

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

(thousands of dollars, except per share data)

For the	Three months ended June 30		Six months ended June 30	
	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 (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
Prepays 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

Notes to the Unaudited Condensed Financial Statements

June 30, 2017

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.

Notes to the Unaudited Condensed Financial Statements

June 30, 2017

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.

Notes to the Unaudited Condensed Financial Statements

June 30, 2017

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 amount recognized from contributed surplus	33 -	13 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)

Exercise prices	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
\$ 0.40 - \$ 0.99	2,498	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	

Notes to the Unaudited Condensed Financial Statements

June 30, 2017

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
Prepays 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)

Notes to the Unaudited Condensed Financial Statements

June 30, 2017

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.

Notes to the Unaudited Condensed Financial Statements

June 30, 2017

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.