2018 Management's Discussion and Analysis

As of March 27, 2019

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, 2018 should be read in conjunction with Corridor's audited financial statements and notes thereto for the year ended December 31, 2018.

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, 2018 (the "Annual Information Form"), is available on the Internet through the System for Electronic Document Analysis and Retrieval (SEDAR) found at www.sedar.com.

Introduction

Corridor is a Canadian junior resource company engaged in the exploration for and development and production of petroleum and natural gas onshore in New Brunswick and offshore in the Gulf of St. Lawrence. Corridor currently has natural gas production and reserves in the McCully Field near Sussex, New Brunswick. In addition, Corridor has a shale gas prospect in New Brunswick and an offshore conventional hydrocarbon prospect in the Gulf of St. Lawrence.

Selected Financial Information

	Three months ended December 31		**Twelve months ended December 31**		
thousands of dollars except per share amounts	**2018**	2017	**2018**	2017	2016
Sales	**$ 3,525**	$ 3,161	**$ 16,944**	$ 7,674	$ 13,541
Net income (loss)	**$ 6,104**	$ 13,598	**$ (314)**	$ 17,739	$ (29,291)
Net income (loss) per share -basic and diluted	**$ 0.068**	$ 0.153	**$ (0.004)**	$ 0.200	$ (0.330)
Cash flow from operations (1)	**$ 3,022**	$ 1,549	**$ 11,987**	$ 2,441	$ 4,307
Capital expenditures	**$ 724**	$ 2,729	**$ 2,254**	$ 3,029	$ 420
Total assets	**$ 125,301**	$ 124,360	**$ 125,301**	$ 124,360	$ 104,618

(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 AGT market has been characterized by excess demand during the winter season resulting in significant premiums in the sale price for natural gas during the winter season as compared to prices during other periods of the year. In response to this trend in natural gas prices, since 2015, Corridor has determined to shut-in most 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 after a shut-in period. In accordance with this strategy, Corridor shut-in its natural gas production starting in May 2018 and resumed partial production on November 14, 2018 with a ramp-up in production starting in December 2018.

Non-IFRS Financial Measures

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

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

	Three months ended December 31		Twelve months ended December 31		
thousands of dollars	**2018**	2017	**2018**	2017	2016
Cash provided by (used in) operating activities	**$ 75**	$ (1,269)	**$ 11,870**	$ 1,077	$ 3,579
Increase in non-cash operating working capital	**2,947**	2,818	**117**	1,364	728
Cash flow from operations	**$ 3,022**	$ 1,549	**$ 11,987**	$ 2,441	$ 4,307

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 plans and strategies (including its production optimization and hedging strategies);
- exploration and development plans of Corridor;
- Canadian – U.S. dollar exchange rate;
- natural gas prices and premiums;
- future revenue from financial hedges;
- future development costs and reserves;
- future taxable profits;
- capital expenditures;
- sources of funding; and
- government regulation.

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

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

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to, 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 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 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, 2018 to March 31, 2019 as disclosed in the press release dated November 13, 2018 and updated in the press release dated December 19, 2018. Corridor's estimated working capital balance as of March 31, 2019 remains at $63.4 million as lower than expected natural gas prices in Q1 2019 are expected to be largely offset by the Company's financial hedges in place from December 1, 2018 to March 31, 2019, a strengthening in the U.S. dollar in Q1 2019 and lower than estimated general and administrative expenses in Q4 2018.

2018 Summary

- Corridor's sales increased to $16,944 thousand in 2018 from $7,674 thousand in 2017 due to the increase in the average daily natural gas production to 4.2 mmscfpd in 2018 from 2.5 mmscfpd in 2017 and an increase in the average realized natural gas sales price to $10.57/mscf in 2018 from $8.08/mscf in 2017. The increase in natural gas production at the McCully Field is largely the result of more than a month of additional production in 2018 as compared to 2017. This is due to Corridor's decision to shut-in its natural gas wells for less than seven months in 2018 from May to November compared to eight months in 2017 from April to December, all in accordance with its production optimization strategy.

- 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. The settlement of the Company's financial hedges resulted in realized financial derivatives losses of $530 thousand in 2018 compared to realized financial derivatives gains of $1,101 thousand in 2017. Corridor has the following financial hedges in place for 2019 and 2020:
  - 5,000 mmbtupd at an average fixed price of $US7.59/mmbtu for the period from January 1, 2019 to March 31, 2019;
  - 2,500 mmbtupd at a fixed price of $US12.72/mmbtu for January 2019;
  - 2,500 mmbtupd at a fixed price of $US12.50/mmbtu for February 2019;
  - 2,500 mmbtupd at a fixed price of $US3.45/mmbtu for April 2019, and
  - 2,500 mmbtupd at a fixed price of $US9.00/mmbtu for the period from December 1, 2019 to March 31, 2020.

- As at December 31, 2018, Corridor had cash and cash equivalents of $53,652 thousand, net working capital of $57,190 thousand and no outstanding debt.

- Cash flow from operations increased to $11,987 thousand for the year ended December 31, 2018 from $2,441 thousand for the year ended December 31, 2017 due in large part to higher natural gas sales partially offset by realized financial derivatives losses of $530 thousand in 2018.

- In Q4 2018, Corridor entered into an agreement that eliminates transportation charges on the Canadian portion of the Maritimes & Northeast Pipeline ("M&NP") from November 1, 2018 until April 1, 2024 which is expected to increase Corridor's cash flow from operations by a minimum of $6 million during that period.

- After taking into account the natural gas production of 1.5 bscf in 2018, the proved plus probable reserves in the McCully Field in New Brunswick, as estimated by GLJ Petroleum Consultants Ltd. ("GLJ") in its reserves report effective as at December 31, 2018 ("2018 GLJ Reserves Report"), decreased by only 0.3 bscf from GLJ's estimate of proved plus probable reserves as at December 31, 2017. The decrease in reserves from the 2018 production was largely offset by additions in estimated proved plus probable reserves of 1.1 bscf due to increased well recovery estimates in the 2018 GLJ Reserves Report. As a result, Corridor recognized a reversal of impairment losses of $530 thousand for the year ended December 31, 2018.

- During the year, Corridor initiated a Normal Course Issuer Bid on the Toronto Stock Exchange to purchase up to 6.8 million of Corridor's common shares. No common shares have yet been purchased under this program.

- During the year, Corridor announced its decision to suspend all further technical work and capital spending on the Old Harry prospect in the Gulf of St. Lawrence after a comprehensive review revealed more complexity in the Old Harry prospect than previous analysis had suggested, which included the results of an integrated geotechnical analysis from a controlled source electromagnetic ("CSEM") survey and reprocessed two dimensional ("2D") seismic. As a result, Corridor recognized impairment losses of $11,408 thousand in 2018 relating to the costs incurred to date on the Old Harry prospect.

- Corridor's net loss increased to $314 thousand for the year ended December 31, 2018 from a net income of $17,739 thousand for the year ended December 31, 2017 due primarily to the recognition of impairment losses of $11 million during the year ended December 31, 2018 as compared to the recognition of a reversal of impairment losses of $12 million for the year ended December 31, 2017. In addition, a net gain on disposition of $5,589 thousand was recognized during the year ended December 31, 2017 relating to a settlement agreement with the Government of Québec which facilitated an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec in Q3 2017.

2018 Financial Summary

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Sales	**$ 3,525**	$ 3,161	**$ 16,944**	$ 7,674
Royalty expense	**(96)**	(301)	**(506)**	(394)
Revenues, net	**3,429**	2,860	**16,438**	7,280
Expenses				
Impairment losses (reversal)	**(530)**	(12,000)	**10,878**	(12,000)
Depletion, depreciation and amortization	**1,247**	604	**4,871**	2,649
Transportation expense	**-**	10	**100**	438
Production expense	**811**	613	**2,739**	2,519
General and administrative expense	**819**	879	**2,605**	2,923
Financial derivatives losses (gains)	**(3,300)**	1,449	**(1,978)**	158
Share-based compensation expense	**111**	24	**350**	240
Other write-downs and losses	**52**	248	**52**	248
	(790)	(8,173)	**19,617**	(2,825)
Income (loss) before the following items	**4,219**	11,033	**(3,179)**	10,105
Gain on disposition of assets	**-**	22	**-**	5,601
Interest and other	**285**	113	**1,256**	(353)
Equity loss	**-**	-	**-**	(44)
Income (loss) before income taxes	**4,504**	11,168	**(1,923)**	15,309
Deferred income tax recovery	**(1,600)**	(2,430)	**(1,609)**	(2,430)
Net income (loss)	**$ 6,104**	$ 13,598	**$ (314)**	$ 17,739

Fourth Quarter Summary

- Sales for Q4 2018 increased to $3,525 thousand from $3,161 thousand in Q4 2017 due primarily to an increase in the average natural gas production to 4.4 mmscfpd in Q4 2018 from 2.7 mmscfpd in Q4 2017 partially offset by the decrease in natural gas price to $8.53/mscf in Q4 2018 from $12.51/mscf in Q4 2017. The increase in the average daily natural gas production is due to management's decision to resume production from its shut-in two weeks earlier in 2018, on November 14, as compared to December 1 in 2017.

- The decrease in the average natural gas sales price in Q4 2018 was mitigated by the Company's financial hedges in place during that period, which resulted in realized financial derivatives gains of $868 thousand in Q4 2018 as compared to realized financial derivatives gains of $7 thousand in Q4 2017.

- Corridor's cash flow from operations for Q4 2018 increased to $3,022 thousand from $1,549 thousand in Q4 2017 due primarily to the increase in natural gas sales and realized financial derivatives gains in Q4 2018.

- Net income for Q4 2018 decreased to $6,104 thousand from $13,598 thousand for Q4 2017 due primarily to a decrease in the reversal of impairment losses to $530 thousand in Q4 2018 from $12 million in Q4 2017, partially offset by the recognition of financial derivatives gains of $3,300 thousand in Q4 2018 compared to financial derivatives losses of $1,449 thousand in Q4 2017.

Results of Operations

Sales

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Natural gas	**$ 3,422**	$ 3,088	**$ 16,360**	$ 7,292
Condensate	**-**	-	**77**	47
Natural gas and gas liquids sales	**3,422**	3,088	**16,437**	7,339
Gathering, processing & transportation fees	**103**	73	**507**	335
Sales	**$ 3,525**	$ 3,161	**$ 16,944**	$ 7,674

Production volumes and pricing

	Three months ended December 31		Twelve months ended December 31	
	2018	2017	**2018**	2017
Natural gas production (mmscf)	**401**	247	**1,548**	903
Natural gas production per day (mmscfpd)	**4.4**	2.7	**4.2**	2.5
Natural gas selling price ($/mscf)	**$ 8.53**	$ 12.51	**$ 10.57**	$ 8.08

Natural gas sales increased to $3,422 thousand for Q4 2018 from $3,088 thousand in Q4 2017 due to an increase in natural gas production to 4.4 mmscfpd in Q4 2018 from 2.7 mmscfpd in Q4 2017 partially offset by a decrease in the average natural gas price to $8.53/mscf in Q4 2018 from $12.51/mscf in Q4 2017. The increase in the average daily natural gas production is due to management's decision to resume production two weeks earlier in 2018, on November 14, as compared to December 1 in 2017.

For the year ended December 31, 2018, natural gas sales increased to $16,360 thousand from $7,292 thousand for the year ended December 31, 2017 due to the increase in the average daily natural gas production to 4.2 mmscfpd in 2018 from 2.5 mmscfpd in 2017 and an increase in Corridor's average realized natural gas sales price to $10.57/mscf in 2018 from $8.08/mscf in 2017. The increase in natural gas production at the McCully Field is largely the result of more than a month of additional production in 2018 as compared to 2017. This is due to management's decision to shut-in its natural gas wells for less than seven months in 2018 from May to November compared to eight months in 2017 from April to December. Management had determined in each of 2017 and 2018 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.

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 increase in the gathering, processing and transportation fees to $103 thousand for Q4 2018 from $73 thousand for Q4 2017 and to $507 thousand for the year ended December 31, 2018 from $335 thousand for the year ended December 31, 2017 is due to an increase in Nutrien's share of natural gas production as a result of the increase in natural gas production at the McCully Field in 2018.

Financial Derivatives Losses (Gains)

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Change in unrealized losses (gains) on financial derivatives:				
Reversal of prior period unrealized losses (gains)	**$ (1,436)**	$ (56)	**$ (1,512)**	$ (253)
Current period estimate of unrealized losses (gains)	**(996)**	1,512	**(996)**	1,512
Change in unrealized losses (gains)	**(2,432)**	1,456	**(2,508)**	1,259
Realized financial derivatives losses (gains)	**(868)**	(7)	**530**	(1,101)
Financial derivatives losses (gains)	**$ (3,300)**	$ 1,449	**$ (1,978)**	$ 158

A key component of Corridor's 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 at the McCully Field after a shut-in period. The settlement of financial hedges in Q4 2018 resulted in realized financial derivatives gains of $868 thousand as compared to realized financial derivatives gains of $7 thousand in Q4 2017 while the settlement of financial hedges during the year ended December 31, 2018 resulted in realized financial derivatives losses of $530 thousand as compared to realized financial derivatives gains of $1,101 thousand during the year ended December 31, 2017.

Corridor had the following financial hedges in place as of December 31, 2018: 5,000 mmbtupd at an average fixed price of $US7.59/mmbtu for the period from January 1, 2019 to March 31, 2019; 2,500 mmbtupd at a fixed price of $US12.72/mmbtu for January 2019; 2,500 mmbtupd at a fixed price of $US12.50/mmbtu for February 2019, and 2,500 mmbtupd at a fixed price of $US9.00/mmbtu for the period from December 1, 2019 to March 31, 2020. The calculation of the fair value of these contracts as of December 31, 2018, based on forecasted natural gas prices as of that date, resulted in the recognition of unrealized gains on financial derivatives of $996 thousand for the three and twelve months ended December 31, 2018 while this calculation, as of December 31, 2017, resulted in the recognition of unrealized losses on financial derivatives of $1,512 thousand for the three and twelve months ended December 31, 2017.

Royalty Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Royalty on current year sales	**$ 96**	$ 103	**$ 506**	$ 196
Prior years royalty audit assessment	**-**	198	**-**	198
Royalty expense	**$ 96**	$ 301	**$ 506**	$ 394
Current year royalty expense per mscf ($/mscf)	**$ 0.24**	$ 0.42	**$ 0.33**	$ 0.22
Percentage of natural gas and gas liquids sales	**2.8%**	3.3%	**3.1%**	2.7%

Corridor's royalty expense for Q4 2018 decreased to $96 thousand from $301 thousand for Q4 2017 due primarily to the payment of $198 thousand relating to the reassessment by the New Brunswick Department of Finance of the Company's royalty payments for the periods between November 1, 2009 and December 31, 2014. The royalty on current year's sales increased to $506 thousand for the year ended December 31, 2018 from $196 thousand for the year ended December 31, 2017 due to the increase in natural gas sales in 2018.

Transportation Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Transportation expense	**-**	$ 10	**$ 100**	$ 438
Transportation expense per mscf ($/mscf)	**-**	$ 0.04	**$ 0.06**	$ 0.48

Since December 1, 2016, Corridor has been successful at entering into forward sale agreements for the delivery of a portion of its natural gas production to the local Maritimes market as opposed to the New England market thereby incurring lower transportation expenses. In 2018, Corridor had forward sale agreements in place for the delivery of natural gas production to the local Maritimes market for substantially all of its natural gas production and for only 4,755 mmbtupd for the period from December 1, 2016 to March 31, 2017. As a result, transportation expense decreased significantly to nil and $100 thousand for the three and twelve months ended December 31, 2018 from $10 thousand and $438 thousand for the three and twelve months ended December 31, 2017. Effective November 1, 2018, Corridor entered into an agreement that eliminates transportation charges on the Canadian portion of the M&NP until April 1, 2024.

Production Expense

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Gross production expense	**$ 889**	$ 656	**$ 3,076**	$ 2,741
Third party recoveries	**(78)**	(43)	**(337)**	(222)
Net production expense	**$ 811**	$ 613	**$ 2,739**	$ 2,519
Net production expense per mscf ($/mscf)	**$ 2.02**	$ 2.48	**$ 1.77**	$ 2.79

Gross production expense increased to $889 thousand for Q4 2018 from $656 thousand for Q4 2017 and to $3,076 thousand for the year ended December 31, 2018 from $2,741 thousand for the year ended December 31, 2017 due to management's decision to shut-in natural gas production at the McCully Field for less than seven months in 2018 from May to November compared to eight months in 2017 from April to December. The longer production period in 2018 resulted in higher overall production expenses, particularly utilities and supplies expense in Q4 2018. Third party recoveries for the three and twelve months ended December 31, 2018 increased to $78 thousand and $337 thousand for the same reason.

Impairment Losses (Reversal)

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
McCully Field	**$ (530)**	$ (12,000)	**$ (530)**	$ (12,000)
Old Harry prospect	**-**	-	**11,408**	-
Impairment losses (reversal)	**$ (530)**	$ (12,000)	**$ 10,878**	$ (12,000)

In 2018, Corridor recognized impairment losses of $11,408 thousand relating to costs incurred to date on the Old Harry prospect. The recognition of impairment losses resulted from the Company's decision to suspend any further technical and capital spending on the Old Harry prospect after a comprehensive review revealed more complexity in the Old Harry prospect than previous analysis had suggested, which included the results of an integrated geotechnical analysis of a CSEM survey and reprocessed 2D seismic.

In Q4 2018, the Company recognized a reversal of impairment losses of $530 thousand for the year ended December 31, 2018 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, 2018 is due to additions in reserves of 1.1 bscf due to increased well recovery estimates in the 2018 GLJ Reserves Report which largely replaced the decrease resulting from the current year's production of 1.5 bscf . As a result, GLJ's estimate of proved plus probable natural gas reserves in the 2018 GLJ Reserves Report decreased by only 0.3 bscf to 22.2 bscf from GLJ's estimate of 22.5 bscf effective as at December 31, 2017.

The calculations of the reversal of impairment losses for the year ended December 31, 2018 and 2017 were based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves using forecast prices and costs and discounted using 10%.

For the year ended December 31, 2018, the Company utilized the following forecast prices in the fair value calculation:

	2019	2020	2021	2022	2023	2024-2028	Thereafter
AGT ($US/mmbtu)	$ 4.40	$ 4.55	$ 4.55	$ 4.50	$ 4.63	$ 4.70-$ 5.00	+2%/year
McCully ($CDN/mscf)	$ 6.14	$ 5.87	$ 5.72	$ 5.51	$ 5.61	$ 7.55-$ 8.24	+2%/year
Exchange rate ($US/$CDN)	$ 0.75	$ 0.77	$ 0.79	$ 0.81	$ 0.82	$ 0.825	$ 0.825

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

Depletion, Depreciation and Amortization

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Depletion, depreciation and amortization	**$ 1,247**	$ 604	**$ 4,871**	$ 2,649
Depletion, depreciation and amortization per mscf ($/mscf)	**$ 3.49**	$ 2.88	**$ 3.47**	$ 3.31

Depletion expense is calculated using the unit-of-production method which is based on production volumes (excluding penalty wells) in relation to the proved reserves base.

The increase in depletion, depreciation and amortization expense to $1,247 thousand and $4,871 thousand for the three and twelve months ended December 31, 2018 from $604 thousand and $2,649 thousand for the three and twelve months ended December 31, 2017 is primarily due to the increase in natural gas production in 2018 and the increase in the net book value of the depletion asset base following the recognition of a reversal of impairment losses of $12 million in 2017.

General and Administrative Expenses

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Gross expenses	**$ 861**	$ 908	**$ 2,740**	$ 3,029
Capitalized overhead	**(31)**	(29)	**(123)**	(106)
Operator recoveries	**(11)**	-	**(12)**	-
Net expenses	**$ 819**	$ 879	**$ 2,605**	$ 2,923

Gross general and administrative expenses decreased to $861 thousand in Q4 2018 from $908 thousand in Q4 2017 and to $2,740 thousand for the year ended December 31, 2018 from $3,029 thousand for the year ended December 31, 2017 due to management's continued efforts to reduce costs.

Gain on Disposition of Assets

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Gain on disposition of assets	**$ -**	$ 22	**$ -**	$ 5,601

In 2017, 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 received compensation of $19,548 thousand which resulted in the recognition of a net gain on disposition of $5,589 thousand for the year ended December 31, 2017.

Other Write-downs and Losses

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Inventory write-down	**$ 52**	$ 248	**$ 52**	$ 248

Management wrote down its casing inventory by $52 thousand in 2018 (2017 - $248 thousand) to reflect a decrease in the net realizable value of such inventory.

Deferred Income Taxes

	Three months ended December 31		Twelve months ended December 31	
thousands of dollars	**2018**	2017	**2018**	2017
Deferred income tax recovery	**$ (1,600)**	$ (2,430)	**$ (1,609)**	$ (2,430)
Canadian statutory income tax rate	**29.3%**	29.3%	**29.3%**	29.3%

The Company did not fully recognize deferred income taxes during the years ended December 31, 2018 and 2017 as it is not probable that there will be sufficient taxable profits and reversal of deductible temporary differences in the future to facilitate the utilization by the Company of the underlying tax-deductible amounts. The Company recognized a write-up of deferred income tax assets of $2,430 thousand in 2017 and a further write-up of $402 thousand in 2018 to reflect the expected reversal of deductible temporary differences in the future.

At December 31, 2018, the Company had approximately $166 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 future.

Capital Expenditures

thousands of dollars	**Three months ended December 31** **2018**	2017	**Twelve months ended December 31** **2018**	2017
Exploration, development and production	**$ 564**	$ 2,699	**$ 1,937**	$ 2,918
Capitalized overhead	**31**	29	**123**	106
Office and other assets	**129**	1	**194**	5
Capital expenditures	**$ 724**	$ 2,729	**$ 2,254**	$ 3,029

The decrease in capital expenditures to $724 thousand and $2,254 thousand for the three and twelve months ended December 31, 2018 from $2,729 thousand and $3,029 thousand for the three and twelve months ended December 31, 2017 is primarily due to costs incurred on the CSEM survey and 2D seismic reprocessing over the Newfoundland and Labrador portion of the Old Harry prospect in Q4 2017 and Q1 2018. In Q4 2018, Corridor undertook a workover program at the McCully Field amounting to $597 thousand.

Statement of Financial Position Changes

Significant changes between Corridor's December 31, 2018 and December 31, 2017 Statement of Financial Positions include:

- $996 thousand increase in financial derivatives receivable, reflecting the calculation of the fair value of contracts as of December 31, 2018, based on forecasted natural gas prices as of that date. This calculation, as of December 31, 2017, resulted in the recognition of a financial derivatives liability of $1,512 thousand;
- $1,184 thousand decrease in property, plant and equipment, primarily reflecting depletion expense partially offset by a reversal of impairment losses of $530 thousand and an increase in the estimate of future abandonment costs of $2,018 thousand in 2018;
- $8,119 thousand decrease in exploration and evaluation assets, primarily reflecting impairment losses of $12 million on the Old Harry prospect partially offset by an increase in the estimate of future abandonment costs of $2,041 thousand, and
- $2,571 thousand increase in decommissioning liability, primarily reflecting an increase in the estimate of future abandonment costs of $3,540 thousand, partially offset by costs incurred of $1,755 thousand relating to the abandonment of four wells in Q4 2018.

Cash Flow Summary

thousands of dollars	**Three months ended December 31** **2018**	2017	**Twelve months ended December 31** **2018**	2017
Cash provided by (used in) operating activities	**$ 75**	$ (1,269)	**$ 11,870**	$ 1,077
Cash provided by financing activities	**63**	-	**102**	13
Cash provided by (used in) investing activities	**(1,864)**	(1,446)	**(4,497)**	17,815
Increase (decrease) in cash and cash equivalents	**$ (1,726)**	$ (2,715)	**$ 7,475**	$ 18,905

The increase in cash provided by operating activities to $11,870 thousand for the year ended December 31, 2018 from $1,077 thousand for the year ended December 31, 2017 is primarily due to the increase in natural gas sales in 2018.

The increase in cash used in investing activities to $4,497 thousand for the year ended December 31, 2018 from cash provided by investing activities of $17,815 thousand for the year ended December 31, 2017 is primarily due to compensation received of $19.5 million in Q3 2017 from the Québec Government relating to a settlement agreement to end oil and gas exploration on Anticosti Island.

Summary of Quarterly Information

thousands of dollars, except per share amounts and average natural gas price	2018				2017			
	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	**$ 3,422**	-	$ 1,432	$ 11,506	**$ 3,088**	-	$ 38	$ 4,166
Net income (loss)	**$ 6,104**	$ (1,860)	$ (10,127)	$ 5,569	**$ 13,598**	$ 3,826	$ (1,510)	$ 1,825
Net income (loss) per share – basic and diluted	**$ 0.068**	$ (0.021)	$ (0.114)	$ 0.063	**$ 0.153**	$ 0.043	$ (0.017)	$ 0.021
Natural gas production (mmscfpd)	**4.4**	-	2.8	9.9	**2.7**	-	0.1	7.2
Average natural gas price ($/mscf)	**$ 8.53**	-	$ 5.63	$ 12.90	**$ 12.51**	-	$ 3.86	$ 6.45
Capital expenditures	**$ 724**	$ 307	$ 502	$ 721	**$ 2,729**	$ 127	$ 74	$ 99

Corridor's natural gas sales are priced at AGT. The AGT market has been characterized by excess demand during the winter season resulting in significant premiums in the sale prices for natural gas during the winter season as compared to prices during other periods of the year. In response to this trend in natural gas prices, since 2015, the Company has determined to shut-in most 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.

In 2017, GLJ increased its estimate of future natural gas revenues in respect of the McCully Field effective as at December 31, 2017, resulting in the recognition of a reversal of impairment losses of $12 million and net income of $13,598 thousand in Q4 2017.

In Q2 2018, Corridor announced its decision to suspend any further technical work and capital spending on the Old Harry prospect which resulted in impairment losses of $11,368 thousand and a net loss of $10,127 thousand in Q2 2018.

Outstanding Share Information

As of February 28, 2019, the outstanding share information was as follows:

Common shares outstanding	**88,924,465**
Stock options to purchase common shares	**3,445,500**
Total common shares outstanding after exercise of all stock options	**92,369,965**

thousands of dollars	
Total proceeds due on exercise of all stock options	**$ 2,716**

The weighted average exercise price for the stock options outstanding at February 28, 2019 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, 2018, the Company was holding cash and cash equivalents of $53,652 thousand and working capital of $57,190 thousand. The Company has sufficient financial resources to undertake its planned activities in 2019 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 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, 2018, Corridor had the following contractual obligations and commitments:

(thousands of dollars)	**Total**	2019	2020	2021	2022	2023	Thereafter
Operating leases	**$ 1,211**	$ 253	$ 219	$ 238	$ 105	$ 105	$ 291
Decommissioning liabilities	**17,481**	193	-	-	-	-	17,288
	$ 18,692	$ 446	$ 219	$ 238	$ 105	$ 105	$ 17,579

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, 2018, 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, 2018. 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, 2018, 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, 2018, the Company recognized a reversal of impairment losses of $530 thousand 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, 2018 of a one percent change in the discount rate:

(thousands of dollars)

	2018	
	1% rate increase	**1% rate decrease**
Increase (decrease) in reversal of impairment losses	$ (2,335)	$ 2,561

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, 2018 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 were adopted in 2018.

IFRS 15, Revenue from Contracts and Customers

The Company adopted IFRS 15 "*Revenue from Contracts and Customers*" ("IFRS 15") on January 1, 2018 using the retrospective method. IFRS 15 replaces IAS 18 "*Revenue*", IAS 11 "*Construction Contracts*" and some revenue related interpretations. The Company reviewed its various revenue streams and underlying contracts with customers using the IFRS 15 five-step model and determined there were no material changes to the measurement or the timing of the Company's revenues.

IFRS 9, Financial Instruments

The Company adopted IFRS 9 "*Financial Instruments*" ("IFRS 9") on January 1, 2018 which replaced IAS 39 "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). The Company adopted the new standard using the retrospective method. The adoption of IFRS 9 did not have a material impact on the classification and measurement of the Company's financial assets and financial liabilities. The nature and effect of the key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are summarized below.

Classification of Financial Assets and Financial Liabilities
IFRS 9 replaces the previous classification categories for financial assets under IAS 39 of held to maturity, loans and receivables, and available for sale with three new principal classification categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the contractual cash flows' characteristics and the business model for managing a financial asset. IFRS 9 had no substantive changes relating to the classification of financial liabilities.

Impairment of Financial Assets
IFRS 9 implements an expected credit loss model calculation and replaces the incurred credit loss calculation under IAS 39. Under IFRS 9, credit losses are expected to be recognized earlier than under IAS 39. The new impairment model applies to Corridor's financial assets measured at amortized costs and its adoption did not impact the valuation of the Company's financial assets.

The following is the new accounting standard that has been issued but is not yet effective.

IFRS 16, Leases
In January 2016, the IASB issued IFRS 16 "*Leases*" ("IFRS 16") which replaces IAS 17 "*Leases*". IFRS 16 requires the recognition of a right-of-use asset and lease liability on the Statement of Financial Position for most leases. For lessees, IFRS 16 removes the classification of leases as either operating or finance, effectively treating all leases as finance leases. The standard will come into effect for years beginning on or after January 1, 2019 and may be applied retrospectively or using a modified retrospective approach. The Company has selected to use the modified retrospective approach which does not require restatement of prior period financial information as the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings.

IFRS 16 is expected to increase the Company's total assets and liabilities and change the Company's opening retained earnings. In addition, future net income will be impacted as the finance charges and depreciation charges associated with the recognition of lease contracts as right-of-use assets are not expected to correspond in any one period to the lease payments under these contracts.

Management has identified right-of-use assets related to office space, vehicles and surface land rights. The impact of the adoption of IFRS 16 on net income has not yet been determined but the Company expects the following changes:

- lower production expenses and general and administrative expenses;
- higher finance expenses due to the interest recognized on the lease obligations; and
- higher depreciation expenses related to the right-of-use assets.

Business Conditions and Risks

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

The following is a summary of certain risk factors and should not be construed as exhaustive. There are numerous factors both known and unknown, that could cause actual results or events to differ materially from forecast results. Additional risk factors are included in the Annual Information Form under the heading "Risk Factors" and include: development and operating costs, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, expiration of licenses and leases, reserves and 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, 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 oil and 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. In November 2018, the Government of New Brunswick expressed its intention to allow natural gas development in the Sussex region, where Corridor’s properties are located. Until the moratorium is lifted, Corridor has determined that it will not undertake any drilling or completion activities or incur associated capital expenditures in New Brunswick. Should the moratorium not be lifted, Corridor's ability to maintain or increase production in the McCully Field and its 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 prices received by the Company. Any material increase in the value of the Canadian dollar will negatively impact the Company's natural gas revenues. This increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators. The Company has not engaged in any risk management activities related to the Canada/United States exchange rate.

Reserves and Resources Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and resources, including many factors beyond the Company's control. While the reserves and future net cash flow information from the Company's properties have been independently evaluated by GLJ in the 2018 GLJ Reserves 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, 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. 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 2018 GLJ Reserves Report should not be construed as the fair market value of the Company's reserves. 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 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 uneconomic.

The Company's 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.

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 as of December 31, 2018 were prepared by, and are the responsibility of, management. The financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and include amounts that reflect management's best estimates and judgments. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The financial information contained elsewhere in Management's Discussion and Analysis is consistent with that provided in the financial statements.

Management of the Company has established and maintains a system of internal control designed to provide 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 Audit Committee reviewed the financial statements with management and the external auditors and recommended approval to the Board of Directors, who have approved the accompanying financial statements.

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 in accordance with generally accepted auditing standards and provided their auditor's report thereon. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

March 27, 2019

Signed *"Stephen J. Moran"*	Signed *"Lisette F. Hachey"*
Stephen J. Moran	Lisette F. Hachey
President and Chief Executive Officer	Chief Financial Officer

Independent auditor's report

To the Shareholders of Corridor Resources Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Corridor Resources Inc. (the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's financial statements comprise:

- the statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2018 and 2017;
- the statements of financial position as at December 31, 2018 and 2017;
- the statements of changes in shareholders' equity for the years ended December 31, 2018 and 2017;
- the statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lee-Anne Kovacs.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants

Halifax, Nova Scotia
March 27, 2019

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

(thousands of dollars, except per share data)

For the years ended December 31	**2018**	2017
Sales *(note 5)*	**$ 16,944**	$ 7,674
Royalty expense	**(506)**	(394)
Revenues, net	**16,438**	7,280
Expenses		
Impairment losses (reversal) *(notes 13 & 14)*	**10,878**	(12,000)
Depletion, depreciation and amortization	**4,871**	2,649
Transportation expense	**100**	438
Production expense *(note 6)*	**2,739**	2,519
General and administrative expense *(note 6)*	**2,605**	2,923
Financial derivatives losses (gains) *(note 20a i)*	**(1,978)**	158
Share-based compensation expense *(note 18)*	**350**	240
Other write-downs and losses *(notes 12 & 14)*	**52**	248
	19,617	(2,825)
Income (loss) before the following items	**(3,179)**	10,105
Gain on disposition of assets *(note 7)*	**-**	5,601
Interest and other *(note 8)*	**1,256**	(353)
Equity loss	**-**	(44)
Income (loss) before income taxes	**(1,923)**	15,309
Deferred income tax recovery *(note 9)*	**(1,609)**	(2,430)
Net income (loss) and comprehensive income (loss)	**$ (314)**	$ 17,739
Net income (loss) per share - basic and diluted	**$ (0.004)**	$ 0.200
Weighted average number of common shares		
Basic	**88,700**	88,654
Diluted *(note 10)*	**89,095**	88,819

See accompanying notes to the financial statements.

Statements of Financial Position

(thousands of dollars)

As at December 31	**2018**	2017
Assets		
Current assets		
Cash and cash equivalents	**$ 53,652**	$ 46,177
Restricted cash *(note 22b)*	**650**	650
Receivables *(notes 11 & 20a iii)*	**4,197**	3,927
Financial derivatives receivable *(note 20a i)*	**996**	-
Inventory held for sale *(note 12)*	**16**	154
Prepaids and security deposits	**180**	100
	59,691	51,008
Non-current assets		
Property, plant and equipment *(note 14)*	**57,733**	58,917
Exploration and evaluation assets *(note 13)*	**3,451**	11,570
Deferred income tax assets *(note 9)*	**4,039**	2,430
Intangible assets	**7**	55
Restricted cash *(note 22b)*	**380**	380
Total assets	**$ 125,301**	$ 124,360
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities *(note 15)*	**$ 2,190**	$ 2,446
Deferred share units liability *(note 18b)*	**311**	132
Financial derivatives liability *(note 20a i)*	**-**	1,512
	2,501	4,090
Non-current liabilities		
Decommissioning liability *(note 16)*	**11,100**	8,529
Total liabilities	**13,601**	12,619
Shareholders' Equity		
Capital stock *(note 17)*	**247,855**	247,704
Contributed surplus *(note 18)*	**11,048**	10,926
Deficit	**(147,203)**	(146,889)
Total shareholders' equity	**111,700**	111,741
Total liabilities and shareholders' equity	**$ 125,301**	$ 124,360

See accompanying notes to the financial statements.

Commitments *(note 22)*
Contingencies *(note 23)*
Subsequent events *(note 24)*

On behalf of the Board

Signed *"Stephen J. Moran"* Director

Signed "*Robert D. Penner*" Director

Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the years ended December 31	**2018**	2017
Capital stock, beginning of year	**$ 247,704**	$ 247,685
Exercise of stock options for cash	**102**	13
Amount previously expensed for stock options exercised	**49**	6
Capital stock, end of year	**$ 247,855**	$ 247,704
Contributed surplus, beginning of year	**$ 10,926**	$ 10,747
Share-based compensation expense *(note 18)*	**171**	185
Amount previously expensed for stock options exercised	**(49)**	(6)
Contributed surplus, end of year	**$ 11,048**	$ 10,926
Deficit, beginning of year	**$ (146,889)**	$ (164,628)
Net income (loss) and comprehensive income (loss)	**(314)**	17,739
Deficit, end of year	**$ (147,203)**	$ (146,889)
Shareholders' equity, end of year	**$ 111,700**	$ 111,741

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of dollars)

For the years ended December 31	**2018**	2017
Operating Activities		
Net income (loss)	**$ (314)**	$ 17,739
Adjustments not affecting cash:		
Impairment losses (reversal) and asset write-downs	**10,930**	(11,752)
Depletion, depreciation and amortization	**4,871**	2,649
Share-based compensation expense	**350**	240
Deferred income tax recovery	**(1,609)**	(2,430)
Gain on disposition of assets	**-**	(5,601)
Change in unrealized financial derivatives losses (gains)	**(2,508)**	1,259
Other operating activities	**267**	337
	11,987	2,441
Increase in non-cash operating working capital *(note 19)*	**(117)**	(1,364)
Cash provided by operating activities	**11,870**	1,077
Financing Activities		
Proceeds from the exercise of stock options	**102**	13
Cash provided by financing activities	**102**	13
Investing Activities		
Property, plant and equipment expenditures	**(1,006)**	(101)
Exploration and evaluation expenditures	**(1,248)**	(2,928)
Proceeds on the sale of assets *(note 7)*	**1**	19,701
Contribution in Anticosti partnership	**-**	(48)
Decommissioning liabilities settled	**(1,755)**	-
Decrease (increase) in non-cash investing working capital *(note 19)*	**(489)**	1,191
Cash provided by (used in) investing activities	**(4,497)**	17,815
Increase in cash and cash equivalents	**7,475**	18,905
Cash and cash equivalents, beginning of year	**46,177**	27,272
Cash and cash equivalents, end of year	**$ 53,652**	$ 46,177
Cash and cash equivalents consists of:		
Cash	**$ 3,602**	$ 7,075
Short-term investments	**50,050**	39,102
Cash and cash equivalents, end of year	**$ 53,652**	$ 46,177

See accompanying notes to the financial statements.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

1. Nature of operations

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

2. Basis of 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 27, 2019, 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. Certain prior year balances have been reclassified to be consistent with the current year's presentation.

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) Revenue recognition

Natural gas and gas liquids

Corridor delivers and sells its natural gas production daily from the McCully Field in New Brunswick to markets in northeastern United States and the Maritimes pursuant to long-term agreements with a marketing agent. The Company satisfies its performance obligations upon the delivery of the natural gas production. The transaction price is based on the daily commodity price adjusted for the delivery location and other seasonal factors based on the terms of the agreements. The fees associated with marketing and transportation services provided by the Company's marketing agent are deducted from the transaction price while transportation services procured by Corridor are recognized in transportation expenses. Corridor's natural gas revenues do not contain significant financing components and payments are typically due 25 days following the month of delivery.

Revenue from Corridor's working interest of natural gas production is recognized at the point in time when control of the natural gas is transferred, being when the natural gas has been delivered to Corridor's marketing agent at the agreed delivery location, which coincides with the month the natural gas is produced. Natural gas revenue is recognized at the agreed transaction price based on the terms of the agreements. Natural gas liquids revenue is recognized at the point in time when delivery has taken place.

Gathering, processing and transportation fees

The Company has collaborative arrangements with its joint venture partner, Nutrien Inc., (formerly Potash Corporation of Saskatchewan Inc.) ("Nutrien") to gather, process and transport Nutrien's working interest share of natural gas production from the McCully Field through Corridor's production facilities. The gathering, processing and transportation fees are calculated based on the use of these facilities and include a recovery of capital and a recovery of operating expenses.

Gathering, processing and transportation fees relating to the recovery of capital of Corridor's production facilities are recognized when the gathering, processing and transportation services have been provided to Nutrien, which coincides with the month the natural gas is produced.

3. Significant accounting policies (continued)

c) 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.

d) 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.

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.

e) 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%
Midstream assets	Straight line	5 – 15 years
Production facilities	Unit of Production	Proved reserves

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

3. Significant accounting policies (continued)

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.

f) Joint arrangements

The nature of Corridor's joint arrangement with Nutrien is a joint operation. As of December 31, 2018, 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.

g) 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.

h) Intangible assets

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

i) 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 deferred share units liability on the Statement of Financial Position.

3. Significant accounting policies (continued)

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.

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) Financial assets at amortized cost

Financial assets at amortized costs include accounts receivables. They are financial assets held to collect contractual cash flows that represent payments of principal and interest only. The carrying values of accounts receivable approximate their fair values because of their short term to maturity.

The Company measures expected credit losses using a lifetime expected loss allowance for accounts receivables with expected lifetime losses recognized from initial recognition of accounts receivables. Each period, Corridor assesses the expected credit losses on a forward-looking basis.

ii) Financial liabilities at amortized cost

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

3. Significant accounting policies (continued)

iii) Fair value through profit or loss

The Company's financial derivatives liability or receivable is classified as fair value through profit or loss and is recognized at fair value based on quoted market prices at each reporting date. Financial derivatives liability or receivable is 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.

The Company's deferred share units liability is classified as fair value through profit or loss and is recognized at fair value based on quoted market prices at each reporting date. The fair value of the DSUs granted and changes in their fair value are recognized as share-based compensation expense on the Statement of Income and Comprehensive Income.

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.

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

In January 2016, the IASB issued IFRS 16 "*Leases*" ("IFRS 16") which replaces IAS 17 "*Leases*". IFRS 16 requires the recognition of a right-of-use asset and lease liability on the Statement of Financial Position for most leases. For lessees, IFRS 16 removes the classification of leases as either operating or finance, effectively treating all leases as finance leases.

The standard will come into effect for years beginning on or after January 1, 2019 and may be applied retrospectively or using a modified retrospective approach. The Company has elected to use the modified retrospective approach which does not require restatement of prior period financial information as the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings.

On initial adoption, management has elected to use the following practical expedients permitted under the standard:

- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases, and
- Account for lease payments as an expense and not a right-of-use asset for short-term leases and leases of low value assets.

3. Significant accounting policies (continued)

IFRS 16 is expected to increase the Company's total assets and liabilities and change the Company's opening retained earnings. In addition, future net income will be impacted as the finance charges and depreciation charges associated with the recognition of lease contracts as right-of-use assets are not expected to correspond in any one period to the lease payments under these contracts.

Management has identified right-of-use assets related to office space, vehicles and surface land rights. The impact of the adoption of IFRS 16 on net income has not yet been determined but the Company expects the following changes:

- Lower production expenses and general and administrative expenses;
- Higher finance expenses due to the interest recognized on the lease obligations; and
- Higher depreciation expenses related to the right-of-use assets.

4. Critical judgments and accounting estimates

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

Recoverability of asset carrying values

At each reporting date, the Company assesses its property, plant and equipment, oil and gas properties and exploration and evaluation assets to determine if there is any indication that the carrying amount of the assets may not be recoverable An assessment is also made at each reporting date to determine whether there is any 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.

4. Critical judgments and accounting estimates (continued)

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)

	2018	2017
Natural gas sales	**$ 16,360**	$ 7,292
Gathering, processing and transportation fees	**507**	335
Natural gas liquids sales	**77**	47
	$ 16,944	$ 7,674

6. Expenses by nature

Production expenses by nature consist of the following:

(thousands of dollars)

	2018	2017
Wages and benefits	**$ 681**	$ 608
Utilities expense	**687**	539
Repairs and maintenance	**284**	344
Property taxes and insurance	**436**	422
Office expenses	**111**	107
Workover activities and field maintenance	**224**	178
Other production expenses	**653**	543
	3,076	2,741
Third party recoveries	**(337)**	(222)
	$ 2,739	$ 2,519

General and administrative expenses by nature consist of the following:

(thousands of dollars)

	2018	2017
Wages and benefits	**$ 1,027**	$ 974
Directors fees	**215**	228
Consultants	**475**	687
Legal and accounting	**431**	563
Office expenses	**136**	137
Software maintenance and licensing	**113**	125
Other general and administrative expenses	**343**	315
	2,740	3,029
Third party recoveries & capitalized overhead	**(135)**	(106)
	$ 2,605	$ 2,923

7. Gain on disposition of assets

In 2017, 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 received compensation of $19,548 thousand. As a result, Corridor recognized a net gain on disposition of $5,589 thousand for the year ended December 31, 2017.

8. Interest and other

Interest and other consist of the following:

(thousands of dollars)

	2018	2017
Foreign exchange gains (losses)	**$ 635**	$ (443)
Interest and finance costs	**(268)**	(292)
Interest and other income	**889**	382
	$ 1,256	$ (353)

9. Income taxes

Deferred income tax recovery 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)

	2018	2017
Income (loss) before income taxes	**$ (1,923)**	$ 15,309
Blended Canadian statutory income tax rate	**29.3%**	29.3%
Expected income tax expense (recovery)	**$ (563)**	$ 4,486
Increase (decrease) resulting from:		
Deferred income tax expense not recognized	**-**	(2,216)
Non-deductible (non-taxable):		
- unrealized financial derivatives losses (gains)	**(735)**	369
- share-based compensation	**103**	70
- gain on sale of exploration assets	**-**	(2,756)
Write-up of deferred income tax assets	**(402)**	(2,430)
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**(12)**	47
	$ (1,609)	$ (2,430)

At December 31, 2018, the Company has $101 million of deductible temporary differences for which no deferred tax asset is recognized as management has determined it is not probable that there will be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax-deductible amounts.

In addition, the Company has $1,705 thousand of unrecognized investment tax credits which will expire between 2028 and 2035.

10. Income (loss) per share

For the year ended December 31, 2018, stock options of 900 thousand (December 31, 2017 – 2,233 thousand) were excluded from the dilution calculation since the average market price for the year was lower than the exercise price.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

11. Receivables

Receivables consist of the following:

(thousands of dollars)

	December 31 2018	December 31 2017
Trade receivables	**$ 3,534**	$ 3,593
Receivables from joint venture partners	**398**	235
Sales and capital taxes payable	**(25)**	(29)
Interest receivable	**290**	128
	$ 4,197	$ 3,927

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.

12. Inventory held for sale

(thousands of dollars)

	2018	2017
Balance, beginning of year	**$ 154**	$ 339
Transfer to property, plant and equipment (*note 14*)	**(138)**	(20)
Write-downs	**-**	(102)
Sales	**-**	(63)
Balance, end of year	**$ 16**	$ 154

During the year, the Company reclassified $138 thousand (December 31, 2017 - $20 thousand) of inventory from current assets to property, plant and equipment as the Company is no longer actively pursuing the sale of this inventory. For the year ended December 31, 2017, the Company wrote-down its inventory held for sale by $102 thousand to reflect a decrease in the net realizable value.

13. Exploration and evaluation assets

(thousands of dollars)

	2018	2017
Balance, beginning of year	**$ 11,570**	$ 8,813
Additions	**1,248**	2,928
Impairment losses	**(11,408)**	-
Loss on disposition of assets	**-**	(32)
Changes in future abandonment costs	**2,041**	(139)
Balance, end of year	**$ 3,451**	$ 11,570

During the year, the Company announced its decision to suspend any further capital spending on the Old Harry prospect and, as a result, impairment losses of $11,408 thousand were recognized for the year ended December 31, 2018.

14. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
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 12)*	-	-	57	-	57
Changes in future abandonment costs	(1,260)	-	-	-	(1,260)
Balance at December 31, 2017	$ 241,712	$ 77,438	$ 1,055	$ 2,667	$ 322,872
Additions	587	225	96	98	1,006
Transfer from (to) current assets *(note 12)*	8	67	380	(67)	388
Sale of assets	-	-	-	(3)	(3)
Changes in future abandonment costs	2,018	-	-	-	2,018
Balance at December 31, 2018	**$ 244,325**	**$ 77,730**	**$ 1,531**	**$ 2,695**	**$ 326,281**
Accumulated depletion and depreciation					
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 12)*	-	-	37	-	37
Sale of assets	-	-	-	(149)	(149)
Balance at December 31, 2017	$ 199,816	$ 61,531	$ 710	$ 1,898	$ 263,955
Depletion or depreciation expense	3,485	1,233	-	105	4,823
Transfer from (to) current assets *(note 12)*	-	12	250	(12)	250
Impairment reversal	(380)	(150)	-	-	(530)
Write-down of inventory	-	-	52	-	52
Sale of assets	-	-	-	(2)	(2)
Balance at December 31, 2018	**$ 202,921**	**$ 62,626**	**$ 1,012**	**$ 1,989**	**$ 268,548**
Net book value at December 31, 2017	$ 41,896	$ 15,907	$ 345	$ 769	$ 58,917
Net book value at December 31, 2018	**$ 41,404**	**$ 15,104**	**$ 519**	**$ 706**	**$ 57,733**

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $2,652 thousand for the year ended December 31, 2018 (December 31, 2017 - $3,171 thousand).

For the year ended December 31, 2018, 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 of $530 thousand for the year ended December 31, 2018 (December 31, 2017- $12,000 thousand) were allocated to oil and gas properties and production facilities.

The reversal of impairment losses for the year ended December 31, 2018 resulted from an increase in natural gas reserves and was based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount of $48.8 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).

14. Property, plant and equipment (continued)

For the year ended December 31, 2018, the Company utilized the following forecast prices in the fair value calculation:

	2019	2020	2021	2022	2023	2024-2028	Thereafter
Algonquin city-gates ($US/mmbtu)	$ 4.40	$ 4.55	$ 4.55	$ 4.50	$ 4.63	$ 4.70-$ 5.00	+2%/year
McCully ($CDN/mscf)	$ 6.14	$ 5.87	$ 5.72	$ 5.51	$ 5.61	$ 7.55-$ 8.24	+2%/year
Exchange rate ($US/$CDN)	$ 0.75	$ 0.77	$ 0.79	$ 0.81	$ 0.82	$ 0.825	$ 0.825

The forecast McCully natural gas prices were calculated by adjusting the Algonquin city-gates natural 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:

	2018	2017
Proved plus probable natural gas reserves (bscf)	**22.2**	22.5

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, 2018:

(thousands of dollars)

	2018	
	1% rate increase	**1% rate decrease**
Increase (decrease) in reversal of impairment losses	$ (2,335)	$ 2,561

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

(thousands of dollars)

	December 31 2018	December 31 2017
Trade payables	**$ 1,731**	$ 2,062
Accrued liabilities	**459**	384
	$ 2,190	$ 2,446

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.

16. Decommissioning liability

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

(thousands of dollars)

	2018	2017
Balance, beginning of year	**$ 8,529**	$ 9,636
Change in discount rate	**519**	(1,391)
Change in estimate	**3,540**	(8)
Liabilities settled	**(1,755)**	-
Finance costs	**267**	292
Balance, end of year	**$ 11,100**	$ 8,529

16. Decommissioning liability (continued)

The total undiscounted amount of estimated cash flows required to settle these obligations is $17,481 thousand (December 31, 2017 - $14,661 thousand). Management estimates the settlement of these obligations between 2019 and 2040. At December 31, 2018, a risk-free rate of 2.22% (December 31, 2017 – 2.55%) and an inflation rate of 2% (December 31, 2017 – 2%) were used to calculate the estimated fair value of the decommissioning liability.

17. Capital stock

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

b) Issued and outstanding

(thousands of dollars and thousands of shares)

	2018		2017	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**88,655**	**$ 247,704**	88,622	$ 247,685
Exercise of stock options for cash and	**244**	**102**	33	13
amount recognized from contributed surplus	**-**	**49**	-	6
Balance, end of year	**88,899**	**$ 247,855**	88,655	$ 247,704

18. 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:

	2018		2017	
	Number of options (000's)	**Weighted average exercise price**	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of year	**3,265**	**$ 0.79**	3,775	$ 1.12
Granted	**1,783**	**0.70**	508	$ 0.52
Forfeited, cancelled or expired	**(1,333)**	**0.75**	(985)	$ 1.86
Exercised (1)	**(244)**	**0.42**	(33)	$ 0.40
Options outstanding, end of year	**3,471**	**$ 0.79**	3,265	$ 0.79
Options exercisable, end of year	**1,769**	**$ 0.89**	2,745	$ 0.85

(1) The Company's weighted average share price, at the date of exercise, for stock options exercised during the year ended December 31, 2018 was $0.79 per common share (year ended December 31, 2017 - $0.52 per common share).

18. Share-based compensation (continued)

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

	2018	2017
Weighted average fair value of options granted	**$ 0.37**	$ 0.26
Risk-free interest rate	**2.0%**	0.9%
Expected life (years)	**4.0**	3.7
Expected volatility	**68%**	69%

The range of exercise prices of stock options outstanding and exercisable as at December 31, 2018 is as follows:

(thousands of options)

	Outstanding options			Exercisable options	
Exercise prices	**Number of options outstanding**	**Weighted average remaining term (years)**	**Weighted average exercise price**	**Number of options exercisable**	**Weighted average exercise price**
$ 0.40 - $ 0.99	2,571	3.7	$ 0.63	869	$ 0.53
$ 1.00 - $ 1.99	900	0.9	$ 1.24	900	$ 1.24
	3,471	2.9	$ 0.79	1,769	$ 0.89

For the year ended December 31, 2018, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of $171 thousand relating to the stock option plan (December 31, 2017 - $185 thousand).

b) Deferred share units

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

The following table summarizes the changes in the outstanding DSUs:

(thousands of dollars and thousands of DSUs)

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of DSUs	**Amount**	Number of DSUs	Amount
DSUs, beginning of year	**216**	**$ 132**	137	$ 77
DSUs granted during the year	**172**	**114**	79	40
Fair value adjustment during the year	**-**	**65**	-	15
DSUs, end of year	**388**	**$ 311**	216	$ 132

The DSU liability as of December 31, 2018 of $311 thousand is based on a fair value of $0.80 which is the Company's closing share price at December 31, 2018.

19. Supplemental cash flow information

(thousands of dollars)

	2018	2017
Change in non-cash operating working capital:		
Receivables	**$ (239)**	$ (1,285)
Prepaids and security deposits	**(80)**	(13)
Accounts payable and accrued liabilities	**202**	(66)
	$ (117)	$ (1,364)
Change in non-cash investing working capital:		
Receivables	**$ (31)**	$ (473)
Accounts payable and accrued liabilities	**(458)**	1,664
	$ (489)	$ 1,191
Interest received	**$ 727**	$ 352

20. Risk management

a) The Company is exposed to the following risks:

i) Commodity price risk
Corridor enters into financial derivative contracts and physical delivery contracts to manage the risks associated with fluctuations in natural gas prices and does not use derivative financial instruments for speculative purposes.

Financial derivatives
The Company has the following outstanding financial derivative contracts at December 31, 2018:

Type	Period	Daily Volume	Price	Index
Swap	January 1, 2019 to March 31, 2019	2,500 mmbtu	$US7.90/mmbtu	Algonquin city-gates-daily
Swap	January 1, 2019 to March 31, 2019	2,500 mmbtu	$US7.28/mmbtu	Algonquin city-gates-daily
Swap	January 1 - 31, 2019	2,500 mmbtu	$US12.72/mmbtu	Algonquin city-gates-daily
Swap	February 1 - 28, 2019	2,500 mmbtu	$US12.50/mmbtu	Algonquin city-gates-daily
Swap	December 1, 2019 to March 31, 2020	2,500 mmbtu	$US9.00/mmbtu	Algonquin city-gates-daily

As security for these financial swaps, the bank has the authority to hold Corridor funds in the amount of $US11 million.

The financial derivative contracts are marked-to-market at the end of each reporting period with the following financial derivatives losses (gains) reflected in the Statement of Income and Comprehensive Income:

(thousands of dollars)

	2018	2017
Change in unrealized financial derivatives losses (gains)	**$ (2,508)**	$ 1,259
Realized financial derivatives losses (gains)	**530**	(1,101)
Financial derivatives losses (gains)	**$ (1,978)**	$ 158

When assessing the potential impact of natural gas price changes on the fair value of the financial derivative contracts outstanding as at December 31, 2018 of $996 thousand, a 10% increase in forecast natural gas prices would decrease the change in unrealized financial derivatives gains by $990 thousand, while a 10% decrease in forecast natural gas prices would increase the change in unrealized financial derivatives gains by $990 thousand.

Physical delivery contracts
The Company has no forward sale agreements in place as at December 31, 2018.

20. Risk management (continued)

ii) Foreign currency risk

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

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

(thousands of U.S. dollars)

	December 31, 2018	December 31, 2017
Cash	**$ 1,134**	$ 4,800
Receivables	**3,320**	2,772
Payables	**-**	(2,528)
Financial instruments in U.S. dollars	**$ 4,454**	$ 5,044

At December 31, 2018, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately $300 thousand in the Company's net loss (December 31, 2017 – $315 thousand decrease in net income) due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately $300 thousand in the Company's net loss (December 31, 2017 – $315 thousand increase in net income).

iii) 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. At December 31, 2018, 100% of the Company's accounts receivables were outstanding for less than 30 days. The average expected credit loss on the Company's accounts receivable was 0% as at December 31, 2018.

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.

iv) 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, 2018, the Company was holding cash and cash equivalents of $53,652 thousand.

The Company's financial liabilities are all due within one year. Given the Company's available liquid resources and the Company's 2019 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities.

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.

21. Related party transactions

Remuneration of Directors and Senior Management

(thousands of dollars)

	2018	2017
Wages and benefits	**$ 888**	$ 875
Directors' compensation	**393**	283
Share-based compensation	**108**	142
	$ 1,389	$ 1,300

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, Reservoir Engineer, 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 18.

22. 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 for resale to natural gas markets in Maritimes Canada and the Northeast United States.

b) Letters of credit

At December 31, 2018, the Company had the following irrevocable standby letters of credit issued by a Canadian chartered bank:

(thousands of dollars)

	Amount
Letter of credit expiring June 27, 2019	**$ 350**
Letters of credit expiring June 3, 2019	**300**
Letter of credit expiring July 15, 2020	**380**
	$ 1,030

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

c) Operating leases

The Company has operating lease agreements for office space, land and other equipment. For the year ended December 31, 2018, the rent expense under these leases was $229 thousand (December 31, 2017 - $259 thousand).

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

(thousands of dollars)

	Amount
2019	**$ 253**
2020	**219**
2021	**238**
2022	**105**
2023	**105**
Thereafter	**291**
	$ 1,211

22. Commitments (continued)

d) Commitments

The maturities of the Company’s commitments as of December 31, 2018 are as follows:

(thousands of dollars)	**Total**	2019	2020	2021	2022	Thereafter
Operating leases	**$ 1,211**	$ 253	$ 219	$ 238	$ 105	$ 396
Decommissioning liabilities	**17,481**	193	-	-	-	17,288
	$ 18,692	$ 446	$ 219	$ 238	$ 105	$ 17,684

23. 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 September 22, 2017, both relating to the access and disclosure of confidential seismic information. GSI is seeking total damages of approximately $3.4 million. On February 16, 2018, the Company filed an application for Summary Dismissal. The Company has not recorded any liability as management believes a successful claim is not probable.

24. Subsequent event

Subsequent to the year end, the Company entered into a financial hedge for 2,500 mmbtupd at a fixed price of $US3.45/mmbtu for April 2019.

Subsequent to the year end, the Company entered into a forward sale agreement for the firm delivery of 5,000 mmbutpd of natural gas production in April 2019.