137)**	(144)
Balance, end of year	**$ 13,898**	$ 13,790

14. Investment in Anticosti partnership (continued)

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

During the year ended December 31, 2016, a gain on sale of $110 thousand (December 31, 2015 - $1,260 thousand) was recognized to reflect the benefit received by Corridor from the funding by RQ and Saint-Aubin of $4,641 thousand (December 31, 2015 - $9,255 thousand) in connection with their commitment to the Anticosti Hydrocarbons' exploration program.

The combined statements of financial position of Anticosti Hydrocarbons and Anticosti Hydrocarbons General Partner Inc. is summarized as follows:

(thousands of dollars)

	December 31 2016	December 31 2015
Non-current assets	**$ 127,212**	$ 122,961
Current assets	**1,208**	2,246
	$ 128,420	$ 125,207
Current liabilities	**$ 474**	$ 1,287
Non-current liabilities	**52**	22
	526	1,309
Partners' capital	**127,894**	123,898
	$ 128,420	$ 125,207

The combined statements of losses of Anticosti Hydrocarbons and Anticosti Hydrocarbons General Partner Inc. is summarized as follows:

(thousands of dollars)

	2016	2015
Total expenses	**$ 630**	$ 576
Net loss	**$ 630**	$ 576

The reconciliation of Corridor's investment in the Anticosti partnership to Corridor's partner capital in the Statement of changes in partners' capital of Anticosti Hydrocarbons is as follows:

(thousands of dollars)

	December 31 2016	December 31 2015
Corridor's partner capital in Anticosti Hydrocarbons	**$ 58,598**	$ 58,600
Less fair value of licenses recognized in Anticosti Hydrocarbons	**(58,600)**	(58,600)
Transfer of exploration and evaluation assets at Corridor's carrying value	**10,600**	10,600
Cumulative gain recognized for the funding by other partners of the Anticosti exploration program	**3,300**	3,190
Corridor's investment in the Anticosti partnership	**$ 13,898**	$ 13,790

15. Intangible assets

(thousands of dollars)

	2016	2015
Cost		
Balance, beginning and end of year	**$ 479**	$ 479
Accumulated amortization		
Balance, beginning of year	**$ 328**	$ 279
Amortization	**48**	49
Balance, end of year	**376**	328
Net book value, end of year	**$ 103**	$ 151

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

(thousands of dollars)

	December 31 2016	December 31 2015
Trade payables	**$ 385**	$ 528
Accrued liabilities and deferred revenue	**437**	533
Payables to joint venture partners	**26**	66
Deferred share units payable *(note 19b)*	**77**	-
	$ 925	$ 1,127

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

17. Decommissioning liability

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

(thousands of dollars)

	2016	2015
Balance, beginning of year	**$ 9,121**	$ 8,276
Change in discount rate	**455**	231
Change in estimate	**(265)**	374
Finance costs	**325**	240
Balance, end of year	**$ 9,636**	$ 9,121

The total undiscounted amount of estimated cash flows required to settle these obligations is $14,406 thousand (December 31, 2015 - $14,828 thousand). Management estimates the settlement of these obligations between 2017 and 2038. At December 31, 2016, a risk-free rate of 1.97% (December 31, 2015 – 2.37%) and an inflation rate of 2% (December 31, 2015 – 2%) were used to calculate the estimated fair value of the decommissioning liability.

18. Capital stock

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

b) Issued and outstanding

(thousands of dollars and thousands of shares)

	2016		2015	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning and end of year	**88,622**	**$ 247,685**	88,622	$ 247,685

19. Share-based compensation

a) Stock options

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. The stock option plan is limited to 8,262,513 common shares with no more than 5% being issued to any one officer, director or employee. On May 12, 2014, the Board of Directors determined that non-employee directors would no longer be eligible to receive stock option grants. The exercise price of each option is based on the market price for the common share on the close of the day prior to the date the option was granted. Options granted under the plan generally vest over a three year period and expire five years after the grant date. Participants of the stock option plan can elect to surrender any vested option in exchange for a cash payment based on the difference between the market value of the common share and the exercise price of the option. The Board of Directors has the sole discretion to consent or deny this election.

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

	2016		2015	
	Number of options (000's)	**Weighted average exercise price**	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of year	**3,431**	**$ 1.28**	3,649	$ 1.28
Granted	**827**	**$ 0.40**	-	-
Forfeited and cancelled	**(483)**	**$ 1.07**	(218)	$ 1.27
Options outstanding, end of year	**3,775**	**$ 1.12**	3,431	$ 1.28
Options exercisable, end of year	**2,950**	**$ 1.23**	2,594	$ 1.34

The range of exercise prices of stock options outstanding and exercisable as at December 31, 2016 is as follows:

(thousands of options)

	Outstanding options			**Exercisable options**	
Exercise prices	**Number of options outstanding**	**Weighted average remaining term (years)**	**Weighted average exercise price**	**Number of options exercisable**	**Weighted average exercise price**
$ 0.40 - $ 0.99	2,174	1.89	$ 0.63	1,649	$ 0.71
$ 1.00 - $ 1.99	900	2.88	$ 1.24	600	$ 1.24
$ 2.00 - $ 2.49	701	0.01	$ 2.46	701	$ 2.46
	3,775	1.78	$ 1.12	2,950	$ 1.23

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

	2016	2015
Weighted average fair value of options granted	**$ 0.21**	-
Risk-free interest rate	**0.4%**	-
Expected life (years)	**4.0**	-
Expected volatility	**72%**	-

For the year ended December 31, 2016, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of $277 thousand relating to the stock option plan (December 31, 2015 - $427 thousand).

19. Share-based compensation (continued)

b) Deferred share units

The Company has a deferred share unit ("DSU") plan for directors. Each vested DSU will automatically be redeemed on the third business day after the date the director ceases to be a director of Corridor. When redeemed, each vested DSU will be paid based on the weighted average trading price of the common shares over the five previous trading days.

The following table summarizes the changes in the outstanding DSUs:

(thousands of dollars and thousands of DSUs)

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number of DSUs	**Amount**	Number of DSUs	Amount
DSUs granted during the year	**137**	**$ 64**	-	-
Fair value adjustment during the year	**-**	**13**	-	-
DSUs, end of year	**137**	**$ 77**	-	-

The DSU liability as of December 31, 2016 of $77 thousand is based on a fair value of $0.56 which is the Company's closing share price at December 31, 2016.

20. Supplemental cash flow information

(thousands of dollars)

	2016	2015
Change in non-cash operating working capital:		
Receivables	**$ (570)**	$ 1,036
Prepaids and security deposits	**(4)**	32
Accounts payable and accrued liabilities	**(154)**	3
	$ (728)	$ 1,071
Change in non-cash investing working capital:		
Receivables	**$ (36)**	$ 752
Accounts payable and accrued liabilities	**(125)**	(2,597)
	$ (161)	$ (1,845)
Interest received	**$ 239**	$ 256

21. Risk management

a) The Company is exposed to the following risks:

i) 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.

21. Risk management (continued)

ii) Commodity price risk

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

Financial derivatives

The Company has the following outstanding financial derivative contracts at December 31, 2016:

Type	Period	Volume	Price	Index
Swap	January 1, 2017 to March 31, 2017	2,500 mmbtu per day	$US6.50/mmbtu	Algonquin city-gates
Swap	January 1, 2017 to January 31, 2017	1,000 mmbtu per day	$US9.55/mmbtu	Algonquin city-gates
Swap	January 1, 2017 to February 28, 2017	1,000 mmbtu per day	$US7.30/mmbtu	Algonquin city-gates

The financial derivative contracts are marked-to-market at the end of each reporting period with the following financial derivatives loss reflected in the Statement of Loss and Comprehensive Loss:

	2016	2015
Realized financial derivatives loss	$ 121	-
Unrealized financial derivatives loss	253	-
Financial derivatives loss	$ 374	-

When assessing the potential impact of natural gas price changes on the financial derivative contracts outstanding as at December 31, 2016 of $253 thousand, a 10% increase in natural gas prices would increase the unrealized financial derivatives loss by $319 thousand, while a 10% decrease in natural gas prices would decrease the unrealized financial derivatives loss by $319 thousand.

Physical delivery contracts

The Company has a forward sale agreement for the period from January 1, 2017 to March 31, 2017 for an average of 4,755 mmbtu per day of natural gas production. This production will continue to be sold based on daily natural gas prices at Algonquin city-gates but will be sold at a different delivery point therefore incurring lower transportation expenses.

The Company's physical delivery contracts are not considered financial instruments, therefore no asset or liability has been recognized.

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 December 31, 2016, the Company was holding cash and cash equivalents of $27,272 thousand.

The Company's financial liabilities are all due within one year. Given the Company's available liquid resources and the Company's 2017 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities.

iv) 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.

21. Risk management (continued)

The Company had the following financial instruments denominated in U.S. dollars at the Statement of Financial Position dates.

(thousands of U.S. dollars)

	December 31, 2016	December 31, 2015
Cash	**$ 200**	$ 2
Receivables	**1,286**	893
Payables	**(188)**	-
Financial instruments in U.S. dollars	**$ 1,298**	$ 895

At December 31, 2016, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately $87 thousand in the Company's net loss (December 31, 2015 – $45 thousand) due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately $87 thousand in the Company's net loss (December 31, 2015 – $45 thousand).

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 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.

22. Related party transactions

a) Remuneration of Directors and Senior Management

(thousands of dollars)

	2016	2015
Wages and benefits	**$ 820**	$ 1,230
Directors' fees and DSU expense	**306**	299
Share-based compensation	**248**	401
	$ 1,374	$ 1,930

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes Corridor's President, Chief Financial Officer, Chief Geologist, Chief Geophysicist and Production Operations Manager. Wages and benefits include salary, bonuses, severance payments and benefits during the year. Share-based compensation includes expenses relating to Corridor's stock option plan as disclosed in note 19.

23. Commitments

a) Gas sales

The Company has a long term agreement to sell, at market rates, all of its natural gas produced from the McCully Field and surrounding areas in southern New Brunswick to Repsol Energy Canada Ltd. for resale to natural gas markets in Maritimes Canada and the Northeast United States.

b) Letters of credit

At December 31, 2016, the Company had the following irrevocable standby letters of credit issued by a Canadian chartered bank:

(thousands of dollars)	**Amount**
Letter of credit expiring June 27, 2017	**$ 350**
Letters of credit expiring June 3, 2017	**300**
Letter of credit expiring July 15, 2020	**380**
	$ 1,030

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

c) Operating leases

The Company has operating lease agreements for office space, land and other equipment. For the year ended December 31, 2016, the rent expense under these leases was $228 thousand (December 31, 2015 - $320 thousand).

The future minimum annual lease payments under the operating leases are as follows:

(thousands of dollars)	**Amount**
2017	**$ 253**
2018	**187**
2019	**173**
2020	**75**
2021	**70**
Thereafter	**201**
	$ 959

d) Commitments

The maturities of the Company's commitments as of December 31, 2016 are as follows:

(thousands of dollars)	**Total**	2017	2018	2019	2020	Thereafter
Operating leases	**$ 959**	$ 253	$ 187	$ 173	$ 75	$ 271
Decommissioning liabilities	**14,406**	233	-	-	-	14,173
	$ 15,365	$ 486	$ 187	$ 173	$ 75	$ 14,444

24. Contingencies

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

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