Second Quarter 2017
Management's Discussion and Analysis

As of August 11, 2017

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

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

Additional information about Corridor, including its annual information form for the year ended December 31, 2016 (the "Annual Information Form"), is available on SEDAR at www.sedar.com.

Introduction

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

Selected Financial Information

	Three months ended June 30		Six months ended June 30	
thousands of dollars except per share amounts	**2017**	2016	**2017**	2016
Sales	**$ 46**	$ 2,523	**$ 4,513**	$ 9,018
Net income (loss)	**$ (1,510)**	$ (41,629)	**$ 315**	$ (40,346)
Net income (loss) per share – basic and diluted	**$ (0.017)**	$ (0.469)	**$ 0.004**	$ (0.455)
Cash flow from operations[(1)]	**$ (1,282)**	$ (1)	**$ 2,401**	$ 3,352
Capital expenditures	**$ 74**	$ 123	**$ 173**	$ 204
Total assets	**$ 103,508**	$ 92,783	**$ 103,508**	$ 92,783

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

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

Non-IFRS Financial Measures

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

	Three months ended June 30		**Six months ended June 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Cash provided by operating activities	**$ 193**	$ 259	**$ 3,638**	$ 3,508
Less: Decrease in non-cash operating working capital	**1,475**	260	**1,237**	156
Cash flow from operations	**$ (1,282)**	$ (1)	**$ 2,401**	$ 3,352

Forward Looking Information

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

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

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

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

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

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

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

Q2 2017 Financial Summary

	Three months ended June 30		Six months ended June 30	
thousands of dollars	**2017**	2016	**2017**	2016
Sales	**$ 46**	$ 2,523	**$ 4,513**	$ 9,018
Royalties	**(1)**	(46)	**(93)**	(183)
Revenues, net	**45**	2,477	**4,420**	8,835
Expenses				
Impairment losses	**-**	28,400	**-**	28,400
Depletion, depreciation and amortization	**72**	1,359	**2,003**	3,511
Transportation expense	**-**	1,079	**428**	2,434
Production expense	**510**	532	**1,299**	1,249
General and administrative expense	**686**	909	**1,337**	1,629
Financial derivatives gain	**(10)**	-	**(1,357)**	-
Share-based compensation expense	**72**	74	**143**	199
	1,330	32,353	**3,853**	37,422
Income (loss) before the following items	**(1,285)**	(29,876)	**567**	(28,587)
Gain on sale of exploration assets	**-**	-	**-**	110
Interest and other	**(214)**	(49)	**(208)**	(339)
Equity loss	**(11)**	(42)	**(44)**	(74)
Income (loss) before income taxes	**(1,510)**	(29,967)	**315**	(28,890)
Deferred income tax expense	**-**	11,662	**-**	11,456
Net income (loss) and comprehensive income (loss)	**$ (1,510)**	$ (41,629)	**$ 315**	$ (40,346)

Second Quarter Summary

- Sales for Q2 2017 decreased to $46 thousand from $2,523 thousand for Q2 2016 due to management's optimization strategy to shut-in virtually all wells at the McCully Field starting on April 1, 2017. As a result, the average daily natural gas production decreased to 0.1 mmscfpd in Q2 2017 from 6.9 mmscfpd in Q2 2016. Corridor will continue to monitor forecast prices to determine when natural gas production should resume but expects to continue restricting production until November 2017.

- Corridor's negative cash flow from operations in Q2 2017 increased to $1,282 thousand from a negative cash flow from operations of $1 thousand in Q2 2016 due primarily to the lower natural gas sales in Q2 2017 resulting from management's decision to shut-in wells at the McCully Field. At June 30, 2017, Corridor had cash and cash equivalents of $30,755 thousand, working capital of $31,796 thousand and no outstanding debt.

- Corridor's net loss decreased to $1,510 thousand in Q2 2017 from $41,629 thousand in Q2 2016 due primarily to the recognition of impairment losses of $28.4 million and a write-down in deferred income tax assets of $11,662 thousand in Q2 2016.

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

Results of Operations

Sales

thousands of dollars	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Natural gas	**$ 38**	$ 2,205	**$ 4,204**	$ 8,519
Condensate	**-**	9	**47**	24
Natural gas and gas liquids sales	**38**	2,214	**4,251**	8,543
Gathering, processing & transportation fees	**8**	309	**262**	475
Sales	**$ 46**	$ 2,523	**$ 4,513**	$ 9,018

Production volumes and pricing

	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Natural gas production (mmscf)	**10**	625	**656**	1,364
Natural gas production per day (mmscfpd)	**0.1**	6.9	**3.6**	7.5
Natural gas selling price ($/mscf)	**$ 3.86**	$ 3.53	**$ 6.41**	$ 6.25

Natural gas sales for Q2 2017 decreased to $38 thousand from $2,205 thousand for Q2 2016 and to $4,204 thousand for the six months ended June 30, 2017 from $8,519 thousand for the six months ended June 30, 2016 due primarily to management's optimization strategy to shut-in virtually all wells at the McCully Field in Q2 2017. As a result, the average daily natural gas production decreased to 0.1 mmscfpd in Q2 2017 from 6.9 mmscfpd in Q2 2016 and to 3.6 mmscfpd for the six months ended June 30, 2017 from 7.5 mmscfpd for the six months ended June 30, 2016.

Corridor owns the midstream facilities which process and transport gas from the McCully Field to the Maritimes and Northeast Pipeline ("M&NP"). Third party gas flowing through these facilities, which is currently limited to PCS's share of gas from the McCully Field, is charged a cost of service. The decrease in the gathering, processing and transportation ("GPT") fees to $8 thousand for Q2 2017 from $309 thousand for Q2 2016 and to $262 thousand for the six months ended June 30, 2017 from $475 thousand for the six months ended June 30, 2016 is due to the shut-in of the McCully Field starting on April 1, 2017.

Financial Derivatives Gain

thousands of dollars	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Realized financial derivatives gain	**$ -**	-	**$ 1,094**	-
Change in unrealized gain on financial derivatives	**10**	-	**263**	-
Financial derivatives gain	**$ 10**	-	**$ 1,357**	-

Corridor enters into financial hedges to manage the risks associated with fluctuations in natural gas prices. During Q1 2017, the settlement of contracts resulted in a realized gain of $1,094 thousand due to a higher average contract price for natural gas sales than the market price and a reversal of the unrealized loss of $253 thousand recognized in Q4 2016. The financial derivatives gains in Q1 2017 are based on the following financial hedges: 2,500 mmbtupd of natural gas production at a fixed price of $US6.50/mmbtu for the period from December 1, 2016 to March 31, 2017; 1,000 mmbtupd at a fixed price of $US7.30/mmbtu for the period from January 1, 2017 to February 28, 2017; and 1,000 mmbtupd at a fixed price of $US9.55/mmbtu for January 2017. In Q2 2017, an unrealized gain on financial derivatives of $10 thousand was recognized based on a financial hedge for 2,500 mmbtupd of natural gas production at a fixed price of $US7.40/mmbtu for the period from December 1, 2017 to March 31, 2018. This unrealized gain was based on current estimated natural gas prices at June 30, 2017 for this period.

Royalty Expense

thousands of dollars	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Crown royalties	**$ 1**	$ 46	**$ 93**	$ 183
Royalty expense per mscf ($/mscf)	**$ 0.12**	$ 0.07	**$ 0.14**	$ 0.13
Percentage of natural gas and gas liquids sales	**3.2%**	2.1%	**2.2%**	2.1%

Corridor's royalty expense for Q2 2017 decreased to $1 thousand from $46 thousand for Q2 2016 and to $93 thousand for the six months ended June 30, 2017 from $183 thousand for the six months ended June 30, 2016 due to lower natural gas sales as a result of the shut-in of the McCully Field in Q2 2017.

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

Transportation Expense

	Three months ended June 30		**Six months ended June 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Transportation expense	**-**	$ 1,079	**$ 428**	$ 2,434
Transportation expense per mscf ($/mscf)	**-**	$ 1.73	**$ 0.65**	$ 1.78

Transportation expense was nil in Q2 2017 due to the shut-in of the McCully Field starting on April 1, 2017. In addition, transportation expense for the six months ended June 30, 2017 decreased to $428 thousand from $2,434 thousand for the six months ended June 30, 2016 due to the Company's forward sale agreement in effect from December 1, 2016 to March 31, 2017 for the sale of 4,755 mmbtupd of natural gas production to the local Maritimes market as opposed to the New England market. As a result, transportation expense per mscf decreased from $1.78/mscf for the six months ended June 30, 2016 to $0.65/mscf for the six months ended June 30, 2017.

Production Expense

	Three months ended June 30		**Six months ended June 30**	
thousands of dollars	**2017**	2016	**2017**	2016
Gross production expense	**$ 513**	$ 695	**$ 1,478**	$ 1,489
Third party recoveries	**(3)**	(163)	**(179)**	(240)
Net production expense	**$ 510**	$ 532	**$ 1,299**	$ 1,249
Net production expense per mscf ($/mscf)	**$ 51.58**	$ 0.85	**$ 1.98**	$ 0.92

Gross production expense for Q2 2017 decreased to $513 thousand from $695 thousand for Q2 2016 due primarily to the shut-in of the McCully Field in Q2 2017. Third party recoveries in Q2 2017 also decreased to $3 thousand from $163 thousand in Q2 2016 for the same reason. Gross production expense for the six months ended June 30, 2017 was consistent with gross production expense for the six months ended June 30, 2016 as the lower expenses in Q2 2017 were offset by higher repairs and maintenance in Q1 2017.

Impairment Losses

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

The Company recognized impairment losses of $28.4 million for the three and six months ended June 30, 2016 relating to the Company's New Brunswick cash generating unit ("CGU") which includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The impairment losses resulted from the announcement by the Government of New Brunswick on May 27, 2016 of its decision to continue a moratorium on hydraulic fracturing for an indefinite period. Following this announcement, upon the request of the Company, GLJ Petroleum Consultants Ltd. ("GLJ") updated its reserves report on June 15, 2016 in respect of the McCully Field as at December 31, 2015 to take into account the continuation of the moratorium, resulting in a decrease in the estimate of proved natural gas reserves by 23.1 bscf to 18.8 bscf and in the estimate of proved plus probable natural gas reserves by 38.8 bscf to 22.9 bscf.

Depletion, Depreciation and Amortization

thousands of dollars	Three months ended June 30 **2017**	2016	Six months ended June 30 **2017**	2016
Depletion, depreciation and amortization	**$ 72**	$ 1,359	**$ 2,003**	$ 3,511
Depletion, depreciation and amortization per mscf ($/mscf)	**$ 7.42**	$ 2.44	**$ 3.39**	$ 2.87

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

The decrease in depletion, depreciation and amortization ("DD&A") expense to $72 thousand and $2,003 thousand for the three and six months ended June 30, 2017 from $1,359 thousand and $3,511 thousand for the three and six months ended June 30, 2016 is due to the decrease in natural gas production in 2017 due to the shut-in of the McCully Field in Q2 2017 and the decrease in the net book value of the depletion asset base following the recognition of net impairment losses of $15.7 million in 2016.

General and Administrative Expenses

thousands of dollars	Three months ended June 30 **2017**	2016	Six months ended June 30 **2017**	2016
Gross expenses	**$ 712**	$ 939	**$ 1,394**	$ 1,714
Capitalized overhead	**(26)**	(22)	**(57)**	(49)
Operator recoveries	**-**	(8)	**-**	(36)
Net expenses	**$ 686**	$ 909	**$ 1,337**	$ 1,629

Gross general and administrative expenses ("G&A") decreased to $712 thousand in Q2 2017 from $939 thousand during Q2 2016 and to $1,394 for the six months ended June 30, 2017 from $1,714 for the six months ended June 30, 2016 due to costs incurred relating to the New Brunswick Responsible Energy Development Alliance in 2016 and to lower legal costs in 2017.

Deferred Income Taxes

thousands of dollars	Three months ended June 30 **2017**	2016	Six months ended June 30 **2017**	2016
Deferred income tax expense	**-**	$ 11,662	**-**	$ 11,456
Blended Canadian statutory income tax rate	**-**	29.3%	**-**	29.3%

The deferred income tax expense for the three and six months ended June 30, 2016 reflects a write-down of the deferred income tax assets. Following the decrease in the proved plus probable reserves by GLJ in Q2 2016, management determined it was no longer probable that there would be sufficient taxable profits and reversal of taxable temporary differences to facilitate the utilization of the underlying tax-deductible amounts, based on the expected lower future natural gas sales.

At June 30, 2017, the Company had approximately $180 million of tax pools available to be applied against future taxable income. Based on planned capital expenditure programs and current natural gas price assumptions, the Company does not expect to be cash taxable for the foreseeable future.

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

thousands of dollars	
Canadian exploration expense	**$ 93,940**
Canadian development expense	**62,960**
Canadian oil and natural gas property expense	**2,970**
Undepreciated capital cost	**20,320**
	$ 180,190

Capital Expenditures

thousands of dollars	**Three months ended June 30** **2017**	2016	**Six months ended June 30** **2017**	2016
Exploration, development and production activities	**$ 48**	$ 69	**$ 112**	$ 99
Capitalized overhead	**26**	22	**57**	49
Office and other assets	**-**	32	**4**	56
	$ 74	$ 123	**$ 173**	$ 204

The Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place.

Statement of Financial Position Changes

Significant changes between Corridor's June 30, 2017 and December 31, 2016 Statement of Financial Positions include:

- $2,017 thousand decrease in receivables, reflecting the shut-in of the McCully Field in Q2 2017, and
- $493 thousand decrease in accounts payable and accrued liabilities, reflecting the shut-in of the McCully Field in Q2 2017.

Cash Flow Summary

thousands of dollars	**Three months ended June 30** **2017**	2016	**Six months ended June 30** **2017**	2016
Cash provided by operating activities	**$ 193**	$ 259	**$ 3,638**	$ 3,508
Cash provided by financing activities	**-**	-	**13**	-
Cash used in investing activities	**(107)**	(290)	**(168)**	(392)
Increase (decrease) in cash and cash equivalents	**$ 86**	$ (31)	**$ 3,483**	$ 3,116

The cash provided by operating activities for the six months ended June 30, 2017 is consistent with cash provided by operating activities for the six months ended June 30, 2016 as the decrease in natural gas sales was largely offset by the decrease in non-cash operating working capital, mainly due to the receipt of accounts receivable in 2017.

Summary of Quarterly Information

	2017		**2016**				**2015**	
thousands of dollars, except per share amounts and average natural gas price	Three months ended		Three months ended				Three months ended	
	Jun. 30	Mar. 31	Dec. 31	Sep. 30	**Jun. 30**	Mar. 31	Dec. 31	Sep. 30
Natural gas sales	**$ 38**	$ 4,166	$ 2,199	$ 1,878	**$ 2,205**	$ 6,314	$ 3,433	$ 595
Net income (loss)	**$ (1,510)**	$ 1,825	$ 12,316	$ (1,261)	**$ (41,629)**	$ 1,283	$ (33,952)	$ (1,150)
Net income (loss) per share – basic and diluted	**$ (0.017)**	$ 0.021	$ 0.139	$ (0.014)	**$ (0.469)**	$ 0.014	$ (0.383)	$ (0.013)
Natural gas production (mmscfpd)	**0.1**	7.2	3.0	5.1	**6.9**	8.1	5.3	1.1
Average natural gas price ($/mscf)	**$ 3.86**	$ 6.45	$ 7.88	$ 3.98	**$ 3.53**	$ 8.54	$ 6.99	$ 6.10
Capital expenditures	**$ 74**	$ 99	$ 175	$ 41	**$ 123**	$ 81	$ 163	$ 62

Corridor's natural gas sales are priced at AGT. Prices for natural gas at the AGT market are typically higher than prices in other areas of North America, including the Henry Hub. In recent years, the prices for natural gas have generally decreased at AGT resulting in impairment losses to Corridor. As part of this general fall in prices, Corridor's management has undertaken strategies to maximize natural gas revenues (including entering into financial hedging contracts and restricting production during low pricing periods). Notwithstanding the general fall in prices, the AGT market has been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices during other periods of the year. In response to this trend in natural gas prices, and to take advantage of the expected significant differential in the sale price of natural gas at AGT for the

winter season relative to other periods, since 2015 Corridor has determined to shut-in much of its producing natural gas wells in the McCully Field in New Brunswick for a portion of the summer/fall period and to time the start-up of production to maximize the recovery of flush volumes with peak winter pricing. In addition to increasing revenues from production, an additional benefit of this strategy is the increase in natural gas production after the shut-in period as a result of the build-up in the formation pressure in the wells during a shut-in period. Notwithstanding Corridor's decision to shut-in the wells in the McCully Field, Corridor continued production from wells jointly owned with PCS to meet the short-term natural gas demands of PCS's potash mine. However, such demand has decreased due to the decision by PCS to close its mine in 2016.

The New Brunswick Government imposed a moratorium on hydraulic fracturing in December 2014, which moratorium was continued for an indefinite period on May 27, 2016. Corridor considers that all wells in New Brunswick require hydraulic fracture stimulation to be commercially productive. As a result of the New Brunswick Government's decision, Corridor has determined that it will not undertake any drilling or completion activities or incur associated capital expenditures in New Brunswick until the moratorium is lifted. This decision has resulted in reduced natural gas exploration and development activities, reduced expected production and a write-down by GLJ in the reserves for the McCully Field in 2016.

Outstanding Share Information

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

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

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

The weighted average exercise price for the stock options outstanding at July 31, 2017 was $0.78.

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 June 30, 2017, the Company was holding cash and cash equivalents of $30,755 thousand, working capital of $31,796 thousand and had no outstanding debt. The Company has sufficient financial resources to undertake its planned activities in 2017 and assumes that no additional funds will be utilized from other sources such as equity financings, corporate debt or asset sales, recognizing that the Company does not plan to incur any significant capital expenditures in New Brunswick while the moratorium on hydraulic fracturing remains in place. Corridor does not presently have sufficient financial resources to undertake by itself the exploration and development of its properties or any additional properties that may be acquired in the future. Future exploration and development of the Company's properties will depend, therefore, on the termination of the moratorium in New Brunswick, the receipt of required government approvals, the Company's cash flow from operations and its ability to obtain additional financing through joint ventures, debt financings, equity financings or other means. Failure to obtain any financing necessary for Corridor's capital expenditure plans may result in a delay in development or production on Corridor's properties.

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The President and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting to a standard which provides reasonable assurance on the reliability of financial

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

Critical Accounting Estimates

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

Changes in Accounting Policies

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

Business Conditions and Risks

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

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

Risks Associated with Oil and Gas Exploration, Development and Production

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

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

Operational Risks

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

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including drilling into unexpected formations or unexpected pressures, premature decline of reservoirs, the invasion of water into producing

formations and sour gas from wells. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Corridor's business, financial condition, results of operations and cash flows.

Substantial Capital Requirements and Financing

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

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

Volatility of Natural Gas and Oil Prices

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

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

Government Regulation

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

Hydraulic Fracturing

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

It is anticipated that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. While the Company is unable to predict the impact of any potential regulations upon its business, the implementation of new laws, regulations or permitting regulations with respect to water usage or disposal, or hydraulic fracturing generally could increase the Company's costs of compliance, operating costs, the risk of litigation and environmental liability, or

negatively impact the Company's production and prospects, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

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

Environmental

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

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

Third Party Risk

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

Variations in Exchange Rates

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

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

(thousands of dollars, except per share data)

For the	Three months ended June 30 **2017**	2016	Six months ended June 30 **2017**	2016
Sales	**$ 46**	$ 2,523	**$ 4,513**	$ 9,018
Royalties	**(1)**	(46)	**(93)**	(183)
Revenues, net	**45**	2,477	**4,420**	8,835
Expenses				
Impairment losses *(note 6)*	**-**	28,400	**-**	28,400
Depletion, depreciation and amortization	**72**	1,359	**2,003**	3,511
Transportation expense	**-**	1,079	**428**	2,434
Production expense	**510**	532	**1,299**	1,249
General and administrative expense	**686**	909	**1,337**	1,629
Financial derivatives gain (*note 13a i*)	**(10)**	-	**(1,357)**	-
Share-based compensation expense (*note 11*)	**72**	74	**143**	199
	1,330	32,353	**3,853**	37,422
Income (loss) before the following items	**(1,285)**	(29,876)	**567**	(28,587)
Gain on sale of exploration assets (*note 8*)	**-**	-	**-**	110
Interest and other (*note 3*)	**(214)**	(49)	**(208)**	(339)
Equity loss (*note 8*)	**(11)**	(42)	**(44)**	(74)
Income (loss) before income taxes	**(1,510)**	(29,967)	**315**	(28,890)
Deferred income tax expense (*note 4*)	**-**	11,662	**-**	11,456
Net income (loss) and comprehensive income (loss)	**$ (1,510)**	$ (41,629)	**$ 315**	$ (40,346)
Net income (loss) per share – basic and diluted	**$ (0.017)**	$ (0.469)	**$ 0.004**	$ (0.455)
Weighted average number of common shares				
Basic	**88,655**	88,622	**88,652**	88,622
Diluted *(note 5)*	**88,763**	88,686	**88,758**	88,709

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

Unaudited Statements of Financial Position

(thousands of dollars)

As at	**June 30 2017**	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	**$ 30,755**	$ 27,272
Restricted cash	**650**	650
Receivables *(note 13a iv)*	**152**	2,169
Inventory held for sale	**276**	339
Prepaids and security deposits	**385**	113
	32,218	30,543
Non-current assets		
Property, plant and equipment *(note 6)*	**48,081**	50,881
Exploration and evaluation assets *(note 7)*	**8,848**	8,813
Investment in Anticosti partnership *(note 8)*	**13,902**	13,898
Intangible assets	**79**	103
Restricted cash	**380**	380
Total assets	**$ 103,508**	$ 104,618
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 432**	$ 925
Financial derivatives *(note 13a i)*	**(10)**	253
	422	1,178
Non-current liabilities		
Decommissioning liability *(note 9)*	**8,825**	9,636
Total liabilities	**9,247**	10,814
Shareholders' Equity		
Capital stock *(note 10)*	**247,704**	247,685
Contributed surplus *(note 11)*	**10,870**	10,747
Deficit	**(164,313)**	(164,628)
Total shareholders' equity	**94,261**	93,804
Total liabilities and shareholders' equity	**$ 103,508**	$ 104,618

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

Contingencies *(note 15)*
Subsequent event *(note 16)*

On behalf of the Board

Signed *"Stephen J. Moran"* Director

Signed "*Robert D. Penner"* Director

Unaudited Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the	Six months ended June 30 **2017**	2016
Capital stock, beginning of period	**$ 247,685**	$ 247,685
Exercise of stock options for cash	**13**	-
Amount previously expensed for stock options exercised	**6**	-
Capital stock, end of period	**$ 247,704**	$ 247,685
Contributed surplus, beginning of period	**$ 10,747**	$ 10,470
Share-based compensation expense *(note 11)*	**129**	156
Amount previously expensed for stock options exercised	**(6)**	-
Contributed surplus, end of period	**$ 10,870**	$ 10,626
Deficit, beginning of period	**$ (164,628)**	$ (135,337)
Net income (loss) and comprehensive income (loss)	**315**	(40,346)
Deficit, end of period	**$ (164,313)**	$ (175,683)
Shareholders' equity, end of period	**$ 94,261**	$ 82,628

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

Unaudited Statements of Cash Flows

(thousands of dollars)

For the	Six months ended June 30 **2017**	2016
Operating Activities		
Net income (loss)	**$ 315**	$ (40,346)
Adjustments not affecting cash:		
Impairment losses	**-**	28,400
Depletion, depreciation and amortization	**2,003**	3,511
Share-based compensation expense	**143**	199
Change in unrealized gain on financial derivatives	**(263)**	-
Deferred income tax expense	**-**	11,456
Loss (gain) on sale of assets	**11**	(97)
Equity loss	**44**	74
Other operating activities	**148**	155
	2,401	3,352
Decrease in non-cash operating working capital *(note 12)*	**1,237**	156
Cash provided by operating activities	**3,638**	3,508
Financing Activities		
Proceeds from the exercise of stock options	**13**	-
Cash provided by financing activities	**13**	-
Investing Activities		
Property, plant and equipment expenditures	**(34)**	(59)
Exploration and evaluation expenditures	**(139)**	(145)
Contribution in Anticosti partnership	**(48)**	(74)
Proceeds on the sale of assets	**52**	15
Decrease (increase) in non-cash investing working capital *(note 12)*	**1**	(129)
Cash used in investing activities	**(168)**	(392)
Increase in cash and cash equivalents	**3,483**	3,116
Cash and cash equivalents, beginning of period	**27,272**	24,059
Cash and cash equivalents, end of period	**$ 30,755**	$ 27,175
Cash and cash equivalents consists of:		
Cash	**$ 11,403**	$ 7,935
Short-term investments	**19,352**	19,240
Cash and cash equivalents, end of period	**$ 30,755**	$ 27,175

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

Notes to the Unaudited Condensed Financial Statements
June 30, 2017

1. Nature of operations

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

2. Basis of presentation

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

On August 11, 2017, the unaudited condensed financial statements were approved by the Board of Directors and signed by the chair of the Audit Committee and the President and Chief Executive Officer of the Company.

3. Interest and other

Interest and other consist of the following:

(thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Foreign exchange losses	**$ (205)**	$ (29)	**$ (180)**	$ (307)
Interest and finance costs	**(73)**	(78)	**(149)**	(155)
Interest and other income	**64**	58	**121**	123
	$ (214)	$ (49)	**$ (208)**	$ (339)

4. Income taxes

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

(thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Income (loss) before income taxes	**$ (1,510)**	$ (29,967)	**$ 315**	$ (28,890)
Blended Canadian statutory tax rate	**29.3%**	29.3%	**29.3%**	29.3%
Expected income tax expense (recovery)	**$ (442)**	$ (8,780)	**$ 92**	$ (8,465)
Increase (decrease) resulting from:				
Deferred incomes taxes not recognized	**425**	9,054	**(136)**	9,054
Write-down of deferred tax assets	**-**	11,456	**-**	11,456
Effect of provincial tax rate change	**-**	-	**-**	(547)
Non-deductible (non-taxable)				
-gain on sale of exploration assets	**-**	-	**-**	(15)
-share-based compensation expense	**21**	22	**42**	58
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**(4)**	(90)	**2**	(85)
	-	$ 11,662	**-**	$ 11,456

4. Income taxes (continued)

Following a decrease in estimated future natural gas prices and the announcement by the Government of New Brunswick of its decision to continue a moratorium on hydraulic fracturing for an indefinite period, the Company wrote-down its deferred income tax assets balance in 2016 as management determined it was no longer probable that there would be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax deductible amounts. As a result, the Company did not recognize deferred income tax expenses of $136 thousand for the six months ended June 30, 2017.

In Q1 2016, the Company increased its deferred income tax rate from 28.25% to 29.60% following the New Brunswick Government's 2016 budget which resulted in the Province's corporate income tax rate being increased from 12% to 14% effective April 1, 2016. As a result, Corridor recognized a deferred income tax recovery of $547 thousand during the three months ended March 31, 2016.

5. Income per share

For the three and six months ended June 30, 2017, stock options of 2,741 thousand (three and six months ended June 30, 2016 – 3,092 thousand) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

6. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at December 31, 2015	$ 242,842	$ 77,342	$ 2,829	$ 2,896	$ 325,909
Additions	3	-	-	60	63
Sale of assets	-	-	-	(67)	(67)
Transfer from current assets	-	-	176	-	176
Changes in future abandonment costs	127	-	-	-	127
Balance at December 31, 2016	$ 242,972	$ 77,342	$ 3,005	$ 2,889	$ 326,208
Additions	11	19	-	4	34
Changes in future abandonment costs	(855)	-	-	-	(855)
Balance at June 30, 2017	**$ 242,128**	**$ 77,361**	**$ 3,005**	**$ 2,893**	**$ 325,387**
Accumulated impairment, depletion and depreciation					
Balance at December 31, 2015	$ 191,465	$ 58,823	$ 2,534	$ 1,848	$ 254,670
Depletion or depreciation expense	3,995	976	-	126	5,097
Impairment losses	11,100	4,500	-	-	15,600
Sale of assets	-	-	-	(40)	(40)
Balance at December 31, 2016	$ 206,560	$ 64,299	$ 2,534	$ 1,934	$ 275,327
Depletion or depreciation expense	1,439	484	-	56	1,979
Balance at June 30, 2017	**$ 207,999**	**$ 64,783**	**$ 2,534**	**$ 1,990**	**$ 277,306**
Net book value					
At December 31, 2016	$ 36,412	$ 13,043	$ 471	$ 955	$ 50,881
At June 30, 2017	**$ 34,129**	**$ 12,578**	**$ 471**	**$ 903**	**$ 48,081**

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

During the quarter, no impairment was identified.

7. Exploration and evaluation assets

(thousands of dollars)

	Six months ended June 30, 2017	Year ended December 31, 2016
Balance, beginning of period	**$ 8,813**	$ 8,493
Additions	**139**	357
Impairment losses	**-**	(100)
Changes in future abandonment costs	**(104)**	63
Balance, end of period	**$ 8,848**	$ 8,813

During the quarter, no impairment was identified.

8. Investment in Anticosti partnership

(thousands of dollars)

	Six months ended June 30, 2017	Year ended December 31, 2016
Balance, beginning of period	**$ 13,898**	$ 13,790
Gain on sale of exploration assets	**-**	110
Contributions	**48**	135
Equity loss	**(44)**	(137)
Balance, end of period	**$ 13,902**	$ 13,898

On April 1, 2014, the Company entered into a joint venture with the Government of Québec, through its affiliate Ressources Québec ("RQ"), Pétrolia Inc. ("Pétrolia") and Saint-Aubin E&P Québec Inc. ("Saint-Aubin"). In connection with the establishment of the joint venture, Pétrolia and Corridor transferred their respective Anticosti exploration licenses to Anticosti Hydrocarbons L.P. ("Anticosti Hydrocarbons") and RQ and Saint-Aubin made a commitment to spend up to an aggregate $100 million on an exploration program. In exchange, Corridor received an interest of 21.67% in Anticosti Hydrocarbons and net cash proceeds of $13,479 thousand. During the quarter, the Company entered into negotiations with the Government of Québec to end oil and gas exploration on Anticosti Island. As of June 30, 2017, management believed the investment in the Anticosti partnership was recoverable.

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

9. Decommissioning liability

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

(thousands of dollars)

	Six months ended June 30, 2017	Year ended December 31, 2016
Balance, beginning of period	**$ 9,636**	$ 9,121
Change in discount rate	**(959)**	455
Change in estimate	**-**	(265)
Finance costs	**148**	325
Balance, end of period	**$ 8,825**	$ 9,636

The total undiscounted amount of estimated cash flows required to settle these obligations is $14,128 thousand (December 31, 2016 - $14,406 thousand). Management estimates the settlement of these obligations between 2017 and 2038. At June 30, 2017, a risk-free rate of 2.44% (December 31, 2016 – 1.97%) and an inflation rate of 2% (December 31, 2016 – 2%) was used to calculate the estimated fair value of the decommissioning liability.

10. Capital stock

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

b) Issued and outstanding

(thousands of dollars and thousands of shares)

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

11. 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:

(thousands of options)

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

The range of exercise prices of stock options outstanding and exercisable as at June 30, 2017 is as follows:

(thousands of options)

	Outstanding options			**Exercisable options**	
Exercise prices	**Number of options outstanding**	**Weighted average remaining term (years)**	**Weighted average exercise price**	**Number of options exercisable**	**Weighted average exercise price**
$ 0.40 - $ 0.99	2,498	2.02	$ 0.61	1,845	$ 0.66
$ 1.00 - $ 1.99	900	2.38	$ 1.24	600	$ 1.24
	3,398	2.12	$ 0.78	2,445	$ 0.80

11. Share-based compensation (continued)

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

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

For the three and six months ended June 30, 2017, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $48 thousand and $129 thousand relating to the stock option plan (three and six months ended June 30, 2016 - $72 thousand and $156 thousand).

b) Deferred share units

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

The following table summarizes the changes in the outstanding DSUs:

(thousands of dollars and thousands of DSUs)

	Six months ended June 30, 2017		Year ended December 31, 2016	
	Number of DSUs	**Amount**	Number of DSUs	Amount
DSUs, beginning of period	**137**	**$ 77**	-	-
DSUs granted during the period	**46**	**20**	137	$ 64
Change in fair value during the period	**-**	**(6)**	-	13
DSUs, end of period	**183**	**$ 91**	137	$ 77

The DSU liability as of June 30, 2017 is based on a fair value of $0.495 which is the Company's closing share price at June 30, 2017.

12. Supplemental cash flow information

(thousands of dollars)

	Six months ended June 30	
	2017	2016
Change in non-cash operating working capital:		
Receivables	**$ 1,978**	$ 883
Prepaids and security deposits	**(272)**	(251)
Accounts payable and accrued liabilities	**(469)**	(476)
	$ 1,237	$ 156
Change in non-cash investing working capital:		
Receivables	**$ 39**	$ (26)
Accounts payable and accrued liabilities	**(38)**	(103)
	$ 1	$ (129)

13. Risk management

a) The Company is exposed to the following risks:

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

Financial derivatives
The Company had the following financial derivative contracts at June 30, 2017.

Type	Period	Volume	Price	Index
Swap	December 1, 2017 to March 31, 2018	2,500 mmbtu per day	$US7.40/mmbtu	Algonquin city-gates

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

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

(thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Realized financial derivatives gain	**-**	-	**$ 1,094**	-
Change in unrealized gain on financial derivatives	**10**	-	**263**	-
Financial derivatives gain	**$ 10**	-	**$ 1,357**	-

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)

	June 30, 2017	December 31, 2016
Cash	**$ 5,806**	$ 200
Receivables	**8**	1,286
Payables	**-**	(188)
Financial instruments in U.S. dollars	**$ 5,814**	$ 1,298

At June 30, 2017, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of $375 thousand in the Company's net income (June 30, 2016 – $30 thousand) due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of $375 thousand in the Company's net income (June 30, 2016 – $30 thousand).

iii) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At June 30, 2017, the Company was holding cash and cash equivalents of $30,755 thousand.

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

13. Risk management (continued)

iv) Credit risk

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

b) Management of capital

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

14. Financial instruments

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

i) Loans and receivables

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

ii) Financial liabilities at amortized cost

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

iii) Fair value through profit or loss

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

15. Contingencies

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

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

Notes to the Unaudited Condensed Financial Statements
June 30, 2017

16. Subsequent event

Subsequent to the quarter end, Corridor received $19.5 million from the Québec Government as part of a settlement agreement effective July 28, 2017 which facilitates an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. The Québec Government has also agreed to assume all abandonment and reclamation obligations in respect of three Anticosti wells in which Corridor has an interest outside of Anticosti Hydrocarbons.