

## DIRECTORS' REPORT

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Corridor Resources Inc. was incorporated in March, 1995, with the objective to explore for and develop oil and natural gas reserves, initially in Quebec, New Brunswick and Prince Edward Island. Utilizing the extensive expertise and experience of its founders and directors, the Company has selectively acquired several strategic exploration prospects on its large land holdings (over 4,000,000 acres), based on assessments of geological, reservoir, cost and market criteria.

During 1996, Corridor successfully completed seismic programs on Anticosti Island and in southern New Brunswick in preparation for partner negotiations and the drilling of several key prospects in 1997/98. The Company drilled a stratigraphic test corehole near Lac Matapedia, Gaspé Peninsula, encountering promising shows of light crude oil.

### GENERAL BUSINESS PLAN

Corridor plans to use its extensive and diversified management skills and experience to build a successful oil and gas exploration and production company in eastern Canada. An important key to the Company's success is Corridor's ability to access and manage the very best oil industry experts and specialists as needed to carry out many of the required specific tasks and functions in a cost-effective manner. These support services include expert and experienced geologists and geophysicists, geophysical contractors, reservoir engineers, drilling engineers, contract drilling services, service industry contractors and specialists, and accounting and tax experts, including financial services.

### NEW EXPLORATION CYCLE AND MARKET OPTIONS

We are now seeing the beginning of a new exploration wave that will bring many oil and gas companies to explore and develop eastern Canadian petroleum opportunities over the years ahead. There is available a tremendous bank of geological and geophysical information from previous exploration efforts in the Anticosti and Magdalen basins. Corridor has been utilizing that information base in selecting key exploration lands early in the exploration cycle.

Over the past 10 years there has been a quantum leap forward in the technology available for oil and gas exploration and development. This technology is key to finding and commercially developing major new reserves of oil and gas in the Anticosti and Magdalen basins. Additionally, Atlantic Canada is beginning to build an oil and gas service industry infrastructure to support the requirements of local explorers and producers in a cost effective manner, including onshore drilling rigs, specialty contract services and experienced personnel.

Finally, the advancement of combined-cycle and cogen power generation technologies has transformed the market options for natural gas. The advent of the Sable gas pipeline will also provide an important new marketing opportunity for onshore Maritimes natural gas.

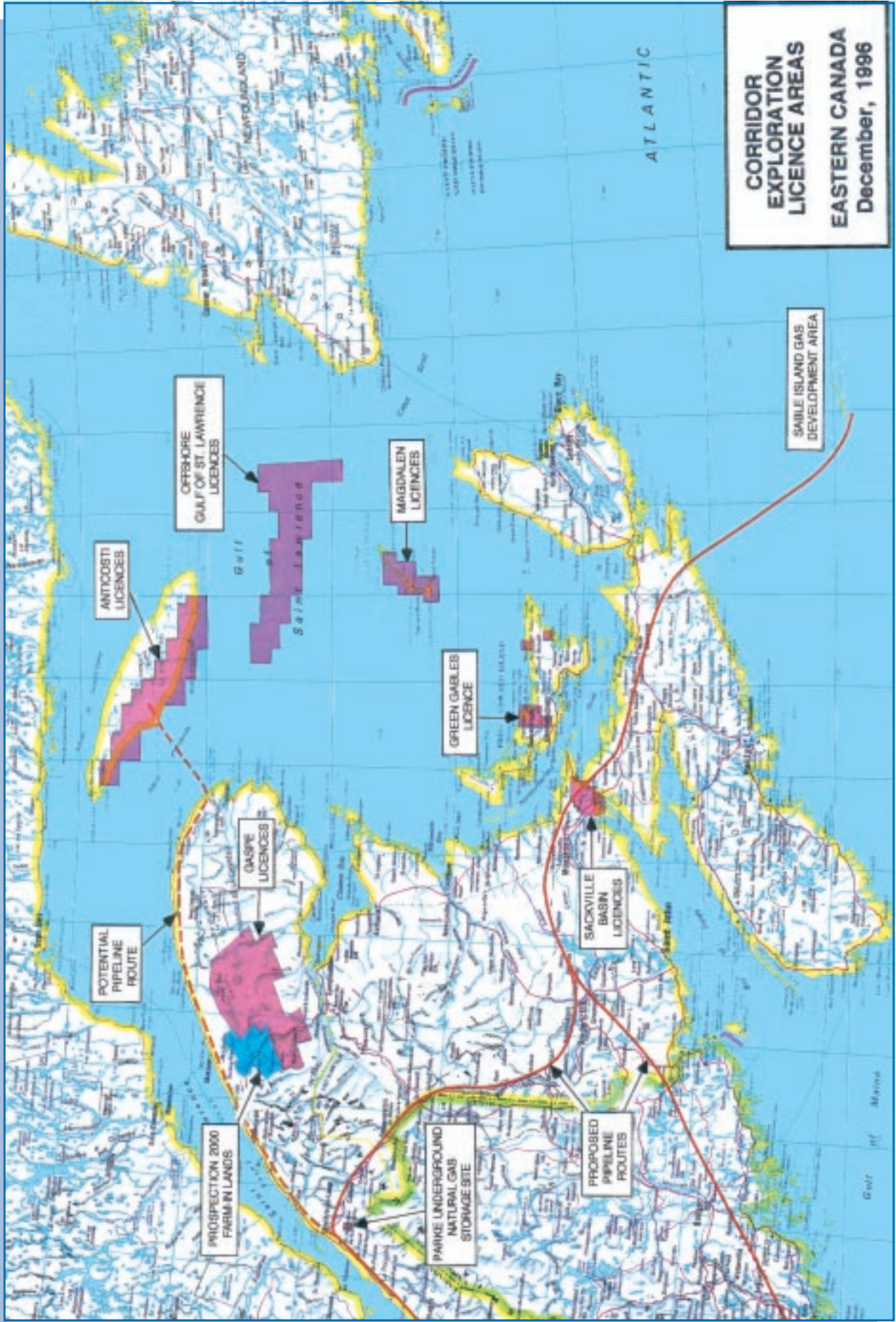
### 1997 PLANS

Corridor plans to advance its exploration programs in order to benefit from its strong land position as this new exploration cycle unfolds in the Maritimes and Anticosti basins. Specifically, during 1997 the Company plans to drill the Green Gables #2 well onshore Prince Edward Island as well as at least one well in the Sackville basin, New Brunswick. Partners will also be sought to join Corridor to drill oil and gas exploration prospects identified by our new seismic on Anticosti Island. In the Gaspé Peninsula, Corridor is preparing to carry out a seismic survey to profile anticlinal and reefal structures indicated to be present in the Lac Matapedia region. In addition, the Company plans to reprocess existing seismic to initiate its exploration efforts on the Magdalen Islands.

Management at Corridor is looking forward to an exciting and promising 1997. We appreciate the support of our shareholders, and will be making timely disclosures of significant new information as the year progresses.

On Behalf of The Board

N.W. Miller  
President and Director  
January 3, 1997



## CORRIDOR'S PRIMARY EXPLORATION AREAS

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### LICENCED AREAS (AUG. 31, 1996)

#### 153,600 ACRES PRINCE EDWARD ISLAND

Natural gas was discovered in a well drilled by Hudson Bay Oil & Gas on the Green Gables prospect in 1972. A major gas bearing sand at a depth of 7300 to 7500 feet was tested at that time but failed to produce gas at commercial rates due to formation damage during drilling. Corridor intends to drill a follow-up well on this large structure using an inhibited under-balanced mud system to enhance the potential for achieving commercial rates of gas production. Potential recoverable gas reserves in the structure are estimated to be a minimum of 40 billion cubic feet (BCF), and could be up to 300 BCF if the structure is full to the spill point. Market feedback from potential buyers of the gas has been positive, supporting commercial development of this prospect. Corridor is planning to drill this well in the spring of 1997. (On December 16, 1996, Corridor entered into a Memorandum of Understanding with Dobrana Resources Ltd. of Vancouver, whereby Dobrana will earn a 50% working interest in the Cavendish licence.)

#### 1,207,620 ACRES ANTICOSTI ISLAND AREA, QUEBEC (ONSHORE AND NEARSHORE)

Corridor has under licence a large land position covering the southern half of Anticosti Island in the Gulf of St. Lawrence. The Island is positioned in the same geological basin as the Port Au Port Peninsula, where Hunt and Pan Canadian made an oil discovery in 1995. Corridor has recently completed a seismic survey over three prospects located onshore in the central part of the Island with potential for large reserves of both oil and gas. The company is commencing negotiations with prospective partners and plans to drill these prospects in 1997 or 1998.

#### 1,259,292 ACRES GASPÉ PENINSULA

Corridor has recently acquired a large land position covering a prospective portion of the central Gaspé area. Corridor's 100% lands lie between lands held by Prospecion 2000 Inc. (where light oil shows in core drilling were recently encountered) and lands recently acquired by Shell to the east. In September 1996, Corridor drilled a shallow well near Lac Matapedia as part of a \$300,000 farm-in program to earn a 50% interest in lands (370,000 acres) held by Prospecion. The well confirmed the presence of light crude oil in several intervals within the Silurian age sediments. The Company is preparing to undertake a seismic survey and further drilling in the now confirmed oil prospective area around and to the east of Lac Matapedia.

#### 1,449,149 ACRES OFFSHORE GULF OF ST. LAWRENCE

Corridor has acquired Quebec exploration licences in the Quebec portion of the Gulf of St. Lawrence. Corridor has reprocessed seismic in this area to further define large features indicated along this structural trend. The Federal government does not recognize Corridor's Quebec licences in this offshore area. Quebec has reconfirmed its historic rights in this area and has encouraged Corridor to proceed with its exploration work.

#### 14,820 ACRES PARKE UNDERGROUND STORAGE

Corridor has recently acquired the rights to a natural gas underground storage site, strategically located on the proposed TransCanadian pipeline route on the south shore of the St. Lawrence River and approximately 170 km from Quebec City. Studies are being prepared regarding the next steps in preparing Parke as an active storage site.

#### 194,525 ACRES SACKVILLE BASIN, N.B.

Corridor has undertaken a seismic survey across several prospect leads located in the Sackville Basin in southeastern New Brunswick. The results of the survey confirm two Albert formation prospects, each of which could contain substantial reserves of natural gas and/or oil. The prospects lie onshore 15 kilometres southeast of the Stoney Creek field which produced oil as well as 28 BCF of gas over the years for the cities of Moncton and Hillsborough. Corridor intends to seek a partner and to drill these prospects in 1997. If successful, there are numerous other exploration leads located east of these prospects on Corridor lands.

#### 4,279,006 ACRES TOTAL

\*In November 1996, Corridor obtained licences covering approximately 296,400 acres onshore and nearshore the Magdalen Islands.

## GREEN GABLES, PRINCE EDWARD ISLAND

In 1972, Hudson's Bay Oil and Gas Company (HBOG) drilled an exploratory well on the large "Green Gables" prospect near Cavendish on Prince Edward Island. The well was intended to explore for oil in the Windsor and Horton formations, and reached a total depth of 11,400 feet. No oil was found, but a substantial gas bearing sand ("Lower Riversdale") was discovered at a depth interval of 7,300 to 7,500 feet. This zone was tested, resulting in a small, non-commercial gas flow, and the well was abandoned. The following year, HBOG tested an offshore well (East Point) located northeast of the Island at a rate of 5.3 million cubic feet per day from an Upper Riversdale sand unit. This East Point gas discovery was designated a "significant discovery" but was never developed because of its costly offshore location. Amoco and partners continue to hold the rights to the East Point discovery.



In 1985, Bro Resources from southern Ontario attempted to re-enter the abandoned Green Gables gas discovery well to stimulate and commercially produce the gas zone. However, Bro was unable to access the gas zone because of metal debris apparently left by HBOG in the abandoned wellbore.

Corridor has studied the Green Gables well information and has concluded that the gas zone had been damaged during the drilling and testing operations, destroying the productive potential of the sands in this well. This has apparently severely reduced formation permeability in the wellbore vicinity, resulting in the lack of production of significant volumes of gas during testing.

In late 1995 and early 1996, Corridor acquired four PEI oil and gas exploration permits covering 154,000 acres. Corridor intends to drill a new well on the Green Gables structure in a manner that enhances the potential for producing gas from the Lower Riversdale sand at commercial rates. The Green Gables #2 well will be located about half a kilometre to the southeast of the original well, and is expected to encounter the pay sands at a depth approximately 100 feet higher on the structure. Corridor intends to drill the new well with an inhibited mud system and to test the well in a manner that minimizes permeability reduction. In addition, Corridor intends to frac the well, creating estimated productivity enhancement in the order of 300 to 500% greater than without a frac treatment. It is estimated that resulting well productivities would be in the range of 1.0 to 2.5 MMCFPD or greater,

which are very commercial rates for onshore development in this area. Minimum reserves are indicated to be in the order of 40 billion cubic feet (BCF), and could be as much as 200 to 300 BCF in the Green Gables structure alone. If successful at Green Gables, Corridor also has several other prospects under licence on PEI which could be explored and similarly developed.

Corridor has had preliminary discussions with Maritime Electric (ME) regarding potential sales of gas for base load electric power generation at ME's Charlottetown power plant (19 miles distant by pipeline). Indications are this market will support a strong field gate price for an initial 5 MMCFPD, with potential to double that volume when new power generation capacity is needed.

Note: In December 1996, Corridor executed a Memorandum of Understanding with Dobrana Resources Ltd., of Vancouver, whereby Dobrana will earn a 50% working interest in the Green Gables licence area. With Dobrana as its partner, Corridor plans to drill the Green Gables #2 well in 1997 at an estimated total cost of \$1.5 million. If successful, several additional production wells will be drilled, and additional field production could be attained as early as late 1998.

## ANTICOSTI ISLAND, QUEBEC

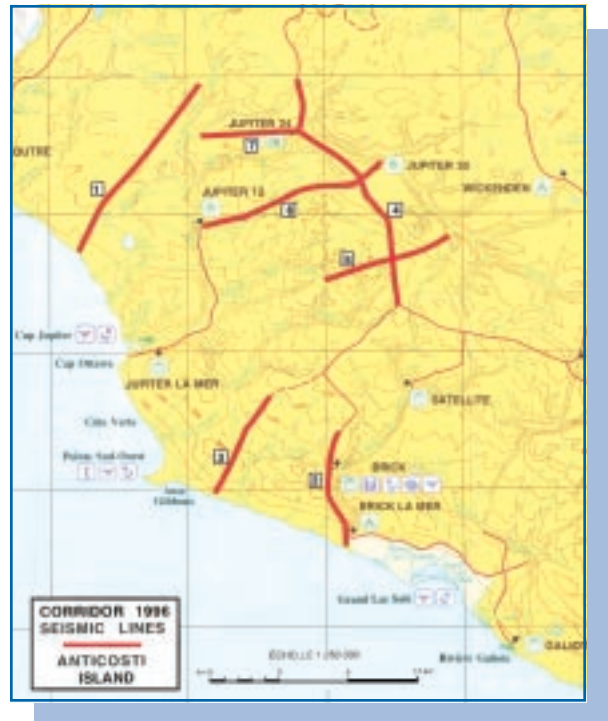
In September 1995, Corridor licenced 825,000 acres onshore Anticosti Island and an additional 383,000 acres in shallow water in the adjacent offshore area. These lands afford Corridor an opportunity to explore for oil and natural gas from an onshore platform covering an up-dip region of the Anticosti petroleum basin.

Corridor selected these lands for licencing after carefully reviewing the results of limited previous exploration work undertaken by Imperial Oil in the mid 1960's and by ARCO in 1970. This earlier work indicated significant promise for the southern portion of Anticosti Island. A large fault feature located south of the Jupiter River and trending parallel to the axis of the Island presents potential for trapping and accumulating major volumes of both oil and gas.

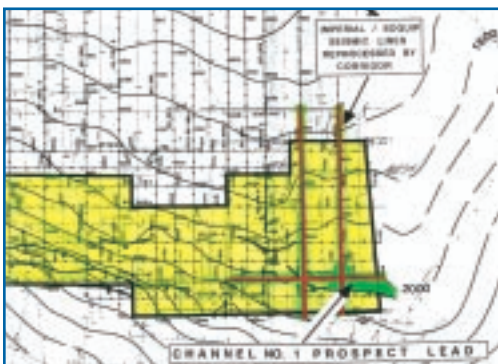
William Roliff was in charge of Imperial Oil's exploration activities on Anticosti Island during the 1960's. He was responsible for the drilling (1963) of the corehole "N.A.C.P. Anticosti #1" well near the Jupiter River to a depth of 5770 feet, and which encountered substantial shows of natural gas in the Vaureal formation and oil in the underlying Beekmantown dolomite formation. The light oil was present in thin zones having pin point and vugular porosity up to 14%. Because it was a small bore corehole, the well was not logged or tested. In 1965, Imperial Oil drilled, logged and tested two exploratory wells in the northern part of the Island, but failed to encounter commercial hydrocarbons and abandoned their interests on Anticosti Island.

Following his retirement from Imperial Oil in 1970, Roliff consulted for many years in an effort to get two particular Anticosti prospects drilled in the southern part of the Island; one to the east and up dip from the gas bearing ARCO Anticosti #1 well (drilled in 1970), and one on a 4-way closure in the south-central part of the Island which he called "East Jupiter". In 1988, a company called New Consolidated Developments Limited moved a rig to Anticosti Island to drill the first of Roliff's recommendations. However, the company encountered drilling problems at a depth short of its objective (about 800 meters) as well as financing problems, and the venture was abandoned. The rig and associated camp remains on the location to this day. The second of Roliff's recommendations also remains undrilled.

In June 1996, Corridor undertook the first seismic survey on the Island since 1963, costing in the order of \$600,000. Application of modern acquisition and data processing techniques have resulted in the first good quality seismic program on the Island. This survey has highlighted oil potential in the Beekmantown formation on the upthrown side of the Jupiter fault system, as well as the potential for major natural gas reserves in the Brick structure located up dip from the gas bearing ARCO Anticosti #1 well. Corridor plans selective additional seismic acquisition prior to attracting a farm-in partner and drilling on these licences in 1997 or 1998.



## OFFSHORE GULF OF ST. LAWRENCE, QUEBEC



Seismic Reprocessing – Offshore Gulf of St. Lawrence

In September, 1995, Corridor acquired Quebec petroleum exploration licences covering 1,450,000 acres of the Anticosti Basin southeast of Anticosti Island in the estuary of the Gulf of St. Lawrence. These lands cover several large structural features lying along the Cambro-Ordovician thrust belt connecting the Port-au-Port Peninsula area in western Newfoundland with similar features in the St. Lawrence River valley.

Thousands of kilometres of seismic had been acquired over this area by Imperial Oil and Soquip in 1981 and 1982, but a good interpretation of this data had not been possible because of "water bottom multiples" masking the true na-

ture of the geology of the area. Corridor, working in conjunction with the geophysical firms Boyd Petrosearch and Pulsonic of Calgary, developed a re-processing formula that eliminated the bulk of these water bottom multiple problems. Three lines (approximately 100 km of data) were re-processed, and several interesting and potentially prospective geological features were revealed. Corridor then negotiated an agreement with Imperial and Soquip for the acquisition of 800-1000 km of data for re-processing using this same formula.

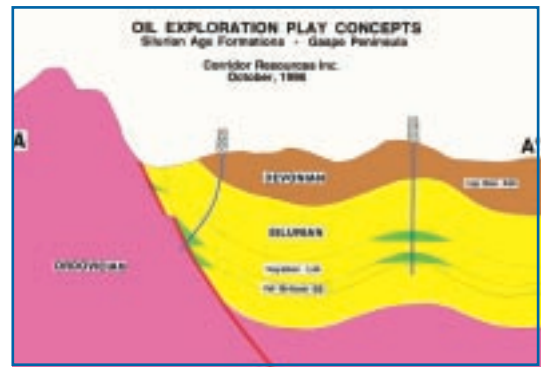
Further exploration work and expenditure by Corridor on these deep water offshore licences has been suspended awaiting the resolution of conflicting jurisdictional positions of the Quebec and Canadian governments. In November, 1995, Corridor wrote to the Canadian government requesting federal recognition of Corridor's Quebec offshore licences located beyond the 12 mile offshore limit. In April, 1995, the Canadian government responded, declining to recognize the Company's Quebec offshore permits, and suggesting that further work by Corridor would be at its own risk with respect to any resources that may be discovered. Corridor plans to proceed with further discussions with both governments in an effort to resolve this issue and to permit exploration work in this area to be resumed.

## GASPÉ PENINSULA, QUEBEC

In June 1996, Corridor acquired a large land position covering part of the Silurian/Devonian basin in the central Gaspé region, some 1,259,000 acres in total. Of particular interest, these lands cover the northern flank of the Silurian/Devonian sediments as they abut against older Ordovician formations along the east-west trending Shick-Shock Sud fault.

Corridor's interest in the Gaspé region was stimulated by the recent discovery of light oil by Propection 2000 Inc., which drilled 14 core holes exploring for gold just west of Lac Matapedia. The presence of light oil in 13 of these core holes refuted previous "knowledge" that the area was "cooked", and that all the hydrocarbons had been thermally expunged. Corridor undertook preliminary geological studies of the area in preparation for conducting seismic surveys in areas of primary interest.

In August 1996, Corridor entered into a farm-in agreement with Propection 2000 whereby Corridor can earn a 50% working interest in the adjacent Propection 2000 lands (370,000 acres) by spending a total of \$300,000 on seismic and drilling activities on these lands prior to June 30, 1997. Corridor's initial farm-in activity was the drilling of a stratigraphic core hole (Corridor Lac Matapedia #1) to a depth of 1000 feet to confirm the presence of light oil reported to have been encountered by Propection 2000 during the drilling of the mining core holes. Corridor completed this shallow well in September, encountering several intervals containing excellent shows of live, light oil in fracture and vugular porosity in early Devonian/late Silurian limestone and mudstone formations. The slim core hole did not permit the proper testing of this well at the time, and as a result no significant recoveries of free oil were made. However, several barrels of oil/water/clay emulsion were recovered. Corridor is preparing to re-enter the Lac Matapedia #1 well to undertake slim hole testing operations commencing early in 1997.



Geological Cross-Section – Matane River area – Gaspé Peninsula



Core Showing Oil Bearing Open Fractures

This survey is aimed at defining and mapping several major anticlines indicated by surface geology, as well as potential Sayabec reefal structures in the area. In addition, Corridor plans to drill and log one and possibly two deeper core holes to help define the stratigraphy of the area and calibrate the seismic information. Corridor plans to be in position to acquire one or more partners to drill conventional exploration wells and evaluate Silurian anticline and reef (Sayabec) targets in 1998.

Corridor is preparing to undertake a vibroseis seismic survey in the area in 1997, partly on Corridor's lands and partly on the Propection 2000 farm-in lands.



Lac Matapedia Test Site, September 1996.

## PARKE UNDERGROUND NATURAL GAS STORAGE, QUEBEC

In July 1996, Corridor acquired the storage and exploration rights to a permit covering 15,000 acres in the Parke area of Quebec, to the south of the town of Riviere-du-Loup. Shell discovered the Parke reservoir during exploration drilling in the area in 1972. A drillstem test of the reservoir demonstrated that it was water bearing, but also that it had an average permeability in excess of 100 md. In 1979/1980, Soquip drilled two additional wells into the structure to determine its potential to serve as an underground storage reservoir for natural gas. At the time, Trans Quebec & Maritimes Pipeline was applying to extend its pipeline system eastward from Quebec City to connect with the Venture natural gas development project near Sable Island. However, the cancellation of the Venture project halted the pipeline extension plans, and the Parke licence was surrendered with no further work on the property.

In 1996, the proponents of natural gas development in the Sable Island area have resurrected their development plans, along with a proposal to deliver Sable gas into the northeast U.S. by November, 1999. TransCanada Pipelines Limited, in partnership with Gaz Metropolitan have indicated their intent to submit a competing bid to transport Sable gas by pipeline to market via Quebec. This potential pipeline routing renews the prospect for the Parke reservoir to play a key role in delivering gas to markets in the Quebec area. This reservoir is the best storage candidate yet to be found in Quebec, an area where storage is vital because of the large seasonal swings in demand.

Three wells, at a cost of \$10 million, have previously been drilled by others in the structure, and Corridor is planning further work to complete this facility for gas storage. Current information indicates that the capacity of the Parke reservoir is in the range of 15 to 35 BCF. Preliminary economic analyses of the Parke gas storage project have been carried out by Merimack Energy Company, Ltd., of Lowell, Massachusetts. Assuming a storage capacity of 30 BCF (15 BCF cushion gas and 15 BCF top gas), these analyses indicate a potential present value of \$33 million for the Parke facility, discounted at 10% after tax.

Corridor is planning to engage a gas storage expert to develop a plan for financing and developing the Parke facility in preparation for operations by the year 2000.



Parke Storage Location Relative to Future Potential Pipeline Routes

## SACKVILLE BASIN, N.B.

In July 1995, Corridor acquired oil and gas exploration licences over an area covering 194,500 acres in the Sackville Basin, southeastern New Brunswick. These lands lie approximately 15 kilometres east of the Stoney Creek oil and gas field, which produced 28 BCF of natural gas and 830,000 barrels of oil from Carboniferous Albert sandstone reservoirs of the Hillsborough Basin.

The Sackville Basin presents an opportunity to pursue exploration opportunities in the source-rich Albert formation to the east of the Hillsborough basin. The Sackville Basin is a rift basin, where the petroleum prospective Albert formation is found at considerably greater depth than in the Stoney Creek region. Only two exploration wells have been drilled in the Basin, one by Shell in 1953 and one by Imperial Oil in 1959. Both wells were drilled through the Dorchester salt dome (Windsor age), with only the Shell well emerging to penetrate part of the Albert formation. The Shell well encountered a shaly Albert facies with no reservoir development, but live oil and gas shows at a fault intercept.



Vibroseis Trucks in Operation, Sackville Area, New Brunswick.

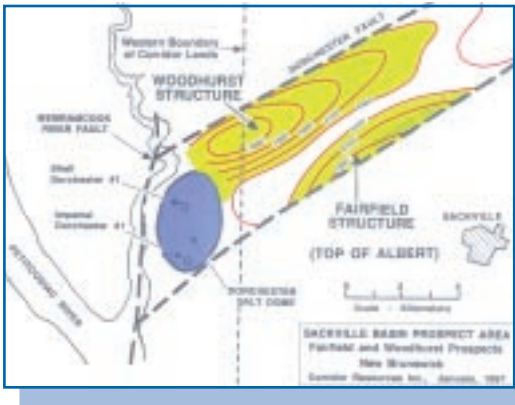
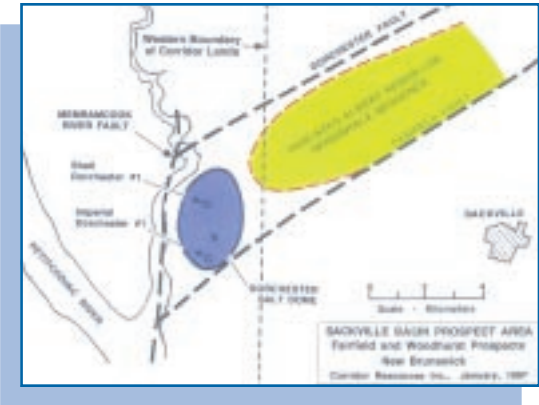
Dr. Tom Martel undertook the geological research supporting Corridor's plans for the Sackville Basin. Dr. Martel is considered to be the leading expert in the geology of this Basin, commencing with a paper which he authored in 1987 regarding the petroleum potential of the Albert in this area. Dr. Martel had reviewed seismic run by Chevron in 1982 covering part of this Basin and had determined the potential for the presence of a deltaic sand/shale sequence to the east of the Dorchester salt dome and approximately parallel to the large Dorchester fault feature lying to the north.

In late 1995/early 1996, Corridor ran a vibroseis survey across two prospect leads lying to the east of Dorchester and three kilometres to the northwest of the town of Sackville, and which had been indicated by the earlier Chevron survey. The Corridor survey resulted in the acquisition of excellent quality data, permitting the detailing of the Fairfield and Woodhurst prospects.

The Fairfield prospect presents a closed structural feature where interbedded Albert sands and shales are interpreted to be truncated by the Hillsborough unconformity in a structurally favourable position. This prospect has the potential to contain recoverable reserves in the order of 25 million barrels of oil and 150 BCF of natural gas. Overlying this feature is an anomaly in the Upper Windsor formation which can be tested at the same well location. A well on this prospect would be designed to reach a depth of 9800 feet to fully evaluate the prospective Albert section, and is estimated to cost in the order of \$1.8 million (tested).

The Woodhurst prospect presents a roll over of the Albert formation into the Dorchester fault. The prospective Albert sand/shale sequence outlined on Corridor’s seismic is broken up into several sub-faulted sections across this anticlinal feature. The drilling depth to evaluate the Woodhurst prospect is indicated to be about 8500 feet, resulting in an estimated well cost of approximately \$1.5 million to drill and test this prospect.

Corridor intends to seek a partner for a 50% working interest in these prospects and to commence drilling operations during 1997.



Reservoir Facies and Structural Contours  
Albert Formation – Sackville Basin

## Auditors' Report

To the Shareholders of  
Corridor Resources Inc.  
(Formerly Contwoyto Goldfields Limited)

We have audited the balance sheet of Corridor Resources Inc. (formerly Contwoyto Goldfields Limited) as at August 31, 1996 and the statements of loss and deficit, exploration expenses and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these statements present fairly, in all material respects, the financial position of the Company as at August 31, 1996, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements as at August 31, 1995 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their Report dated September 15, 1995.

Halifax, Nova Scotia  
November 15, 1996

  
Chartered Accountants

P.O. Box 426  
Suite 1100 Cogswell Tower  
2000 Barrington Street  
Halifax, NS B3J 2P8  
Tel: (902) 421-1734  
Fax: (902) 420-1068

**Corridor Resources Inc.**  
 (Formerly Contwoyto Goldfields Limited)  
**Balance Sheet**

August 31

1996

1995

**Assets**

Exploration expenditures (Notes 3, 6, 7, 8 & 9)	\$ 967,191	\$
Cash and short term investments	459,236	103,999
Receivables	46,472	
Prepays	9,397	
	<u>\$ 1,482,296</u>	<u>\$ 103,999</u>

**Liabilities**

Payables and accruals	\$ 32,335	\$ 28,193
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**Shareholders' Equity**

Capital stock (Notes 1, 4 & 10)	1,657,000	76,500
Deficit	(207,039)	(1,094)
	<u>1,449,961</u>	<u>75,406</u>
	<u>\$ 1,482,296</u>	<u>\$ 103,599</u>

Contingency (Note 6)  
 Subsequent event (Note 10)

On behalf of the Board

 Director  Director

See accompanying notes to the financial statements.

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**Corridor Resources Inc.**  
(Formerly Contwoyto Goldfields Limited)  
**Statements of Loss and Deficit**

August 31

1996

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Interest revenue	\$ 16,843
Expenses	
General and administrative	136,268
Professional fees	32,994
Share issue and incorporation costs	1,676
	<u>170,938</u>
Net loss	<u>\$ (154,095)</u>

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Deficit, beginning of year	\$ (1,094)
Net loss	(154,095)
Costs related to reorganization	<u>(51,850)</u>
Deficit, end of year	<u>\$ (207,039)</u>
Loss per share (Note 5)	

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**Corridor Resources Inc.**  
(Formerly Contwoyto Goldfields Limited)  
**Statement of Exploration Expenditures**

August 31

1996

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Balance, beginning of year	\$ Nil
Exploration expenditures	926,496
Direct overhead	<u>40,695</u>
Balance, end of year	<u>\$ 967,191</u>

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See accompanying notes to the financial statements.

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**Corridor Resources Inc.**  
(Formerly Contwoyto Goldfields Limited)  
**Statement of Changes in Financial Position**

August 31

1996

1995

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Cash derived from (applied to)

<b>Operating</b>		
Net loss	\$ (154,095)	\$
Change in		
Receivables	(46,472)	
Prepays	(9,397)	
Payables	4,142	28,193
	<u>(205,822)</u>	<u>28,193</u>
<b>Financing</b>		
Issue of common shares	1,580,500	76,500
Costs related to reorganization	(51,850)	
Reorganization adjustments		(1,094)
	<u>1,528,650</u>	<u>75,406</u>
<b>Investing</b>		
Exploration expenditures	(967,191)	
Net increase in cash and short term investments	355,637	103,599
Cash and short term investments		
Beginning of year	103,599	
End of year	<u>\$ 459,236</u>	<u>\$ 103,599</u>

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See accompanying notes to the financial statements.

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# Corridor Resources Inc.

(Formerly Contwoyto Goldfields Limited)

## Notes to the Financial Statements

August 31, 1996

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### 1. Operations and reorganization

The Company was incorporated in 1983 under the Alberta Business Corporation Act and commenced operations in November 1984. The Company was a development stage mining company, whose shares had been delisted by the Alberta Stock Exchange on September 5, 1995.

In May 1996, the shareholders of Contwoyto Goldfields Limited completed a share exchange with Corridor Resources Inc., a privately held oil and gas exploration company. Contwoyto Goldfields Limited exchanged 6,965,000 common shares and 3,285,000 share purchase warrants for all of the 6,965,000 outstanding Class A common shares and 3,825,000 Class A share purchase warrants of Corridor Resources Inc. Prior to the share exchange, the shareholders of Contwoyto converted \$193,228 owed to them by Contwoyto to 1,288,185 shares of Contwoyto's capital stock.

Legally, the Company is the parent of Corridor Resources Inc. However, as a result of the share exchange, effective control of the combined companies passed to the former shareholders of Corridor Resources Inc. This type of transaction is referred to as a "reverse takeover" for which Corridor Resources Inc. is deemed to be the acquirer for accounting purposes.

The share exchange was accounted for by the purchase method. The following is a summary of the net assets acquired:

Current assets	\$ 27,099
Current liabilities	(28,193)
Net deficiency on reorganization	<u>\$ (1,094)</u>

At the completion of the transaction on May 9, 1996, Contwoyto Goldfields Limited amalgamated with Corridor Resources Inc. and changed its name to Corridor Resources Inc.

In accordance with generally accepted accounting principles where a reverse takeover has occurred, these financial statements have been prepared so as to represent a continuation of the financial reporting of the legal subsidiary, Corridor Resources Inc. Accordingly, there is no comparative financial statement of operations for the year ended August 31, 1995 as Corridor Resources Inc., then a private company incorporated on March 29, 1995, had not commenced significant operations as at that date.

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**Corridor Resources Inc.**  
(Formerly Contwoyto Goldfields Limited)  
**Notes to the Financial Statements**

August 31, 1996

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**1. Operations and reorganization (continued)**

The balance sheet of Contwoyto Goldfield Limited as at August 31, 1995, prior to the reorganization was as follows:

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**Contwoyto Goldfields Limited**  
**Balance Sheet**  
**August 31, 1995**

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**Assets**

Current assets

Cash	\$ 2,089
Accounts receivable	766

Incorporation costs

225

\$ 3,080

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**Liabilities**

Current liabilities

Accounts payable	\$ 190,617
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Shareholders' Deficiency

Capital stock

1,205,641

Deficit

(1,393,178)

(187,537)

\$ 3,080

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**Corridor Resources Inc.**  
**(Formerly Contwoyto Goldfields Limited)**  
**Notes to the Financial Statements**

August 31, 1996

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**2. Accounting policies**

**Exploration expenditures**

The principal activities of the Company are in the exploration stage and accordingly the Company follows the full cost method of accounting for pre-production companies prescribed in the Guideline on Full Cost Accounting in the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants. All costs incurred for the acquisition, exploration for and development of oil and gas reserves are capitalized within one cost centre.

**Income taxes**

The Company follows the tax allocation method of accounting for income taxes, whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming capital cost allowance and exploration, development and acquisition expenses in excess of the related depletion, depreciation and amortization provided in the financial statements.

**Administrative expenses**

Expenses related to general administration and overhead are written off in the year in which they are incurred.

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**3. Exploration expenditures**

**Exploration expenditures**

The Company has incurred total exploration expenditures of \$967,191 in carrying out its exploration activities. Of these expenditures, the largest amounts were incurred in conducting seismic surveys on Anticosti Island and in southeastern New Brunswick.

The Company has granted a 3% gross over-riding royalty on wellhead revenues on future production of oil and natural gas from the Onshore Anticosti Island and Onshore Prince Edward Island properties. A 4% gross over-riding royalty has been given on wellhead revenues from the future production of oil and natural gas from the Onshore New Brunswick, Sackville Basin property, and a 1% gross over-riding royalty for production from licences in the Offshore Gulf of St. Lawrence.

In order for the Company to keep all of its current licences intact over their entire term, annual expenditures are required. The Company expects, however, that information gained from geological and geophysical studies will assist in selecting the most prospective areas to be retained while relinquishing interest in less promising lands. This is normal oil industry land management practice, and will result in actual work expenditures that are less than those shown in the following work commitments for all of the lands.

**Corridor Resources Inc.**  
 (Formerly Contwoyto Goldfields Limited)  
**Notes to the Financial Statements**

August 31, 1996

**3. Exploration expenditures (continued)**

**New Brunswick**

<b>Period</b>	<b>Area</b>	<b>Expenditure/ Hectare</b>	<b>Total Required</b>
August 1995-August 1996	78,755	\$ 0.35	\$ 27,564
August 1996-August 1997	78,755	0.35	27,564
August 1997-August 1998	78,755	0.70	55,128
August 1998-August 1999	78,755	0.70	55,128
August 1999-August 2000	78,755	1.00	78,755
August 2000-August 2001	78,755	1.25	98,444
August 2001-August 2002	78,755	1.50	118,132
August 2002-August 2003	78,755	2.00	157,510

**Prince Edward Island**

Under current legislation, there are no prescribed minimum annual exploration work commitments.

**Quebec**

**a) Anticosti Island (onshore/nearshore)**

<b>Period</b>	<b>Area</b>	<b>Expenditure/ Hectare</b>	<b>Total Required</b>
September 1995-September 1996	488,915	\$ 0.50	\$ 244,500
September 1996-September 1997	488,915	1.00	488,915
September 1997-September 1998	488,915	1.50	733,372
September 1998-September 1999	488,915	2.00	977,830
September 1999-September 2000	488,915	2.50	1,222,287

**b) Gulf of St. Lawrence**

<b>Period</b>	<b>Area</b>	<b>Expenditure/ Hectare</b>	<b>Total Required</b>
September 1995-September 1996	586,700	\$ 0.50	\$ 293,350
September 1996-September 1997	586,700	1.00	586,700
September 1997-September 1998	586,700	1.50	880,050
September 1998-September 1999	586,700	2.00	1,173,400
September 1999-September 2000	586,700	2.50	1,466,750

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**Corridor Resources Inc.**  
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**3. Exploration expenditures (continued)**

The Federal and Quebec Governments have yet to agree on jurisdictional and management control of these lands. Land retention and expenditure requirements are under review with the Quebec government (Note 6).

**c) Gaspé Peninsula**

<b>Period</b>	<b>Area</b>	<b>Expenditure/ Hectare</b>	<b>Total Required</b>
July 1996-July 1997	509,835	\$ 0.50	254,917
July 1997-July 1998	509,835	1.00	509,835
July 1998-July 1999	509,835	1.50	764,752
July 1999-July 2000	509,835	2.00	1,019,670
July 2000-July 2001	509,835	2.50	1,274,588

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**4. Capital stock**

**Authorized:**

Unlimited Class A common shares

**Issued and outstanding:**

	<b>1996</b>		<b>1995</b>	
	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>
Balance, beginning of period	<b>4,561,946</b>	<b>\$ 76,500</b>	2,311,946	\$
Shares issued for cash	<b>5,085,000</b>	<b>1,580,500</b>	2,250,000	76,500
Balance, end of period	<b>9,646,946</b>	<b>\$ 1,657,000</b>	4,561,946	\$ 76,500

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**Corridor Resources Inc.**  
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**Notes to the Financial Statements**

August 31, 1996

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**4. Capital stock (continued)**

As at August 31, 1996, 3,825,000 share purchase warrants were outstanding. 1,200,000 of these warrants convey the right to purchase one Class A common share for each warrant at a price of \$0.25 per share if exercised by October 23, 1996, or \$0.30 per share if exercised between October 24, 1996 and October 23, 1997. If not exercised by October 23, 1997, the warrants expire. 2,625,000 of these warrants convey the right to purchase one Class A common share at \$0.60 per share if exercised by May 9, 1997, or \$0.80 per share if exercised between May 9, 1997 and May 9, 1998. If not exercised by May 9, 1998, the warrants expire.

There were no warrants exercised during the year.

On May 4, 1996, an option was granted to certain officers of the Company to acquire an aggregate of 725,000 shares of the Company's capital stock at a price of \$0.40 per share. If not exercised by May 14, 2001, the options expire. During the year, 200,000 of these options were exercised. As at August 31, 1996, 525,000 of these options remain outstanding.

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**5. Loss per share**

Loss per share is calculated based on the weighted-average number of shares outstanding during the year of 5,968,023.

Net loss for the year	<u>\$ (154,095)</u>
Loss per share	<u>\$ (.03)</u>

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**6. Contingency**

The Company is in the preliminary exploration stage with respect to its resource properties. As such, the amount of recoverable reserves, if any, which may be located on the properties and the future revenue from the production of any reserves is not known. Recovery of the Company's exploration costs totalling \$967,191 is uncertain and dependent upon confirming its interest in the properties and achieving commercial production from or sale of the properties. Additional financing will be required to conduct further exploration and development activities on the properties.

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**Corridor Resources Inc.**  
(Formerly Contwoyto Goldfields Limited)  
**Notes to the Financial Statements**

August 31, 1996

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**7. Income taxes**

At August 31, 1996, the Company had approximately \$807,191 unused cumulative Canadian Oil and Gas Company Expenses, \$265,174 unused cumulative Canadian Exploration Expenses and \$76,390 in Earned Depletion Base available to offset future taxable income. The tax benefits pertaining to these amounts are available for carry forward indefinitely. At August 31, 1996, the Company had non-capital losses of approximately \$229,000 which are due to expire as follows, unless applied against future taxable income of the Company.

1997	\$ 6,000
1998	27,000
1999	15,000
2000	12,000
2001	61,000
2002	53,000
2003	55,000
	<hr/>
	\$ 229,000
	<hr/> <hr/>

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**8. Flow-through financing**

The Company has financed \$160,000 of its exploration activities by issuing flow-through shares. The proceeds raised from these subscriptions were expended on Canadian Exploration Expenses as defined in the Income Tax Act (Canada). These expenses are recorded as exploration expenses, but are not deductible by the Company for income tax purposes.

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**9. Related party transactions**

During the year, \$146,759 was paid to the Company's President and Vice-President for engineering and consulting services.

The Company currently has royalty agreements with significant shareholders, as disclosed in Note 3 to the financial statements.

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**10. Subsequent event**

Subsequent to year end, 1,200,000 of the warrants described in Note 4 to the financial statements were exercised at a price of \$0.25 per common share for 1,200,000 Class A common shares.

## NOTES

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## CORPORATE INFORMATION

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### HEAD OFFICE

Suite 301, 5475 Spring Garden Road  
Halifax, Nova Scotia B3J 3T2  
Telephone: (902) 429-4511  
Fax: (902) 422-6715

### BANKERS

Bank of Nova Scotia  
Halifax, Nova Scotia

### AUDITORS

Doane Raymond  
Halifax, Nova Scotia

### SOLICITORS

Bennett Jones Verchere  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada  
Calgary, Alberta

### STOCK EXCHANGE

Canadian Dealing Network  
Over the Counter - CRR

### DIRECTORS AND OFFICERS

Norman W. Miller, President and Director  
Paul Hopkins, Vice President and Director  
Charles MacDonald, Chairman  
Jacques Plante, Director

### SHARE CAPITAL

Shares Authorized – Unlimited  
Shares issued as of  
August 31, 1996 – 9,646,946

### NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Corridor Resources Inc. will be held on Thursday, February 27, 1997 at 3:00 p.m. in The Boardroom at Bennett Jones Verchere, 4500 Bankers Hall East, 855-2nd St. S.W., Calgary, Alberta T2P 4K7