



Management's Report

The accompanying financial statements as of December 31, 2018 were prepared by, and are the responsibility of, management. The financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and include amounts that reflect management's best estimates and judgments. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The financial information contained elsewhere in Management's Discussion and Analysis is consistent with that provided in the financial statements.

Management of the Company has established and maintains a system of internal control designed to provide reasonable assurance as to the integrity of the financial statements and the safeguarding of the Company's assets.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee reviewed the financial statements with management and the external auditors and recommended approval to the Board of Directors, who have approved the accompanying financial statements.

PricewaterhouseCoopers LLP has been appointed to serve as the Company's external auditors. They have examined the financial statements and the Company's internal control over financial reporting in accordance with generally accepted auditing standards and provided their auditor's report thereon. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

March 27, 2019

Signed "Stephen J. Moran"
Stephen J. Moran
President and Chief Executive Officer

Signed "Lisette F. Hachey"
Lisette F. Hachey
Chief Financial Officer



Independent auditor's report

To the Shareholders of Corridor Resources Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Corridor Resources Inc. (the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2018 and 2017;
- the statements of financial position as at December 31, 2018 and 2017;
- the statements of changes in shareholders' equity for the years ended December 31, 2018 and 2017;
- the statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lee-Anne Kovacs.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants

Halifax, Nova Scotia
March 27, 2019

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

(thousands of dollars, except per share data)

For the years ended December 31	2018	2017
Sales <i>(note 5)</i>	\$ 16,944	\$ 7,674
Royalty expense	(506)	(394)
Revenues, net	16,438	7,280
Expenses		
Impairment losses (reversal) <i>(notes 13 & 14)</i>	10,878	(12,000)
Depletion, depreciation and amortization	4,871	2,649
Transportation expense	100	438
Production expense <i>(note 6)</i>	2,739	2,519
General and administrative expense <i>(note 6)</i>	2,605	2,923
Financial derivatives losses (gains) <i>(note 20a i)</i>	(1,978)	158
Share-based compensation expense <i>(note 18)</i>	350	240
Other write-downs and losses <i>(notes 12 & 14)</i>	52	248
	19,617	(2,825)
Income (loss) before the following items	(3,179)	10,105
Gain on disposition of assets <i>(note 7)</i>	-	5,601
Interest and other <i>(note 8)</i>	1,256	(353)
Equity loss	-	(44)
Income (loss) before income taxes	(1,923)	15,309
Deferred income tax recovery <i>(note 9)</i>	(1,609)	(2,430)
Net income (loss) and comprehensive income (loss)	\$ (314)	\$ 17,739
Net income (loss) per share - basic and diluted	\$ (0.004)	\$ 0.200
Weighted average number of common shares		
Basic	88,700	88,654
Diluted <i>(note 10)</i>	89,095	88,819

See accompanying notes to the financial statements.

Statements of Financial Position

(thousands of dollars)

As at December 31	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 53,652	\$ 46,177
Restricted cash (note 22b)	650	650
Receivables (notes 11 & 20a iii)	4,197	3,927
Financial derivatives receivable (note 20a i)	996	-
Inventory held for sale (note 12)	16	154
Prepays and security deposits	180	100
	59,691	51,008
Non-current assets		
Property, plant and equipment (note 14)	57,733	58,917
Exploration and evaluation assets (note 13)	3,451	11,570
Deferred income tax assets (note 9)	4,039	2,430
Intangible assets	7	55
Restricted cash (note 22b)	380	380
Total assets	\$ 125,301	\$ 124,360
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 15)	\$ 2,190	\$ 2,446
Deferred share units liability (note 18b)	311	132
Financial derivatives liability (note 20a i)	-	1,512
	2,501	4,090
Non-current liabilities		
Decommissioning liability (note 16)	11,100	8,529
Total liabilities	13,601	12,619
Shareholders' Equity		
Capital stock (note 17)	247,855	247,704
Contributed surplus (note 18)	11,048	10,926
Deficit	(147,203)	(146,889)
Total shareholders' equity	111,700	111,741
Total liabilities and shareholders' equity	\$ 125,301	\$ 124,360

See accompanying notes to the financial statements.

Commitments (note 22)
Contingencies (note 23)
Subsequent events (note 24)

On behalf of the Board

Signed "Stephen J. Moran" Director

Signed "Robert D. Penner" Director

Statements of Changes in Shareholders' Equity

(thousands of dollars)

For the years ended December 31	2018	2017
Capital stock, beginning of year	\$ 247,704	\$ 247,685
Exercise of stock options for cash	102	13
Amount previously expensed for stock options exercised	49	6
Capital stock, end of year	\$ 247,855	\$ 247,704
Contributed surplus, beginning of year	\$ 10,926	\$ 10,747
Share-based compensation expense <i>(note 18)</i>	171	185
Amount previously expensed for stock options exercised	(49)	(6)
Contributed surplus, end of year	\$ 11,048	\$ 10,926
Deficit, beginning of year	\$ (146,889)	\$ (164,628)
Net income (loss) and comprehensive income (loss)	(314)	17,739
Deficit, end of year	\$ (147,203)	\$ (146,889)
Shareholders' equity, end of year	\$ 111,700	\$ 111,741

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of dollars)

For the years ended December 31	2018	2017
Operating Activities		
Net income (loss)	\$ (314)	\$ 17,739
Adjustments not affecting cash:		
Impairment losses (reversal) and asset write-downs	10,930	(11,752)
Depletion, depreciation and amortization	4,871	2,649
Share-based compensation expense	350	240
Deferred income tax recovery	(1,609)	(2,430)
Gain on disposition of assets	-	(5,601)
Change in unrealized financial derivatives losses (gains)	(2,508)	1,259
Other operating activities	267	337
	11,987	2,441
Increase in non-cash operating working capital (note 19)	(117)	(1,364)
Cash provided by operating activities	11,870	1,077
Financing Activities		
Proceeds from the exercise of stock options	102	13
Cash provided by financing activities	102	13
Investing Activities		
Property, plant and equipment expenditures	(1,006)	(101)
Exploration and evaluation expenditures	(1,248)	(2,928)
Proceeds on the sale of assets (note 7)	1	19,701
Contribution in Anticosti partnership	-	(48)
Decommissioning liabilities settled	(1,755)	-
Decrease (increase) in non-cash investing working capital (note 19)	(489)	1,191
Cash provided by (used in) investing activities	(4,497)	17,815
Increase in cash and cash equivalents	7,475	18,905
Cash and cash equivalents, beginning of year	46,177	27,272
Cash and cash equivalents, end of year	\$ 53,652	\$ 46,177
Cash and cash equivalents consists of:		
Cash	\$ 3,602	\$ 7,075
Short-term investments	50,050	39,102
Cash and cash equivalents, end of year	\$ 53,652	\$ 46,177

See accompanying notes to the financial statements.

Notes to the Financial Statements

Years ended December 31, 2018 and 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 preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

On March 27, 2019, the 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.

3. Significant accounting policies

The financial statements have been prepared by management using the following IFRS accounting policies. The accounting policies have been applied consistently for all periods presented in these financial statements. Certain prior year balances have been reclassified to be consistent with the current year’s presentation.

a) Basis of measurement

These financial statements are prepared on a going concern basis under the historical cost basis. These financial statements are presented in Canadian dollars, the Company’s functional currency, and all information is presented in thousands of Canadian dollars unless otherwise indicated.

b) Revenue recognition

Natural gas and gas liquids

Corridor delivers and sells its natural gas production daily from the McCully Field in New Brunswick to markets in northeastern United States and the Maritimes pursuant to long-term agreements with a marketing agent. The Company satisfies its performance obligations upon the delivery of the natural gas production. The transaction price is based on the daily commodity price adjusted for the delivery location and other seasonal factors based on the terms of the agreements. The fees associated with marketing and transportation services provided by the Company’s marketing agent are deducted from the transaction price while transportation services procured by Corridor are recognized in transportation expenses. Corridor’s natural gas revenues do not contain significant financing components and payments are typically due 25 days following the month of delivery.

Revenue from Corridor’s working interest of natural gas production is recognized at the point in time when control of the natural gas is transferred, being when the natural gas has been delivered to Corridor’s marketing agent at the agreed delivery location, which coincides with the month the natural gas is produced. Natural gas revenue is recognized at the agreed transaction price based on the terms of the agreements. Natural gas liquids revenue is recognized at the point in time when delivery has taken place.

Gathering, processing and transportation fees

The Company has collaborative arrangements with its joint venture partner, Nutrien Inc., (formerly Potash Corporation of Saskatchewan Inc.) ("Nutrien") to gather, process and transport Nutrien’s working interest share of natural gas production from the McCully Field through Corridor’s production facilities. The gathering, processing and transportation fees are calculated based on the use of these facilities and include a recovery of capital and a recovery of operating expenses.

Gathering, processing and transportation fees relating to the recovery of capital of Corridor’s production facilities are recognized when the gathering, processing and transportation services have been provided to Nutrien, which coincides with the month the natural gas is produced.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued)

c) Exploration and evaluation assets

Once the legal right to explore has been acquired, costs directly associated with an exploration activity are capitalized as exploration and evaluation intangible assets and grouped by licensed exploration area. Capitalized costs include lease acquisition costs, geological and geophysical expenses, the portion of general and administrative expenses directly related to exploration activities and costs of drilling both productive and non-productive wells. Costs are capitalized until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the presence of reserves has been established, after which capitalized costs are transferred to oil and gas properties following an assessment for impairment.

All exploration and evaluation assets are subject to a review for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Exploration and evaluation assets are assessed for impairment based on a technical, commercial and management review. When the Company believes that exploration and evaluation assets are no longer viable for future economic development, the assets are written-off to the Statement of Income and Comprehensive Income.

Exploration and evaluation assets are not depleted.

d) Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depletion and impairment losses. The costs of drilling development wells, including unsuccessful development or delineation wells, are capitalized within oil and gas properties in property, plant and equipment. Capitalized costs consist of the purchase price or construction cost including any costs directly attributable to bringing the well into operation, the present value of the estimated decommissioning obligation and borrowing costs for qualifying assets.

Once commercial production has commenced, depletion of oil and gas properties is calculated using the unit-of-production basis over the estimated proved reserves before royalties, as determined by qualified independent reserves engineers. Depletion is calculated at the field level and takes into account expenditures incurred to date together with future development costs to develop the proved reserves.

When an asset in oil and gas properties is disposed of the carrying amount of the asset is derecognized with any gain or loss recorded in the Statement of Income and Comprehensive Income.

e) Property, plant and equipment

The initial cost of property, plant and equipment consists of its purchase price or construction cost, the present value of the estimated decommissioning obligation and borrowing costs for qualifying assets.

Inventories held for exploration and development activities are capitalized in property, plant and equipment and stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price less applicable selling expenses.

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses, and is depreciated using the following methods and estimated useful lives:

Asset	Method	Basis
Buildings	Declining Balance	4%
Equipment and furniture	Declining Balance	10% - 30%
Computer hardware and software	Declining Balance	30% - 50%
Vehicles	Declining Balance	30%
Midstream assets	Straight line	5 – 15 years
Production facilities	Unit of Production	Proved reserves

Depreciation rates and useful lives are reviewed on an annual basis.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued)

Expenditures on major turnarounds, inspections or repairs consist of the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Costs associated with turnarounds are capitalized and amortized over the period to the next turnaround. Maintenance costs associated with routine maintenance are expensed as incurred.

When an asset in property, plant and equipment is disposed of the carrying amount of the asset is derecognized with any gain or loss recorded in the Statement of Income and Comprehensive Income.

f) Joint arrangements

The nature of Corridor's joint arrangement with Nutrien is a joint operation. As of December 31, 2018, Corridor and Nutrien jointly own 22 of the 40 wells drilled in the McCully Field in New Brunswick. The Company therefore only accounts for its share of the jointly controlled assets and liabilities and its proportionate share of the revenues and expenses incurred in relation to the activities in the jointly held assets.

g) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. A CGU includes a group of assets that generates cash flows that are largely independent of the cash inflows from other groups of assets. A CGU may also include certain aggregated exploration and evaluation assets. If any indication of impairment exists, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is written down to its recoverable amount with the impairment loss recognized in the Statement of Income and Comprehensive Income.

A previously recognized impairment loss is reversed if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount when the impairment loss was initially recognized. However, the amount of the impairment loss reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been recognized, net of depletion, depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Any reversal of previously recognized impairment losses is recognized in the Statement of Income and Comprehensive Income.

h) Intangible assets

Intangible assets consist of computer software and are carried at cost, less accumulated amortization and impairment losses. Intangible assets are depreciated on a straight-line basis over the estimated useful life of ten years.

i) Share-based compensation

The Company records share-based compensation expense for stock options granted to directors, officers, employees and consultants using the fair value method. The fair value of each vesting installment of the stock options granted is determined using the Black-Scholes option pricing model. Share-based compensation expense is calculated over the vesting period based on the number of stock options expected to vest. Forfeiture estimates are based on historical information and reviewed at each reporting date, with any impact recognized immediately in the Statement of Income and Comprehensive Income. Share-based compensation expense is recorded in the Statement of Income and Comprehensive Income with a corresponding increase to contributed surplus. When stock options are exercised the consideration received and the amount previously recognized in contributed surplus are recorded as an increase to capital stock.

The fair value of deferred share units granted to directors are calculated based on the weighted average share price of the Company's common shares over the five previous trading days. At each reporting period, the deferred share units outstanding are measured at the Company's share price at that date. The fair value of the deferred share units granted and any changes in their fair value during the period are recognized in share-based compensation expense on the Statement of Income and Comprehensive Income with a corresponding amount recorded in deferred share units liability on the Statement of Financial Position.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued)

j) **Deferred taxes**

Deferred income tax assets are recognized to the extent future recovery is probable using the liability method of accounting. Deferred income tax is recognized for the temporary differences between the tax basis and carrying value of assets and liabilities. Deferred income tax is measured using the enacted or substantively enacted tax rates expected to be in effect when the deferred income tax assets are estimated to be realized or the deferred income tax liabilities are estimated to be settled. The effect of a change in income tax rates that are substantively enacted is recognized in the Statement of Income and Comprehensive Income in the period the change occurs.

k) **Earnings per share**

Earnings per share amounts are calculated based on the weighted-average number of common shares outstanding during the year. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if the stock options were exercised, using the treasury stock method. This method assumes that the proceeds received upon exercise of all outstanding stock options, with an exercise price below the average market price, would be used to repurchase the Company's common shares at the average market price for the period.

l) **Foreign currency translation**

Foreign currency transactions are translated using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at each reporting date at the exchange rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities at the Statement of Financial Position date are recognized in the Statement of Income and Comprehensive Income.

m) **Operating segment**

In measuring performance, Corridor does not distinguish or group its operations on a geographic or any other basis, and accordingly, results have been aggregated into a single reportable segment.

n) **Financial assets and liabilities**

All financial instruments, including derivatives and embedded derivatives in certain contracts, must initially be recognized in the Statement of Financial Position at fair value which is based on the following hierarchy:

- Level 1 - quoted prices in active markets;
- Level 2 - internal models using observable market information as inputs; and
- Level 3 - internal models without observable market information as inputs.

Subsequent measurement of the financial instruments is based on their classification. Non-financial derivatives must be recorded at fair value in the Statement of Financial Position unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements. The Company has classified each financial instrument into the following categories:

i) Financial assets at amortized cost

Financial assets at amortized costs include accounts receivables. They are financial assets held to collect contractual cash flows that represent payments of principal and interest only. The carrying values of accounts receivable approximate their fair values because of their short term to maturity.

The Company measures expected credit losses using a lifetime expected loss allowance for accounts receivables with expected lifetime losses recognized from initial recognition of accounts receivables. Each period, Corridor assesses the expected credit losses on a forward-looking basis.

ii) Financial liabilities at amortized cost

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

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued)

iii) Fair value through profit or loss

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

The Company's deferred share units liability is classified as fair value through profit or loss and is recognized at fair value based on quoted market prices at each reporting date. The fair value of the DSUs granted and changes in their fair value are recognized as share-based compensation expense on the Statement of Income and Comprehensive Income.

o) Provisions

i) Decommissioning provision

A decommissioning liability is recognized for the present value of the future cost of abandoning oil and gas wells and related production facilities and is calculated based on engineering estimates. A decommissioning liability is recognized only when a legal or constructive obligation exists. The liability is measured at each reporting date at the fair value of the estimated expenditures expected to settle the obligation using a current risk-free interest rate. An equivalent amount is capitalized as part of exploration and evaluation assets or property, plant and equipment and depleted along with the related asset.

Changes in the estimated timing of settlement or future cash flows are dealt with prospectively by recording an adjustment to the decommissioning liability and a corresponding adjustment to the related asset. The unwinding of the discount on the decommissioning liability is included as a finance cost in the Statement of Income and Comprehensive Income. Actual expenditures are charged against the liability as incurred.

ii) General

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the obligation can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value where the effect is material.

p) Future accounting standards and amendments not yet adopted

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which replaces IAS 17 "Leases". IFRS 16 requires the recognition of a right-of-use asset and lease liability on the Statement of Financial Position for most leases. For lessees, IFRS 16 removes the classification of leases as either operating or finance, effectively treating all leases as finance leases.

The standard will come into effect for years beginning on or after January 1, 2019 and may be applied retrospectively or using a modified retrospective approach. The Company has elected to use 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.

On initial adoption, management has elected to use the following practical expedients permitted under the standard:

- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases, and
- Account for lease payments as an expense and not a right-of-use asset for short-term leases and leases of low value assets.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

3. Significant accounting policies (continued)

IFRS 16 is expected to increase the Company's total assets and liabilities and change the Company's opening retained earnings. In addition, future net income will be impacted as the finance charges and depreciation charges associated with the recognition of lease contracts as right-of-use assets are not expected to correspond in any one period to the lease payments under these contracts.

Management has identified right-of-use assets related to office space, vehicles and surface land rights. The impact of the adoption of IFRS 16 on net income has not yet been determined but the Company expects the following changes:

- Lower production expenses and general and administrative expenses;
- Higher finance expenses due to the interest recognized on the lease obligations; and
- Higher depreciation expenses related to the right-of-use assets.

4. Critical judgments and accounting estimates

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are evaluated at each reporting date and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from the estimated amounts as future confirming events occur and more information is obtained by management. The Company has identified the following areas requiring significant judgments, assumptions or estimates.

Recoverability of asset carrying values

At each reporting date, the Company assesses its property, plant and equipment, oil and gas properties and exploration and evaluation assets to determine if there is any indication that the carrying amount of the assets may not be recoverable. An assessment is also made at each reporting date to determine whether there is any indication that previously recognized impairment losses no longer exist or have decreased. Determination as to whether and how much an asset is impaired, or no longer impaired, involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles, operating costs, future capital costs and reserves. Changes in circumstances may impact these estimates which may impact the recoverable amount of assets. Any change in the impairment loss or reversal of impairment loss could have a material financial impact in future periods but future depletion expense would be impacted as a result.

Natural gas and oil reserves

All of Corridor's reserves are evaluated and reported on by independent reserves engineers. Reserves estimates have a material impact on the depletion expense, impairment test calculation and decommissioning liability, all of which could have a material impact on financial results. The estimation of economically recoverable natural gas and oil reserves is based on a number of variable factors and assumptions, such as future production, ultimate reserve recovery, commodity prices, royalty rates, future costs and the timing and amount of capital expenditures, and the ability to undertake such expenditures in the future given the hydraulic fracturing moratorium in effect in New Brunswick. All of these assumptions may vary from actual results or may change significantly when new information becomes available.

Decommissioning liability

The decommissioning costs which will ultimately be incurred by the Company are uncertain and estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing can also change in response to changes in reserves or changes in laws and regulations. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

4. Critical judgments and accounting estimates (continued)

Income taxes

The recognition of deferred income tax assets is based on the probability that future taxable profits will be sufficient to utilize the underlying taxable amounts. Changes in the estimated future taxable profits could materially impact the Company's deferred income tax assets.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5. Sales

Sales consist of the following:

(thousands of dollars)

	2018	2017
Natural gas sales	\$ 16,360	\$ 7,292
Gathering, processing and transportation fees	507	335
Natural gas liquids sales	77	47
	\$ 16,944	\$ 7,674

6. Expenses by nature

Production expenses by nature consist of the following:

(thousands of dollars)

	2018	2017
Wages and benefits	\$ 681	\$ 608
Utilities expense	687	539
Repairs and maintenance	284	344
Property taxes and insurance	436	422
Office expenses	111	107
Workover activities and field maintenance	224	178
Other production expenses	653	543
	3,076	2,741
Third party recoveries	(337)	(222)
	\$ 2,739	\$ 2,519

General and administrative expenses by nature consist of the following:

(thousands of dollars)

	2018	2017
Wages and benefits	\$ 1,027	\$ 974
Directors fees	215	228
Consultants	475	687
Legal and accounting	431	563
Office expenses	136	137
Software maintenance and licensing	113	125
Other general and administrative expenses	343	315
	2,740	3,029
Third party recoveries & capitalized overhead	(135)	(106)
	\$ 2,605	\$ 2,923

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

7. Gain on disposition of assets

In 2017, Corridor and the Québec Government entered into a settlement agreement which facilitated an end to Corridor's participation in oil and gas exploration on Anticosti Island, Québec. Corridor held a 21.67% interest in Anticosti Hydrocarbons L.P., a joint venture with undeveloped lands on Anticosti Island. Under the settlement agreement, Corridor received compensation of \$19,548 thousand. As a result, Corridor recognized a net gain on disposition of \$5,589 thousand for the year ended December 31, 2017.

8. Interest and other

Interest and other consist of the following:

(thousands of dollars)

	2018	2017
Foreign exchange gains (losses)	\$ 635	\$ (443)
Interest and finance costs	(268)	(292)
Interest and other income	889	382
	\$ 1,256	\$ (353)

9. 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 (loss) before income taxes as follows:

(thousands of dollars)

	2018	2017
Income (loss) before income taxes	\$ (1,923)	\$ 15,309
Blended Canadian statutory income tax rate	29.3%	29.3%
Expected income tax expense (recovery)	\$ (563)	\$ 4,486
Increase (decrease) resulting from:		
Deferred income tax expense not recognized	-	(2,216)
Non-deductible (non-taxable):		
- unrealized financial derivatives losses (gains)	(735)	369
- share-based compensation	103	70
- gain on sale of exploration assets	-	(2,756)
Write-up of deferred income tax assets	(402)	(2,430)
Originating temporary differences recorded at the future income tax rates expected to be in effect when realized	(12)	47
	\$ (1,609)	\$ (2,430)

At December 31, 2018, the Company has \$101 million of deductible temporary differences for which no deferred tax asset is recognized as management has determined it is not probable that there will be sufficient taxable profits from operations and sufficient reversal of taxable temporary differences to facilitate the utilization of the underlying tax-deductible amounts.

In addition, the Company has \$1,705 thousand of unrecognized investment tax credits which will expire between 2028 and 2035.

10. Income (loss) per share

For the year ended December 31, 2018, stock options of 900 thousand (December 31, 2017 – 2,233 thousand) were excluded from the dilution calculation since the average market price for the year was lower than the exercise price.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

11. Receivables

Receivables consist of the following:

(thousands of dollars)

	December 31 2018	December 31 2017
Trade receivables	\$ 3,534	\$ 3,593
Receivables from joint venture partners	398	235
Sales and capital taxes payable	(25)	(29)
Interest receivable	290	128
	\$ 4,197	\$ 3,927

Receivables generally have a 30-day term and have mostly all been received subsequent to the year end. The carrying value approximates the fair value because of the short term to maturity. 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.

12. Inventory held for sale

(thousands of dollars)

	2018	2017
Balance, beginning of year	\$ 154	\$ 339
Transfer to property, plant and equipment <i>(note 14)</i>	(138)	(20)
Write-downs	-	(102)
Sales	-	(63)
Balance, end of year	\$ 16	\$ 154

During the year, the Company reclassified \$138 thousand (December 31, 2017 - \$20 thousand) of inventory from current assets to property, plant and equipment as the Company is no longer actively pursuing the sale of this inventory. For the year ended December 31, 2017, the Company wrote-down its inventory held for sale by \$102 thousand to reflect a decrease in the net realizable value.

13. Exploration and evaluation assets

(thousands of dollars)

	2018	2017
Balance, beginning of year	\$ 11,570	\$ 8,813
Additions	1,248	2,928
Impairment losses	(11,408)	-
Loss on disposition of assets	-	(32)
Changes in future abandonment costs	2,041	(139)
Balance, end of year	\$ 3,451	\$ 11,570

During the year, the Company announced its decision to suspend any further capital spending on the Old Harry prospect and, as a result, impairment losses of \$11,408 thousand were recognized for the year ended December 31, 2018.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

14. Property, plant and equipment

(thousands of dollars)

	Oil and gas properties	Production facilities	Inventory	Office and other assets	Total
Cost					
Balance at December 31, 2016	\$ 242,972	\$ 77,342	\$ 998	\$ 2,889	\$ 324,201
Additions	-	96	-	5	101
Sale of assets	-	-	-	(227)	(227)
Transfer from current assets (note 12)	-	-	57	-	57
Changes in future abandonment costs	(1,260)	-	-	-	(1,260)
Balance at December 31, 2017	\$ 241,712	\$ 77,438	\$ 1,055	\$ 2,667	\$ 322,872
Additions	587	225	96	98	1,006
Transfer from (to) current assets (note 12)	8	67	380	(67)	388
Sale of assets	-	-	-	(3)	(3)
Changes in future abandonment costs	2,018	-	-	-	2,018
Balance at December 31, 2018	\$ 244,325	\$ 77,730	\$ 1,531	\$ 2,695	\$ 326,281
Accumulated depletion and depreciation					
Balance at December 31, 2016	\$ 206,560	\$ 64,299	\$ 527	\$ 1,934	\$ 273,320
Depletion or depreciation expense	1,856	632	-	113	2,601
Impairment reversal	(8,600)	(3,400)	-	-	(12,000)
Write-down of inventory	-	-	146	-	146
Transfer from current assets (note 12)	-	-	37	-	37
Sale of assets	-	-	-	(149)	(149)
Balance at December 31, 2017	\$ 199,816	\$ 61,531	\$ 710	\$ 1,898	\$ 263,955
Depletion or depreciation expense	3,485	1,233	-	105	4,823
Transfer from (to) current assets (note 12)	-	12	250	(12)	250
Impairment reversal	(380)	(150)	-	-	(530)
Write-down of inventory	-	-	52	-	52
Sale of assets	-	-	-	(2)	(2)
Balance at December 31, 2018	\$ 202,921	\$ 62,626	\$ 1,012	\$ 1,989	\$ 268,548
Net book value at December 31, 2017	\$ 41,896	\$ 15,907	\$ 345	\$ 769	\$ 58,917
Net book value at December 31, 2018	\$ 41,404	\$ 15,104	\$ 519	\$ 706	\$ 57,733

The calculation of depletion includes estimated future development costs relating to the development of proved reserves of \$2,652 thousand for the year ended December 31, 2018 (December 31, 2017 - \$3,171 thousand).

For the year ended December 31, 2018, the Company reversed previously recognized impairment losses relating to the Company's New Brunswick cash generating unit ("CGU"). The New Brunswick CGU includes the McCully Field, a natural gas producing asset, and exploration and evaluation natural gas assets. The reversal of impairment losses of \$530 thousand for the year ended December 31, 2018 (December 31, 2017- \$12,000 thousand) were allocated to oil and gas properties and production facilities.

The reversal of impairment losses for the year ended December 31, 2018 resulted from an increase in natural gas reserves and was based on the difference between the carrying value of the New Brunswick CGU and its recoverable amount of \$48.8 million. The recoverable amount was determined using fair value less costs to sell based on after-tax future net cash flows of proved plus probable reserves, using forecast prices and costs and a discount rate of 10 percent. The key values used to determine the recoverable amount are classified as level 2 and level 3 in the fair value hierarchy classifications (as disclosed in note 3n).

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

14. Property, plant and equipment (continued)

For the year ended December 31, 2018, the Company utilized the following forecast prices in the fair value calculation:

	2019	2020	2021	2022	2023	2024-2028	Thereafter
Algonquin city-gates (\$US/mmmbtu)	\$ 4.40	\$ 4.55	\$ 4.55	\$ 4.50	\$ 4.63	\$ 4.70-\$ 5.00	+2%/year
McCully (\$CDN/mscf)	\$ 6.14	\$ 5.87	\$ 5.72	\$ 5.51	\$ 5.61	\$ 7.55-\$ 8.24	+2%/year
Exchange rate (\$US/\$CDN)	\$ 0.75	\$ 0.77	\$ 0.79	\$ 0.81	\$ 0.82	\$ 0.825	\$ 0.825

The forecast McCully natural gas prices were calculated by adjusting the Algonquin city-gates natural gas prices to reflect the expected premiums received at Corridor's delivery point, transportation costs, if applicable, and heat content. The fair value calculation was based on the following proved plus probable natural gas reserves, as evaluated by GLJ Petroleum Consultants Ltd., the Company's independent reserves engineers:

	2018	2017
Proved plus probable natural gas reserves (bscf)	22.2	22.5

The following table demonstrates the impact of a 1% change in the discount rate on the calculation of the reversal of impairment losses for the year ended December 31, 2018:

(thousands of dollars)

	2018	
	1% rate increase	1% rate decrease
Increase (decrease) in reversal of impairment losses	\$ (2,335)	\$ 2,561

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

(thousands of dollars)

	December 31 2018	December 31 2017
Trade payables	\$ 1,731	\$ 2,062
Accrued liabilities	459	384
	\$ 2,190	\$ 2,446

Payables are non-interest bearing and are normally settled on a 30 to 60 day term. The carrying value approximates the fair value because of the short term to maturity.

16. Decommissioning liability

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

(thousands of dollars)

	2018	2017
Balance, beginning of year	\$ 8,529	\$ 9,636
Change in discount rate	519	(1,391)
Change in estimate	3,540	(8)
Liabilities settled	(1,755)	-
Finance costs	267	292
Balance, end of year	\$ 11,100	\$ 8,529

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

16. Decommissioning liability (continued)

The total undiscounted amount of estimated cash flows required to settle these obligations is \$17,481 thousand (December 31, 2017 - \$14,661 thousand). Management estimates the settlement of these obligations between 2019 and 2040. At December 31, 2018, a risk-free rate of 2.22% (December 31, 2017 – 2.55%) and an inflation rate of 2% (December 31, 2017 – 2%) were used to calculate the estimated fair value of the decommissioning liability.

17. Capital stock

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

b) **Issued and outstanding**

(thousands of dollars and thousands of shares)

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	88,655	\$ 247,704	88,622	\$ 247,685
Exercise of stock options for cash and amount recognized from contributed surplus	244	102	33	13
	-	49	-	6
Balance, end of year	88,899	\$ 247,855	88,655	\$ 247,704

18. 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:

	2018		2017	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Options outstanding, beginning of year	3,265	\$ 0.79	3,775	\$ 1.12
Granted	1,783	0.70	508	\$ 0.52
Forfeited, cancelled or expired	(1,333)	0.75	(985)	\$ 1.86
Exercised ⁽¹⁾	(244)	0.42	(33)	\$ 0.40
Options outstanding, end of year	3,471	\$ 0.79	3,265	\$ 0.79
Options exercisable, end of year	1,769	\$ 0.89	2,745	\$ 0.85

(1) The Company's weighted average share price, at the date of exercise, for stock options exercised during the year ended December 31, 2018 was \$0.79 per common share (year ended December 31, 2017 - \$0.52 per common share).

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

18. Share-based compensation (continued)

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

	2018	2017
Weighted average fair value of options granted	\$ 0.37	\$ 0.26
Risk-free interest rate	2.0%	0.9%
Expected life (years)	4.0	3.7
Expected volatility	68%	69%

The range of exercise prices of stock options outstanding and exercisable as at December 31, 2018 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	2,571	3.7	\$ 0.63	869	\$ 0.53
\$ 1.00 - \$ 1.99	900	0.9	\$ 1.24	900	\$ 1.24
	3,471	2.9	\$ 0.79	1,769	\$ 0.89

For the year ended December 31, 2018, the Company recorded stock-based compensation expense with an offsetting increase to contributed surplus of \$171 thousand relating to the stock option plan (December 31, 2017 - \$185 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.

The following table summarizes the changes in the outstanding DSUs:

(thousands of dollars and thousands of DSUs)

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of DSUs	Amount	Number of DSUs	Amount
DSUs, beginning of year	216	\$ 132	137	\$ 77
DSUs granted during the year	172	114	79	40
Fair value adjustment during the year	-	65	-	15
DSUs, end of year	388	\$ 311	216	\$ 132

The DSU liability as of December 31, 2018 of \$311 thousand is based on a fair value of \$0.80 which is the Company's closing share price at December 31, 2018.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

19. Supplemental cash flow information

(thousands of dollars)

	2018	2017
Change in non-cash operating working capital:		
Receivables	\$ (239)	\$ (1,285)
Prepays and security deposits	(80)	(13)
Accounts payable and accrued liabilities	202	(66)
	\$ (117)	\$ (1,364)
Change in non-cash investing working capital:		
Receivables	\$ (31)	\$ (473)
Accounts payable and accrued liabilities	(458)	1,664
	\$ (489)	\$ 1,191
Interest received	\$ 727	\$ 352

20. Risk management

a) The Company is exposed to the following risks:

i) Commodity price risk

Corridor enters into financial derivative contracts and physical delivery contracts to manage the risks associated with fluctuations in natural gas prices and does not use derivative financial instruments for speculative purposes.

Financial derivatives

The Company has the following outstanding financial derivative contracts at December 31, 2018:

Type	Period	Daily Volume	Price	Index
Swap	January 1, 2019 to March 31, 2019	2,500 mmbtu	\$US7.90/mmbtu	Algonquin city-gates-daily
Swap	January 1, 2019 to March 31, 2019	2,500 mmbtu	\$US7.28/mmbtu	Algonquin city-gates-daily
Swap	January 1 - 31, 2019	2,500 mmbtu	\$US12.72/mmbtu	Algonquin city-gates-daily
Swap	February 1 - 28, 2019	2,500 mmbtu	\$US12.50/mmbtu	Algonquin city-gates-daily
Swap	December 1, 2019 to March 31, 2020	2,500 mmbtu	\$US9.00/mmbtu	Algonquin city-gates-daily

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

The financial derivative contracts are marked-to-market at the end of each reporting period with the following financial derivatives losses (gains) reflected in the Statement of Income and Comprehensive Income:

(thousands of dollars)

	2018	2017
Change in unrealized financial derivatives losses (gains)	\$ (2,508)	\$ 1,259
Realized financial derivatives losses (gains)	530	(1,101)
Financial derivatives losses (gains)	\$ (1,978)	\$ 158

When assessing the potential impact of natural gas price changes on the fair value of the financial derivative contracts outstanding as at December 31, 2018 of \$996 thousand, a 10% increase in forecast natural gas prices would decrease the change in unrealized financial derivatives gains by \$990 thousand, while a 10% decrease in forecast natural gas prices would increase the change in unrealized financial derivatives gains by \$990 thousand.

Physical delivery contracts

The Company has no forward sale agreements in place as at December 31, 2018.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

20. Risk management (continued)

ii) Foreign currency risk

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. Natural gas prices, condensate prices and transportation expenses are based upon reference prices denominated in U.S. dollars, while the Company's remaining expenses are denominated in Canadian dollars. The Company does not have any derivative financial instruments in place to manage this risk.

The Company had the following financial instruments denominated in U.S. dollars at the Statement of Financial Position dates.

(thousands of U.S. dollars)

	December 31, 2018	December 31, 2017
Cash	\$ 1,134	\$ 4,800
Receivables	3,320	2,772
Payables	-	(2,528)
Financial instruments in U.S. dollars	\$ 4,454	\$ 5,044

At December 31, 2018, a 5% decrease in the U.S. dollar relative to the Canadian dollar would have resulted in an increase of approximately \$300 thousand in the Company's net loss (December 31, 2017 – \$315 thousand decrease in net income) due to a decrease in the financial instruments denominated in U.S. dollars. Conversely, a 5% increase in the U.S. dollar relative to the Canadian dollar would have resulted in a decrease of approximately \$300 thousand in the Company's net loss (December 31, 2017 – \$315 thousand increase in net income).

iii) 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. At December 31, 2018, 100% of the Company's accounts receivables were outstanding for less than 30 days. The average expected credit loss on the Company's accounts receivable was 0% as at December 31, 2018.

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.

iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At December 31, 2018, the Company was holding cash and cash equivalents of \$53,652 thousand.

The Company's financial liabilities are all due within one year. Given the Company's available liquid resources and the Company's 2019 budget, management expects to have sufficient available funds to meet the current and foreseeable financial liabilities.

b) Management of capital

Management's objective when managing capital is 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 as well as 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.

To maximize ongoing development and exploration activities, the Company will not pay out dividends during the year.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

21. Related party transactions

Remuneration of Directors and Senior Management

(thousands of dollars)

	2018	2017
Wages and benefits	\$ 888	\$ 875
Directors' compensation	393	283
Share-based compensation	108	142
	\$ 1,389	\$ 1,300

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes Corridor's President, Chief Financial Officer, Reservoir Engineer, and Production Operations Manager. Wages and benefits include salary, bonuses and benefits during the year. Share-based compensation and directors' compensation includes expenses relating to Corridor's stock option plan and DSU plan as disclosed in note 18.

22. Commitments

a) Gas sales

The Company has a long-term agreement to sell, at market rates, all of its natural gas produced from the McCully Field and surrounding areas in southern New Brunswick to Repsol Energy Canada for resale to natural gas markets in Maritimes Canada and the Northeast United States.

b) Letters of credit

At December 31, 2018, the Company had the following irrevocable standby letters of credit issued by a Canadian chartered bank:

(thousands of dollars)

	Amount
Letter of credit expiring June 27, 2019	\$ 350
Letters of credit expiring June 3, 2019	300
Letter of credit expiring July 15, 2020	380
	\$ 1,030

The Company has pledged \$1,030 thousand of short-term investments as security. These investments are recorded as restricted cash in current assets or non-current assets based on their expiry date.

c) Operating leases

The Company has operating lease agreements for office space, land and other equipment. For the year ended December 31, 2018, the rent expense under these leases was \$229 thousand (December 31, 2017 - \$259 thousand).

The future minimum annual lease payments under the operating leases are as follows:

(thousands of dollars)

	Amount
2019	\$ 253
2020	219
2021	238
2022	105
2023	105
Thereafter	291
	\$ 1,211

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

22. Commitments (continued)

d) Commitments

The maturities of the Company's commitments as of December 31, 2018 are as follows:

<i>(thousands of dollars)</i>	Total	2019	2020	2021	2022	Thereafter
Operating leases	\$ 1,211	\$ 253	\$ 219	\$ 238	\$ 105	\$ 396
Decommissioning liabilities	17,481	193	-	-	-	17,288
	\$ 18,692	\$ 446	\$ 219	\$ 238	\$ 105	\$ 17,684

23. Contingencies

The Company was served with a statement of claim by Geophysical Services Incorporated ("GSI") on August 23, 2013 and with an amended statement of claim on September 22, 2017, both relating to the access and disclosure of confidential seismic information. GSI is seeking total damages of approximately \$3.4 million. On February 16, 2018, the Company filed an application for Summary Dismissal. The Company has not recorded any liability as management believes a successful claim is not probable.

24. Subsequent event

Subsequent to the year end, the Company entered into a financial hedge for 2,500 mmbtupd at a fixed price of \$US3.45/mmbtu for April 2019.

Subsequent to the year end, the Company entered into a forward sale agreement for the firm delivery of 5,000 mmbutpd of natural gas production in April 2019.