



# First Quarter 2019

## Management's Discussion and Analysis

As of May 13, 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 months ended March 31, 2019 should be read in conjunction with Corridor's unaudited condensed financial statements and notes thereto for the three months ended March 31, 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](http://www.corridor.ca) and through the System for Electronic Document Analysis and Retrieval ("SEDAR") found at [www.sedar.com](http://www.sedar.com).

Additional information about Corridor, including its annual information form for the year ended December 31, 2018 (the "Annual Information Form"), is available on SEDAR found at [www.sedar.com](http://www.sedar.com). All amounts referred to in this MD&A are in Canadian dollars unless otherwise stated.

## 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

<i>thousands of dollars except per share amounts</i>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Sales	<b>\$ 6,009</b>	\$ 11,835
Net income	<b>\$ 2,960</b>	\$ 5,569
Net income per share – basic and diluted	<b>\$ 0.033</b>	\$ 0.063
Cash flow from operations <sup>(1)</sup>	<b>\$ 7,550</b>	\$ 9,645
Capital expenditures	<b>\$ 178</b>	\$ 721
Total assets	<b>\$ 127,927</b>	\$ 127,921

(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.

## 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:

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2019</b>	2018
Cash provided by operating activities	<b>\$ 7,716</b>	\$ 10,111
Decrease in non-cash operating working capital	<b>(166)</b>	(466)
Cash flow from operations	<b>\$ 7,550</b>	\$ 9,645

## **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 (including plans to seek a joint venture partner for the Frederick Brook prospect);
- natural gas prices and premiums;
- future taxable profits;
- capital expenditures;
- sources of funding; and
- government regulation.

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

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

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

Unknown risks and uncertainties include, but are not limited to: risks associated with oil and gas exploration, development and production, operational risks, development and operating costs, substantial capital requirements and financing, volatility of natural gas and oil prices, government regulation, environmental, hydraulic fracturing, third party risk, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, variations in exchange rates, expiration of licenses and leases, reserves 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

The following table provides a comparison of Corridor's results for the period from April 1, 2018 to March 31, 2019 as compared to the guidance disclosed in Corridor's press release dated November 13, 2018 and updated in the press release dated December 19, 2018.

	Actual results	Guidance
AGT average natural gas price	<b>\$ US 4.10/mmbtu</b>	\$ US 5.44/mmbtu
USD/CAD average exchange rate	<b>\$ 1.30 USD/CAD</b>	\$ 1.26 USD/CAD
Average sales price realized (including financial hedges)	<b>\$ 9.48/mscf</b>	\$ 9.96/mscf
Average daily natural gas production	<b>4.0 mmscfpd</b>	3.9 mmscfpd
Field operating netback	<b>\$ 11.4 million</b>	\$ 11.4 million
Cash flow from operations <sup>(1)</sup>	<b>\$ 9.9 million</b>	\$ 9.5 million
Field operating netback per mscf	<b>\$ 7.80/mscf</b>	\$ 8.06/mscf
Cash flow from operations <sup>(1)</sup> per mscf	<b>\$ 6.75/mscf</b>	\$ 6.70/mscf
Working capital as at March 31, 2019	<b>\$ 64.0 million</b>	\$ 63.4 million

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

Corridor achieved its forecast field operating netback of \$11.4 million for the period from April 1, 2018 to March 31, 2019 as Corridor's financial hedges and an increase in the USD/CAD average exchange rate during Q1 2019 exceeded expectations and offset weaker than forecast natural gas prices at AGT in Q1 2019. Corridor's cash flow from operations for the period from April 1, 2018 to March 31, 2019 increased to \$9.9 million due to lower than estimated general and administrative expenses and higher foreign exchange gains during that period. As a result, Corridor's working capital at March 31, 2019 increased by \$0.6 million to \$64 million.

## Q1 2019 Financial Summary

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Sales	<b>\$ 6,009</b>	\$ 11,835
Royalty expense	<b>(159)</b>	(384)
Revenues, net	<b>5,850</b>	11,451
Expenses		
Depletion, depreciation and amortization	<b>2,574</b>	2,764
Production expense	<b>746</b>	702
General and administrative expense	<b>602</b>	608
Transportation expense	<b>-</b>	78
Share-based compensation expense	<b>61</b>	92
Financial derivatives gains	<b>(2,420)</b>	(147)
	<b>1,563</b>	4,097
Income before the following items	<b>4,287</b>	7,354
Interest and other	<b>122</b>	596
Income before income taxes	<b>4,409</b>	7,950
Deferred income tax expense	<b>1,449</b>	2,381
Net income	<b>\$ 2,960</b>	\$ 5,569

## First Quarter Summary

- Natural gas sales for Q1 2019 decreased to \$5,670 thousand from \$11,506 thousand for Q1 2018 due to the decrease in the average natural gas sales price to \$7.00/mscf in Q1 2019 from \$12.90/mscf in Q1 2018 and the decrease in the average daily natural gas production to 9.0 mmscfpd in Q1 2019 from 9.9 mmscfpd in Q1 2018. The decrease in Corridor's average daily natural gas production is primarily due to management's decision to resume production from its shut-in two weeks earlier in 2018, on November 14, as compared to December 1 in 2017, which resulted in lower flush production in Q1 2019 as compared to Q1 2018.
- The decrease in the average natural gas sales price in Q1 2019 was mitigated by the Company's financial hedges which resulted in realized financial derivatives gains of \$2,846 thousand in Q1 2019 as compared to realized financial derivatives losses of \$1,078 thousand in Q1 2018. As a result, the average realized natural gas sales price including financial derivatives gains was \$10.51/mscf in Q1 2019 as compared to \$11.69/mscf in Q1 2018.
- Corridor's cash flow from operations decreased to \$7,550 thousand in Q1 2019 from \$9,645 thousand in Q1 2018 due primarily to the lower natural gas sales partially offset by the realized financial derivative gains of \$2,846 thousand during Q1 2019.
- At March 31, 2019, Corridor had cash and cash equivalents of \$60,659 thousand, working capital of \$64,034 thousand and no outstanding debt.
- Corridor's net income decreased to \$2,960 thousand in Q1 2019 from \$5,569 thousand in Q1 2018 primarily due to lower natural gas sales partially offset by financial derivative gains during Q1 2019.
- In 2018, Corridor initiated a Normal Course Issuer Bid on the Toronto Stock Exchange to purchase up to 6,803,118 of Corridor's common shares. Subsequent to the quarter-end, 113,174 common shares were purchased under this program, at an average price per share of \$0.742, and subsequently cancelled.

## Results of Operations

### Sales

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Natural gas	\$ 5,670	\$ 11,506
Condensate	67	28
Natural gas and gas liquids sales	\$ 5,737	\$ 11,534
Gathering, processing & transportation fees	272	301
Sales	\$ 6,009	\$ 11,835

### Production volumes and pricing

	Three months ended March 31	
	2019	2018
Natural gas production (mmscf)	810	892
Natural gas production per day (mmscfpd)	9.0	9.9
Natural gas selling price (\$/mscf)	\$ 7.00	\$ 12.90

Natural gas sales for Q1 2019 decreased to \$5,670 thousand from \$11,506 thousand for Q1 2018 due to the decrease in the average natural gas sales price to \$7.00/mscf in Q1 2019 from \$12.90/mscf in Q1 2018 and the decrease in the average daily natural gas production to 9.0 mmscfpd in Q1 2019 from 9.9 mmscfpd in Q1 2018. The decrease in Corridor's average daily natural gas production is primarily due to management's decision to resume production from its shut-in two weeks earlier in 2018, on November 14, as compared to December 1 in 2017, which resulted in lower flush production in Q1 2019 as compared to Q1 2018.

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 \$272 thousand for Q1 2019 from \$301 thousand for Q1 2018 is

due to a decrease in Nutrien's share of natural gas production as a result of the decrease in natural gas production at the McCully Field in Q1 2019.

## Financial Derivatives Gains

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Change in unrealized gains (losses) on financial derivatives:		
Reversal of prior period unrealized gains (losses)	\$ (996)	\$ 1,512
Current period estimate of unrealized gains (losses)	570	(287)
Change in unrealized gains (losses)	\$ (426)	\$ 1,225
Realized financial derivatives gains (losses)	2,846	(1,078)
Financial derivatives gains	\$ 2,420	\$ 147

A key component of Corridor's production optimization strategy is to enter into financial hedges to mitigate the risks associated with the volatility of natural gas prices when natural gas production resumes at the McCully Field after a shut-in period. The settlement of financial hedges in Q1 2019 resulted in realized financial derivatives gains of \$2,846 thousand as compared to realized financial derivatives losses of \$1,078 thousand in Q1 2018.

Corridor had the following two financial derivatives contracts at March 31, 2019: 2,500 mmbtupd at a fixed price of \$US3.45/mmbtu in April 2019 and 2,500 mmbtupd at a fixed price of \$US9.00/mmbtu for the period from December 1, 2019 to March 31, 2020. The calculation of the fair value of these contracts as of March 31, 2019, based on forecasted natural gas prices as of that date, resulted in the recognition of unrealized gains on financial derivatives of \$570 thousand as of March 31, 2019 while this calculation, as of March 31, 2018, resulted in the recognition of unrealized losses on financial derivatives of \$287 thousand for the three months ended March 31, 2018.

## Royalty Expense

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Royalty expense	\$ 159	\$ 384
Royalty expense per mscf (\$/mscf)	\$ 0.20	\$ 0.43
Percentage of natural gas and gas liquids sales	2.8%	3.3%

Corridor's royalty expense for Q1 2019 decreased to \$159 thousand from \$384 thousand for Q1 2018 due to the decrease in natural gas sales in Q1 2019.

## Production Expense

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Gross production expense	\$ 969	\$ 895
Third party recoveries	(223)	(193)
Net production expense	\$ 746	\$ 702
Net production expense per mscf (\$/mscf)	\$ 0.92	\$ 0.79

Gross production expense for Q1 2019 increased to \$969 thousand from \$895 thousand for Q1 2018 due primarily to the employment of an additional employee in Q1 2019 and increased well maintenance costs. Third party recoveries also increased due to the higher production expenses in Q1 2019.

## Transportation Expense

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Transportation expense	-	\$ 78
Transportation expense per mscf (\$/mscf)	-	\$ 0.09

Effective November 1, 2018, Corridor entered into an agreement that eliminates transportation fees on the Canadian portion of the M&NP until April 1, 2024. As a result, transportation expense decreased to nil in Q1 2019 from \$78 thousand in Q1 2018.

## Depletion, Depreciation and Amortization

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2019</b>	2018
Depletion, depreciation and amortization	<b>\$ 2,574</b>	\$ 2,764
Depletion, depreciation and amortization per mscf (\$/mscf)	<b>\$ 3.51</b>	\$ 3.39

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 expense to \$2,574 thousand in Q1 2019 from \$2,764 thousand in Q1 2018 is primarily due to the decrease in natural gas production in Q1 2019.

## General and Administrative Expenses

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2019</b>	2018
Gross expenses	<b>\$ 628</b>	\$ 648
Capitalized overhead	<b>(26)</b>	(40)
Net expenses	<b>\$ 602</b>	\$ 608

Gross general and administrative expenses in Q1 2019 are consistent with Q1 2018.

## Deferred Income Taxes

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2019</b>	2018
Deferred income tax expense	<b>\$ 1,449</b>	\$ 2,381
Canadian statutory income tax rate	<b>29.3%</b>	29.3%

At March 31, 2019, the Company had approximately \$159 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

<i>thousands of dollars</i>	<b>Three months ended March 31</b>	
	<b>2019</b>	2018
Exploration, development and production	<b>\$ 138</b>	\$ 664
Capitalized overhead	<b>26</b>	40
Office and other assets	<b>14</b>	17
	<b>\$ 178</b>	\$ 721

The decrease in capital expenditures to \$178 thousand in Q1 2019 from \$721 thousand in Q1 2018 is due to costs incurred of \$590 thousand in Q1 2018 on the controlled source electromagnetic ("CSEM") survey over the Newfoundland and Labrador portion of the Old Harry prospect.

## Statement of Financial Position Changes

Significant changes between Corridor's March 31, 2019 and December 31, 2018 Statement of Financial Positions include:

- \$1,314 thousand decrease in receivables, primarily reflecting lower natural gas prices in March 2019 compared to December 2018;
- \$1,915 thousand decrease in property, plant and equipment, primarily reflecting depletion expense in Q1 2019; and

- \$1,503 thousand decrease in accounts payable, primarily reflecting higher amounts outstanding at December 31, 2018 relating to the costs incurred on the abandonment program in Q4 2018.

## Cash Flow Summary

<i>thousands of dollars</i>	Three months ended March 31	
	2019	2018
Cash provided by operating activities	\$ 7,716	\$ 10,111
Cash used in financing activities	(11)	-
Cash used in investing activities	(698)	(1,338)
Increase in cash and cash equivalents	\$ 7,007	\$ 8,773

The decrease in cash provided by operating activities for Q1 2019 to \$7,716 thousand from \$10,111 thousand for Q1 2018 is primarily due to the decrease in natural gas sales in Q1 2019 partially offset by the realized financial derivatives gains in Q1 2019.

The decrease in cash used in investing activities for Q1 2019 to \$698 thousand from \$1,338 thousand for Q1 2018 is due to the costs incurred relating to the CSEM survey in Q1 2018.

## Summary of Quarterly Information

<i>thousands of dollars, except per share amounts and average natural gas price</i>	2019	2018				2017		
	Three months ended	Three months ended				Three months ended		
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Natural gas sales	\$ 5,670	\$ 3,422	-	\$ 1,432	\$ 11,506	\$ 3,088	-	\$ 38
Net income (loss)	\$ 2,960	\$ 6,104	\$ (1,860)	\$ (10,127)	\$ 5,569	\$ 13,598	\$ 3,826	\$ (1,510)
Net income (loss) per share – basic and diluted	\$ 0.033	\$ 0.068	\$ (0.021)	\$ (0.114)	\$ 0.063	\$ 0.153	\$ 0.043	\$ (0.017)
Natural gas production (mmscfpd)	9.0	4.4	-	2.8	9.9	2.7	-	0.1
Average natural gas price (\$/mscf)	\$ 7.00	\$ 8.53	-	\$ 5.63	\$ 12.90	\$ 12.51	-	\$ 3.86
Capital expenditures	\$ 178	\$ 724	\$ 307	\$ 502	\$ 721	\$ 2,729	\$ 127	\$ 74

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. 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 April 30, 2019, the outstanding share information was as follows:

Common shares outstanding	88,811,291
Stock options to purchase common shares	3,670,500
Total common shares outstanding after exercise of all stock options	92,481,791
<i>thousands of dollars</i>	
Total proceeds due on exercise of all stock options	\$ 2,874

The weighted average exercise price for the stock options outstanding at April 30, 2019 was \$0.78.

On August 23, 2018, Corridor implemented a normal course issuer bid under the TSX, that will expire on August 22, 2019, which permits Corridor to purchase up to 6,803,118 of its common shares. Subsequent to the quarter end, Corridor purchased 113,174 of its common shares under the normal course issuer bid at an average price per share of \$0.742. These common shares were subsequently cancelled.

## 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 March 31, 2019, the Company was holding cash and cash equivalents of \$60,659 thousand and working capital of \$64,034 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 March 31, 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.

## 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 three months ended March 31, 2019, there were no changes in the critical accounting estimates disclosed in Corridor's 2018 Annual MD&A.

## Changes in Accounting Policies

Corridor's unaudited condensed financial statements for the three months ended March 31, 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 three months ended March 31, 2019).

### 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 for 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)*

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

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.

## Business Conditions and Risks

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

The following is a summary of certain risk factors and should not be construed as exhaustive. There are numerous factors both known and unknown, that could cause actual results or events to differ materially from forecast results. Additional risk factors are included in the Annual Information Form under the heading "Risk Factors" and include: development and operating costs, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, expiration of licenses and leases, reserves and resources estimates, trading of common shares, seasonality, disclosure controls and procedures and internal controls over financial reporting, competition, conflicts of interest, issuance of debt, title to properties, hedging, litigation, and aboriginal land and rights claims. See also "*Forward-Looking Statements*" in this MD&A.

## **Risks Associated with Oil and Gas Exploration, Development and Production**

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

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

## **Operational Risks**

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

Oil and natural gas operations are also subject to all the risks typically associated with such operations, including drilling into unexpected formations or unexpected pressures, premature decline of reservoirs, the invasion of water into producing formations and sour gas from wells. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Corridor's business, financial condition, results of operations and cash flows.

## **Substantial Capital Requirements and Financing**

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

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

## **Volatility of Natural Gas and Oil Prices**

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

In recent years, the price of natural gas in North America has been declining. However, Corridor's natural gas production is sold to markets in New England, and more recently, the Maritimes, at prices referenced to AGT. The New England market, and recently the Maritimes market, have in recent years been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to depressed prices in other areas of North America, and this excess demand is expected to continue until new pipeline infrastructure is available to increase the supply of natural gas into this market, especially in light of declining natural gas production in Atlantic Canada. While numerous projects are planned which could alleviate the supply constraints to the New England market, it is not known whether the required regulatory approvals will be received and, if the projects proceed, the timing of completion of these projects.

## **Government Regulation**

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

## **Environmental**

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

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

## **Hydraulic Fracturing**

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

It is anticipated that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to emerge. While the Company is unable to predict the impact of any potential regulations upon its business, the implementation of new laws, regulations or permitting regulations with respect to water usage or disposal, or hydraulic fracturing generally could increase the Company's costs of compliance, operating costs, the risk of litigation and environmental liability, or negatively impact the Company's production and prospects, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

The New Brunswick Government announced on May 27, 2016 that it would indefinitely continue a moratorium on hydraulic fracturing. Corridor believes that all wells on its properties in New Brunswick require hydraulic fracture stimulation to be commercially productive. In November 2018, the Government of New Brunswick expressed its intention to allow natural gas development in the Sussex region, where Corridor's properties are located. Until the moratorium is lifted, Corridor has determined that it will not undertake any drilling or completion activities or incur associated capital expenditures in New Brunswick. Should the moratorium not be lifted, Corridor's ability to maintain or increase production in the McCully Field and its ability to obtain a joint venture partner to develop the Frederick Brook prospect in the Elgin Sub-Basin will be materially and adversely affected.

### **Third Party Risk**

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

### **Variations in Exchange Rates**

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

### **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.