



## 2017 Management's Discussion and Analysis

As of March 28, 2018

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, 2017 should be read in conjunction with Corridor's audited financial statements and notes thereto for the year ended December 31, 2017.

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, 2017 (the "Annual Information Form"), is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at [www.sedar.com](http://www.sedar.com).

### Introduction

Corridor is a Canadian junior resource company engaged in the exploration for and development and production of petroleum and natural gas onshore in New Brunswick and 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

<i>thousands of dollars except per share amounts</i>	Three months ended December 31		Twelve months ended December 31		
	2017	2016	2017	2016	2015
Sales	\$ 3,161	\$ 2,356	\$ 7,674	\$ 13,541	\$ 15,876
Net income (loss)	\$ 13,598	\$ 12,316	\$ 17,739	\$ (29,291)	\$ (31,879)
Net income (loss) per share - basic	\$ 0.153	\$ 0.139	\$ 0.200	\$ (0.330)	\$ (0.360)
Net income (loss) per share - diluted	\$ 0.153	\$ 0.139	\$ 0.200	\$ (0.330)	\$ (0.360)
Cash flow from operations <sup>(1)</sup>	\$ 1,549	\$ 722	\$ 2,441	\$ 4,307	\$ 6,726
Capital expenditures	\$ 2,729	\$ 175	\$ 3,029	\$ 420	\$ 937
Total assets	\$ 124,360	\$ 104,618	\$ 124,360	\$ 104,618	\$ 133,066

(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"), near Boston, Massachusetts. In recent years, the prices for natural gas have generally decreased, including prices at AGT, resulting in impairment losses to Corridor in 2015. 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, and the associated recovery of flush volumes, with peak winter pricing to maximize cash flow from operations and preserve Corridor's reserves for production in future years.

### Non-IFRS Financial Measures

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

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

<i>thousands of dollars</i>	<b>Three months ended December 31</b>		<b>Twelve months ended December 31</b>		
	<b>2017</b>	2016	<b>2017</b>	2016	2015
Cash provided by (used in) operating activities	<b>\$ (1,269)</b>	\$ (604)	<b>\$ 1,077</b>	\$ 3,579	\$ 7,797
Less: Increase (decrease) in non-cash operating working capital	<b>(2,818)</b>	(1,326)	<b>(1,364)</b>	(728)	1,071
Cash flow from operations	<b>\$ 1,549</b>	\$ 722	<b>\$ 2,441</b>	\$ 4,307	\$ 6,726

## 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;
- business strategies;
- the results of the CSEM survey at the Old Harry prospect;
- exploration and development plans of Corridor;
- 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.

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, 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 (including the terms of its hedging and forward sale contracts). 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, development and operating costs, 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 and contingent resources estimates, trading of common shares, seasonality, disclosure controls and procedures and internal controls over financial reporting, competition, conflicts of interest, issuance of debt, title to

properties, hedging, information systems, litigation, and aboriginal land and rights claims. 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 is on track to achieve its guidance for the period from April 1, 2017 to March 31, 2018 as disclosed in the press release dated February 13, 2018 (available on the Company's website at [www.corridor.ca](http://www.corridor.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com)). Corridor expects that lower natural gas prices in February and March 2018 will be largely offset by the Company's financial hedges in place during that period, daily production optimization efforts and a strengthening in the U.S. dollar.

## 2017 Summary

- In accordance with management's production optimization strategy to shut-in wells at the McCully Field in New Brunswick during low summer/fall season prices and timing the start-up of production with peak winter pricing, Corridor shut-in most of its natural gas production between April 2017 and December 2017 and partially shut-in its natural gas production between September 2016 and November 2016. As a result, the average daily natural gas production decreased to 2.5 mmcfpd in 2017 from 5.8 mmcfpd in 2016 and sales for 2017 decreased to \$7,674 thousand from \$13,541 thousand for 2016.
- As at December 31, 2017, Corridor had cash and cash equivalents of \$46,177 thousand, net working capital of \$46,918 thousand and no outstanding debt.
- Transportation expense decreased to \$438 thousand in 2017 from \$3,443 thousand in 2016 due to the decrease in natural gas production and to forward sale agreements in place for the delivery of natural gas production to the local Maritimes market as opposed to the New England market. The natural gas prices for volumes sold under these forward sale agreements are based on natural gas prices at AGT but are subject to lower transportation expenses. Corridor had forward sale agreements 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 which resulted in a decrease in transportation expense of approximately \$800 thousand over this period. For the period from December 1, 2017 to March 31, 2018, Corridor had forward sales agreements to the local Maritimes market for substantially all of its natural gas production resulting in an estimated decrease of approximately \$1.2 million in transportation expense over the term of the forward sale agreements.
- A key component of the Company's production optimization strategy is to enter into financial hedges to mitigate the risks associated with the volatility of natural gas prices when production resumes following a shut-in period at the McCully Field. Corridor has entered into the following financial hedges on natural gas production for the 2017/2018 winter season:
  - 2,500 mmbtupd at a fixed price of \$US7.40/mmbtu for the period from December 1, 2017 to March 31, 2018;
  - 2,500 mmbtupd at a fixed price of \$US7.826/mmbtu for the period from December 1, 2017 to February 28, 2018;
  - 2,500 mmbtupd at a fixed price of \$US11.00/mmbtu for the period from February 1, 2018 to February 28, 2018;
  - 2,500 mmbtupd at a fixed price of \$US6.15/mmbtu for the period from March 1, 2018 to March 31, 2018;
  - 5,000 mmbtupd at a fixed price of \$US3.325/mmbtu for the period from April 1, 2018 to April 30, 2018, and
  - 2,500 mmbtupd at a fixed price of \$US7.40/mmbtu for the period from December 1, 2018 to March 31, 2019.
- The settlement of the Company's financial hedges in 2017 resulted in realized financial derivatives gains of \$1,101 thousand which partially offset lower natural gas prices in Q1 2017 as compared to Q1 2016.
- Cash flow from operations decreased to \$2,441 thousand for the year ended December 31, 2017 from \$4,307 thousand for the year ended December 31, 2016 due to lower natural gas sales related to the increased duration of the shut-in period in 2017, partially offset by realized financial derivatives gains of \$1,101 thousand and lower transportation expenses in 2017.

- During the year, Corridor and the Québec Government entered into a settlement agreement which facilitated an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. Corridor held a 21.67% interest in Anticosti Hydrocarbons L.P., a joint venture with undeveloped lands on Anticosti Island. Under the settlement agreement, Corridor agreed to proceed with the cessation of all hydrocarbon exploration activities on Anticosti Island, and the Québec Government paid Corridor \$19.5 million 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 2017.
- In its reserves report effective as at December 31, 2017 ("GLJ Reserves Report"), GLJ Petroleum Consultants Ltd. ("GLJ") increased the estimate of future natural gas revenues in the McCully Field in New Brunswick due to an increase in the estimate of reserves and forecast natural gas prices. GLJ increased the estimate of proved plus probable reserves by 2.5 bscf over its estimate for December 31, 2016 due to a combination of higher annual production forecasts and improved well recovery estimates and increased the estimate of forecast natural gas prices due to expected higher sales to the local Maritimes market. GLJ's increase in the estimate of future natural gas revenues resulted in the recognition of a reversal of impairment losses of \$12 million.
- Corridor's net income increased to \$17,739 thousand for the year ended December 31, 2017 from a net loss of \$29,291 thousand for the year ended December 31, 2016 due primarily to the recognition of a net gain on disposition of \$5,589 thousand, a reversal of impairment losses of \$12 million and a reversal of deferred income tax assets of \$2,430 thousand during the year ended December 31, 2017 as compared to the recognition of impairment losses of \$15.7 million and a write-down of deferred income tax assets of \$11,456 thousand for the year ended December 31, 2016.
- During Q4 2017, a third party-operated Controlled Source Electromagnetic ("CSEM") survey was completed over the Newfoundland and Labrador portion of the Old Harry prospect. The processing and interpretation of the CSEM survey results are now expected to be completed by the end of April 2018.

## 2017 Financial Summary

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Sales	\$ 3,161	\$ 2,356	\$ 7,674	\$ 13,541
Royalty expense	(301)	(54)	(394)	(276)
Revenues, net	<b>2,860</b>	2,302	<b>7,280</b>	13,265
Expenses				
Impairment losses (reversal)	<b>(12,000)</b>	(12,700)	<b>(12,000)</b>	15,700
Depletion, depreciation and amortization	<b>604</b>	616	<b>2,649</b>	5,145
Transportation expense	<b>10</b>	239	<b>438</b>	3,443
Production expense	<b>613</b>	616	<b>2,519</b>	2,421
General and administrative expenses	<b>879</b>	704	<b>2,923</b>	2,969
Financial derivatives loss	<b>1,449</b>	374	<b>158</b>	374
Share-based compensation expense	<b>24</b>	81	<b>240</b>	354
Other write-downs and losses	<b>248</b>	28	<b>248</b>	318
	<b>(8,173)</b>	(10,042)	<b>(2,825)</b>	30,724
Income (loss) before the following items	<b>11,033</b>	12,344	<b>10,105</b>	(17,459)
Gain on disposition of assets	<b>22</b>	-	<b>5,601</b>	110
Interest and other	<b>113</b>	9	<b>(353)</b>	(349)
Equity loss	-	(37)	<b>(44)</b>	(137)
Income (loss) before income taxes	<b>11,168</b>	12,316	<b>15,309</b>	(17,835)
Deferred income tax expense (recovery)	<b>(2,430)</b>	-	<b>(2,430)</b>	11,456
Net income (loss)	<b>\$ 13,598</b>	\$ 12,316	<b>\$ 17,739</b>	\$ (29,291)

## Fourth Quarter Summary

- Sales for Q4 2017 increased to \$3,161 thousand from \$2,356 thousand in Q4 2016 due primarily to an increase in the average natural gas price to \$12.51/mscf in Q4 2017 from \$7.88/mscf in Q4 2016 partially offset by the decrease in natural gas production to 2.7 mmscfpd in Q4 2017 from 3.0 mmscfpd in Q4 2016. The decrease in the average daily natural gas production is due to the shut-in of all the McCully wells in October and November 2017 as compared to only a partial shut-in of the McCully wells in October and November 2016.
- Corridor's cash flow from operations for Q4 2017 increased to \$1,549 thousand from \$722 thousand in Q4 2016 due primarily to higher natural gas sales and lower transportation expense in Q4 2017.
- Net income for Q4 2017 increased to \$13,598 thousand from \$12,316 thousand for Q4 2016 due to the write-up of deferred income tax assets of \$2,430 thousand partially offset by the recognition of a financial derivatives loss of \$1,449 thousand in Q4 2017 due to the increase in forecast natural gas prices at December 31, 2017.

## Results of Operations

### Sales

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Natural gas	\$ 3,088	\$ 2,199	\$ 7,292	\$ 12,596
Condensate	-	4	47	69
Natural gas and gas liquids sales	3,088	2,203	7,339	12,665
Gathering, processing & transportation fees	73	153	335	876
Sales	\$ 3,161	\$ 2,356	\$ 7,674	\$ 13,541

### Production volumes and pricing

	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Natural gas production (mmscf)	247	279	903	2,114
Natural gas production per day (mmscfpd)	2.7	3.0	2.5	5.8
Natural gas selling price (\$/mscf)	\$ 12.51	\$ 7.88	\$ 8.08	\$ 5.96

Natural gas sales increased to \$3,088 thousand for Q4 2017 from \$2,199 thousand in Q4 2016 due to an increase in the average natural gas price to \$12.51/mscf in Q4 2017 from \$7.88/mscf in Q4 2016 partially offset by the decrease in natural gas production to 2.7 mmscfpd in Q4 2017 from 3.0 mmscfpd in Q4 2016. The decrease in the average daily natural gas production is due to the shut-in of all the McCully wells in October and November 2017 as compared to only a partial shut-in of the McCully wells in October and November 2016.

For the year ended December 31, 2017, natural gas sales decreased to \$7,292 thousand from \$12,596 thousand for the year ended December 31, 2016 due to the decrease in the average daily natural gas production to 2.5 mmscfpd in 2017 from 5.8 mmscfpd in 2016. The decrease in natural gas production is due to management's decision to shut-in most of Corridor's natural gas wells at the McCully Field between April and December of 2017 as opposed to only partially shutting-in some McCully wells from September to November of 2016. Management had determined in each of 2016 and 2017 to shut-in producing natural gas wells 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 increase in Corridor's average realized natural gas sales price to \$8.08/mscf in 2017 from \$5.96/mscf in 2016 is primarily due to management's decision to shut-in most of the McCully wells in 2017 over a longer period of lower natural gas prices as compared to 2016 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 Nutrien Inc.'s ("Nutrien") (formerly Potash Corporation of Saskatchewan Inc.) share of gas from the McCully Field, is charged a cost of service. The decrease in the gathering, processing and transportation ("GPT") fees to \$73 thousand for Q4 2017 from \$153 thousand for Q4 2016 and to \$335 thousand for the year ended December 31, 2017 from \$876 thousand for the year ended December 31, 2016 is due to a

decrease in Nutrien's share of natural gas production as a result of the lower natural gas production in the McCully Field in 2017.

## Financial Derivatives Loss

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Change in unrealized loss on financial derivatives	\$ 1,456	\$ 253	\$ 1,259	\$ 253
Realized financial derivatives loss (gain)	(7)	121	(1,101)	121
Financial derivatives loss	\$ 1,449	\$ 374	\$ 158	\$ 374

In Q4 2016, Corridor began utilizing financial hedges to manage the risks associated with fluctuations in natural gas prices. The settlement of financial hedges in 2017 resulted in realized financial derivatives gains of \$1,101 thousand.

Corridor had the following financial hedges in place as of December 31, 2017: 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; 2,500 mmbtupd at a fixed price of \$US7.826/mmbtu for the period from December 1, 2017 to February 28, 2018; and 2,500 mmbtupd at a fixed price of \$US7.40/mmbtu for the period from December 1, 2018 to March 31, 2019. The calculation of the market value of these contracts as of December 31, 2017, based on forecast natural gas prices as of that date, resulted in the recognition of an unrealized loss on financial derivatives of \$1,512 thousand as of December 31, 2017 and a change in unrealized loss on financial derivatives of \$1,259 thousand for the year ended December 31, 2017.

## Royalty Expense

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Prior years royalty audit assessment	\$ 198	\$ -	\$ 198	\$ -
Royalty on current year sales	103	54	196	276
Royalty expense	\$ 301	\$ 54	\$ 394	\$ 276
Current year royalty expense per mscf (\$/mscf)	\$ 0.42	\$ 0.19	\$ 0.22	\$ 0.13
Percentage of natural gas and gas liquids sales	3.3%	2.4%	2.7%	2.2%

Corridor's royalty expense for Q4 2017 increased to \$301 thousand from \$54 thousand for Q4 2016 and to \$394 thousand for the year ended December 31, 2017 from \$276 thousand for the year ended December 31, 2016 due primarily to the payment of \$198 thousand relating to the reassessment by the New Brunswick Department of Finance ("DOF") of the Company's royalty payments for the periods between November 1, 2009 and December 31, 2014. In Q3 2017, the Company participated in a hearing before the Minister of Energy and Resource Development to present evidence and object to the DOF's reassessment. However, the Minister dismissed Corridor's appeal in Q4 2017 and the Company has determined not to pursue this matter any further.

## Transportation Expense

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Transportation expense	\$ 10	\$ 239	\$ 438	\$ 3,443
Transportation expense per mscf (\$/mscf)	\$ 0.04	\$ 0.86	\$ 0.48	\$ 1.63

Transportation expense decreased significantly to \$10 thousand and \$438 thousand for the three and twelve months ended December 31, 2017 from \$239 thousand and \$3,443 thousand for the three and twelve months ended December 31, 2016 due to the decrease in natural gas production in 2017 and to forward sale agreements in place for the delivery of natural gas production to the local Maritimes market as opposed to the New England market. The natural gas prices for the volumes sold under these forward sale agreements are based on natural gas prices at AGT but are subject to lower transportation expenses. Corridor had a forward sale agreement for the sale of 4,755 mmbtupd of its natural gas production to the local Maritimes market for the period from December 1, 2016 to March 31, 2017, and for substantially all of its natural gas production for the period from December 1, 2017 to March 31, 2018. As a result, transportation expense per mscf decreased from \$0.86/mscf in Q4 2016 to \$0.04/mscf in Q4 2017 and to \$0.48/mscf for 2017 from \$1.63/mscf for 2016.

## Production Expense

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Gross production expense	\$ 656	\$ 742	\$ 2,741	\$ 2,932
Third party recoveries	(43)	(126)	(222)	(511)
Net production expense	\$ 613	\$ 616	\$ 2,519	\$ 2,421
Net production expense per mscf (\$/mscf)	\$ 2.48	\$ 2.21	\$ 2.79	\$ 1.15

Gross production expense for Q4 2017 decreased to \$656 thousand from \$742 thousand for Q4 2016 and to \$2,741 thousand for the year ended December 31, 2017 from \$2,932 thousand for the year ended December 31, 2016 due primarily to the shut-in of most of the natural gas wells at the McCully Field between April and December 2017 as opposed to only partially shutting-in some McCully wells from September to November 2016. The longer shut-in period in 2017 resulted in lower overall production expenses, particularly lower utilities expense. Third party recoveries for the three and twelve months ended December 31, 2017 decreased to \$43 thousand and \$222 thousand for the same reason.

## Impairment Losses (Reversal)

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Impairment losses (reversal)	\$ (12,000)	\$ (12,700)	\$ (12,000)	\$ 15,700

The Company recognized a reversal of impairment losses of \$12 million for the year ended December 31, 2017 relating to the Company's New Brunswick cash generating unit ("CGU") which includes the McCully Field. The reversal of impairment losses for the year ended December 31, 2017 resulted from an increase in forecast natural gas prices and an increase in natural gas reserves as set forth in the GLJ Reserves Report. GLJ increased the estimate of reserves due to a combination of higher annual production forecasts and improved well recovery estimates. GLJ also increased the estimate of forecast natural gas prices as a result of expected higher sales to the local Maritimes market as opposed to the New England market. The estimate of proved plus probable natural gas reserves increased from 20.0 bscf effective as at December 31, 2016 to 22.5 bscf effective as at December 31, 2017.

The calculation of the reversal of impairment losses for the year ended December 31, 2017, and impairment losses for the year ended December 31, 2016, was 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, 2017, the Company utilized the following forecast prices in the fair value calculation:

	2018	2019	2020	2021	2022	2023-2028	Thereafter
AGT (\$US/mmbtu)	\$ 4.25	\$ 4.40	\$ 4.65	\$ 4.70	\$ 4.70	\$ 4.86-\$ 5.18	+2%/year
McCully (\$CDN/mscf)	\$ 6.25	\$ 6.39	\$ 6.61	\$ 6.41	\$ 6.41	\$ 6.66-\$ 7.96	+2%/year
Exchange rate (\$US/\$CDN)	\$ 0.79	\$ 0.79	\$ 0.80	\$ 0.81	\$ 0.82	\$ 0.83	\$ 0.83

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

## Depletion, Depreciation and Amortization

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Depletion, depreciation and amortization	\$ 604	\$ 616	\$ 2,649	\$ 5,145
Depletion, depreciation and amortization per mscf (\$/mscf)	\$ 2.88	\$ 2.65	\$ 3.31	\$ 2.75

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 \$604 thousand and \$2,649 thousand for the three and twelve months ended December 31, 2017 from \$616 thousand and \$5,145 thousand for the three and twelve months ended December 31, 2016 is due to the decrease in natural gas production in 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. The decrease in DD&A expense in 2017 was partially offset by higher proved natural gas reserves. In the GLJ Reserves Report, GLJ increased the estimate of proved natural gas reserves by 2.2 bscf to 18.1 bscf. The estimated future development costs relating to the development of proved reserves remained consistent at \$3,171 thousand.

## General and Administrative Expenses

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Gross expenses	\$ 908	\$ 723	\$ 3,029	\$ 3,078
Capitalized overhead	(29)	(19)	(106)	(73)
Operator recoveries	-	-	-	(36)
Net expenses	\$ 879	\$ 704	\$ 2,923	\$ 2,969

Gross general and administrative expenses ("G&A") increased to \$908 thousand in Q4 2017 from \$723 thousand during Q4 2016 due primarily to increased consulting costs to evaluate new opportunities to deploy Corridor's working capital. Gross G&A for the year ended December 31, 2017 decreased to \$3,029 thousand from \$3,078 thousand for the year ended December 31, 2016 as the increased consulting costs were offset by lower costs incurred relating to the New Brunswick Responsible Energy Development Alliance project, which ended in 2016.

## Gain on Disposition of Assets

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Gain on disposition of assets	\$ 22	-	\$ 5,601	\$ 110

During the year, Corridor received \$19,548 thousand from the Québec Government as part of a settlement agreement effective July 28, 2017 which facilitated an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. The Québec Government 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 recognized a net gain on disposition of assets of \$5,589 thousand in Q3 2017.

## Other Write-downs and Losses

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Inventory write-down	\$ 248	\$ 28	\$ 248	\$ 318

Management wrote down its casing inventory by \$248 thousand in 2017 (2016 - \$318 thousand) to reflect a decrease in the net realizable value.

## Deferred Income Taxes

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Deferred income tax expense (recovery)	\$ (2,430)	-	\$ (2,430)	\$ 11,456
Canadian statutory income tax rate	29.3%	-	29.3%	29.3%

In 2016, the Company wrote-down its remaining deferred income tax asset balance of \$11,456 thousand. Management had 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 expected future natural gas sales by GLJ in Q2 2016. In the GLJ Reserves Report, GLJ increased the estimate of future natural gas revenues and the Company



recognized a write-up of deferred income tax assets of \$2,430 thousand in 2017 to reflect the expected reversal of taxable temporary differences in the future.

At December 31, 2017, the Company had approximately \$175 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 in the near future.

## Capital Expenditures

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Exploration, development and production	\$ 2,699	\$ 152	\$ 2,918	\$ 287
Capitalized overhead	29	19	106	73
Office and other assets	1	4	5	60
	<b>\$ 2,729</b>	<b>\$ 175</b>	<b>\$ 3,029</b>	<b>\$ 420</b>

The increase in capital expenditures to \$2,729 thousand and \$3,029 thousand for the three and twelve months ended December 31, 2017 from \$175 thousand and \$420 thousand for the three and twelve months ended December 31, 2016 is due to costs incurred of \$2,725 thousand in 2017 on the CSEM survey over the Newfoundland and Labrador portion of the Old Harry prospect.

## Statement of Financial Position Changes

Significant changes between Corridor's December 31, 2017 Statement of Financial Position and its December 31, 2016 Statement of Financial Position include:

- \$1,758 thousand increase in receivables, primarily reflecting higher natural gas prices in December 2017 compared to December 2016;
- \$8,036 thousand increase in property, plant and equipment, primarily reflecting the reversal of impairment losses of \$12 million net of the depletion expense in 2017;
- \$2,757 thousand increase in exploration and evaluation assets, primarily reflecting costs incurred of \$2,725 thousand in 2017 on the CSEM survey;
- \$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, and
- \$1,653 thousand increase in accounts payable, primarily reflecting higher payables relating to the CSEM survey.

## Cash Flow Summary

<i>thousands of dollars</i>	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Cash provided by (used in) operating activities	\$ (1,269)	\$ (604)	\$ 1,077	\$ 3,579
Cash provided by financing activities	-	-	13	-
Cash provided by (used in) investing activities	(1,446)	92	17,815	(366)
Increase (decrease) in cash and cash equivalents	<b>\$ (2,715)</b>	<b>\$ (512)</b>	<b>\$ 18,905</b>	<b>\$ 3,213</b>

The decrease in cash provided by operating activities to \$1,077 thousand for the year ended December 31, 2017 from \$3,579 thousand for the year ended December 31, 2016 is primarily due to the longer shut-in period in 2017.

The increase in cash provided by investing activities to \$17,815 thousand for the year ended December 31, 2017 is primarily due to the compensation received of \$19.5 million in Q3 2017 from the Québec Government relating to the settlement agreement to end oil and gas exploration on Anticosti Island.

## Summary of Quarterly Information

<i>thousands of dollars, except per share amounts and average natural gas price</i>	2017				2016			
	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	\$ 3,088	-	\$ 38	\$ 4,166	\$ 2,199	\$ 1,878	\$ 2,205	\$ 6,314
Net income (loss)	\$ 13,598	\$ 3,826	\$ (1,510)	\$ 1,825	\$ 12,316	\$ (1,261)	\$ (41,629)	\$ 1,283
Net income (loss) per share – basic and diluted	\$ 0.153	\$ 0.043	\$ (0.017)	\$ 0.021	\$ 0.139	\$ (0.014)	\$ (0.469)	\$ 0.014
Natural gas production (mmscfpd)	2.7	-	0.1	7.2	3.0	5.1	6.9	8.1
Average natural gas price (\$/mscf)	\$ 12.51	-	\$ 3.86	\$ 6.45	\$ 7.88	\$ 3.98	\$ 3.53	\$ 8.54
Capital expenditures	\$ 2,729	\$ 127	\$ 74	\$ 99	\$ 175	\$ 41	\$ 123	\$ 81

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. 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, and the associated recovery of flush volumes, with peak winter pricing to maximize cash flow from operations and retain Corridor's reserves for production in future years. A key component of this production optimization strategy is to enter into financial hedges to mitigate the risks associated with the volatility of natural gas prices when natural gas production resumes.

On May 27, 2016, the New Brunswick Government announced its decision to extend the moratorium on hydraulic fracturing for an indefinite period. This decision resulted in reduced capital expenditures, lower expected future production and sales and a write-down by GLJ in the reserves for the McCully Field in Q2 2016. In its reserves report dated March 1, 2017, in respect of the McCully Field effective as at December 31, 2016, GLJ increased the estimate of future natural gas revenues resulting in the recognition of a reversal of impairment losses of \$12,700 thousand and a net income of \$12,316 thousand in Q4 2016. In 2017, GLJ further increased the estimate of future natural gas revenues in the GLJ Reserves Report resulting in the recognition of an additional reversal of impairment losses of \$12 million and net income of \$13,598 thousand in Q4 2017.

## Outstanding Share Information

As of February 28, 2018, the outstanding share information was as follows:

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

<i>thousands of dollars</i>	
Total proceeds due on exercise of all stock options	<b>\$ 2,576</b>

The weighted average exercise price for the stock options outstanding at February 28, 2018 was \$0.79.

## 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, 2017, the Company was holding cash and cash equivalents of \$46,177 thousand and working capital of \$46,918 thousand. The Company has sufficient financial resources to undertake its planned activities in 2018 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.

As of December 31, 2017, Corridor had the following contractual obligations and commitments:

<i>(thousands of dollars)</i>	<b>Total</b>	2018	2019	2020	2021	2022	Thereafter
Operating leases	<b>\$ 867</b>	\$ 194	\$ 194	\$ 94	\$ 90	\$ 66	\$ 229
Decommissioning liabilities	<b>14,661</b>	245	-	-	-	-	14,416
	<b>\$ 15,528</b>	\$ 439	\$ 194	\$ 94	\$ 90	\$ 66	\$ 14,645

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, 2017, 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, 2017. 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, 2017, 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, 2017, the Company recognized a reversal of impairment losses of \$12 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 calculation of the reversal of impairment losses for the year ended December 31, 2017 of a one percent change in the discount rate:

*(thousands of dollars)*

	2017	
	1% rate increase	1% rate decrease
Increase (decrease) in reversal of impairment losses	\$ (2,558)	\$ 2,830

### 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 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 amount of deferred income tax assets recognized on the Statement of Financial Position.

## Changes in Accounting Policies

Corridor's audited financial statements for the year ended December 31, 2017 have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, and in accordance with IAS 34 – *Interim Financial Reporting*.

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 Contracts and Customers*" ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018. 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 now recognize revenue to depict the transfer of the control of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services. IFRS 15 also establishes enhanced disclosure requirements relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company will adopt the new standard using the retrospective method effective January 1, 2018. The Company has substantially completed the review of its various revenue streams and underlying contracts with customers and has determined that implementing IFRS 15 will not have a material impact on the Company's net income or financial position other than additional disclosure requirements and a possible reclassification between revenue and expenses.

### IFRS 9, Financial Instruments

IFRS 9, "*Financial Instruments*" ("IFRS 9") will replace IAS 39, "*Financial Instruments: Recognition and Measurement*" and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes a principle-based approach for classification and measurement of financial assets, a single-expected credit loss impairment model and a substantially reformed approach to hedge accounting. The Company intends to adopt the new standard using the retrospective method effective January 1, 2018. The Company has substantially completed its evaluation of IFRS 9 and has determined the following:

- The revised approach relating to the classification and measurement of carrying values of financial assets will not materially change the carrying values of the Company's financial assets;
- The expected credit loss model calculation as opposed to the incurred credit loss calculation under IAS 39 will not result in a material change to the valuation of the Company's financial assets; and
- The Company does not currently apply hedge accounting to its derivative instruments and does not currently intend to apply hedge accounting on the adoption of IFRS 9.

### 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 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: development and operating costs, 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, disclosure controls and procedures and internal controls over financial reporting, competition, conflicts of interest, issuance of debt, title to properties, hedging, litigation, and aboriginal land and rights claims. 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 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 natural gas reserves.

In recent years, the price of natural gas in North America has been declining. However, Corridor's natural gas production is sold to markets in New England, and more recently, the Maritimes, at prices referenced to AGT. The New England market, and recently the Maritimes market, have in recent years been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to depressed 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, especially in light of declining natural gas production in Atlantic Canada. While numerous projects are planned which could alleviate the supply constraints to 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.

## **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. 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.

## **Hydraulic Fracturing**

Corridor utilizes hydraulic fracturing in connection with its drilling and completion activities in New Brunswick. 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.

The New Brunswick Government announced on May 27, 2016 that it would indefinitely continue a moratorium on hydraulic fracturing. Corridor believes that all wells on its properties in New Brunswick require hydraulic fracture stimulation to be commercially productive. As a result of this announcement, 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. Should the moratorium not be lifted, Corridor's ability to maintain or increase production in the McCully Field and the ability to obtain a joint venture partner to develop the Frederick Brook prospect in the Elgin Sub-Basin will be materially and adversely affected.

## **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 natural gas revenues 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 and Contingent Resources Estimates**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and contingent resources, including many factors beyond the Company's control. While the reserves, contingent resources and future net cash flow information from the Company's properties have been independently evaluated by GLJ in the GLJ Reserves Report and the GLJ Contingent Resources Report, these evaluations include a number of assumptions, including, but not limited to, such factors as initial production rates, production decline rates, ultimate recovery of reserves and contingent resources, timing and amount of capital expenditures, marketability of production, future prices of natural gas and oil, operating costs, abandonment and reclamation costs, royalties and other government levies that may be imposed over the producing life of the reserves and resources. These assumptions were based on prices in use at the date the relevant evaluations were prepared, and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flow generated from this production will vary from these evaluations, and these variations could be material. The present value of the Company's estimated future net revenue in the GLJ Reserves Report and the GLJ Contingent Resources Report should not be construed as the fair market value of the Company's reserves and contingent resources, as applicable. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Geological complexities of the McCully Field make it difficult to predict the success of future exploration and development activities in the area. These complexities include the sporadic presence of overpressured "perched" water in some portions of the reservoir, the presence of significant amounts of bitumen in some parts of the reservoir, as well as depositional and structural character of the reservoir. In addition, the reserves and contingent resource estimates have been determined based upon assumed commodity prices and operating costs. Market price fluctuations of natural gas and oil prices and an increase in actual operating costs experienced on a project may render the recovery of the reserves or contingent resources uneconomic. The Company's contingent resources are non-producing or undeveloped and may not ultimately be developed or produced, either because it may not be commercially viable to do so or for other reasons. In addition, not all of the Company's contingent resources may be ultimately produced within the time period the Company's has planned, at the costs the Company has budgeted, or at all.

### **Information Systems**

The Company relies on information technology, such as computer hardware and software systems, in order to properly operate its business. In the event the Company is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data.

In the ordinary course of business, the Company collects, uses and stores sensitive data, including intellectual property, proprietary business information and personal information of our employees and third parties. Despite our security measures, the Company's information systems, technology and infrastructure may be vulnerable to attacks by hackers and/or cyberterrorists or breaches due to employee error, malfeasance or other disruptions, including natural disasters and acts of war. Any such breach could compromise information used or stored on the Company's systems and/or networks and, as a result, the information could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, operational disruption, site shut-down, leaks or other negative consequences, including damage to our reputation, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.





## 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 28, 2018

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

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



March 28, 2018

## **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 consolidated statement of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income (loss), comprehensive income (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, 2017 and December 31, 2016 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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*PricewaterhouseCoopers LLP*  
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## Statements of Income (Loss) and Comprehensive Income (Loss)

(thousands of dollars, except per share data)

For the years ended December 31	2017	2016
Sales (note 5)	<b>\$ 7,674</b>	\$ 13,541
Royalty expense	<b>(394)</b>	(276)
Revenues, net	<b>7,280</b>	13,265
Expenses		
Impairment losses (reversal) (notes 12 & 13)	<b>(12,000)</b>	15,700
Depletion, depreciation and amortization	<b>2,649</b>	5,145
Transportation expense	<b>438</b>	3,443
Production expense (note 6)	<b>2,519</b>	2,421
General and administrative expenses (note 6)	<b>2,923</b>	2,969
Financial derivatives loss (note 21a ii)	<b>158</b>	374
Share-based compensation expense (note 19)	<b>240</b>	354
Other write-downs and losses (notes 11 & 12)	<b>248</b>	318
	<b>(2,825)</b>	30,724
Income (loss) before the following items	<b>10,105</b>	(17,459)
Gain on disposition of assets (note 14)	<b>5,601</b>	110
Interest and other (note 7)	<b>(353)</b>	(349)
Equity loss (note 14)	<b>(44)</b>	(137)
Income (loss) before income taxes	<b>15,309</b>	(17,835)
Deferred income tax expense (recovery) (note 8)	<b>(2,430)</b>	11,456
Net income (loss) and comprehensive income (loss)	<b>\$ 17,739</b>	\$ (29,291)
Net income (loss) per share (note 9)		
Basic	<b>\$ 0.200</b>	\$ (0.330)
Diluted	<b>\$ 0.200</b>	\$ (0.330)
Weighted average number of common shares (note 9)		
Basic	<b>88,654</b>	88,622
Diluted	<b>88,819</b>	88,694

See accompanying notes to the financial statements.

# Statements of Financial Position

(thousands of dollars)

As at December 31	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 46,177	\$ 27,272
Restricted cash (note 23b)	650	650
Receivables (notes 10 & 21a i)	3,927	2,169
Inventory held for sale (note 11)	154	339
Prepays and security deposits	100	113
	<b>51,008</b>	<b>30,543</b>
Non-current assets		
Property, plant and equipment (note 12)	58,917	50,881
Exploration and evaluation assets (note 13)	11,570	8,813
Investment in Anticosti partnership (note 14)	-	13,898
Deferred income tax assets (note 8)	2,430	-
Intangible assets (note 15)	55	103
Restricted cash (note 23b)	380	380
<b>Total assets</b>	<b>\$ 124,360</b>	<b>\$ 104,618</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 16)	\$ 2,578	\$ 925
Financial derivatives liability (note 21a ii)	1,512	253
	<b>4,090</b>	<b>1,178</b>
Non-current liabilities		
Decommissioning liability (note 17)	8,529	9,636
<b>Total liabilities</b>	<b>12,619</b>	<b>10,814</b>
Shareholders' Equity		
Capital stock (note 18)	247,704	247,685
Contributed surplus (note 19)	10,926	10,747
Deficit	(146,889)	(164,628)
<b>Total shareholders' equity</b>	<b>111,741</b>	<b>93,804</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 124,360</b>	<b>\$ 104,618</b>

See accompanying notes to the financial statements.

Commitments (note 23)  
Contingencies (note 24)  
Subsequent event (note 25)

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	2017	2016
Capital stock, beginning of year	\$ 247,685	\$ 247,685
Exercise of stock options for cash	13	-
Amount previously expensed for stock options exercised	6	-
Capital stock, end of year	\$ 247,704	\$ 247,685
Contributed surplus, beginning of year	\$ 10,747	\$ 10,470
Share-based compensation expense (note 19)	185	277
Amount previously expensed for stock options exercised	(6)	-
Contributed surplus, end of year	\$ 10,926	\$ 10,747
Deficit, beginning of year	\$ (164,628)	\$ (135,337)
Net income (loss) and comprehensive income (loss)	17,739	(29,291)
Deficit, end of year	\$ (146,889)	\$ (164,628)
Shareholders' equity, end of year	\$ 111,741	\$ 93,804

See accompanying notes to the financial statements.

# Statements of Cash Flows

(thousands of dollars)

For the years ended December 31	2017	2016
<b>Operating Activities</b>		
Net income (loss)	<b>\$ 17,739</b>	\$ (29,291)
Adjustments not affecting cash:		
Impairment losses (reversal) and asset write-downs	<b>(11,752)</b>	16,018
Depletion, depreciation and amortization	<b>2,649</b>	5,145
Share-based compensation expense	<b>240</b>	354
Deferred income tax expense (recovery)	<b>(2,430)</b>	11,456
Gain on disposition of assets	<b>(5,601)</b>	(90)
Unrealized financial derivatives loss	<b>1,259</b>	253
Equity loss	<b>44</b>	137
Other operating activities	<b>293</b>	325
	<b>2,441</b>	4,307
Increase in non-cash operating working capital (note 20)	<b>(1,364)</b>	(728)
Cash provided by operating activities	<b>1,077</b>	3,579
<b>Financing Activities</b>		
Proceeds from the exercise of stock options	<b>13</b>	-
Cash provided by financing activities	<b>13</b>	-
<b>Investing Activities</b>		
Property, plant and equipment expenditures	<b>(101)</b>	(63)
Exploration and evaluation expenditures	<b>(2,928)</b>	(357)
Proceeds from sale of assets	<b>19,701</b>	350
Contribution in Anticosti partnership	<b>(48)</b>	(135)
Decrease (increase) in non-cash investing working capital (note 20)	<b>1,191</b>	(161)
Cash provided by (used in) investing activities	<b>17,815</b>	(366)
Increase in cash and cash equivalents	<b>18,905</b>	3,213
Cash and cash equivalents, beginning of year	<b>27,272</b>	24,059
Cash and cash equivalents, end of year	<b>\$ 46,177</b>	\$ 27,272
<b>Cash and cash equivalents consists of:</b>		
Cash	<b>\$ 7,075</b>	\$ 8,025
Short-term investments	<b>39,102</b>	19,247
Cash and cash equivalents, end of year	<b>\$ 46,177</b>	\$ 27,272

See accompanying notes to the financial statements.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 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 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 28, 2018, 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 Income and Comprehensive Income.

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.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 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 Income and Comprehensive Income.

#### 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 Income and Comprehensive Income.

#### e) Joint arrangements

The nature of Corridor's joint arrangement with Nutrien Inc. (formerly Potash Corporation of Saskatchewan Inc.) ("Nutrien") is a joint operation. As of December 31, 2017, Corridor and Nutrien jointly own 22 of the 40 wells drilled in the McCully Field in New Brunswick. The Company therefore 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 Income and Comprehensive Income.

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 Income and Comprehensive Income.



# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 3. Significant accounting policies (continued)

#### g) 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.

#### h) 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.

#### i) 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 Income and Comprehensive Income. Share-based compensation expense is recorded in the Statement of Income and Comprehensive Income 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 Income and Comprehensive Income with a corresponding amount recorded in accounts payable and accrued liabilities on the Statement of Financial Position.

#### j) Deferred taxes

Deferred income tax assets are recognized to the extent future recovery is probable 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. The effect of a change in income tax rates that are substantively enacted is recognized in the Statement of Income and Comprehensive Income in the period the change occurs.

#### k) 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.

#### l) 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 Income and Comprehensive Income.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 3. Significant accounting policies (continued)

#### m) 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.

#### n) 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 include 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.

#### 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 and Comprehensive Income. The Company does not apply hedge accounting to its derivative instruments.

#### o) 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 Income and Comprehensive Income. Actual expenditures are charged against the liability as incurred.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 3. Significant accounting policies (continued)

#### 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.

#### p) 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.

- IFRS 15, "*Revenue from Contracts and Customers*" ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018. 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 now recognize revenue to depict the transfer of the control of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services. IFRS 15 also establishes enhanced disclosure requirements relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company will adopt the new standard using the retrospective method effective January 1, 2018. The Company has substantially completed the review of its various revenue streams and underlying contracts with customers and has determined that implementing IFRS 15 will not have a material impact on the Company's net income or financial position other than additional disclosure requirements and a possible reclassification between revenue and expenses.

- IFRS 9 "*Financial Instruments*" replaces IAS 39 "*Financial Instruments: Recognition and Measurement*" and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes a principle-based approach for classification and measurement of financial assets, a single expected credit loss impairment model and a substantially reformed approach to hedge accounting. The Company intends to adopt the new standard using the retrospective method effective January 1, 2018. The Company has substantially completed its evaluation of IFRS 9 and has determined the following:

- The revised approach relating to the classification and measurement of carrying values of financial assets will not materially change the carrying values of the Company's financial assets;
- The expected credit loss model calculation as opposed to the incurred credit loss calculation under IAS 39 will not result in a material change to the valuation of the Company's financial assets; and
- The Company does not currently apply hedge accounting to its derivative instruments and does not currently intend to apply hedge accounting on the adoption of IFRS 9.

- 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.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 4. Critical judgments and accounting estimates (continued)

#### Recoverability of asset carrying values

At each reporting date, the Company assesses its property, plant and equipment, oil and gas properties and exploration and evaluation assets 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

The decommissioning costs which will ultimately be incurred by the Company are uncertain and 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 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.

#### Contingencies

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

### 5. Sales

Sales consist of the following:

*(thousands of dollars)*

	2017	2016
Natural gas sales	\$ 7,292	\$ 12,596
Gathering, processing and transportation fees	335	876
Natural gas liquids sales	47	69
	<b>\$ 7,674</b>	<b>\$ 13,541</b>

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 6. Expenses by nature

Production expenses by nature consist of the following:

*(thousands of dollars)*

	2017	2016
Wages and benefits	\$ 608	\$ 551
Utilities expense	539	840
Repairs and maintenance	344	257
Property taxes and insurance	422	413
Office expenses	107	94
Workover activities and field maintenance	178	195
Other production expenses	543	582
	<b>2,741</b>	2,932
Third party recoveries	<b>(222)</b>	(511)
	<b>\$ 2,519</b>	\$ 2,421

General and administrative expenses by nature consist of the following:

*(thousands of dollars)*

	2017	2016
Wages and benefits	\$ 974	\$ 1,068
Directors fees	228	229
Consultants	687	562
Legal and accounting	563	541
Office expenses	137	166
Software maintenance and licensing	125	106
Social acceptability program	-	92
Other general and administrative expenses	315	314
	<b>3,029</b>	3,078
Third party recoveries & capitalized overhead	<b>(106)</b>	(109)
	<b>\$ 2,923</b>	\$ 2,969

### 7. Interest and other

Interest and other consist of the following:

*(thousands of dollars)*

	2017	2016
Foreign exchange losses	\$ (443)	\$ (266)
Interest and finance costs	(292)	(328)
Interest and other income	382	245
	<b>\$ (353)</b>	\$ (349)

### 8. Income taxes

The Company wrote-down its deferred income tax asset balance of \$11,456 thousand in 2016. 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 due to a decrease in estimated future natural gas prices and the Government of New Brunswick's decision to continue a moratorium on hydraulic fracturing indefinitely. As a result, the Company did not recognize deferred income tax expense of \$1,847 thousand for the year ended December 31, 2017 (December 31, 2016 - \$5,734 thousand recovery). In 2017, management recognized a write-up of deferred income tax assets of \$2,430 thousand to reflect an expected reversal of taxable temporary differences following an increase in estimated future natural gas prices.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 8. Income taxes (continued)

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)*

	<b>2017</b>	2016
Income (loss) before income taxes	<b>\$ 15,309</b>	\$ (17,835)
Blended Canadian statutory income tax rate	<b>29.3%</b>	29.3%
Expected income tax expense (recovery)	<b>\$ 4,486</b>	\$ (5,226)
Increase (decrease) resulting from:		
Deferred income tax recovery (expense) not recognized	<b>(1,847)</b>	5,734
Non-deductible (non-taxable)		
- gain on sale of exploration assets	<b>(2,756)</b>	(15)
- share-based compensation	<b>70</b>	104
Write-down (write-up) of deferred income tax assets	<b>(2,430)</b>	11,456
Effect of provincial tax rate change	<b>-</b>	(547)
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	<b>47</b>	(50)
	<b>\$ (2,430)</b>	\$ 11,456

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

At December 31, 2017, the Company has \$103 million of unrecognized deductible temporary differences for which no deferred tax asset is recognized. In addition, the Company has \$1,705 thousand of unrecognized investment tax credits which will expire between 2028 and 2035.

### 9. Income (loss) per share

For the year ended December 31, 2017, stock options of 2,233 thousand (December 31, 2016 – 3,075 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)*

	<b>December 31 2017</b>	December 31 2016
Trade receivables	<b>\$ 3,593</b>	\$ 1,731
Receivables from joint venture partners	<b>235</b>	313
Sales and capital taxes receivable (payable)	<b>(29)</b>	24
Interest receivable	<b>128</b>	101
	<b>\$ 3,927</b>	\$ 2,169

Receivables generally have a 30-day term and have mostly all been received subsequent to the year end. The carrying value approximates the fair value because of the short term to maturity. 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.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 11. Inventory held for sale

(thousands of dollars)

	2017	2016
Balance, beginning of year	\$ 339	\$ 1,176
Transfer to property, plant and equipment	(20)	(176)
Write-downs	(102)	(318)
Sales	(63)	(343)
<b>Balance, end of year</b>	<b>\$ 154</b>	<b>\$ 339</b>

During the year, the Company reclassified \$20 thousand (December 31, 2016 - \$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 \$102 thousand to reflect a decrease in the net realizable value (December 31, 2016 - \$318 thousand).

### 12. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
<b>Cost</b>					
Balance at December 31, 2015	\$ 242,842	\$ 77,342	\$ 538	\$ 2,896	\$ 323,618
Additions	3	-	-	60	63
Sale of assets	-	-	-	(67)	(67)
Transfer from current assets (note 11)	-	-	460	-	460
Changes in future abandonment costs	127	-	-	-	127
Balance at December 31, 2016	\$ 242,972	\$ 77,342	\$ 998	\$ 2,889	\$ 324,201
Additions	-	96	-	5	101
Sale of assets	-	-	-	(227)	(227)
Transfer from current assets (note 11)	-	-	57	-	57
Changes in future abandonment costs	(1,260)	-	-	-	(1,260)
<b>Balance at December 31, 2017</b>	<b>\$ 241,712</b>	<b>\$ 77,438</b>	<b>\$ 1,055</b>	<b>\$ 2,667</b>	<b>\$ 322,872</b>
<b>Accumulated depletion and depreciation</b>					
Balance at December 31, 2015	\$ 191,465	\$ 58,823	\$ 243	\$ 1,848	\$ 252,379
Depletion or depreciation expense	3,995	976	-	126	5,097
Impairment losses	11,100	4,500	-	-	15,600
Transfer from current assets (note 11)	-	-	284	-	284
Sales of assets	-	-	-	(40)	(40)
Balance at December 31, 2016	\$ 206,560	\$ 64,299	\$ 527	\$ 1,934	\$ 273,320
Depletion or depreciation expense	1,856	632	-	113	2,601
Impairment reversal	(8,600)	(3,400)	-	-	(12,000)
Write-down of inventory	-	-	146	-	146
Transfer from current assets (note 11)	-	-	37	-	37
Sales of assets	-	-	-	(149)	(149)
<b>Balance at December 31, 2017</b>	<b>\$ 199,816</b>	<b>\$ 61,531</b>	<b>\$ 710</b>	<b>\$ 1,898</b>	<b>\$ 263,955</b>
Net book value at December 31, 2016	\$ 36,412	\$ 13,043	\$ 471	\$ 955	\$ 50,881
<b>Net book value at December 31, 2017</b>	<b>\$ 41,896</b>	<b>\$ 15,907</b>	<b>\$ 345</b>	<b>\$ 769</b>	<b>\$ 58,917</b>

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$3,171 thousand for the year ended December 31, 2017 (December 31, 2016 - \$3,437 thousand).

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 12. Property, plant and equipment (continued)

For the year ended December 31, 2017, the Company reversed previously recognized impairment losses relating to the Company's New Brunswick cash generating unit ("CGU"). The New Brunswick CGU includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The reversal of impairment losses for the year ended December 31, 2017 (December 31, 2016 - impairment losses) was allocated as follows:

*(thousands of dollars)*

	2017	2016
Oil and gas properties and production facilities	\$ (12,000)	\$ 15,600
Exploration and evaluation assets	-	100
	<b>\$ (12,000)</b>	<b>\$ 15,700</b>

The reversal of impairment losses for the year ended December 31, 2017 resulted from an increase in forecast natural gas prices and an increase in natural gas reserves. The reversal of impairment losses was based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount of \$51 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 (as disclosed in note 3n).

For the year ended December 31, 2017, the Company utilized the following forecast prices in the fair value calculation:

	2018	2019	2020	2021	2022	2023-2028	Thereafter
Algonquin city-gates (\$US/mmbtu)	\$ 4.25	\$ 4.40	\$ 4.65	\$ 4.70	\$ 4.70	\$ 4.86-\$ 5.18	+2%/year
McCully (\$CDN/mscf)	\$ 6.25	\$ 6.39	\$ 6.61	\$ 6.41	\$ 6.41	\$ 6.66-\$ 7.96	+2%/year
Exchange rate (\$US/\$CDN)	\$ 0.79	\$ 0.79	\$ 0.80	\$ 0.81	\$ 0.82	\$ 0.83	\$ 0.83

The forecast McCully gas prices were calculated by adjusting the Algonquin city-gates 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 evaluated by GLJ Petroleum Consultants Ltd., the Company's independent reserves engineers:

	2017	2016
Proved plus probable natural gas reserves (bscf)	<b>22.5</b>	20.0

The following table demonstrates the impact of a 1% change in the discount rate on the calculation of the reversal of impairment losses for the year ended December 31, 2017:

*(thousands of dollars)*

	2017	
	1% rate increase	1% rate decrease
Increase (decrease) in reversal of impairment losses	\$ (2,558)	\$ 2,830



# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 13. Exploration and evaluation assets

(thousands of dollars)

	2017	2016
Balance, beginning of year	\$ 8,813	\$ 8,493
Additions	2,928	357
Loss on disposition of assets	(32)	-
Impairment losses	-	(100)
Changes in future abandonment costs	(139)	63
<b>Balance, end of year</b>	<b>\$ 11,570</b>	<b>\$ 8,813</b>

For the year ended December 31, 2016, the Company recorded impairment losses of \$100 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)

	2017	2016
Balance, beginning of year	\$ 13,898	\$ 13,790
Proceeds on disposition of assets	(19,548)	-
Gain on disposition of assets	5,646	110
Contributions	48	135
Equity loss	(44)	(137)
<b>Balance, end of year</b>	<b>-</b>	<b>\$ 13,898</b>

The Company held 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. This investment was accounted for using the equity method.

During the year, Corridor received \$19,548 thousand from the Québec Government as part of a settlement agreement effective July 28, 2017 which facilitated an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. The Québec Government 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.

### 15. Intangible assets

(thousands of dollars)

	2017	2016
<b>Cost</b>		
Balance, beginning and end of year	\$ 479	\$ 479
<b>Accumulated amortization</b>		
Balance, beginning of year	\$ 376	\$ 328
Amortization	48	48
Balance, end of year	424	376
<b>Net book value, end of year</b>	<b>\$ 55</b>	<b>\$ 103</b>

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

*(thousands of dollars)*

	<b>December 31 2017</b>	December 31 2016
Trade payables	<b>\$ 2,062</b>	\$ 385
Accrued liabilities	<b>384</b>	437
Payables to joint venture partners	-	26
Deferred share units payable <i>(note 19b)</i>	<b>132</b>	77
	<b>\$ 2,578</b>	\$ 925

Payables are non-interest bearing and are normally settled on a 30 to 60 day term. The carrying value approximates the fair value because of the short term to maturity.

### 17. Decommissioning liability

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

*(thousands of dollars)*

	<b>2017</b>	2016
Balance, beginning of year	<b>\$ 9,636</b>	\$ 9,121
Change in discount rate	<b>(1,391)</b>	455
Change in estimate	<b>(8)</b>	(265)
Finance costs	<b>292</b>	325
Balance, end of year	<b>\$ 8,529</b>	\$ 9,636

The total undiscounted amount of estimated cash flows required to settle these obligations is \$14,661 thousand (December 31, 2016 - \$14,406 thousand). Management estimates the settlement of these obligations between 2018 and 2039. At December 31, 2017, a risk-free rate of 2.55% (December 31, 2016 – 1.97%) and an inflation rate of 2% (December 31, 2016 – 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)*

	<b>2017</b>		2016	
	<b>Number of shares</b>	<b>Amount</b>	Number of shares	Amount
Balance, beginning of year	<b>88,622</b>	<b>\$ 247,685</b>	88,622	\$ 247,685
Exercise of stock options for cash and amount recognized from contributed surplus	<b>33</b>	<b>13</b>	-	-
	-	<b>6</b>	-	-
Balance, end of year	<b>88,655</b>	<b>\$ 247,704</b>	88,622	\$ 247,685

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 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:

	2017		2016	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of year	3,775	\$ 1.12	3,431	\$ 1.28
Granted	508	\$ 0.52	827	\$ 0.40
Forfeited and cancelled	(985)	\$ 1.86	(483)	\$ 1.07
Exercised <sup>(1)</sup>	(33)	\$ 0.40	-	-
Options outstanding, end of year	3,265	\$ 0.79	3,775	\$ 1.12
Options exercisable, end of year	2,745	\$ 0.85	2,950	\$ 1.23

(1) The Company's weighted average share price, at the date of exercise, for stock options exercised during the year ended December 31, 2017 was \$0.52 per common share.

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

	2017	2016
Weighted average fair value of options granted	\$ 0.26	\$ 0.21
Risk-free interest rate	0.9%	0.4%
Expected life (years)	3.7	4.0
Expected volatility	69%	72%

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

(thousands of options)

Exercise prices	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
\$ 0.40 - \$ 0.99	2,365	1.65	\$ 0.62	1,845	\$ 0.66	
\$ 1.00 - \$ 1.99	900	1.88	\$ 1.24	900	\$ 1.24	
	3,265	1.71	\$ 0.79	2,745	\$ 0.85	

For the year ended December 31, 2017, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of \$185 thousand relating to the stock option plan (December 31, 2016 - \$277 thousand).

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 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, 2017		Year ended December 31, 2016	
	Number of DSUs	Amount	Number of DSUs	Amount
DSUs, beginning of year	137	\$ 77	-	-
DSUs granted during the year	79	40	137	\$ 64
Fair value adjustment during the year	-	15	-	13
DSUs, end of year	216	\$ 132	137	\$ 77

The DSU liability as of December 31, 2017 of \$132 thousand is based on a fair value of \$0.61 which is the Company's closing share price at December 31, 2017.

### 20. Supplemental cash flow information

*(thousands of dollars)*

	2017	2016
Change in non-cash operating working capital:		
Receivables	\$ (1,285)	\$ (570)
Prepays and security deposits	(13)	(4)
Accounts payable and accrued liabilities	(66)	(154)
	\$ (1,364)	\$ (728)
Change in non-cash investing working capital:		
Receivables	\$ (473)	\$ (36)
Accounts payable and accrued liabilities	1,664	(125)
	\$ 1,191	\$ (161)
Interest received	\$ 352	\$ 239

### 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.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 21. Risk management (continued)

#### ii) Commodity price risk

Corridor enters into financial derivative contracts and 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, 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
Swap	December 1, 2018 to March 31, 2019	2,500 mmbtu	\$US7.40/mmbtu	Algonquin city-gates-monthly

As security for these financial swaps, the bank has the authority to hold Corridor funds in the amount of \$US3.9 million.

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 Income and Comprehensive Income:

*(thousands of dollars)*

	2017	2016
Change in unrealized financial derivatives loss	\$ 1,259	\$ 253
Realized financial derivatives loss (gain)	(1,101)	121
Financial derivatives loss	\$ 158	\$ 374

When assessing the potential impact of natural gas price changes on the fair value of the financial derivative contracts outstanding as at December 31, 2017 of \$1,512 thousand, a 10% increase in forecast natural gas prices would increase the change in unrealized financial derivatives loss by \$775 thousand, while a 10% decrease in forecast natural gas prices would decrease the change in unrealized financial derivatives loss by \$775 thousand.

#### *Physical delivery contracts*

The Company has forward sale agreements for the period from January 1, 2018 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.

#### 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, 2017, the Company was holding cash and cash equivalents of \$46,177 thousand.

The Company's financial liabilities are all due within one year. Given the Company's available liquid resources and the Company's 2018 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.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 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)*

	<b>December 31, 2017</b>	December 31, 2016
Cash	<b>\$ 4,800</b>	\$ 200
Receivables	<b>2,772</b>	1,286
Payables	<b>(2,528)</b>	(188)
Financial instruments in U.S. dollars	<b>\$ 5,044</b>	\$ 1,298

At December 31, 2017, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately \$315 thousand in the Company's net income (December 31, 2016 – \$87 thousand increase in net loss) due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately \$315 thousand in the Company's net income (December 31, 2016 – \$87 thousand decrease in net loss).

#### 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

#### Remuneration of Directors and Senior Management

*(thousands of dollars)*

	<b>2017</b>	2016
Wages and benefits	<b>\$ 830</b>	\$ 820
Directors' compensation	<b>283</b>	306
Share-based compensation	<b>142</b>	248
	<b>\$ 1,255</b>	\$ 1,374

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, and Production Operations Manager. Wages and benefits include salary, bonuses and benefits during the year. Share-based compensation and directors' compensation includes expenses relating to Corridor's stock option plan and DSU 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.

# Notes to the Financial Statements

## Years ended December 31, 2017 and 2016

### 23. Commitments (continued)

#### b) Letters of credit

At December 31, 2017, the Company had the following irrevocable standby letters of credit issued by a Canadian chartered bank:

<i>(thousands of dollars)</i>	<b>Amount</b>
Letter of credit expiring June 27, 2018	<b>\$ 350</b>
Letters of credit expiring June 3, 2018	<b>300</b>
Letter of credit expiring July 15, 2020	<b>380</b>
	<b>\$ 1,030</b>

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, 2017, the rent expense under these leases was \$259 thousand (December 31, 2016 - \$228 thousand).

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

<i>(thousands of dollars)</i>	<b>Amount</b>
2018	<b>\$ 194</b>
2019	<b>194</b>
2020	<b>94</b>
2021	<b>90</b>
2022	<b>66</b>
Thereafter	<b>229</b>
	<b>\$ 867</b>

#### d) Commitments

The maturities of the Company's commitments as of December 31, 2017 are as follows:

<i>(thousands of dollars)</i>	<b>Total</b>	2018	2019	2020	2021	Thereafter
Operating leases	<b>\$ 867</b>	\$ 194	\$ 194	\$ 94	\$ 90	\$ 295
Decommissioning liabilities	<b>14,661</b>	245	-	-	-	14,416
	<b>\$ 15,528</b>	\$ 439	\$ 194	\$ 94	\$ 90	\$ 14,711

### 24. Contingencies

The Company was served with a statement of claim by Geophysical Services Incorporated ("GSI") on August 23, 2013 and with an amended statement of claim on June 22, 2017, both relating to the access and disclosure of confidential seismic information. GSI is seeking total damages of \$3.4 million. The Company has filed an application for Summary Dismissal subsequent to the year end. The Company has not recorded any liability as management believes a successful claim is not probable.

### 25. Subsequent event

Subsequent to the year end, the Company entered into the following financial hedges: 2500 mmbtupd for February 2018 at a fixed price of \$US11.00/mmbtu, 2500 mmbtupd for March 2018 at a fixed price of \$US6.15/mmbtu and 5,000 mmbtupd for April 2018 at an average fixed price of \$US3.325/mmbtu.