

# Unaudited Statements of Income and Comprehensive Income

(thousands of dollars, except per share data)

For the	Three months ended March 31	
	2017	2016
Sales	\$ 4,467	\$ 6,495
Royalties	(92)	(137)
Revenues, net	<b>4,375</b>	6,358
Expenses		
Depletion, depreciation and amortization	1,932	2,152
Transportation expense	428	1,355
Production expense	789	717
General and administrative expense	651	720
Financial derivatives gain (note 13a i)	(1,347)	-
Share-based compensation expense (note 11)	70	125
	<b>2,523</b>	5,069
Income before the following items	1,852	1,289
Gain on sale of exploration assets (note 8)	-	110
Interest and other (note 3)	6	(290)
Equity loss (note 8)	(33)	(32)
Income before income taxes	1,825	1,077
Deferred income tax recovery (note 4)	-	(206)
Net income and comprehensive income	<b>\$ 1,825</b>	\$ 1,283
Net income per share – basic and diluted	<b>\$ 0.021</b>	\$ 0.014
Weighted average number of common shares		
Basic	88,649	88,622
Diluted (note 5)	88,752	88,712

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

# Unaudited Statements of Financial Position

(thousands of dollars)

As at	March 31 2017	December 31 2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 30,669	\$ 27,272
Restricted cash	650	650
Receivables (note 13a iv)	2,069	2,169
Inventory held for sale	339	339
Prepays and security deposits	339	113
	<b>34,066</b>	30,543
Non-current assets		
Property, plant and equipment (note 6)	48,136	50,881
Exploration and evaluation assets (note 7)	8,778	8,813
Investment in Anticosti partnership (note 8)	13,865	13,898
Intangible assets	91	103
Restricted cash	380	380
<b>Total assets</b>	<b>\$ 105,316</b>	<b>\$ 104,618</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 840	\$ 925
Financial derivatives (note 13a i)	-	253
	<b>840</b>	1,178
Non-current liabilities		
Decommissioning liability (note 9)	8,753	9,636
<b>Total liabilities</b>	<b>9,593</b>	10,814
Shareholders' Equity		
Capital stock (note 10)	247,704	247,685
Contributed surplus (note 11)	10,822	10,747
Deficit	(162,803)	(164,628)
<b>Total shareholders' equity</b>	<b>95,723</b>	93,804
<b>Total liabilities and shareholders' equity</b>	<b>\$ 105,316</b>	<b>\$ 104,618</b>

*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	Three months ended March 31	
	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)	81	84
Amount previously expensed for stock options exercised	(6)	-
Contributed surplus, end of period	\$ 10,822	\$ 10,554
Deficit, beginning of period	\$ (164,628)	\$ (135,337)
Net income and comprehensive income	1,825	1,283
Deficit, end of period	\$ (162,803)	\$ (134,054)
Shareholders' equity, end of period	\$ 95,723	\$ 124,185

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

# Unaudited Statements of Cash Flows

(thousands of dollars)

For the	Three months ended March 31	
	2017	2016
<b>Operating Activities</b>		
Net income	\$ 1,825	\$ 1,283
Adjustments not affecting cash:		
Depletion, depreciation and amortization	1,932	2,152
Share-based compensation expense	70	125
Change in unrealized gain on financial derivatives	(253)	-
Deferred income tax recovery	-	(206)
Gain on sale of exploration assets	-	(110)
Equity loss	33	32
Other operating activities	76	77
	<b>3,683</b>	3,353
Increase in non-cash operating working capital (note 12)	(238)	(104)
Cash provided by operating activities	<b>3,445</b>	3,249
<b>Financing Activities</b>		
Proceeds from the exercise of stock options	13	-
Cash provided by financing activities	<b>13</b>	-
<b>Investing Activities</b>		
Property, plant and equipment expenditures	(30)	(20)
Exploration and evaluation expenditures	(69)	(61)
Contribution in Anticosti partnership	-	(32)
Proceeds on the sale of assets	-	7
Decrease in non-cash investing working capital (note 12)	38	4
Cash used in investing activities	<b>(61)</b>	(102)
Increase in cash and cash equivalents	<b>3,397</b>	3,147
Cash and cash equivalents, beginning of period	27,272	24,059
Cash and cash equivalents, end of period	<b>\$ 30,669</b>	\$ 27,206
Cash and cash equivalents consists of:		
Cash	\$ 11,422	\$ 8,013
Short-term investments	19,247	19,193
Cash and cash equivalents, end of period	<b>\$ 30,669</b>	\$ 27,206

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

# Notes to the Unaudited Condensed Financial Statements

## March 31, 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 Québec 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 May 10, 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)*

	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gains (losses)	<b>\$ 24</b>	\$ (278)
Interest and finance costs	<b>(76)</b>	(77)
Interest and other income	<b>58</b>	65
	<b>\$ 6</b>	\$ (290)

### 4. Income taxes

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

*(thousands of dollars)*

	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Income before income taxes	<b>\$ 1,825</b>	\$ 1,077
Blended Canadian statutory tax rate	<b>29.3%</b>	28%
Expected income tax expense	<b>\$ 535</b>	\$ 302
Increase (decrease) resulting from:		
Deferred incomes taxes not recognized	<b>(561)</b>	-
Effect of provincial tax rate change	<b>-</b>	(547)
Non-deductible (non-taxable)		
-gain on sale of exploration assets	<b>-</b>	(15)
-share-based compensation expense	<b>21</b>	35
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	<b>5</b>	19
	<b>-</b>	\$ (206)

# Notes to the Unaudited Condensed Financial Statements

## March 31, 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 \$561 thousand for the three months ended March 31, 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 months ended March 31, 2017, stock options of 2,741 thousand (three months ended March 31, 2016 – 3,123 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
<b>Cost</b>					
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	8	19	-	3	30
Changes in future abandonment costs	(855)	-	-	-	(855)
<b>Balance at March 31, 2017</b>	<b>\$ 242,125</b>	<b>\$ 77,361</b>	<b>\$ 3,005</b>	<b>\$ 2,892</b>	<b>\$ 325,383</b>
<b>Accumulated impairment, depletion and depreciation</b>					
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	1,416	476	-	28	1,920
<b>Balance at March 31, 2017</b>	<b>\$ 207,976</b>	<b>\$ 64,775</b>	<b>\$ 2,534</b>	<b>\$ 1,962</b>	<b>\$ 277,247</b>
<b>Net book value</b>					
At December 31, 2016	\$ 36,412	\$ 13,043	\$ 471	\$ 955	\$ 50,881
<b>At March 31, 2017</b>	<b>\$ 34,149</b>	<b>\$ 12,586</b>	<b>\$ 471</b>	<b>\$ 930</b>	<b>\$ 48,136</b>

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$3,437 thousand for the three months ended March 31, 2017 (three months ended March 31, 2016 - \$63,165 thousand).

During the quarter, no indicators of impairment were identified.

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 7. Exploration and evaluation assets

(thousands of dollars)

	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 8,813	\$ 8,493
Additions	69	357
Impairment losses	-	(100)
Changes in future abandonment costs	(104)	63
Balance, end of period	<b>\$ 8,778</b>	\$ 8,813

During the quarter, no indicators of impairment were identified.

### 8. Investment in Anticosti partnership

(thousands of dollars)

	Three months ended March 31, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 13,898	\$ 13,790
Gain on sale of exploration assets	-	110
Contributions	-	135
Equity loss	(33)	(137)
Balance, end of period	<b>\$ 13,865</b>	\$ 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 with the goal of terminating the joint venture. Management believes the investment in the Anticosti partnership is 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)

	Three months ended March 31, 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	76	325
Balance, end of period	<b>\$ 8,753</b>	\$ 9,636

The total undiscounted amount of estimated cash flows required to settle these obligations is \$14,336 thousand (December 31, 2016 - \$14,406 thousand). Management estimates the settlement of these obligations between 2017 and 2038. At March 31, 2017, a risk-free rate of 2.46% (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

## March 31, 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)*

	Three months ended March 31, 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)*

	Three months ended March 31, 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	2,152	\$ 0.85	2,950	\$ 1.23

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

*(thousands of options)*

Exercise prices	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
\$ 0.40 - \$ 0.99	2,498	2.27	\$ 0.61	1,552	\$ 0.70	
\$ 1.00 - \$ 1.99	900	2.63	\$ 1.24	600	\$ 1.24	
	3,398	2.37	\$ 0.78	2,152	\$ 0.85	

# Notes to the Unaudited Condensed Financial Statements

## March 31, 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:

	Three months ended March 31, 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 months ended March 31, 2017, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$81 thousand relating to the stock option plan (three months ended March 31, 2016 - \$84 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)*

	Three months ended March 31, 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	24	10	137	\$ 64
Fair value adjustment during the period	-	(21)	-	13
DSUs, end of period	161	\$ 66	137	\$ 77

The DSU liability as of March 31, 2017 is based on a fair value of \$0.41 which is the Company's closing share price at March 31, 2017.

### 12. Supplemental cash flow information

*(thousands of dollars)*

	Three months ended March 31	
	2017	2016
Change in non-cash operating working capital:		
Receivables	\$ 78	\$ 271
Prepays and security deposits	(226)	(219)
Accounts payable and accrued liabilities	(90)	(156)
	\$ (238)	\$ (104)
Change in non-cash investing working capital:		
Receivables	\$ 22	\$ 5
Accounts payable and accrued liabilities	16	(1)
	\$ 38	\$ 4

# Notes to the Unaudited Condensed Financial Statements

## March 31, 2017

### 13. Risk management

a) The Company is exposed to the following risks:

#### i) Commodity price risk

With the Board of Directors' approval, and when appropriate, Corridor will enter 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 has no outstanding financial derivative contracts at March 31, 2017. The following financial derivatives gain is reflected in the Statement of Income:

*(thousands of dollars)*

	<b>Three months ended March 31</b>	
	<b>2017</b>	2016
Realized financial derivatives gain	<b>\$ 1,094</b>	-
Change in unrealized gain on financial derivatives	<b>253</b>	-
Financial derivatives gain	<b>\$ 1,347</b>	-

#### 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)*

	<b>March 31, 2017</b>	December 31, 2016
Cash	<b>\$ 4,408</b>	\$ 200
Receivables	<b>1,230</b>	1,286
Payables	-	(188)
Financial instruments in U.S. dollars	<b>\$ 5,638</b>	\$ 1,298

At March 31, 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 (March 31, 2016 – \$95 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 (March 31, 2016 – \$95 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 March 31, 2017, the Company was holding cash and cash equivalents of \$30,669 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

## March 31, 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

An audit by the New Brunswick Department of Finance ("DOF") of the calculation of the royalty payments for the periods between November 1, 2009 and December 31, 2014 is ongoing. The Company has filed a Notice of Appeal to object to the Notice of Debt received by the DOF for a total of \$300 thousand, with Corridor's share estimated at \$200 thousand. Corridor has not made a provision for any of the amount identified in the DOF's Notice of Debt, as management believes a successful claim by the DOF is not probable.

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.

### 16. Subsequent event

Subsequent to the quarter end, the Company entered into a financial swap for the period from December 1, 2017 to March 31, 2018 for 2,500 mmbtu per day of natural gas production at a fixed price of \$US7.40/mmbtu. As security for this financial hedge, the bank has the authority to hold Corridor funds in the amount of \$US3.7 million.