Third Quarter 2017
Management's Discussion and Analysis
As of November 13, 2017

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the three and nine months ended September 30, 2017 should be read in conjunction with Corridor's unaudited condensed financial statements and notes thereto for the three and nine months ended September 30, 2017, audited financial statements and notes thereto for the year ended December 31, 2016 and the MD&A for the year ended December 31, 2016 ("2016 Annual MD&A"), copies of which are available on the Company's website at www.corridor.ca and through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

All amounts referred to in this MD&A are in Canadian dollars unless otherwise stated.

Additional information about Corridor, including its annual information form for the year ended December 31, 2016 (the "Annual Information Form"), is available on SEDAR 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 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 and an offshore conventional hydrocarbon prospect in the Gulf of St. Lawrence.

Selected Financial Information

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars except per share amounts	**2017**	2016	**2017**	2016
Sales	**-**	$ 2,167	**$ 4,513**	$ 11,185
Net income (loss)	**$ 3,826**	$ (1,261)	**$ 4,141**	$ (41,607)
Net income (loss) per share – basic and diluted	**$ 0.043**	$ (0.014)	**$ 0.047**	$ (0.469)
Cash flow from operations (1)	**$ (1,509)**	$ 233	**$ 892**	$ 3,585
Capital expenditures	**$ 127**	$ 41	**$ 300**	$ 245
Total assets	**$ 107,849**	$ 92,149	**$ 107,849**	$ 92,149

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

Corridor's natural gas sales are priced at Algonquin city-gates ("AGT"). Prices for natural gas at the AGT market are typically higher than prices in other areas of North America. In recent years, the AGT market has been characterized by excess demand during the winter season resulting in elevated prices for natural gas in the winter as compared to prices during other periods of the year. To take advantage of the expected significant differential in the sale price of natural gas at AGT for the winter season relative to other periods, management first adopted a production optimization strategy in 2015, which has continued for each of 2016 and 2017. This production optimization strategy results in shutting-in much of Corridor's producing natural gas wells in the McCully Field in New Brunswick during low summer/fall season prices and timing the start-up of production with peak winter pricing to maximize the recovery of flush volumes. Due to a build-up in formation pressure in the wells during shut-in periods, the wells typically produce at increased flush rates when put back on production. The timing in the shut-in of production depends upon many factors, including expectations of prices at any point in time. Corridor shut-in most of its natural gas production starting in April 2017 and expects to partially recommence production during November 2017, with a significant ramp-up of production expected in December 2017.

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 September 30		Nine months ended September 30	
thousands of dollars	**2017**	2016	**2017**	2016
Cash provided by (used in) operating activities	**$ (1,292)**	$ 675	**$ 2,346**	$ 4,183
Less:				
Decrease in non-cash operating working capital	**217**	442	**1,454**	598
Cash flow from operations	**$ (1,509)**	$ 233	**$ 892**	$ 3,585

Forward Looking Information

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

- exploration and development plans of Corridor;
- natural gas prices (including premiums at AGT during the winter period);
- royalty payments in respect of historical production;
- future taxable profits;
- capital expenditures;
- sources of funding; and
- government regulation.

Statements relating to "reserves" are forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described, as applicable, exist in the quantities predicted or estimated and can profitably be produced in the future.

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

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to (including the terms of its hedging and forward sale contracts), 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. 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.

Q3 2017 Financial Summary

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2017**	2016	**2017**	2016
Sales	**-**	$ 2,167	**$ 4,513**	$ 11,185
Royalties	**-**	(39)	**(93)**	(222)
Revenues, net	**-**	2,128	**4,420**	10,963
Expenses				
Impairment losses	**-**	-	**-**	28,400
Depletion, depreciation and amortization	**42**	1,018	**2,045**	4,529
Transportation expense	**-**	770	**428**	3,204
Production expense	**607**	556	**1,906**	1,805
General and administrative expense	**718**	636	**2,044**	2,265
Financial derivatives loss (gain)	**66**	-	**(1,291)**	-
Write-down of assets	**-**	290	**-**	290
Share-based compensation expense	**73**	74	**216**	273
	1,506	3,344	**5,348**	40,766
Loss before the following items	**(1,506)**	(1,216)	**(928)**	(29,803)
Gain on disposition of assets	**5,589**	-	**5,589**	110
Interest and other	**(257)**	(19)	**(476)**	(358)
Equity loss	**-**	(26)	**(44)**	(100)
Income (loss) before income taxes	**3,826**	(1,261)	**4,141**	(30,151)
Deferred income tax expense	**-**	-	**-**	11,456
Net income (loss)	**$ 3,826**	$ (1,261)	**$ 4,141**	$ (41,607)

Third Quarter Summary

- Management's optimization strategy to shut-in wells at the McCully Field, which started in Q2 2017, continued throughout Q3 2017. As a result, Corridor had no natural gas production or natural gas sales in Q3 2017 as opposed to average natural gas production of 5.1 mmscfpd and natural gas sales of $1,878 thousand in Q3 2016. Corridor will continue to monitor forecast prices to determine when natural gas production should resume but expects to partially recommence production during November 2017, with a significant ramp-up of production expected in December 2017.

- During the quarter, Corridor and the Québec Government entered into a settlement agreement which facilitates an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. Under the settlement agreement, Corridor agreed to proceed with the cessation of all hydrocarbon exploration activities on Anticosti Island and the Québec Government paid $19.5 million to Corridor in consideration for, amongst other things, the prejudice suffered by Corridor in connection with its interests in Anticosti Hydrocarbons L.P. The Québec Government also agreed to reimburse Corridor for any further amounts expended prior to its departure from Anticosti Island, and to assume all abandonment and reclamation obligations in respect of three Anticosti wells in which Corridor has an interest outside of Anticosti Hydrocarbons L.P. The compensation received by Corridor resulted in a net gain on disposition of $5,589 thousand in Q3 2017.

- Corridor's cash flow from operations in Q3 2017 decreased to a negative $1,509 thousand from $233 thousand in Q3 2016 due to management's decision to shut-in wells at the McCully Field which resulted in no natural gas sales in Q3 2017. At September 30, 2017, Corridor had cash and cash equivalents of $48,892 thousand, working capital of $49,588 thousand and no outstanding debt.

- Corridor's net income increased to $3,826 thousand in Q3 2017 from a net loss of $1,261 thousand in Q3 2016 due primarily to the net gain on disposition of $5,589 thousand as a result of the Anticosti settlement agreement.

- During the quarter, the Company entered into an additional financial hedge at a fixed price of $US7.826/mmbtu for 2,500 mmbtupd of natural gas production for the period from December 1, 2017 to February 28, 2018.

Results of Operations

Sales

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2017**	2016	**2017**	2016
Natural gas	**-**	$ 1,878	**$ 4,204**	$ 10,397
Condensate	**-**	41	**47**	65
Natural gas and gas liquids sales	**-**	1,919	**4,251**	10,462
Gathering, processing & transportation fees	**-**	248	**262**	723
Sales	**-**	$ 2,167	**$ 4,513**	$ 11,185

Production volumes and pricing

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Natural gas production (mmscf)	**-**	472	**656**	1,835
Natural gas production per day (mmscfpd)	**-**	5.1	**2.4**	6.7
Natural gas selling price ($/mscf)	**-**	$ 3.98	**$ 6.41**	$ 5.66

Management's optimization strategy to shut-in wells at the McCully Field, which started on April 1, 2017, continued throughout Q3 2017. As a result, Corridor had no natural gas production or natural gas sales in Q3 2017 as opposed to average natural gas production of 5.1 mmscfpd and natural gas sales of $1,878 thousand in Q3 2016 as management had determined to only partially shut-in its natural gas production starting late in Q3 2016. Natural gas sales for the nine months ended September 30, 2017 decreased to $4,204 thousand from $10,397 thousand for the nine months ended September 30, 2016 and the average daily natural gas production decreased to 2.4 mmscfpd from 6.7 mmscfpd for the nine months ended September 30, 2016 for the same reason. Corridor will continue to monitor forecast prices to determine when natural gas production should resume but expects to partially recommence production during November 2017, with a significant ramp-up of production expected in December 2017.

Corridor owns the midstream facilities which process and transport gas from the McCully Field to the Maritimes and Northeast Pipeline ("M&NP"). Third party gas flowing through these facilities, which is currently limited to PCS's share of gas from the McCully Field, is charged a cost of service. The decrease in the gathering, processing and transportation ("GPT") fees to nil for Q3 2017 from $248 thousand for Q3 2016 and to $262 thousand for the nine months ended September 30, 2017 from $723 thousand for the nine months ended September 30, 2016 is due to the shut-in of natural gas production at the McCully Field starting on April 1, 2017 rather than late in Q3 2016.

Financial Derivatives Gain

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2017**	2016	**2017**	2016
Realized financial derivatives gain	**-**	-	**$ 1,094**	-
Change in unrealized gain (loss) on financial derivatives	**(66)**	-	**197**	-
Financial derivatives gain (loss)	**$ (66)**	-	**$ 1,291**	-

Starting in Q4 2016, Corridor began utilizing financial hedges to manage the risks associated with fluctuations in natural gas prices. In Q1 2017, Corridor recorded a realized financial derivatives gain of $1,094 thousand and a reversal of an unrealized loss of $253 thousand based on the settlement of 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.

Corridor recognized an unrealized loss on financial derivatives of $66 thousand in Q3 2017 based on outstanding contracts for financial hedges of 2,500 mmbtupd of natural gas production at a fixed price of $US7.40/mmbtu for the period from December 1, 2017 to March 31, 2018 and 2,500 mmbtupd at a fixed price of $US7.826/mmbtu for the period from December 1, 2017 to February 28, 2018. This unrealized loss on financial derivatives was based on estimated natural gas prices at September 30, 2017.

Royalty Expense

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Crown royalties	**-**	$ 39	**$ 93**	$ 222
Royalty expense per mscf ($/mscf)	**-**	$ 0.08	**$ 0.14**	$ 0.12
Percentage of natural gas and gas liquids sales	**-**	2.1%	**2.2%**	2.1%

Corridor's royalty expense decreased to nil and $93 thousand for the three and nine months ended September 30, 2017 from $39 thousand and $222 thousand for the three and nine months ended September 30, 2016 due primarily to lower natural gas sales as a result of the shut-in of natural gas production at the McCully Field starting on April 1, 2017.

The Company's royalty payments for the periods between November 1, 2009 and December 31, 2014 have been re-assessed by the New Brunswick Department of Finance ("DOF"), by way of a Notice of Debt, for a total of $300 thousand, with Corridor's share estimated at $200 thousand. In 2016, the Company filed a Notice of Appeal which was later dismissed by the DOF. During the quarter, the Company participated in a hearing before the Minister of Energy and Resource Development to present evidence and object to the amount owing under the Notice of Debt. A decision by the Minister is expected in Q4 2017. Corridor has not made a provision for any of the amount identified in the DOF's Notice of Debt.

Transportation Expense

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Transportation expense	**-**	$ 770	**$ 428**	$ 3,204
Transportation expense per mscf ($/mscf)	**-**	$ 1.63	**$ 0.65**	$ 1.75

Corridor incurred no transportation expense in Q3 2017 due to the shut-in of natural gas production at the McCully Field starting on April 1, 2017. Transportation expense for the nine months ended September 30, 2017 of $428 thousand also decreased from $3,204 thousand for the nine months ended September 30, 2016 as a result of 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 $1.75/mscf for the nine months ended September 30, 2016 to $0.65/mscf for the nine months ended September 30, 2017.

Production Expense

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Gross production expense	**$ 607**	$ 701	**$ 2,085**	$ 2,190
Third party recoveries	**-**	(145)	**(179)**	(385)
Net production expense	**$ 607**	$ 556	**$ 1,906**	$ 1,805
Net production expense per mscf ($/mscf)	**-**	$ 1.18	**$ 2.91**	$ 0.98

Gross production expense for Q3 2017 decreased to $607 thousand from $701 thousand for Q3 2016 and to $2,085 thousand for the nine months ended September 30, 2017 from $2,190 thousand for the nine months ended September 30, 2016 due primarily to the shut-in of natural gas production at the McCully Field starting on April 1, 2017 which resulted in lower overall production expenses and particularly lower utilities expense. Third party recoveries for the three and nine months ended September 30, 2017 decreased to nil and $179 thousand for the same reason.

Impairment Losses

thousands of dollars	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Impairment losses	**-**	-	**-**	$ 28,400

The Company recognized impairment losses of $28.4 million for the nine months ended September 30, 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 resulted from 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. Following this announcement, upon the request of the Company, GLJ Petroleum Consultants Ltd. ("GLJ") updated its reserves report on June 15, 2016 in respect of the McCully Field as at December 31, 2015 to take into account the continuation of the moratorium, resulting in a decrease in the estimate of proved natural gas reserves by 23.1 bscf to 18.8 bscf and in the estimate of proved plus probable natural gas reserves by 38.8 bscf to 22.9 bscf.

Depletion, Depreciation and Amortization

thousands of dollars	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Depletion, depreciation and amortization	**$ 42**	$ 1,018	**$ 2,045**	$ 4,529
Depletion, depreciation and amortization per mscf ($/mscf)	**-**	$ 2.46	**$ 3.46**	$ 2.77

Depletion expense is calculated using the unit-of-production method which is based on production volumes (excluding penalty wells) in relation to the proved reserve base. The decrease in depletion, depreciation and amortization ("DD&A") expense to $42 thousand and $2,045 thousand for the three and nine months ended September 30, 2017 from $1,018 thousand and $4,529 thousand for the three and nine months ended September 30, 2016 is due to the decrease in natural gas production in 2017 due to the shut-in of the McCully Field starting on April 1, 2017 and the decrease in the net book value of the depletion asset base following the recognition of net impairment losses of $15.7 million in 2016.

General and Administrative Expenses

thousands of dollars	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Gross expenses	**$ 738**	$ 641	**$ 2,121**	$ 2,355
Capitalized overhead	**(20)**	(5)	**(77)**	(54)
Operator recoveries	**-**	-	**-**	(36)
Net expenses	**$ 718**	$ 636	**$ 2,044**	$ 2,265

Gross general and administrative expenses ("G&A") increased to $738 thousand in Q3 2017 from $641 thousand during Q3 2016 due in part to increased consulting costs to evaluate new opportunities to deploy Corridor's working capital. G&A for the nine months ended September 30, 2017 decreased to $2,121 thousand from $2,355 for the nine months ended September 30, 2016 due to costs incurred relating to the New Brunswick Responsible Energy Development Alliance in 2016 and to lower legal costs in 2017.

Deferred Income Taxes

thousands of dollars	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Deferred income tax expense	**-**	-	**-**	$ 11,456
Blended Canadian statutory income tax rate	**-**	-	**-**	29.3%

During the nine months ended September 30, 2016, the Company wrote-down its deferred income tax asset balance of $11,456 thousand. Management determined it was no longer probable that there would be sufficient taxable profits and reversal of taxable temporary differences to facilitate the utilization of the underlying tax-deductible amounts, following the decrease in the proved plus probable reserves by GLJ in Q2 2016 and the associated lower expected future natural gas sales.

At September 30, 2017, the Company had approximately $172 million of tax pools available to be applied against future taxable income. Based on planned capital expenditure programs and current natural gas price assumptions, the Company does not expect to be cash taxable for the foreseeable future.

As of September 30, 2017, Corridor's income tax pools were approximately as follows:

thousands of dollars	
Canadian exploration expense	**$ 94,000**
Canadian development expense	**55,170**
Canadian oil and natural gas property expense	**2,990**
Undepreciated capital cost	**20,320**
	$ 172,480

Capital Expenditures

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Exploration, development and production activities	**$ 107**	$ 36	**$ 219**	$ 135
Capitalized overhead	**20**	5	**77**	54
Office and other assets	**-**	-	**4**	56
	$ 127	$ 41	**$ 300**	$ 245

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 September 30, 2017 and December 31, 2016 Statement of Financial Positions include:

- $2,033 thousand decrease in receivables, reflecting the shut-in of natural gas production in Q3 2017, and
- $13,898 thousand decrease in the investment in Anticosti partnership, following a settlement agreement with the Québec Government to end Corridor's participation in oil and gas exploration on Anticosti Island.

Cash Flow Summary

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Cash provided by (used in) operating activities	**$ (1,292)**	$ 675	**$ 2,346**	$ 4,183
Cash provided by financing activities	**-**	-	**13**	-
Cash provided by (used in) investing activities	**19,429**	(66)	**19,261**	(458)
Increase in cash and cash equivalents	**$ 18,137**	$ 609	**$ 21,620**	$ 3,725

The cash provided by operating activities decreased for the three and nine months ended September 30, 2017 due to the decrease in natural gas sales, mainly due to the shut-in of natural gas production at the McCully Field starting on April 1, 2017.

The cash provided by investing activities increased for the three and nine months ended September 30, 2017 due to the compensation received of $19.5 million from the Québec Government relating to the settlement agreement to end oil and gas exploration on Anticosti Island.

Outstanding Share Information

As of October 31, 2017, the outstanding share information was as follows:

Common shares outstanding	**88,655,299**
Stock options to purchase common shares	**3,264,833**
Total common shares outstanding after exercise of all stock options	**91,920,132**

thousands of dollars	
Total proceeds due on exercise of all stock options	**$ 2,576**

The weighted average exercise price for the stock options outstanding at October 31, 2017 was $0.79.

Summary of Quarterly Information

	2017			**2016**				**2015**
thousands of dollars, except per share amounts and average natural gas price	Three months ended			Three months ended				Three months ended
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	**Sep. 30**	Jun. 30	Mar. 31	Dec. 31
Natural gas sales	**-**	$ 38	$ 4,166	$ 2,199	**$ 1,878**	$ 2,205	$ 6,314	$ 3,433
Net income (loss)	**$ 3,826**	$ (1,510)	$ 1,825	$ 12,316	**$ (1,261)**	$ (41,629)	$ 1,283	$ (33,952)
Net income (loss) per share – basic and diluted	**$ 0.043**	$ (0.017)	$ 0.021	$ 0.139	**$ (0.014)**	$ (0.469)	$ 0.014	$ (0.383)
Natural gas production (mmscfpd)	**-**	0.1	7.2	3.0	**5.1**	6.9	8.1	5.3
Average natural gas price ($/mscf)	**-**	$ 3.86	$ 6.45	$ 7.88	**$ 3.98**	$ 3.53	$ 8.54	$ 6.99
Capital expenditures	**$ 127**	$ 74	$ 99	$ 175	**$ 41**	$ 123	$ 81	$ 163

Corridor's natural gas sales are priced at AGT. Prices for natural gas at the AGT market are typically higher than prices in other areas of North America. In recent years, the prices for natural gas have generally decreased, including prices at AGT, resulting in impairment losses to Corridor. As part of this general fall in prices, Corridor's management has undertaken strategies to maximize natural gas revenues (including entering into financial hedging contracts and restricting production during low pricing periods). Notwithstanding the general fall in prices, the AGT market has been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices during other periods of the year. 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 winter season relative to other periods, since 2015 Corridor has determined to shut-in much of its producing natural gas wells in the McCully Field in New Brunswick for a portion of the summer/fall period and to time the start-up of production with peak winter pricing to maximize the recovery of flush volumes. In addition to increasing revenues from production, an additional benefit of this strategy is the increase in natural gas production after the shut-in period as a result of the build-up in the formation pressure in the wells during the shut-in period.

The New Brunswick Government imposed a moratorium on hydraulic fracturing in December 2014, which moratorium was continued for an indefinite period on May 27, 2016. Corridor considers that all wells in New Brunswick require hydraulic fracture stimulation to be commercially productive. As a result of the New Brunswick Government's decision, Corridor has determined that it will not undertake any drilling or completion activities or incur associated capital expenditures in New Brunswick until the moratorium is lifted. This decision has resulted in reduced natural gas exploration and development activities, lower expected future production and a write-down by GLJ in the reserves for the McCully Field in Q2 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 September 30, 2017, the Company was holding cash and cash equivalents of $48,892 thousand, working capital of $49,588 thousand and had no outstanding debt. The Company has sufficient financial resources to undertake its planned activities in 2017 and assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales, recognizing that the Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place. Corridor does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties or any additional properties that may be acquired in the future. Future exploration and development of the Company's properties will depend, therefore, on the termination of the moratorium in New Brunswick, the receipt of required government approvals, the Company's cash flow from operations and its ability to obtain additional financing through joint ventures, debt financings, equity financings or other means. Failure to obtain any financing necessary for Corridor's capital expenditure plans may result in a delay in development or production on Corridor's properties.

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The President and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. During the three months ended September 30, 2017, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures of contingencies and commitments. Actual results could differ materially from those estimates. During the nine months ended September 30, 2017, there were no changes in the critical accounting estimates disclosed in Corridor’s 2016 Annual MD&A.

Changes in Accounting Policies

Corridor’s unaudited condensed financial statements for the nine months ended September 30, 2017 have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, and in accordance with IAS 34 – *Interim Financial Reporting*. These unaudited condensed financial statements have been prepared following the same accounting policies disclosed in note 3 of Corridor’s audited financial statements for the year ended December 31, 2016.

The following are the new accounting standards that have been issued but are not yet effective.

IFRS 15, Revenue from Contracts and Customers

IFRS 15, "*Revenue from Contacts and Customers*" ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "*Revenue*" and IAS 11, "*Construction Contracts*", and some revenue related interpretations. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services. The Company is currently evaluating the new standard and does not expect there to be a material impact on its financial statements. The Company anticipates there will be additional disclosure.

IFRS 9, Financial Instruments

IFRS 9, "*Financial Instruments*" ("IFRS 9") will replace IAS 39, "*Financial instruments: recognition and measurement*". The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company is currently evaluating the impact of this new standard on its financial statements.

IFRS 16, Leases

IFRS 16, "*Leases*" ("IFRS 16"), will replace IAS 17, "*Leases*". The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

Business Conditions and Risks

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

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

Risks Associated with Oil and Gas Exploration, Development and Production

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

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

Operational Risks

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

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

Substantial Capital Requirements and Financing

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

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

Volatility of Natural Gas and Oil Prices

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

Corridor's natural gas production is sold at prices referenced to AGT. The New England market has in recent years been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices during other periods of the year, 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, it is not known whether the required regulatory approvals will be received and, if the projects proceed, the timing of completion of these projects.

Government Regulation

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

Hydraulic Fracturing

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

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

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

Environmental

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

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

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.

Variations in Exchange Rates

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

Unaudited Statements of Income (Loss) and Comprehensive Income (Loss)

(thousands of dollars, except per share data)

For the	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Sales	**-**	$ 2,167	**$ 4,513**	$ 11,185
Royalties	**-**	(39)	**(93)**	(222)
Revenues, net	**-**	2,128	**4,420**	10,963
Expenses				
Impairment losses	**-**	-	**-**	28,400
Depletion, depreciation and amortization	**42**	1,018	**2,045**	4,529
Transportation expense	**-**	770	**428**	3,204
Production expense	**607**	556	**1,906**	1,805
General and administrative expense	**718**	636	**2,044**	2,265
Financial derivatives loss (gain) (*note 14a i*)	**66**	-	**(1,291)**	-
Write-down of assets	**-**	290	**-**	290
Share-based compensation expense (*note 12*)	**73**	74	**216**	273
	1,506	3,344	**5,348**	40,766
Loss before the following items	**(1,506)**	(1,216)	**(928)**	(29,803)
Gain on disposition of assets (*notes 7 & 9*)	**5,589**	-	**5,589**	110
Interest and other (*note 4*)	**(257)**	(19)	**(476)**	(358)
Equity loss (*note 9*)	**-**	(26)	**(44)**	(100)
Income (loss) before income taxes	**3,826**	(1,261)	**4,141**	(30,151)
Deferred income tax expense (*note 5*)	**-**	-	**-**	11,456
Net income (loss) and comprehensive income (loss)	**$ 3,826**	$ (1,261)	**$ 4,141**	$ (41,607)
Net income (loss) per share – basic and diluted	**$ 0.043**	$ (0.014)	**$ 0.047**	$ (0.469)
Weighted average number of common shares				
Basic	**88,655**	88,622	**88,653**	88,622
Diluted *(note 6)*	**88,927**	88,639	**88,799**	88,688

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

Unaudited Statements of Financial Position

(thousands of dollars)

As at	**September 30 2017**	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	**$ 48,892**	$ 27,272
Restricted cash	**650**	650
Receivables *(note 14a iv)*	**136**	2,169
Inventory held for sale	**276**	339
Prepaids and security deposits	**231**	113
	50,185	30,543
Non-current assets		
Property, plant and equipment *(note 8)*	**48,320**	50,881
Exploration and evaluation assets *(note 7)*	**8,897**	8,813
Investment in Anticosti partnership *(note 9)*	**-**	13,898
Intangible assets	**67**	103
Restricted cash	**380**	380
Total assets	**$ 107,849**	$ 104,618
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 541**	$ 925
Financial derivatives *(note 14a i)*	**56**	253
	597	1,178
Non-current liabilities		
Decommissioning liability *(note 10)*	**9,121**	9,636
Total liabilities	**9,718**	10,814
Shareholders' Equity		
Capital stock *(note 11)*	**247,704**	247,685
Contributed surplus *(note 12)*	**10,914**	10,747
Deficit	**(160,487)**	(164,628)
Total shareholders' equity	**98,131**	93,804
Total liabilities and shareholders' equity	**$ 107,849**	$ 104,618

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

Contingencies *(note 16)*

On behalf of the Board

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

Unaudited Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the	Nine months ended September 30 **2017**	2016
Capital stock, beginning of period	**$ 247,685**	$ 247,685
Exercise of stock options for cash	**13**	-
Amount previously expensed for stock options exercised	**6**	-
Capital stock, end of period	**$ 247,704**	$ 247,685
Contributed surplus, beginning of period	**$ 10,747**	$ 10,470
Share-based compensation expense *(note 12)*	**173**	220
Amount previously expensed for stock options exercised	**(6)**	-
Contributed surplus, end of period	**$ 10,914**	$ 10,690
Deficit, beginning of period	**$ (164,628)**	$ (135,337)
Net income (loss) and comprehensive income (loss)	**4,141**	(41,607)
Deficit, end of period	**$ (160,487)**	$ (176,944)
Shareholders' equity, end of period	**$ 98,131**	$ 81,431

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

Unaudited Statements of Cash Flows

(thousands of dollars)

For the	Nine months ended September 30 **2017**	2016
Operating Activities		
Net income (loss)	**$ 4,141**	$ (41,607)
Adjustments not affecting cash:		
Impairment losses and asset write-downs	**-**	28,690
Depletion, depreciation and amortization	**2,045**	4,529
Share-based compensation expense	**216**	273
Change in unrealized gain on financial derivatives	**(197)**	-
Deferred income tax expense	**-**	11,456
Gain on disposition of assets	**(5,578)**	(97)
Equity loss	**44**	100
Other operating activities	**221**	241
	892	3,585
Decrease in non-cash operating working capital *(note 13)*	**1,454**	598
Cash provided by operating activities	**2,346**	4,183
Financing Activities		
Proceeds from the exercise of stock options	**13**	-
Cash provided by financing activities	**13**	-
Investing Activities		
Property, plant and equipment expenditures	**(80)**	(59)
Exploration and evaluation expenditures	**(220)**	(186)
Contribution in Anticosti partnership	**(48)**	(108)
Proceeds on disposition of assets	**19,600**	15
Decrease (increase) in non-cash investing working capital *(note 13)*	**9**	(120)
Cash used in investing activities	**19,261**	(458)
Increase in cash and cash equivalents	**21,620**	3,725
Cash and cash equivalents, beginning of period	**27,272**	24,059
Cash and cash equivalents, end of period	**$ 48,892**	$ 27,784
Cash and cash equivalents consists of:		
Cash	**$ 9,514**	$ 8,537
Short-term investments	**39,378**	19,247
Cash and cash equivalents, end of period	**$ 48,892**	$ 27,784

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

Notes to the Unaudited Condensed Financial Statements
September 30, 2017

1. Nature of operations

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

2. Basis of presentation

These unaudited condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and in accordance with IAS 34 - *Interim Financial Reporting.* The unaudited condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016. These unaudited condensed financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2016.

On November 13, 2017, the unaudited condensed financial statements were approved by the Board of Directors and signed by the chair of the Audit Committee and the President and Chief Executive Officer of the Company.

3. New accounting standards

The following are the new accounting standards that have been issued but are not yet effective.

IFRS 15, "*Revenue from Contacts and Customers*" ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "*Revenue*" and IAS 11, "*Construction Contracts*", and some revenue related interpretations. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services. The Company is currently evaluating the new standard and does not expect there to be a material impact on its financial statements.

IFRS 9, "*Financial Instruments*" ("IFRS 9") will replace IAS 39, "*Financial instruments: recognition and measurement*". The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company is currently evaluating the impact of this new standard on its financial statements.

IFRS 16, "*Leases*" ("IFRS 16"), will replace IAS 17, "*Leases*". The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

4. Interest and other

Interest and other consist of the following:

(thousands of dollars)

	Three months ended September 30		**Nine months ended September 30**	
	2017	2016	**2017**	2016
Foreign exchange gains (losses)	**$ (289)**	$ 3	**$ (469)**	$ (304)
Interest and finance costs	**(72)**	(85)	**(221)**	(240)
Interest and other income	**104**	63	**214**	186
	$ (257)	$ (19)	**$ (476)**	$ (358)

Notes to the Unaudited Condensed Financial Statements September 30, 2017

5. Income taxes

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

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Income (loss) before income taxes	**$ 3,826**	$ (1,261)	**$ 4,141**	$ (30,151)
Blended Canadian statutory tax rate	**29.3%**	29.3%	**29.3%**	29.3%
Expected income tax expense (recovery)	**$ 1,121**	$ (369)	**$ 1,213**	$ (8,834)
Increase (decrease) resulting from:				
Deferred incomes taxes not recognized	**2,282**	351	**2,146**	9,405
Non-deductible (non-taxable)				
-gain on sale of exploration assets	**(3,436)**	-	**(3,436)**	(15)
-share-based compensation expense	**21**	22	**63**	80
Write-down of deferred tax assets	**-**	-	**-**	11,456
Effect of provincial tax rate change	**-**	-	**-**	(547)
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**12**	(4)	**14**	(89)
	-	-	**-**	$ 11,456

Following a decrease in estimated future natural gas prices and the announcement by the Government of New Brunswick of its decision to continue a moratorium on hydraulic fracturing for an indefinite period, the Company wrote-down its deferred income tax assets balance in 2016 as management determined it was no longer probable that there would be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax deductible amounts. As a result, the Company did not recognize deferred income tax expenses of $2,146 thousand for the nine months ended September 30, 2017.

6. Income per share

For the three and nine months ended September 30, 2017, stock options of 2,233 thousand and 2,741 thousand (three and nine months ended September 30, 2016 – 3,075 thousand) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

7. Exploration and evaluation assets

(thousands of dollars)

	Nine months ended September 30, 2017	Year ended December 31, 2016
Balance, beginning of period	**$ 8,813**	$ 8,493
Additions	**220**	357
Loss on disposition of assets	**(32)**	-
Impairment losses	**-**	(100)
Changes in future abandonment costs	**(104)**	63
Balance, end of period	**$ 8,897**	$ 8,813

During the quarter, no impairment was identified.

8. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at December 31, 2015	$ 242,842	$ 77,342	$ 2,829	$ 2,896	$ 325,909
Additions	3	-	-	60	63
Sale of assets	-	-	-	(67)	(67)
Transfer from current assets	-	-	176	-	176
Changes in future abandonment costs	127	-	-	-	127
Balance at December 31, 2016	$ 242,972	$ 77,342	$ 3,005	$ 2,889	$ 326,208
Additions	3	73	-	4	80
Changes in future abandonment costs	(632)	-	-	-	(632)
Balance at September 30, 2017	**$ 242,343**	**$ 77,415**	**$ 3,005**	**$ 2,893**	**$ 325,656**
Accumulated impairment, depletion and depreciation					
Balance at December 31, 2015	$ 191,465	$ 58,823	$ 2,534	$ 1,848	$ 254,670
Depletion or depreciation expense	3,995	976	-	126	5,097
Impairment losses	11,100	4,500	-	-	15,600
Sale of assets	-	-	-	(40)	(40)
Balance at December 31, 2016	$ 206,560	$ 64,299	$ 2,534	$ 1,934	$ 275,327
Depletion or depreciation expense	1,439	484	-	86	2,009
Balance at September 30, 2017	**$ 207,999**	**$ 64,783**	**$ 2,534**	**$ 2,020**	**$ 277,336**
Net book value					
At December 31, 2016	$ 36,412	$ 13,043	$ 471	$ 955	$ 50,881
At September 30, 2017	**$ 34,344**	**$ 12,632**	**$ 471**	**$ 873**	**$ 48,320**

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $3,437 thousand for the nine months ended September 30, 2017 (nine months ended September 30, 2016 - $3,518 thousand).

During the quarter, no impairment was identified.

9. Investment in Anticosti partnership

(thousands of dollars)

	Nine months ended September 30, 2017	Year ended December 31, 2016
Balance, beginning of period	**$ 13,898**	$ 13,790
Proceeds of disposition	**(19,548)**	-
Gain on disposition of assets	**5,646**	110
Contributions	**48**	135
Equity loss	**(44)**	(137)
Balance, end of period	**$ -**	$ 13,898

During the quarter, Corridor received $19.5 million from the Québec Government as part of a settlement agreement effective July 28, 2017 which facilitates an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. The Québec Government has also agreed to assume all abandonment and reclamation obligations in respect of three Anticosti wells in which Corridor has an interest outside of Anticosti Hydrocarbons L.P. As a result, Corridor has recognized a gain on disposition of assets of $5,646 thousand and has decreased its decommissioning liability by $125 thousand.

10. Decommissioning liability

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

(thousands of dollars)

	Nine months ended September 30, 2017	Year ended December 31, 2016
Balance, beginning of period	$ 9,636	$ 9,121
Change in discount rate	(611)	455
Change in estimate	(125)	(265)
Finance costs	221	325
Balance, end of period	$ 9,121	$ 9,636

The total undiscounted amount of estimated cash flows required to settle these obligations is $14,016 thousand (December 31, 2016 - $14,406 thousand). Management estimates the settlement of these obligations between 2018 and 2038. At September 30, 2017, a risk-free rate of 2.18% (December 31, 2016 – 1.97%) and an inflation rate of 2% (December 31, 2016 – 2%) was used to calculate the estimated fair value of the decommissioning liability.

11. Capital stock

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

b) Issued and outstanding

(thousands of dollars and thousands of shares)

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	88,622	$ 247,685	88,622	$ 247,685
Exercise of stock options for cash and	33	13	-	-
amount recognized from contributed surplus	-	6	-	-
Balance, end of period	88,655	$ 247,704	88,622	$ 247,685

12. 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 to or deny this election.

12. Share-based compensation (continued)

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

(thousands of options)

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**3,775**	**$ 1.12**	3,431	$ 1.28
Granted	**508**	**$ 0.52**	827	$ 0.40
Forfeited and cancelled	**(852)**	**$ 2.15**	(483)	$ 1.07
Exercised	**(33)**	**$ 0.40**	-	-
Options outstanding, end of period	**3,398**	**$ 0.78**	3,775	$ 1.12
Options exercisable, end of period	**2,445**	**$ 0.80**	2,950	$ 1.23

The range of exercise prices of stock options outstanding and exercisable as at September 30, 2017 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	2,498	1.98	$ 0.61	1,845	$ 0.66
$ 1.00 - $ 1.99	900	2.13	$ 1.24	600	$ 1.24
	3,398	2.02	$ 0.78	2,445	$ 0.80

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

	Nine months ended September 30, 2017	Year ended December 31, 2016
Weighted average fair value of options granted	**$ 0.27**	$ 0.21
Risk-free interest rate	**1.0%**	0.4%
Expected life (years)	**4.0**	4.0
Expected volatility	**69%**	72%

For the three and nine months ended September 30, 2017, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $44 thousand and $173 thousand relating to the stock option plan (three and nine months ended September 30, 2016 - $64 thousand and $220 thousand).

b) Deferred share units

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

12. Share-based compensation (continued)

The following table summarizes the changes in the outstanding DSUs:

(thousands of dollars and thousands of DSUs)

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of DSUs	**Amount**	Number of DSUs	Amount
DSUs, beginning of period	**137**	**$ 77**	-	-
DSUs granted during the period	**62**	**30**	137	$ 64
Change in fair value during the period	**-**	**13**	-	13
DSUs, end of period	**199**	**$ 120**	137	$ 77

The DSU liability as of September 30, 2017 is based on a fair value of $0.60 which is the Company's closing share price at September 30, 2017.

13. Supplemental cash flow information

(thousands of dollars)

	Nine months ended September 30	
	2017	2016
Change in non-cash operating working capital:		
Receivables	**$ 2,004**	$ 1,172
Prepaids and security deposits	**(143)**	(119)
Accounts payable and accrued liabilities	**(407)**	(455)
	$ 1,454	$ 598
Change in non-cash investing working capital:		
Receivables	**$ 29**	$ (4)
Accounts payable and accrued liabilities	**(20)**	(116)
	$ 9	$ (120)

14. Risk management

a) The Company is exposed to the following risks:

i) Commodity price risk

Corridor enters 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 had the following financial derivative contracts at September 30, 2017.

Type	Period	Daily Volume	Price	Index
Swap	December 1, 2017 to March 31, 2018	2,500 mmbtu	$US7.40/mmbtu	Algonquin city-gates-daily
Swap	December 1, 2017 to February 28, 2018	2,500 mmbtu	$US7.826/mmbtu	Algonquin city-gates-monthly

As security for this financial swap, the bank has the authority to hold Corridor funds in the amount of $US3.7 million.

14. Risk management (continued)

The following financial derivatives gain is reflected in the Statement of Income:

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Realized financial derivatives gain	**-**	-	**$ 1,094**	-
Change in unrealized gain (loss) on financial derivatives	**(66)**	-	**197**	-
Financial derivatives gain (loss)	**$ (66)**	-	**$ 1,291**	-

Physical delivery contracts

The Company has forward sale agreements for the period from December 1, 2017 to March 31, 2018 for substantially all of its natural gas production. This production will be sold based on a combination of daily and monthly 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.

ii) Foreign currency risk

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

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

(thousands of U.S. dollars)

	September 30, 2017	December 31, 2016
Cash	**$ 5,821**	$ 200
Receivables	**-**	1,286
Payables	**(44)**	(188)
Financial instruments in U.S. dollars	**$ 5,777**	$ 1,298

At September 30, 2017, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of $360 thousand in the Company's net income (September 30, 2016 – $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 an increase of $360 thousand in the Company's net income (September 30, 2016 – $45 thousand).

iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2017, the Company was holding cash and cash equivalents of $48,892 thousand.

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

14. Risk management (continued)

iv) Credit risk

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

b) Management of capital

Management's objectives when managing capital are to provide an adequate return to its shareholders and to safeguard the Company's ability to obtain financing and have access to capital. In the management of capital, the Company includes shareholders' equity and cash and cash equivalents. To facilitate the management of its capital structure, the Company prepares annual expenditure and operating budgets that are updated as necessary depending on success factors, industry conditions and operating cash flow. These annual and updated budgets are approved by the Board of Directors. Corridor has the ability to adjust its capital structure by making modifications to its capital expenditure program.

15. Financial instruments

The Company has classified each financial instrument into the following categories:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets and consist of trade receivables. Their carrying values approximate fair values because of their short term to maturity.

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. They approximate their fair values because of their short term to maturity or because the interest rates approximate market rates at the end of the period.

iii) Fair value through profit or loss

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

16. Contingencies

The Company's royalty payments for the periods between November 1, 2009 and December 31, 2014 have been re-assessed by the New Brunswick Department of Finance ("DOF"), by way of Notice of Debt, for a total of $300 thousand, with Corridor's share estimated at $200 thousand. In 2016, the Company filed a Notice of Appeal to object to the Notice of Debt which was later dismissed by the DOF. During the quarter, the Company participated in a hearing before the Minister of Energy and Resource Development to present its evidence and object to the amount owing under the Notice of Debt. A decision is expected in Q4 2017. Corridor has not made a provision for any of the amount identified in the DOF's Notice of Debt.

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.