



September 16, 2009

Recommendation: SPECULATIVE BUY
Revised 12-Month Target: C\$4.15
 Previous 12-Month Target: C\$3.00
Risk Rating: ABOVE AVERAGE

CORRIDOR RESOURCES INC.
(TSX-CDH C\$3.30)

PROPANE FRAC'S SUCCEED BEYOND EXPECTATIONS AND ALTER DEVELOPMENT ECONOMICS

- **The L-38 and P-47 wells are expected to have initial production rates between 9 and 13 MMcf/d.** Corridor has a 100% working interest in both wells. The actual test rates were 2.5 and 2.6 MMcf/d, respectively, but the wells were constrained by the heat content restrictions of the facilities and the MN&E pipeline. These results are beyond our most optimistic projections. (page 2)
- **Corridor may restrict production in the short-term, due to low gas prices.** The Company is considering choking back these new wells until prices improve (likely in the heating season, starting in December). The collateral benefit to this is that it delays the onset of production declines. (page 2)
- **Higher productivity alters development economics.** Even without any incremental recovery of gas, the present value of the reserves rises by 46%, merely by the acceleration benefits (i.e. the same reserves are produced more quickly). We also estimate that the threshold gas price required for further development drilling has dropped to US\$4.00/MMBtu from US\$5.00. (page 3)
- **We have incorporated only approximately half of this apparent increase in setting our new target.** L-38 and P-47 are in the shallower, younger sands in the northeast portion of the McCully field, which may be of better quality than the areas drilled to date. Accordingly, we are assuming that future wells will have initial production rates of 5 MMcf/d and that the NPV (after-tax, 10%) increases only 25%, until more wells are available. If next year's drilling and completion program yields comparable results to this year, further potential is available. (page 4)

We are maintaining our **SPECULATIVE BUY** recommendation and **increasing our 12-month target price to C\$4.15 per share.**

Please see important disclosures on pages 8 and 9.

Sector: OIL & GAS
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Company Statistics	
Market Cap	\$289.2 MM
Basic Shares O/S	87.6 MM
Fully Diluted Shares O/S	89.3 MM
52-Week Range	\$1.29 - \$4.98
Major Shareholders	Sprott Asset Management Inc. 19.8% Trapeze Asset Management Inc. & Trapeze Capital Corp. 17.8%
Cash (09/30/09 Est.)	\$11.7 MM
Cash Value per share	\$0.13 /sh
Debt (09/30/09 Est.)	\$0.0 MM
Working Capital (09/30/09 Est.)	\$12.7 MM

Earnings Summary				
FYE: December	2008A	2009F	exit 2009F	2010F
Production (MMcf/d)	18.5	17.8	23.1	22.1
Henry Hub (US\$/MMBtu)	\$8.85	\$4.19	\$4.25	\$5.25
EPS (FD)	\$0.26	\$0.04	(\$0.04)	\$0.01
CFPS (FD)	\$0.65	\$0.34	\$0.34	\$0.41
DACF (FD)	\$0.65	\$0.34	\$0.34	\$0.41
Debt (avg for period)	\$4.2	\$0.0	\$0.0	\$0.0
P/E	12.8x	79.1x	nm	226.9x
P/CF	5.1x	9.7x	9.6x	8.1x
DACFM	5.2	9.1x	3.3x	7.7x

Trading Parameters				
EV/BOE/d		\$92,498	\$71,466	\$74,931
EV/BOE (2P, estimated at exit 2008)			(\$/BOE)	\$11.57
Price/NAV				82%
Price/ExNAV				20%
Implied Value of Potential Resources *				
	Unrisked		(\$/BOE)	(\$0.08)
	Risked		(\$/BOE)	(\$0.57)

* = (EV-2P PV10-Land Value)/Potential Resources



Corridor Resources Inc. is a junior energy company with operations in Atlantic Canada. The Company has 2P reserves of 146 Bcf in the McCully Field in New Brunswick. The Company also has multi-Tcf potential in the deeper Frederick Brook and Dawson Settlement formations.

Events Calendar

October/November	New wells on production
October/November	Periodic disclosure on results of workover/scale removal program.
TBD	Announcement of farm-out agreement on the Frederick Brook shale.

Propane Frac's Show Excellent Results in McCully

On September 9, Corridor released the results of the propane based frac's recently performed on the McCully L-38 and P-47 wells. Corridor has 100% WI in both wells. In short, the results are excellent, and far better than our prior expectations.

Propane Frac's Test Results Summary

Zone(s)		L-38	P-47
Flowing Period	(hr)	Upper E 79	E & G 46
Final Test Rate	(MMcf/d)	2.5	2.6
FWHP *	(psi)	3,536	2,702
Estimated Initial Production at Gathering System Pressure (~ 500 psi)	(MMcf/d)	12 - 13	9 - 10

Although some of the improvement may be due to better quality reservoir rock, the propane frac's appear to have succeeded far more than we expected.

* Flowing Wellhead Pressure

Both wells were choked back during the test, to prevent the propane used in the frac's from increasing the overall heating value of the McCully gas beyond facility and pipeline specifications. This better productivity is attributed to both the propane frac' technology and the fact that the L-38 and P-47 wells are completed in the E and G sand packages, which are younger and shallower sands (and therefore better quality) than have been previously completed. A second interval in the lower E sand of L-38 tested only 0.4 MMcf/d at 20 psi, despite being frac'd twice.

Both wells are currently shut in for pressure build-ups. Once they are tied in and returned to production, the heating value constraints will continue until substantially all the propane from the frac's is recovered. P-47 and L-38 have approximately 14% and 11% of the propane left, respectively.

Corridor stated that it may consider choking back these wells in the short-term, due to low gas prices. We believe this is prudent, since it seems likely that North American gas storage will reach capacity in October, and spot prices will come under severe pressure absent any unusual weather conditions. The Company has no debt and no immediate capital expenditures. The corollary to this is that production from these wells will remain constant for some period of time (perhaps a year or more), before declines set in.

Higher Productivity Alters Development Economics

We believe these results will have a material positive effect on the value of the undeveloped and probable reserves in McCully. In particular, there are two effects:

- Acceleration of recovery: the higher IP rate allows more of the reserves to be produced sooner, resulting in a higher present value even if there is no incremental recovery.
- Potential increase in recovery: the well ultimately drains a larger radius, as the reservoir energy (pressure) is not expended fighting its way through near wellbore formation damage.

Of the two, we place more importance on the acceleration effect. Increased recoveries will only be verified with the pressure build-up analysis plus some longer-term production data. We do not expect an increase in reserves per well proportionate to the increase in production. There may be some incremental recovery, but since we cannot yet quantify it, we have limited our analysis to the value of the acceleration.

Even if L-38 and P-47 do not recover any incremental reserves, the accelerated production increases the PV10 value by 46%.

The table below shows the acceleration effect on a generic well in the McCully Hiram Brook. We increased the initial production rate to 10 MMcf/d, and then increased the decline rate to keep the recoverable reserves constant. That new production profile was then plugged into our economic model to determine the present value of the reserves.

Incremental Acceleration Economics – Propane vs. Conventional Frac's

		Frac' Type	
		Conventional	Propane
IP Rate	(MMcf/d)	2.5	10.0
Recoverable Reserves	(Bcf)	4.1	4.1
AT PV10 ⁽ⁱ⁾	(MM\$)	\$5.6	\$8.2
Value Increase	(%)		+46%

(i) Based on January 1, 2010 start date and current JCI production forecast

Until there are more wells completed with this new technique, we have elected to use an average initial production rate of 5 MMcf/d per well, and a 25% (economic) improvement for the undeveloped and probable reserves, relative to the Company's last reserve report. This is lower than the L-38 and P-47 results would imply and reflects the uncertainty regarding how much of the increase may be due to better reservoir quality vs. the propane frac's.

We expect that this value will be incorporated in this year's reserve update, although full recognition may be phased in over more than one year, to allow observation of at least one full year of production from the new wells.

Assuming these increases are typical of what can be expected from future wells, we estimate that the threshold gas price required for further development drilling should drop to ~US\$4.00 (Henry Hub), from our prior estimate of US\$5.00/Mcf.

Valuation

We are maintaining our **SPECULATIVE BUY** recommendation and **increasing our 12-month target price to \$4.15 per share.**

Corridor Resources 12-Month Target Summary

	Parameter	Multiple	Value	Weight	Weighted Value
	(\$/sh)		(\$/sh)		(\$/sh)
2010 DACF	\$0.41	7.0	\$2.64	33.33%	\$0.88
2010 exit DACF	\$0.83	6.5	\$5.57	33.33%	\$1.86
12 Month NAV	\$4.18	1.0	\$4.18	33.33%	<u>\$1.39</u>
					\$4.13

The major changes from our last update include the following:

We have assumed that only half of the success on L-38 and P-47 is repeated on future wells, until more results are available.

- We have increased our gas production forecasts for 2010, on the assumption that Corridor will drill, complete and tie-in five new Hiram Brook wells next year, as well as complete and tie-in the currently standing C-29 well. We believe this budget allows the Company to limit its total capital expenditures to remain within its expected cash flow.
- Each new well (including C-29) is assumed to have an initial production rate of 5 MMcf/d (as per our discussion on page 3).
- We have increased the unit value of the undeveloped and probable gas reserves in McCully by 25%, to reflect the acceleration benefits of the propane frac' technology.

This evaluation does not include any value for either the Caledonia (G-36) oil pool or the Frederick Brook shale. The Company has not set its 2010 capital budget, but in our discussions with management, they indicated the possibility of advancing one or both of these projects next year.

Corridor Net Asset Value

	30-Sep-09		
	Value (C\$MM)	Shares (MM)	NAV/sh (C\$/sh)
Oil & Gas Assets			
Engineering Report Value ⁽¹⁾	\$346		
Adjustments ⁽²⁾	(\$57)		
Acceleration Value ⁽³⁾	\$50		
Land	\$37		
Abandonment Liabilities	(\$2)		
	<u>\$374</u>		
Financial Assets & Liabilities			
Working Capital	\$13		
Debt	\$0		
G&A	(\$31)		
	<u>(\$18)</u>		
Net Asset Value (basic)	\$355	87.63	\$4.06
Proceeds/Shares from Options	\$2	0.58	
Net Asset Value (FD)	\$357	88.21	\$4.05
Risked Exploration Prospects			
To be drilled within 12 months	\$13		
Proceeds/Shares from Options	\$2	0.61	
Risked 12-Month NAV	\$371	88.82	\$4.18
Remaining exploration prospects	\$1,380		
2 Year Timing Discount	(\$239)		
Deduct Land Value	(\$37)		
Proceeds/Shares from Options	\$9	0.44	
ExNAV (FD)	\$1,484	89.26	\$16.62

- (1) AT PV10 Value of 2P reserves at December 31, 2008.
- (2) Deduction of post reserve report production and capital expenditures, and substitution of Jennings' gas price and foreign exchange forecasts.
- (3) Undeveloped and Probable reserves values increased by 25%, due to acceleration effects of propane frac's (see page 3).

Production, Cash Flow and Earnings

		Cal 2009		2009 Exit		Cal. 2010		2010 Exit	
Production	(Mcf/d)	17,814		23,051		22,142		33,768	
	(Bbl/d)	<u>20</u>		<u>23</u>		<u>22</u>		<u>34</u>	
	(BOE/d)	2,989		3,865		3,712		5,662	
Henry Hub	(US\$/MMBtu)	\$4.19		\$4.25		\$5.25		\$6.25	
McCully Fieldgate	(C\$/MMBtu)	\$6.84		\$6.30		\$7.16		\$8.63	
			(\$/BOE)		(\$/BOE)		(\$/BOE)		(\$/BOE)
Revenue	(M\$)	\$52,818	\$48.41	\$57,183	\$40.54	\$62,166	\$45.88	\$111,891	\$54.14
Interest Income	(M\$)	<u>\$335</u>		<u>\$67</u>		<u>\$64</u>		<u>\$68</u>	
		\$53,153		\$57,250		\$62,230		\$111,959	
Royalties	(M\$)	(\$2,397)	\$2.20	(\$2,186)	\$1.55	(\$2,385)	\$1.76	(\$4,374)	\$2.12
Operating Cost	(M\$)	(\$14,943)	\$13.70	(\$19,165)	\$13.59	(\$18,392)	\$13.57	(\$28,638)	\$13.86
G&A	(M\$)	(\$5,012)	\$4.59	(\$5,016)	\$3.56	(\$5,112)	\$3.77	(\$5,116)	\$2.48
Interest	(M\$)	(\$67)		\$0		\$0		\$0	
Capital Tax	(M\$)	(\$120)		(\$120)		(\$120)		(\$120)	
DD&A	(M\$)	(\$28,025)	\$25.69	(\$35,758)	\$25.35	(\$33,719)		(\$52,383)	\$25.35
Stock Compensation	(M\$)	(\$787)		(\$660)		(\$660)		(\$660)	
Other	(M\$)	(\$141)		\$0		\$0		\$0	
		(\$51,493)		(\$62,904)		(\$60,388)		(\$91,291)	
Current Taxes	(M\$)	\$0		\$0		\$0		\$0	
Future Taxes	(M\$)	<u>\$2,065</u>		<u>\$1,668</u>		<u>(\$543)</u>		<u>(\$6,097)</u>	
	(M\$)	\$2,065		\$1,668		(\$543)		(\$6,097)	
Earnings	(M\$)	\$3,725		(\$3,986)		\$1,298		\$14,571	
	(\$/sh, FD)	\$0.04		(\$0.04)		\$0.01		\$0.16	
Field Netbacks	(M\$)	\$35,478	\$32.52	\$35,833	\$25.40	\$41,389	\$30.54	\$78,879	\$38.17
Cash Flow	(M\$)	\$30,473	\$27.93	\$30,763	\$21.81	\$36,220	\$26.73	\$73,711	\$35.67
	(\$/sh, FD)	\$0.34		\$0.34		\$0.41		\$0.83	
DACF	(M\$)	\$30,540	\$27.99	\$30,763	\$21.81	\$36,220	\$26.73	\$73,711	\$35.67
	(\$/sh, FD)	\$0.34		\$0.34		\$0.41		\$0.83	
Capital Expenditures	(M\$)	\$40,000				\$34,100 ⁽²⁾			
Debt	(M\$)	\$0		\$0		\$0		\$0	
Working Capital ⁽¹⁾		\$18,281		\$12,967		\$11,000		\$15,087	

(1) Average for period except exit values.

(2) JCI estimate for five new Hiram Brook wells to be drilled, completed and tied in, plus tie-in of C-29 well.

Sensitivity Analysis

		Henry Hub Gas (US\$/MMBtu)								
		\$1.75	\$2.25	\$2.75	3.25	\$3.75	\$4.25	\$4.75	\$5.25	\$5.75
Q3 09 Production (MMcf/d)	12.8	(\$614)	\$67	\$747	\$1,428	\$2,108	\$2,789	\$3,469	\$4,150	\$4,830
	13.3	(\$613)	\$94	\$801	\$1,508	\$2,215	\$2,922	\$3,629	\$4,336	\$5,044
	13.8	(\$613)	\$121	\$855	\$1,588	\$2,322	\$3,056	\$3,789	\$4,523	\$5,257
	14.3	(\$612)	\$148	\$908	\$1,668	\$2,429	\$3,189	\$3,949	\$4,709	\$5,470
	14.8	(\$612)	\$175	\$962	\$1,749	\$2,535	\$3,322	\$4,109	\$4,896	\$5,683

Q3 2009 Operating Cash Flow per Share

		Henry Hub Gas (US\$/MMBtu)								
		\$1.75	\$2.25	\$2.75	3.25	\$3.75	\$4.25	\$4.75	\$5.25	\$5.75
Q3 09 Production (MMcf/d)	12.8	(\$0.01)	\$0.00	\$0.01	\$0.02	\$0.02	\$0.03	\$0.04	\$0.05	\$0.05
	13.3	(\$0.01)	\$0.00	\$0.01	\$0.02	\$0.02	\$0.03	\$0.04	\$0.05	\$0.06
	13.8	(\$0.01)	\$0.00	\$0.01	\$0.02	\$0.03	\$0.03	\$0.04	\$0.05	\$0.06
	14.3	(\$0.01)	\$0.00	\$0.01	\$0.02	\$0.03	\$0.04	\$0.04	\$0.05	\$0.06
	14.8	(\$0.01)	\$0.00	\$0.01	\$0.02	\$0.03	\$0.04	\$0.05	\$0.05	\$0.06

Q4 2009 Cash Flow from Operations (\$K)

		Henry Hub Gas (US\$/MMBtu)								
		\$2.25	\$2.75	\$3.25	\$3.75	\$4.25	\$4.75	\$5.25	\$5.75	\$6.25
Q4 09 Production (MMcf/d)	21.6	\$2,486	\$3,635	\$4,785	\$5,934	\$7,083	\$8,233	\$9,382	\$10,531	\$11,681
	22.6	\$2,631	\$3,833	\$5,036	\$6,239	\$7,441	\$8,644	\$9,846	\$11,049	\$12,252
	23.6	\$2,776	\$4,032	\$5,287	\$6,543	\$7,799	\$9,055	\$10,311	\$11,567	\$12,823
	24.6	\$2,921	\$4,230	\$5,539	\$6,848	\$8,157	\$9,466	\$10,775	\$12,084	\$13,393
	25.6	\$3,065	\$4,428	\$5,790	\$7,153	\$8,515	\$9,877	\$11,240	\$12,602	\$13,964

Q4 2009 Operating Cash Flow per Share

		Henry Hub Gas (US\$/MMBtu)								
		\$2.25	\$2.75	\$3.25	\$3.75	\$4.25	\$4.75	\$5.25	\$5.75	\$6.25
Q4 09 Production (MMcf/d)	21.6	\$0.03	\$0.04	\$0.05	\$0.07	\$0.08	\$0.09	\$0.11	\$0.12	\$0.13
	22.6	\$0.03	\$0.04	\$0.06	\$0.07	\$0.08	\$0.10	\$0.11	\$0.12	\$0.14
	23.6	\$0.03	\$0.05	\$0.06	\$0.07	\$0.09	\$0.10	\$0.12	\$0.13	\$0.14
	24.6	\$0.03	\$0.05	\$0.06	\$0.08	\$0.09	\$0.11	\$0.12	\$0.14	\$0.15
	25.6	\$0.03	\$0.05	\$0.06	\$0.08	\$0.10	\$0.11	\$0.13	\$0.14	\$0.16

2010 Cash Flow from Operations (\$K)

		Henry Hub Gas (US\$/MMBtu)								
		\$3.25	\$3.75	\$4.25	\$4.75	5.25	\$5.75	\$6.25	\$6.75	\$7.25
FY 2010 Production (MMcf/d)	20.1	\$15,832	\$20,066	\$24,303	\$28,543	\$32,792	\$37,045	\$41,298	\$45,551	\$49,803
	21.1	\$16,698	\$21,143	\$25,591	\$30,043	\$34,506	\$38,970	\$43,434	\$47,898	\$52,362
	22.1	\$17,565	\$22,220	\$26,879	\$31,545	\$36,220	\$40,896	\$45,571	\$50,246	\$54,921
	23.1	\$18,431	\$23,297	\$28,167	\$33,048	\$37,934	\$42,821	\$47,707	\$52,594	\$57,480
	24.1	\$19,297	\$24,374	\$29,456	\$34,551	\$39,648	\$44,746	\$49,844	\$54,941	\$60,039

2010 Operating Cash Flow per Share

		Henry Hub Gas (US\$/MMBtu)								
		\$3.25	\$3.75	\$4.25	\$4.75	5.25	\$5.75	\$6.25	\$6.75	\$7.25
FY 2010 Production (MMcf/d)	20.1	\$0.18	\$0.22	\$0.27	\$0.32	\$0.37	\$0.42	\$0.46	\$0.51	\$0.56
	21.1	\$0.19	\$0.24	\$0.29	\$0.34	\$0.39	\$0.44	\$0.49	\$0.54	\$0.59
	22.1	\$0.20	\$0.25	\$0.30	\$0.35	\$0.41	\$0.46	\$0.51	\$0.56	\$0.62
	23.1	\$0.21	\$0.26	\$0.32	\$0.37	\$0.42	\$0.48	\$0.53	\$0.59	\$0.64
	24.1	\$0.22	\$0.27	\$0.33	\$0.39	\$0.44	\$0.50	\$0.56	\$0.62	\$0.67

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Company	Ticker
Corridor Resources Inc.	TSX-CDH

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Note: On March 28, 2006 we initiated coverage on **Corridor Resources Inc.** with a BUY recommendation and a C\$5.80 target price. Share price at that time was C\$5.00. On May 9, 2006 we introduced a risked longer-term potential target price of C\$10.50. Share price at that time was C\$5.37. On August 17, 2006 we raised our target price to C\$6.60. Share price at that time was C\$5.80. On October 12, 2006 we lowered our target price to C\$5.95. Share price at that time was C\$5.35. On January 22, 2007 we raised our target price to C\$7.15 and introduced a risk rating of ABOVE AVERAGE as a result of additions to our rating system. Share price at that time was C\$5.60. On April 4, 2007, we increased our target price to C\$9.90. Share price at that time was C\$8.70. On July 5, 2007 we raised our target price to C\$13.65, while maintaining our BUY recommendation. Share price at that time was C\$11.45. On December 18, 2007 we decreased our target price to C\$12.30. Share price at that time was C\$7.40. On April 1, 2008 we reduced our target price to C\$11.25. Share price at that time was \$6.64. On October 16, 2008 we reduced our target price to C\$9.00. Share price at that time was C\$2.15. On December 2, 2008 we reduced our target price to C\$4.25. Share price at that time was C\$2.34. On March 27, 2009 we decreased our target price to C\$3.50. Share price at that time was C\$2.05. On April 14, 2009, in our Oil and Gas Sector Valuation Update, we decreased our target price to C\$3.00. Share price at that time was C\$1.98. On September 1, 2009 we downgraded our recommendation to SPECULATIVE BUY. Share price at that time was C\$2.57.

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Speculative Buy: The stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months; however, there is material event risk associated with the investment.

Buy: The stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months.

Hold: The stock is expected to provide a total return of 0% to 10% over the current trading price over the next 12 months.

Sell: The stock is expected to provide a negative total return over the next 12 months.

Risk Ratings

Low/Average Risk — Stocks with less volatility than the market as a whole, with solid balance sheets and dependable earnings.

Above Average Risk — Stocks with more volatility than the market. Financial leverage is considerable but not threatening, earnings are more erratic, or other quality concerns regarding accounting, management track record, and similar issues.

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HOLD	6%
RESTRICTED	2%
UNDER REVIEW	0%
SELL	2%

Revised Monthly

Security Abbreviations: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares); MV (multiple voting shares).

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