Third Quarter 2019
Management's Discussion and Analysis
As of November 12, 2019

This management's discussion and analysis ("MD&A") of financial results and condition of Corridor Resources Inc. ("Corridor" or the "Company") for the three and nine months ended September 30, 2019 should be read in conjunction with Corridor's unaudited condensed financial statements and notes thereto for the three and nine months ended September 30, 2019, audited financial statements and notes thereto for the year ended December 31, 2018 and the MD&A for the year ended December 31, 2018 ("2018 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, 2018 (the "Annual Information Form"), is available on SEDAR at www.sedar.com.

Introduction

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

Selected Financial Information

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars except per share amounts	**2019**	2018	**2019**	2018
Sales	**-**	-	**$ 7,023**	$ 13,419
Realized financial derivatives gains (losses)	**-**	-	**$ 2,898**	$ (1,398)
Net income (loss)	**$ (1,318)**	$ (1,860)	**$ 1,368**	$ (6,418)
Net income (loss) per share – basic and diluted	**$ (0.015)**	$ (0.021)	**$ 0.015**	$ (0.072)
Cash flow from operations [(1)]	**$ (1,422)**	$ (867)	**$ 6,295**	$ 8,965
Total assets	**$ 126,626**	$ 116,449	**$ 126,626**	$ 116,449

(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 in May 2019 and resumed partial production starting on November 8, 2019 with a plan to ramp up to full production starting in early December 2019.

Non-IFRS Financial Measures

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

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2019**	2018	**2019**	2018
Cash provided by (used in) operating activities	**$ (337)**	$ (652)	**$ 9,070**	$ 11,795
Decrease in non-cash operating working capital	**(1,085)**	(215)	**(2,775)**	(2,830)
Cash flow from operations	**$ (1,422)**	$ (867)	**$ 6,295**	$ 8,965

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 sales prices and premiums;
- netbacks;
- cash flow from operations;
- future taxable profits;
- capital expenditures;
- working capital;
- sources of funding; and
- government regulation.

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

Forward-looking statements are based on the 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 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.

Update on Outlook

Corridor has revised its guidance for the period from April 1, 2019 to March 31, 2020 from the guidance previously disclosed in the press release dated August 12, 2019 (available on the Company's website at www.corridor.ca and on SEDAR at www.sedar.com) to reflect Corridor's decision to start production on November 8, 2019 instead of the planned start-up on December 1, 2019, Corridor's recent financial hedges for 2,500 mmbtupd from November 8, 2019 to November 30, 2019 at a fixed price of $US4.85/mmbtu and for 2,500 mmbtupd from December 1, 2019 to March 31, 2020 at a fixed price of $US7.12/mmbtu and a decrease in forecast capital expenditures for the year ended December 31, 2019, as follows:

	August 12, 2019 guidance	Revised guidance
AGT average natural gas price	*$US 3.93/mmbtu*	**$US 3.99/mmbtu**
Average sales price realized (including financial hedges)	*$ 9.00/mscf*	**$ 8.85/mscf**
USD/CAD average exchange rate	$ 1.30 USD/CAD	**$ 1.30 USD/CAD**
Average daily natural gas production	*3.4 mmscfpd*	**3.7 mmscfpd**
Field operating netback	*$ 8.7 million*	**$ 9.4 million**
Cash flow from operations(1)	*$ 7.1 million*	**$ 7.4 million**
Field operating netback per mscf	*$ 6.92/mscf*	**$ 6.93/mscf**
Cash flow from operations(1) per mscf	*$ 5.63/mscf*	**$ 5.44/mscf**
Capital expenditures (for the year ended December 31, 2019)	*$ 1.8 million*	**$ 1.1 million**
Working capital estimate (as at March 31, 2020)	*$ 68.1 million*	**$ 69.3 million**

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

Q3 2019 Financial Summary

thousands of dollars	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Sales	**-**	-	**$ 7,023**	$ 13,419
Royalty expense	**-**	-	**(178)**	(410)
Revenues, net	**-**	-	**6,845**	13,009
Expenses				
Impairment losses	**-**	40	**-**	11,408
Depletion, depreciation and amortization	**74**	56	**3,387**	3,624
Production expense	**600**	525	**1,954**	1,928
General and administrative expense	**1,106**	574	**2,289**	1,786
Share-based compensation expense	**79**	118	**234**	239
Financial derivatives losses (gains)	**137**	712	**(2,573)**	1,322
Transportation expense	**-**	-	**-**	100
	1,996	2,025	**5,291**	20,407
Income (loss) before interest and other	**(1,996)**	(2,025)	**1,554**	(7,398)
Interest and other	**215**	165	**625**	971
Income (loss) before income taxes	**(1,781)**	(1,860)	**2,179**	(6,427)
Deferred income tax expense (recovery)	**(463)**	-	**811**	(9)
Net income (loss) and comprehensive income (loss)	**$ (1,318)**	$ (1,860)	**$ 1,368**	$ (6,418)

Third Quarter Summary

- Corridor had no natural gas production or natural gas sales in Q3 2019 or Q3 2018 due to management's decision to shut-in all of its natural gas production starting in each of May 2019 and May 2018 in accordance with its production optimization strategy.

- At September 30, 2019, Corridor had cash and cash equivalents of $61,253 thousand and working capital of $62,059 thousand and no outstanding debt.

- Corridor's net loss decreased to $1,318 thousand in Q3 2019 from $1,860 thousand in Q3 2018 as higher general and administrative expenses were offset by a decrease in unrealized financial losses and an increase in deferred income tax recovery in Q3 2019.

- During the quarter, Corridor purchased and cancelled 154,066 of its common shares at an average price of $0.673/share under Corridor's normal course issuer bid which expired on August 22, 2019.

- Corridor's negative cash flow from operations in Q3 2019 increased to $1,422 thousand from $867 thousand in Q3 2018 due primarily to higher general and administrative expenses as a result of an increase in technical consulting costs, a one-time employee severance payment and the payment of employee bonuses in Q3 2019 as compared to Q4 2018.

- During the quarter, the lawsuit brought by Geophysical Services Incorporated against Corridor in 2013 was dismissed by the Alberta Court of Queen's Bench by consent of the parties.

- Subsequent to the quarter end, the Company entered into a financial hedge for 2,500 mmbtupd from December 1, 2019 to March 31, 2020 at a fixed price of $US7.12/mmbtu and a financial hedge for 2,500 mmbtupd from November 8, 2019 to November 30, 2019 at a fixed price of $US4.85/mmbtu.

Results of Operations

Sales

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2019**	2018	**2019**	2018
Natural gas	**-**	-	**$ 6,574**	$ 12,938
Condensate	**-**	-	**94**	77
Natural gas and gas liquids sales	**-**	-	**6,668**	13,015
Gathering, processing & transportation fees	**-**	-	**355**	404
Sales	**-**	-	**$ 7,023**	$ 13,419

Production volumes and pricing

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Natural gas production (mmscf)	**-**	-	**1,027**	1,147
Natural gas production per day (mmscfpd)	**-**	-	**3.8**	4.2
Natural gas selling price ($/mscf)	**-**	-	**$ 6.40**	$ 11.28

Corridor had no natural gas production or natural gas sales in Q3 2019 or Q3 2018 due to management's decision to shut-in all of its natural gas production starting in each of May 2019 and May 2018 in accordance with its production optimization strategy. Corridor resumed partial production on November 8, 2019.

Natural gas sales decreased to $6,574 thousand for the nine months ended September 30, 2019 from $12,938 thousand for the nine months ended September 30, 2018 due to the decrease in the average natural gas sales price to $6.40/mscf for the nine months ended September 30, 2019 from $11.28/mscf for the nine months ended September 30, 2018. The decrease in Corridor's average daily natural gas production to 3.8 mmscfpd for the nine months ended September 30, 2019 is due primarily to lower flush production in Q1 2019 as a result of management's decision to resume production from its shut-in two weeks earlier in Q4 2018 as compared to Q4 2017.

Corridor owns the midstream facilities which process and transport gas from the McCully Field to the Maritimes and Northeast Pipeline ("M&NP"). Third party gas flowing through these facilities, which currently is limited to Nutrien Inc.'s ("Nutrien") (formerly Potash Corporation of Saskatchewan Inc.) share of gas from the McCully Field, is charged a cost of service. The decrease in the gathering, processing and transportation ("GPT") fees to $355 thousand for the nine months ended September 30, 2019 from $404 thousand for the nine months ended September 30, 2018 is due to a decrease in Nutrien's share of natural gas production flowing through Corridor's gas plant in 2019.

Financial Derivatives Gains (Losses)

thousands of dollars	Three months ended September 30 **2019**	2018	Nine months ended September 30 **2019**	2018
Change in unrealized gains (losses) on financial derivatives:				
Reversal of prior period unrealized gains (losses)	**$ (808)**	$ 724	**$ (996)**	$ 1,512
Current period estimate of unrealized gains (losses)	**671**	(1,436)	**671**	(1,436)
	(137)	(712)	**(325)**	76
Realized financial derivatives gains (losses)	**-**	-	**2,898**	(1,398)
Financial derivatives gains (losses)	**$ (137)**	$ (712)	**$ 2,573**	$ (1,322)

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.

As of September 30, 2019, Corridor had a financial derivative contract for 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 this contract, based on forecasted natural gas prices as of that date, resulted in the recognition of unrealized gains on financial derivatives of $671 thousand for the three and nine months ended September 30, 2019. In contrast, the calculation of the fair value of Corridor's financial derivative contracts as of September 30, 2018 resulted in the recognition of unrealized losses on financial derivatives of $1,436 thousand for the three and nine months ended September 30, 2018.

Subsequent to the quarter end, the Company entered into a financial hedge for 2,500 mmbtupd at a fixed price of $US7.12/mmbtu from December 1, 2019 to March 31, 2020 and a financial hedge for 2,500 mmbtupd from November 8, 2019 to November 30, 2019 at a fixed price of $US4.85/mmbtu.

Royalty Expense

thousands of dollars	Three months ended September 30 **2019**	2018	Nine months ended September 30 **2019**	2018
Royalty expense	**-**	-	**$ 178**	$ 410
Royalty expense per mscf ($/mscf)	**-**	-	**$ 0.17**	$ 0.36
Percentage of natural gas and gas liquids sales	**-**	-	**2.7%**	3.2%

Corridor's royalty expense decreased to $178 thousand for the nine months ended September 30, 2019 from $410 thousand for the nine months ended September 30, 2018 due to lower natural gas sales in 2019.

Production Expense

thousands of dollars	Three months ended September 30 **2019**	2018	Nine months ended September 30 **2019**	2018
Gross production expense	**$ 600**	$ 514	**$ 2,183**	$ 2,015
Workover expenses	**-**	11	**62**	172
Third party recoveries	**-**	-	**(291)**	(259)
Net production expense	**$ 600**	$ 525	**$ 1,954**	$ 1,928
Net production expense per mscf ($/mscf)	**-**	-	**$ 1.90**	$ 1.68

Gross production expense for Q3 2019 increased to $600 thousand from $514 thousand for Q3 2018 and to $2,183 thousand for the nine months ended September 30, 2019 from $2,015 thousand for the nine months ended September 30, 2018 due in part to Corridor employing one additional employee in 2019 and the payment of employee bonuses in Q3 2019 as compared to Q4 2018. Third party recoveries increased due to higher gross production expenses in 2019 as compared to 2018.

Impairment Losses

thousands of dollars	Three months ended September 30 **2019**	2018	Nine months ended September 30 **2019**	2018
Impairment losses	**-**	$ 40	**-**	$ 11,408

Corridor recognized impairment losses of $11,408 thousand in 2018 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. Corridor determined there was no longer a viable path to drilling an exploration well on the Old Harry prospect before the current exploration licence on the Newfoundland side expired in January 2021.

Depletion, Depreciation and Amortization

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2019**	2018	**2019**	2018
Depletion, depreciation and amortization	**$ 74**	$ 56	**$ 3,387**	$ 3,624
Depletion, depreciation and amortization per mscf ($/mscf)	**-**	-	**$ 3.65**	$ 3.47

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 $3,387 thousand for the nine months ended September 30, 2019 from $3,624 thousand for the nine months ended September 30, 2018 is due to the decrease in natural gas production in 2019 partially offset by depreciation on right-of-use assets starting on January 1, 2019.

General and Administrative Expenses

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2019**	2018	**2019**	2018
Gross expenses	**$ 1,110**	$ 587	**$ 2,333**	$ 1,879
Capitalized overhead	**(4)**	(13)	**(44)**	(92)
Operator recoveries	**-**	-	**-**	(1)
Net general and administrative expenses	**$ 1,106**	$ 574	**$ 2,289**	$ 1,786

Gross general and administrative ("G&A") expenses increased to $1,110 thousand in Q3 2019 from $587 thousand during Q3 2018 and to $2,333 thousand for the nine months ended September 30, 2019 from $1,879 thousand for the nine months ended September 30, 2018 due in part to an increase in technical consulting costs, a one-time employee severance payment and the payment of employee bonuses in Q3 2019 as compared to Q4 2018.

Deferred Income Taxes

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2019**	2018	**2019**	2018
Deferred income tax expense (recovery)	**$ (463)**	-	**$ 811**	$ (9)
Canadian statutory income tax rate	**29.3%**	29.3%	**29.3%**	29.3%

At September 30, 2019, the Company had approximately $160 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

	Three months ended September 30		Nine months ended September 30	
thousands of dollars	**2019**	2018	**2019**	2018
Exploration, development and production	**$ 51**	$ 245	**$ 373**	$ 1,373
Capitalized overhead	**4**	13	**44**	92
Office and other assets	**14**	49	**41**	65
	$ 69	$ 307	**$ 458**	$ 1,530

The decrease in capital expenditures to $69 thousand in Q3 2019 from $307 thousand in Q3 2018 and to $458 thousand for the nine months ended September 30, 2019 from $1,530 thousand for the nine months ended September 30, 2018 is primarily due to costs incurred on the controlled source electro-magnetic ("CSEM") survey and 2D seismic reprocessing over the Newfoundland and Labrador portion of the Old Harry prospect in 2018.

Statement of Financial Position Changes

Significant changes between Corridor's September 30, 2019 Statement of Financial Position and December 31, 2018 Statement of Financial Position include:

- $4,131 thousand decrease in receivables, reflecting the shut-in of natural gas production since May 1, 2019, and
- $1,692 thousand decrease in accounts payable and accrued liabilities, primarily reflecting lower payables relating to costs incurred on an abandonment program in Q4 2018.

Cash Flow Summary

	Three months ended September 30		**Nine months ended September 30**	
thousands of dollars	**2019**	2018	**2019**	2018
Cash provided by (used in) operating activities	**$ (337)**	$ (652)	**$ 9,070**	$ 11,795
Cash provided by (used in) financing activities	**(143)**	39	**(644)**	39
Cash provided by (used in) investing activities	**104**	(102)	**(825)**	(2,633)
Increase (decrease) in cash and cash equivalents	**$ (376)**	$ (715)	**$ 7,601**	$ 9,201

The decrease in cash provided by operating activities to $9,070 thousand for the nine months ended September 30, 2019 from $11,795 thousand for the nine months ended September 30, 2018 is primarily due to the decrease in natural gas sales in 2019 as compared to 2018.

The increase in cash used in financing activities for the nine months ended September 30, 2019 relates to Corridor's purchase of 777,460 common shares under its normal course issuer bid at a cost of $549 thousand.

The decrease in cash used in investing activities for the nine months ended September 30, 2019 is due to the payment of capital costs incurred relating to the CSEM survey and 2D seismic reprocessing in 2018.

Summary of Quarterly Information

thousands of dollars, except per share amounts and average natural gas price	**2019**			**2018**				**2017**
	Three months ended			Three months ended				Three months ended
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	**Sep. 30**	Jun. 30	Mar. 31	Dec. 31
Natural gas sales	**-**	$ 904	$ 5,670	$ 3,422	**-**	$ 1,432	$ 11,506	$ 3,088
Net income (loss)	**$ (1,318)**	$ (274)	$ 2,960	$ 6,104	**$ (1,860)**	$ (10,127)	$ 5,569	$ 13,598
Net income (loss) per share – basic and diluted	**$ (0.015)**	$ (0.003)	$ 0.033	$ 0.068	**$ (0.021)**	$ (0.114)	$ 0.063	$ 0.153
Natural gas production (mmscfpd)	**-**	2.4	9.0	4.4	**-**	2.8	9.9	2.7
Average natural gas price ($/mscf)	**-**	$ 4.16	$ 7.00	$ 8.53	**-**	$ 5.63	$ 12.90	$ 12.51
Capital expenditures	**$ 69**	$ 211	$ 178	$ 724	**$ 307**	$ 502	$ 721	$ 2,729

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 Petroleum Ltd. ("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 October 31, 2019, the outstanding share information was as follows:

Common shares outstanding	**88,147,005**
Stock options to purchase common shares	**3,489,666**
Total common shares outstanding after exercise of all stock options	**91,636,671**

thousands of dollars	
Total proceeds due on exercise of all stock options	**$ 2,745**

The weighted average exercise price for the stock options outstanding at October 31, 2019 was $0.79.

In 2018, Corridor implemented a normal course issuer bid under the TSX that expired on August 22, 2019. During the nine months ended September 30, 2019, Corridor purchased and cancelled 777,460 of its common shares at an average price of $0.707/share as part of the normal course issuer bid.

Liquidity and Capital Resources

Corridor's liquidity depends upon cash flow from operations, supplemented as necessary by equity and debt financings and bank debt. At September 30, 2019, the Company was holding cash and cash equivalents of $61,253 thousand and working capital of $62,059 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.

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

The President and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. During the three months ended September 30, 2019, 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.

Change in Accounting Policy

Corridor's unaudited condensed financial statements for the nine months ended September 30, 2019 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, 2018 except for the following change in accounting policy (for more information see note 3 of Corridor's unaudited condensed financial statements for the nine months ended September 30, 2019).

IFRS 16 "*Leases*"

On January 1, 2019, the Company adopted IFRS 16 "*Leases*" ("IFRS 16") which replaced IAS 17 "*Leases*" ("IAS 17"). The Company applied 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 requires the recognition of a right-of-use asset and lease liability on the Statement of Financial Position for most leases, however, leases relating to the exploration of natural gas and oil resources are excluded.

On transition to IFRS 16, the Company elected not to reassess whether a contract is, or contains, a lease and IFRS 16 was therefore only applied to contracts that were previously classified as operating leases under IAS 17. The Company did not have any leases that were classified as finance leases under IAS 17 at December 31, 2018. The Company also applied the permitted practical expedient relating to the use of hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

The reconciliation of lease commitments from December 31, 2018 to the lease liabilities at January 1, 2019 is as follows:

(thousands of dollars)

	January 1 2019
Operating lease commitments disclosed as at December 31, 2018	**$ 1,211**
Exclusion for leases to explore for natural gas	**(972)**
Practical expedient relating to lease term extension	**219**
Discounting, using weighted average incremental borrowing rate of 4.4%	**(104)**
Lease liabilities at January 1, 2019	**$ 354**

Management has identified right-of-use assets related to office space, vehicles and land surface rights relating to producing facilities. The Company elected to measure right-of-use assets at an amount equal to the lease liability of $354 thousand at January 1, 2019 and therefore the adoption of IFRS 16 had no impact on the retained earnings at January 1, 2019.

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. During the nine months ended September 30, 2019, there were no changes in the critical accounting estimates disclosed in Corridor's 2018 Annual MD&A.

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. As reported in the Company's press release dated June 5, 2019, the New Brunswick Government has undertaken an initial step towards permitting exemptions to the moratorium on hydraulic fracturing on a regional basis. The Government advised Corridor that it is unable to consider applications for an exemption to the moratorium as they undertake a consultation process with the New Brunswick First Nations. 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.

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.

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

(thousands of dollars, except per share data)

For the	Three months ended September 30 **2019**	2018	Nine months ended September 30 **2019**	2018
Sales (*note 4*)	**-**	-	**$ 7,023**	$ 13,419
Royalty expense	**-**	-	**(178)**	(410)
Revenues, net	**-**	-	**6,845**	13,009
Expenses				
Impairment losses	**-**	40	**-**	11,408
Depletion, depreciation and amortization	**74**	56	**3,387**	3,624
Production expense	**600**	525	**1,954**	1,928
General and administrative expense	**1,106**	574	**2,289**	1,786
Share-based compensation expense (*note 14*)	**79**	118	**234**	239
Financial derivatives losses (gains) *(note 16a i)*	**137**	712	**(2,573)**	1,322
Transportation expense	**-**	-	**-**	100
	1,996	2,025	**5,291**	20,407
Income (loss) before interest and other	**(1,996)**	(2,025)	**1,554**	(7,398)
Interest and other (*note 5*)	**215**	165	**625**	971
Income (loss) before income taxes	**(1,781)**	(1,860)	**2,179**	(6,427)
Deferred income tax expense (recovery) (*note 7*)	**(463)**	-	**811**	(9)
Net income (loss) and comprehensive income (loss)	**$ (1,318)**	$ (1,860)	**$ 1,368**	$ (6,418)
Net income (loss) per share – basic and diluted	**$ (0.015)**	$ (0.021)	**$ 0.015**	$ (0.072)
Weighted average number of common shares				
Basic	**88,172**	88,689	**88,602**	88,667
Diluted *(note 6)*	**88,406**	89,029	**88,861**	89,055

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

Unaudited Statements of Financial Position

(thousands of dollars)

As at	**September 30 2019**	December 31 2018
Assets		
Current assets		
Cash and cash equivalents *(note 16a i)*	**$ 61,253**	$ 53,652
Restricted cash	**680**	650
Receivables *(note 16a iv)*	**66**	4,197
Financial derivatives receivable *(note 16a i)*	**671**	996
Inventory held for sale	**8**	16
Prepaids and security deposits	**289**	180
	62,967	59,691
Non-current assets		
Property, plant and equipment *(note 8)*	**55,737**	57,733
Exploration and evaluation assets *(note 9)*	**4,016**	3,451
Right-of-use assets *(note 10)*	**328**	-
Deferred income tax assets *(note 7)*	**3,228**	4,039
Intangible assets	**-**	7
Restricted cash	**350**	380
Total assets	**$ 126,626**	$ 125,301
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 498**	$ 2,190
Deferred share units liability *(note 14b)*	**290**	311
Current portion of lease liability *(note 11)*	**120**	-
	908	2,501
Non-current liabilities		
Lease liability *(note 11)*	**200**	-
Decommissioning liability *(note 12)*	**12,726**	11,100
Total liabilities	**13,834**	13,601
Shareholders' Equity		
Capital stock *(note 13)*	**247,332**	247,855
Contributed surplus *(note 14)*	**11,295**	11,048
Deficit	**(145,835)**	(147,203)
Total shareholders' equity	**112,792**	111,700
Total liabilities and shareholders' equity	**$ 126,626**	$ 125,301

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

Contingencies *(note 18)*
Subsequent event *(note 19)*

On behalf of the Board

Signed *"Stephen J. Moran"* Director Signed "*James McKee*" Director

Unaudited Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the	Nine months ended September 30 **2019**	2018
Capital stock, beginning of period	**$ 247,855**	$ 247,704
Exercise of stock options for cash	**18**	39
Amount previously expensed for stock options exercised	**8**	18
Purchases under normal course issuer bid	**(549)**	-
Capital stock, end of period	**$ 247,332**	$ 247,761
Contributed surplus, beginning of period	**$ 11,048**	$ 10,926
Share-based compensation expense *(note 14a)*	**255**	116
Amount previously expensed for stock options exercised	**(8)**	(18)
Contributed surplus, end of period	**$ 11,295**	$ 11,024
Deficit, beginning of period	**$ (147,203)**	$ (146,889)
Net income (loss) and comprehensive income (loss)	**1,368**	(6,418)
Deficit, end of period	**$ (145,835)**	$ (153,307)
Shareholders' equity, end of period	**$ 112,792**	$ 105,478

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

Unaudited Statements of Cash Flows

(thousands of dollars)

For the	Nine months ended September 30 **2019**	2018
Operating Activities		
Net income (loss)	**$ 1,368**	$ (6,418)
Adjustments not affecting cash:		
Impairment losses	**-**	11,408
Depletion, depreciation and amortization	**3,387**	3,624
Share-based compensation expense	**234**	239
Change in unrealized financial derivatives losses (gains)	**325**	(76)
Deferred income tax expense (recovery)	**811**	(9)
Other operating activities	**170**	197
	6,295	8,965
Decrease in non-cash operating working capital *(note 15)*	**2,775**	2,830
Cash provided by operating activities	**9,070**	11,795
Financing Activities		
Purchase of common shares under normal course issuer bid	**(549)**	-
Payment of lease liability	**(113)**	-
Proceeds from the exercise of stock options	**18**	39
Cash provided by (used in) financing activities	**(644)**	39
Investing Activities		
Property, plant and equipment expenditures	**(81)**	(306)
Exploration and evaluation expenditures	**(377)**	(1,224)
Increase in non-cash investing working capital *(note 15)*	**(445)**	(1,104)
Proceeds from the sale of assets	**112**	1
Other investing activities	**(34)**	-
Cash used in investing activities	**(825)**	(2,633)
Increase in cash and cash equivalents	**7,601**	9,201
Cash and cash equivalents, beginning of period	**53,652**	46,177
Cash and cash equivalents, end of period	**$ 61,253**	$ 55,378
Cash and cash equivalents consists of:		
Cash	**$ 44,626**	$ 5,328
Short-term investments	**16,627**	50,050
Cash and cash equivalents, end of period	**$ 61,253**	$ 55,378

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

Notes to the Unaudited Condensed Financial Statements September 30, 2019

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, 2018. 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, 2018, except for the change in accounting policy disclosed in note 3.

On November 12, 2019, 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. Change in accounting policy

IFRS 16, "Leases"

On January 1, 2019, the Company adopted IFRS 16 "*Leases*" ("IFRS 16") which replaces IAS 17 "*Leases*" ("IAS 17"). The Company applied 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 requires the recognition of a right-of-use asset and lease liability on the Statement of Financial Position for most leases, however, leases relating to the exploration of natural gas and oil resources are excluded.

On transition to IFRS 16, the Company elected not to reassess whether a contract is, or contains, a lease and IFRS 16 was therefore only applied to contracts that were previously classified as operating leases under IAS 17. The Company did not have any leases that were classified as finance leases under IAS 17 at December 31, 2018. The Company also applied the permitted practical expedient relating to the use of hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

The reconciliation of lease commitments from December 31, 2018 to the lease liabilities at January 1, 2019 is as follows:

(thousands of dollars)

	January 1 2019
Operating lease commitments disclosed as at December 31, 2018	$ 1,211
Exclusion for leases to explore for natural gas	(972)
Practical expedient relating to lease term extension	219
Discounting, using weighted average incremental borrowing rate of 4.4%	(104)
Lease liabilities at January 1, 2019	$ 354

Management has identified right-of-use assets related to office space, vehicles and land surface rights relating to producing facilities. The Company elected to measure right-of-use assets at an amount equal to the lease liability of $354 thousand and therefore the adoption of IFRS 16 had no impact on the retained earnings at January 1, 2019.

Notes to the Unaudited Condensed Financial Statements
September 30, 2019

3. Change in accounting policy (continued)

Policy at January 1, 2019

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The carrying amount will be reviewed for impairment at each reporting period.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option with a corresponding adjustment to the carrying amount of the right-of-use asset.

The Company has elected not to recognize assets and lease liabilities for short-term leases with a term of 12 months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the Statement of Income and Comprehensive Income over the lease term.

4. Sales

Sales consist of the following:

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Natural gas and natural gas liquids sales	**-**	-	**$ 6,668**	$ 13,015
Gathering, processing and transportation fees	**-**	-	**355**	404
	-	-	**$ 7,023**	$ 13,419

5. Interest and other

Interest and other consist of the following:

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Interest and other income	**$ 279**	$ 236	**$ 850**	$ 628
Foreign exchange gains (losses)	**(2)**	(3)	**(43)**	541
Finance costs	**(53)**	(68)	**(169)**	(198)
Interest on lease liability	**(9)**	-	**(13)**	-
	$ 215	$ 165	**$ 625**	$ 971

6. Income per share

For the three and nine months ended September 30, 2019, stock options of 2,702 thousand and 2,020 thousand (three and nine months ended September 30, 2018 –1,457 thousand) were excluded from the dilution calculation since the average market price for the period was lower than the exercise price.

7. Income taxes

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

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Income (loss) before income taxes	**$ (1,781)**	$ (1,860)	**$ 2,179**	$ (6,427)
Blended Canadian statutory tax rate	**29.3%**	29.3%	**29.3%**	29.3%
Expected income tax expense (recovery)	**$ (521)**	$ (545)	**$ 639**	$ (1,883)
Increase (decrease) resulting from:				
Deferred incomes taxes not recognized	**-**	305	**-**	1,845
Non-deductible (non-taxable):				
- share-based compensation expense	**24**	34	**69**	70
- unrealized financial derivatives losses (gains)	**40**	209	**95**	(22)
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	**(6)**	(3)	**8**	(19)
	$ (463)	-	**$ 811**	$ (9)

At September 30, 2019, 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.

8. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at December 31, 2017	$ 241,712	$ 77,438	$ 1,055	$ 2,667	$ 322,872
Additions	587	225	96	98	1,006
Transfer from (to) current assets	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
Additions	26	14	-	41	81
Sale of assets	(49)	(15)	-	(55)	(119)
Changes in future abandonment costs	1,286	-	-	-	1,286
Balance at September 30, 2019	**$ 245,588**	**$ 77,729**	**$ 1,531**	**$ 2,681**	**$ 327,529**
Accumulated impairment, depletion & depreciation					
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
Impairment reversal	(380)	(150)	-	-	(530)
Transfer from (to) current assets	-	12	250	(12)	250
Write-down and sale of assets	-	-	52	(2)	50
Balance at December 31, 2018	$ 202,921	$ 62,626	$ 1,012	$ 1,989	$ 268,548
Sale of assets	-	-	-	(31)	(31)
Depletion or depreciation expense	2,396	797	-	82	3,275
Balance at September 30, 2019	**$ 205,317**	**$ 63,423**	**$ 1,012**	**$ 2,040**	**$ 271,792**
Net book value					
At December 31, 2018	$ 41,404	$ 15,104	$ 519	$ 706	$ 57,733
At September 30, 2019	**$ 40,271**	**$ 14,306**	**$ 519**	**$ 641**	**$ 55,737**

8. Property, plant and equipment (continued)

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of $2,652 thousand for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - $3,171 thousand).

During the quarter, no indicators of impairment were identified.

9. Exploration and evaluation assets

(thousands of dollars)

	Nine months ended September 30, 2019	Year ended December 31, 2018
Balance, beginning of period	**$ 3,451**	$ 11,570
Additions	**377**	1,248
Impairment losses	**-**	(11,408)
Changes in future abandonment costs	**188**	2,041
Balance, end of period	**$ 4,016**	$ 3,451

During the quarter, no indicators of impairment were identified.

10. Right-of-use assets

(thousands of dollars)

	Office building	**Land**	**Vehicles**	**Total**
Cost				
Leases recognized at January 1, 2019	$ 170	$ 174	$ 10	$ 354
Additions	-	-	79	79
Balance at September 30, 2019	**$ 170**	**$ 174**	**$ 89**	**$ 433**
Accumulated depreciation				
Depreciation expense	85	6	14	105
Balance at September 30, 2019	**$ 85**	**$ 6**	**$ 14**	**$ 105**
Net book value at September 30, 2019	**$ 85**	**$ 168**	**$ 75**	**$ 328**

11. Lease liability

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

(thousands of dollars)

	Nine months ended September 30, 2019	Year ended December 31, 2018
Leases recognized at January 1, 2019	**$ 354**	-
Leases recognized during the period	**79**	-
Payment of lease liability	**(113)**	-
Lease liability, end of period	**$ 320**	-
Current portion of lease liability	**(120)**	-
Non-current portion of lease liability	**$ 200**	-

12. Decommissioning liability

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

(thousands of dollars)

	Nine months ended September 30, 2019	Year ended December 31, 2018
Balance, beginning of period	**$ 11,100**	$ 8,529
Change in discount rate	**1,457**	519
Change in estimate	**17**	3,540
Liabilities settled	**(17)**	(1,755)
Finance costs	**169**	267
Balance, end of period	**$ 12,726**	$ 11,100

The total undiscounted amount of estimated cash flows required to settle these obligations is $17,481 thousand (December 31, 2018 - $17,481 thousand). Management estimates the settlement of these obligations between 2019 and 2040. At September 30, 2019, a risk-free rate of 1.60% (December 31, 2018 – 2.22%) and an inflation rate of 2% (December 31, 2018 – 2%) were used to calculate the estimated fair value of the decommissioning liability.

13. Capital stock

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

b) **Issued and outstanding**

(thousands of dollars and thousands of shares)

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of period	**88,899**	**$ 247,855**	88,655	$ 247,704
Exercise of stock options for cash and	**25**	**18**	244	102
amount recognized from contributed surplus	**-**	**8**	-	49
Cancellations under normal course issuer bid	**(777)**	**(549)**	-	-
Balance, end of period	**88,147**	**$ 247,332**	88,899	$ 247,855

14. 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.

For the three and nine months ended September 30, 2019, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $65 thousand and $255 thousand relating to the stock option plan (three and nine months ended September 30, 2018 - $92 and $116 thousand).

14. Share-based compensation (continued)

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

(thousands of options)

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**3,471**	**$ 0.79**	3,265	$ 0.79
Granted	**225**	**0.70**	1,783	0.70
Forfeited, cancelled or expired	**(181)**	**0.71**	(1,333)	0.75
Exercised (1)	**(25)**	**0.72**	(244)	0.42
Options outstanding, end of period	**3,490**	**$ 0.79**	3,471	$ 0.79
Options exercisable, end of period	**2,173**	**$ 0.83**	1,769	$ 0.89

(1) The Company's weighted average share price, at the date of exercise, for stock options exercised during the nine months ended September 30, 2019 was $0.76 per common share (year ended December 31, 2018 - $0.79 per common share).

The range of exercise prices of stock options outstanding and exercisable as at September 30, 2019 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	2,590	3.0	$ 0.63	1,273	$ 0.55
$ 1.00 - $ 1.24	900	0.1	$ 1.24	900	$ 1.24
	3,490	2.2	$ 0.79	2,173	$ 0.83

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)

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number of DSUs	**Amount**	Number of DSUs	Amount
DSUs, beginning of period	**388**	**$ 311**	216	$ 132
DSUs granted during the period	**45**	**30**	172	114
Fair value adjustment during the period	**-**	**(51)**	-	65
DSUs, end of period	**433**	**$ 290**	388	$ 311

The DSU liability as of September 30, 2019 of $290 thousand is based on a fair value of $0.67 per DSU, the Company's closing share price at September 30, 2019 (December 31, 2018 - $0.80 per DSU).

15. Supplemental cash flow information

(thousands of dollars)

	Nine months ended September 30	
	2019	2018
Change in non-cash operating working capital:		
Receivables	**$ 3,600**	$ 3,324
Prepaids and security deposits	**(109)**	(108)
Accounts payable and accrued liabilities	**(716)**	(386)
	$ 2,775	$ 2,830
Change in non-cash investing working capital:		
Receivables	**$ 531**	$ 483
Accounts payable and accrued liabilities	**(976)**	(1,587)
	$ (445)	$ (1,104)

16. 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. The Company does not use derivative financial instruments for speculative purposes.

Financial derivatives

The Company has the following outstanding financial derivative contracts at September 30, 2019:

Type	Period	Daily Volume	Price	Index
Swap	December 1, 2019 to March 31, 2020	2,500 mmbtu	$US9.00/mmbtu	Algonquin city-gates-daily

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

The following financial derivatives gains (losses) are reflected in the Statement of Income:

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Financial derivatives gains (losses):				
realized gains (losses)	**-**	-	**$ 2,898**	$ (1,398)
- change in unrealized gains (losses)	**(137)**	(712)	**(325)**	76
Financial derivatives gains (losses)	**$ (137)**	$ (712)	**$ 2,573**	$ (1,322)

The fair value of the financial derivatives receivable of $671 thousand as of September 30, 2019 is based on estimated future natural gas prices as of that date. When assessing the potential impact of natural gas price changes on the fair value of the financial derivative contracts outstanding as at September 30, 2019, a 10% increase in forecast natural gas prices would increase the change in unrealized losses on financial derivatives by $295 thousand (September 30, 2018 – $744 thousand), while a 10% decrease in forecast natural gas prices would decrease the change in unrealized losses on financial derivatives by $295 thousand (September 30, 2018 – $744 thousand).

Physical delivery contracts

The Company has no physical delivery contracts at September 30, 2019.

16. 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)

	September 30, 2019	December 31, 2018
Cash	**$ 6**	$ 1,134
Receivables	**506**	3,320
Financial instruments in U.S. dollars	**$ 512**	$ 4,454

At September 30, 2019, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of $24 thousand in the Company's net loss (September 30, 2018 – decrease in net loss of $63 thousand) due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of $24 thousand in the Company's net loss (September 30, 2018 –increase in net loss of $63 thousand).

iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2019, the Company was holding cash and cash equivalents of $61,253 thousand.

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 as disclosed in the Company's December 31, 2018 audited financial statements.

iv) Credit risk

Corridor sells all of its natural gas 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 September 30, 2019, 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 September 30, 2019.

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.

17. Financial instruments

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

i) Financial assets at amortized cost
Financial assets at amortized cost 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.

ii) Financial liabilities at amortized cost
Financial liabilities at amortized cost include accounts payable, accrued liabilities and lease liabilities. Accounts payable, accrued liabilities and lease 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.

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. 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.

18. Contingencies

During the quarter, the lawsuit brought by Geophysical Services Incorporated against Corridor in 2013 was dismissed by the Alberta Court of Queen's Bench by consent of the parties.

19. Subsequent event

Subsequent to the quarter end, the Company entered into a financial hedge for 2,500 mmbtupd from December 1, 2019 to March 31, 2020 at a fixed price of $US7.12/mmbtu and a financial hedge for 2,500 mmbtupd from November 8, 2019 to November 30, 2019 at a fixed price of $US4.85/mmbtu.