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## DIRECTOR'S REPORT

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### GENERAL

Corridor Resources was incorporated in March 1995, to explore for and develop oil and natural gas reserves, initially in Quebec, New Brunswick and Prince Edward Island. Corridor currently holds under exploration licence over 5,000,000 net acres, the largest land holding by any petroleum exploration company in eastern Canada.

During the past year, the Company has completed two onshore seismic programs; one on Anticosti Island, and a second in the Gaspé Peninsula; has completed a major farmout to Shell Canada on Anticosti Island; and, has drilled and tested a 2293 meter potential gas well at Green Gables, PEI.

### INTEREST GROWING IN EASTERN CANADA

Interest and activity levels in petroleum exploration and development are increasing in the Eastern Canadian area. Two deep wells (one offshore, one onshore) were drilled in Western Newfoundland and a further one is being planned for Spring 1998; a four well exploration drilling program by an American oil company has started in the Moncton Basin; three coal bed methane wells were stimulated and completed by another American oil company in the New Glasgow area; and a deep well was drilled at St. Leonard, Quebec. The Sable Offshore Energy Project and the Maritimes & NorthEast Pipeline Project have been approved and will be proceeding in 1998. The Hibernia Field has commenced oil production in December 1997. The infrastructure and services in the eastern area are expanding to support these new projects and activities.

### FINANCING

The Company successfully closed a \$4,000,000 special warrant financing with Stephen Avenue Securities in May 1997, through the issuance of 5,000,000 Class A common shares at \$0.80/share. A planned program by EnerVest to farm in on Corridors' Anticosti Island licences was cancelled due to insufficient time to complete the financing and achieve the required rig mobilization to enable drilling to commence before the onset of winter.

Final ASE approvals were obtained and Corridor commenced trading on the Alberta Stock Exchange, symbol CDH, on November 7, 1997. On November 28th, the Company reached an agreement with Shell Canada Limited whereby Shell will drill four exploration wells and conduct 500 kilometers of seismic (up to \$20 million) to ultimately earn approximately a two-thirds interest in Corridor's licences on Anticosti Island.

### EXCITING PLANS FOR 1998

1998 will be a challenging and exciting year for the Company. Under the Anticosti farmout agreement, Shell will be drilling two wells, one on each of the Jupiter and Roliff structures in central Anticosti Island, commencing in May/June. A major 2D marine seismic program will be conducted on the Company's offshore Gulf of St. Lawrence acreage. Previous seismic data on the Magdalen Islands will be reprocessed and new seismic will be acquired. New seismic is also planned for the Gaspé and New Brunswick exploration licences. New farmouts and additional financing will be sought to finance the planned programs.

Through selective "value added" exploration work, new land acquisition and farmout arrangements, the Company is committed to further increasing its net asset value over the coming year. We thank the shareholders for their continuing support of our objectives.

On behalf of the Board

Norman W. Miller  
President and Director  
January 5, 1998

## RAPPORT DU DIRECTEUR GÉNÉRAL

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### REMARQUES GÉNÉRALES

Corridor Resources a été incorporée en mars 1995 initialement dans le but d'explorer et de mettre en valeur les réserves gazières et pétrolières au Québec, au Nouveau-Brunswick et dans l'Île-du-Prince-Édouard. La compagnie détient des permis d'exploration sur une superficie de plus de 5 millions d'acres nets, ce qui représente le portefeuille de permis le plus important de toute compagnie d'exploration pétrolière dans l'est du Canada.

L'année dernière, la compagnie a terminé deux programmes sismiques terrestres, l'un dans l'île d'Anticosti et le second dans la péninsule de Gaspé. Elle a en outre mené à terme un important accord d'affermage avec Shell Canada, dans l'île d'Anticosti. Elle a enfin effectué un forage d'exploration de 2 293 mètres dans le but d'atteindre une réserve potentielle de gaz naturel à Green Gables, dans l'Île-du-Prince-Édouard.

### ESSOR DANS L'EST DU CANADA

Dans l'est du Canada, on note une recrudescence d'intérêt et d'activité dans le domaine de l'exploration et de l'exploitation des hydrocarbures. Deux puits profonds (l'un sous-marin, l'autre terrestre) ont été forés dans l'ouest de Terre-Neuve, et l'on prévoit forer un autre puits profond au printemps de 1998. Une pétrolière américaine a démarré un programme de forage d'exploration comprenant quatre puits dans le bassin de Moncton. Une autre pétrolière américaine a stimulé et mis en service trois puits de méthane dans des filons houillers, dans la région de New Glasgow, Nouvelle-Écosse. Un puits profond a été foré à St. Léonard, Québec. Au terme d'un examen public exhaustif, le gouvernement a approuvé les projets de développement gaziers de l'île de Sable (SOEP) et le projet de pipeline de Maritimes & Northeast (M&NPP). Enfin, Hibernia a démarré la production en décembre 1997. Les infrastructures et les services dans la région de l'est sont en voie d'expansion pour appuyer l'ensemble de ces activités.

En mai 1997, Corridor Resources a conclu un accord de financement par mandat spécial d'une valeur de 4 000 000 \$ avec Stephen Avenue Securities en émettant 5 000 000 d'actions ordinaires de catégorie A évaluées à 0,80 \$ l'action. La compagnie EnerVest a du renoncer à son affermage avec Corridor Resources sur les permis de l'île d'Anticosti faute de pouvoir finaliser les arrangements financiers dans les délais prévus et de pouvoir mobiliser les équipements de forage nécessaires pour le début des opérations avant l'hiver.

Ayant reçu l'approbation finale de l'Alberta Stock Exchange (ASE), Corridor Resources est coté en bourse depuis le 7 novembre 1997 sous le symbole CDH. Le 28 novembre, la compagnie a conclu une entente avec Shell Canada Ltée prévoyant le forage de quatre puits d'exploration et la conduite de programmes sismiques sur 500 kilomètres (opération évaluée à 20 000 000 \$). Shell détiendra, à la fin de ses obligations contractuelles, environ une participation d'environ 66 p. 100 dans les permis détenus par Corridor Resources dans l'île d'Anticosti.

### DÉFIS POUR 1998

L'année 1998 s'annonce riche en défis et en nouvelles initiatives. En vertu de l'accord d'affermage de l'île d'Anticosti, Shell forera deux puits, l'un sur la structure Jupiter et l'autre sur la structure Roliff, au centre de l'île, en mai ou en juin. Par ailleurs, la compagnie entreprendra un important programme de profil sismique sous-marin bi-dimensionnel dans le golfe du Saint-Laurent. Les données sismiques recueillies antérieurement dans l'archipel des îles de la Madeleine seront traitées à nouveau et complétées par de nouvelles données. De nouveaux programmes de profil sismique sont également prévus pour les permis d'exploration en Gaspésie et au Nouveau-Brunswick. Pour financer le programme des activités prévues, la compagnie conclura de nouveaux accords d'affermage et cherchera de nouveaux bailleurs de fond.

Au cours du prochain exercice, la compagnie s'engage à accroître sa valeur d'actif net par l'entremise d'activités d'exploration à valeur ajoutée judicieusement choisies, de l'acquisition de nouveaux droits et d'accords d'affermage. Nous tenons en outre à remercier nos actionnaires de leur appui soutenu à l'égard de nos objectifs.

Au nom du Conseil,  
le directeur général et membre du Conseil d'administration,

Norman W. Miller  
le 5 janvier 1998

## CORRIDOR'S PRIMARY EXPLORATION AREAS

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### OIL AND NATURAL GAS PERMITS

|                       |                                       |   |
|-----------------------|---------------------------------------|---|
| 2,393,803 ACRES       | ANTICOSTI ISLAND, QUEBEC              | <p>Corridor has expanded its large land position on the Island with the addition of the northern area (October 1, 1997) and three additional offshore permits, approximately doubling the Company's holdings in the area.</p> <p>The Island is positioned on the westward side of the same geological basin as the Port au Port well where Hunt/PanCanadian have now released data indicating light oil flow rates in the range of 1500-1700 BOPD from an 8 meter section. With its 1997 seismic program completed, the Company has confirmed several sizeable structures in the central part of the Island with potential for oil and gas reserves. The recently announced Shell farmin will see a major exploration drilling program there, commencing in mid 1998.</p> |
| 1,449,736 ACRES       | OFFSHORE GULF OF ST. LAWRENCE, QUEBEC | <p>Corridor plans to reprocess selected deep-water seismic lines on these offshore licences prior to conducting a new 2D marine seismic program in 1998. The marine seismic program has been committed by way of a financial guarantee to the Quebec Natural Resources Minister. The Company plans to attract a major international company to carry out exploration drilling on these offshore permits in 1999.</p>  |
| 651,380 ACRES         | GASPE PENINSULA, QUEBEC               | <p>A 2D vibroseis seismic program was successfully completed by Corridor in September 1997. The Company plans to evaluate the seismic information and determine a farmout strategy for possible drilling in 1998. The Company relinquished 607,912 acres of less prospective land in June, with 14 permits remaining.</p>   |
| 284,659 ACRES         | MAGDALEN ISLANDS, QUEBEC              | <p>In March 1997, the Company was granted five (5) permits covering most of the three main islands and surrounding offshore areas. Corridor intends to reprocess previous seismic, and acquire new seismic data during 1998, prior to determining a drilling/farmout strategy for this gas prospective area.</p>  |
| 14,826 ACRES          | PARK UNDERGROUND STORAGE, QUEBEC      | <p>Corridor holds two permits covering the rights for oil/gas exploration and underground gas storage. Eventual extension of the TransCanada pipeline along the St. Lawrence south shore will require a strategic natural gas storage reservoir, and Parke is well qualified and positioned to meet this need.</p>  |
| 194,653 ACRES         | SACKVILLE SUBBASIN, NEW BRUNSWICK     | <p>Corridor has maintained four permits in this area following encouraging results from its 1996 vibroseis program. With two primary drilling targets identified, the Company plans to acquire a farmin partner and drill the first of these in 1998.</p>   |
| 162,500 ACRES         | MONCTON SUBBASIN, NEW BRUNSWICK       | <p>In June, the Company was awarded, through competitive bidding, three new permit areas near Elgin and Goshen, all northeast of Sussex. Previous seismic and limited drilling data indicates that this subbasin is oil/gas prospective in the Albert formation. Further seismic work and geological evaluations will be completed during the coming year.</p>  |
| 153,881 ACRES         | CAVENDISH, PRINCE EDWARD ISLAND       | <p>The Company continues to maintain four exploration permits on the Island. The Green Gables #2 well was drilled and tested, and suspended on September 6, 1997 for future re-entry. Well stimulation studies suggest that a major fracture treatment of this well could yield commercial gas flow rates.</p>  |
| 5,305,438 ACRES TOTAL |                                       |   |

MAP TO BE A FOLD OUT

BACK OF MAP PULL OUT

## ANTICOSTI ISLAND, QUEBEC

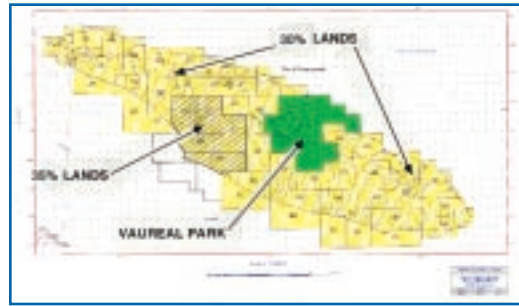
Corridor acquired its initial Anticosti exploration licences in 1995 to pursue promising oil and gas “shows” encountered during early exploration by Imperial Oil and others in the 1960’s and early 1970’s. In 1996, the Company carried out a modern 2D seismic survey in the south central part of the Island, outlining a number of interesting prospects for further exploration. In 1997, Corridor acquired new exploration licences, bringing the Company’s total area under licence on and near the Island to 2,394,000 acres.

The Company’s second 2D geophysical acquisition program commenced in mid June and was completed by early August with 70 kilometers of new data being obtained in the Jupiter and Brick areas. Total 1997 seismic expenditures were in the order of \$1,000,000 including processing, interpretation and reporting.

On November 28th, 1997, Corridor entered into a farmout agreement with Shell Canada Limited on the Company’s Anticosti Island licences. Under the terms of the agreement, Shell Canada has committed to drill and operate four wells and conduct 500 kilometers of seismic, up to a maximum earning expenditure of \$20 million. Upon completing its farmin obligations, Shell will earn an undivided 100% working interest and will retain 100% of the funding obligations on the farmout lands, subject to 10% and a 12% over-riding royalties payable to Corridor on the first 5,000,000 barrels of oil equivalent production from the licences on the Island.



Seismic Shot Hole Drilling

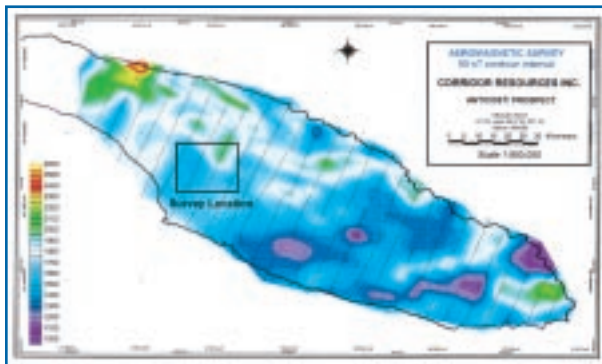


Shell/Corridor Farmin Licences



1996 and 1997 Seismic Programs

Subsequent to the production and removal of 5,000,000 barrels of oil equivalent from the lands, the Company’s 10% and 12% over-riding royalties will automatically convert to 30% and 35% working interests respectively in the lands at no cost to the Company. The net effect is that all the Company’s costs relating to its 30% and 35% ultimate working interests are carried totally by Shell until 5,000,000 barrels of oil equivalent have been produced.



Aeromagnetic Intensity Map - Anticosti Island



Modern Seismic Boat off Canada's East Coast

## GULF OF ST. LAWRENCE, QUEBEC

Corridor holds petroleum exploration licences covering approximately 1,500,000 acres offshore in the Gulf of St. Lawrence. The Company is currently reprocessing over 1000 kilometers of previous seismic data in this deep water offshore block.

On August 1, 1997 the results of the Hunt/PanCanadian Port au Port #1 well were released, two years after the well completion. Two zones in the St. George/Table Head/Ordovician carbonates produced light oil at rates of 1500 and 1700 barrels

per day. Respectively, Corridor's 1996 offshore seismic reprocessing indicated the presence of large structures of Lower Ordovician age present in the Company's Gulf of St. Lawrence licences. In October, PanCanadian announced plans to drill a follow-up well to Port au Port at Shoal Point, commencing in Spring 1998.

In September 1997, Corridor provided the Quebec Minister of Natural Resources with a financial guarantee committing the Company to expenditures of approximately \$865,000 to conduct marine 2D seismic across the licenced areas in the spring/summer 1998. Also in September, the Company entered into an agreement with various EnerVest Funds whereby they purchased 2.5 million Corridor flow through shares at \$1.00 per share to fund the 1998 2D offshore seismic survey in this area and other exploration activities in 1998.

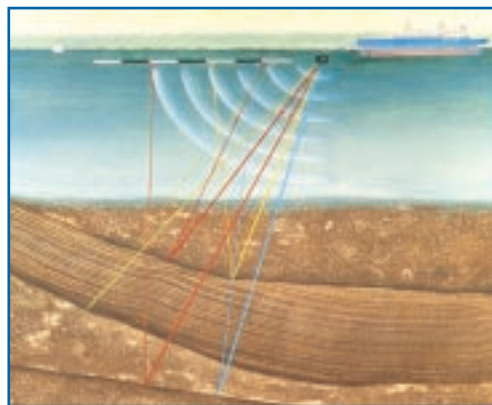


Illustration of Marine Seismic Acquisition

Corridor will be seeking a partner to participate in further work in this offshore area at the exploration drilling stage.



Seismic Buggies at Work in Gaspé

## GASPE PENINSULA, QUEBEC

Following a geological evaluation of its Gaspé licence area Corridor relinquished (June 1997) 246,225 hectares of exploration licences covering the Southern section of the Gaspé area and discontinued its farmin program with Prospection 2000 Inc.

During August and September, 1997, Corridor completed the acquisition of sixty-one kilometers of new 2D vibroseis geophysical data over selected areas of its remaining licences. Program expenditures were in the order of \$340,000. Processing and interpretation are being completed. Corridor plans to undertake additional seismic in the area in 1998 prior to seeking a partner to participate in exploration drilling.

The Company continues to hold 263,610 hectares of petroleum prospective licences lying along and to the south of the Shick Shock fault.

## MAGDALEN ISLANDS, QUEBEC



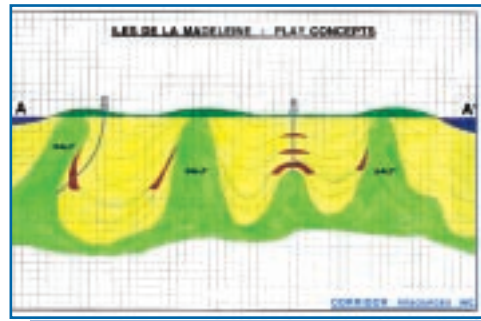
Magdalen Islands

On March 4, 1997 petroleum exploration licences were granted to Corridor for 285,000 acres covering most of the Magdalen Islands and the surrounding near shore area. These lands afford Corridor an onshore platform from which to explore the gas-prospective Cumberland sands lying between and against major Windsor salt piercement structures dominating this central portion of the Maritimes Basin.

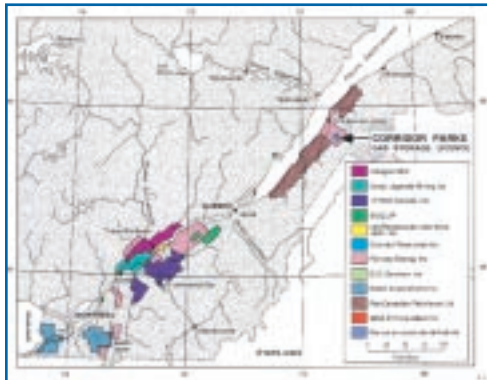
Corridor is keying on the salt piercement, salt pillow and unconformity combinations in the pursuit of basin-centre gas in positions which can be directionally drilled in a cost effective manner from onshore drilling locations. Following the reprocessing of existing onshore seismic in the area, new marine seismic acquisition will be undertaken in the area during 1998.

An immediate market for approximately 10 million cubic feet per day of natural gas production exists on the Magdalen Islands for the generation of

electric power and for general heating purposes. The approximately 15,000 residents on the Island are currently consuming imported fuel oil for power and heating at relatively high costs.



Magdalen Islands Play Concepts

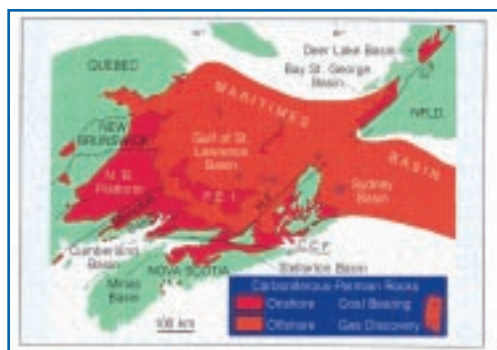


Corridor Parke Gas Storage Licence

## PARK NATURAL GAS STORAGE, QUEBEC

The Company plans to prepare the Parke reservoir as a natural gas storage site as part of the extension of gas deliveries into eastern Quebec. The Parke site may also play a gas storage role in the potential delivery of gas from Anticosti Island into the Quebec City area. Fairlady Energy Inc. and PanCanadian Petroleum Ltd. have acquired exploration licences adjacent to the Corridor Park licence.

## NEW BRUNSWICK



Maritimes Basin with Sackville and Moncton Subbasins

The pace of exploration activity in southeastern New Brunswick has increased with a U.S. independent commencing a four well drilling program in August 1997. These wells will be located near the Stoney Creek Field, between Corridor's licences in the Sackville and Moncton Subbasins.

### MONCTON SUBBASIN

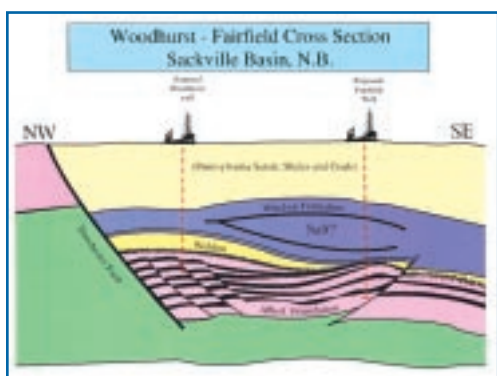
In May 1997, Corridor successfully bid for three of nine petroleum exploration licences offered within the Moncton Subbasin southwest of Moncton, totalling 65,763 hectares in area.

The carboniferous sections within this Subbasin contain a variety of exploration targets. Previous seismic coverage and prior drilling/core data have indicated the presence of attractive prospects for both oil and natural gas in the Albert sands.

During the fall/winter of 1997, Corridor plans to review all existing seismic data and reprocess selected lines. This work will be followed by the acquisition of new seismic during 1998, prior to bringing in a drilling partner through a farmout agreement.

### SACKVILLE SUBBASIN

Corridor has identified two exploration drilling targets in this area as a result of its vibroseis survey run in early 1996. 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 the 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 \$2.0 million (tested).

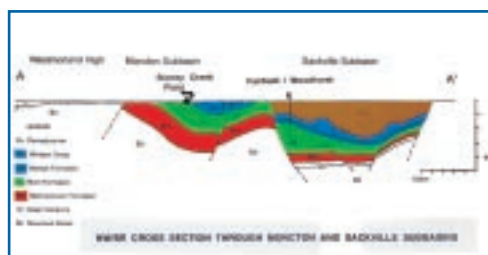


Woodhurst - Fairfield Cross Section

The Woodhurst prospect presents a roll-over of the Albert formation in an anticlinal structure in front of the Dorchester Fault. The prospective Albert sand/shale sequence outlined on Corridor's seismic is broken up into several faulted sections across this anticlinal feature. The drilling depth to evaluate the Woodhurst prospect is indicated to be about 8500 feet, with an estimated well cost approximately \$1.7 million to drill and test this prospect.

Corridor will be seeking a partner for a minimum 50% working interest in these prospects and plans to commence drilling operations during 1998.

Footnote #1: In November 1997, the New Brunswick Department of Natural Resources issued a tender call for two additional oil and gas licences in the Sussex area of the Moncton Subbasin. These licences were successfully bid and acquired by Corridor on December 10th, 1997.



NW/SE Cross Section through Moncton and Sackville Subbasins

## GREEN GABLES, PRINCE EDWARD ISLAND

In January, 1997, Corridor entered into a farmout agreement with Dobrana Resources Ltd. of Vancouver, whereby Dobrana could earn a 50% working interest in the Green Gables permit area by participating in the Green Gables #2 well.

The well was spudded on June 5th, and reached a total depth of 2293 meters (7523 feet) on July 1, 1997. Wireline logging confirmed the presence of approximately 50 meters of gas bearing Lower Riversdale sands, with low porosity and permeability.

Two production tests of the gas bearing intervals were conducted. The first test was a misrun and the second test produced gas to surface at

very low rates in the range of 5000 to 8000 standard cubic feet per day. Post well analysis and independent reservoir studies indicate that if these gas bearing zones were to be stimulated using a specific fracturing fluid and proppant, initial gas flow rates in the order of 1.3 million cubic feet per day may be achievable. Petrophysical analysis indicates recoverable reserves in the range of 47 to 72 billion cubic feet for the Green Gables field. Corridor plans to re-enter, frac and test the well in 1998, at an estimated cost of \$600,000, once its partner Dobrana Resources has obtained the funding required to cover its share of the expenditures.



Ralex Rig #4 at Green Gables #2 Site



Flaring Gas at Green Gables #2, PEI

**Corridor Resources Inc.**  
**Financial Statements**  
**August 31, 1997**

## Auditors' Report

To the Shareholders of  
Corridor Resources Inc.

We have audited the balance sheets of Corridor Resources Inc. as at August 31, 1997 and 1996 and the statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based 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, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Halifax, Canada  
October 17, 1997 (except for Notes 3 and 13, as to  
which the date is December 1, 1997)

  
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

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**Corridor Resources Inc.**  
**Statements of Loss and Deficit**

Years ended August 31

1997

1996

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|                            |                     |                     |
|----------------------------|---------------------|---------------------|
| Interest revenue           | \$ 16,330           | \$ 16,843           |
| Expenses                   |                     |                     |
| General and administrative | 126,765             | 136,268             |
| Depreciation               | 3,944               |                     |
| Professional fees          | 27,441              | 32,994              |
| Other                      |                     | 1,676               |
|                            | <u>158,150</u>      | <u>170,938</u>      |
| Net loss                   | <u>\$ (141,820)</u> | <u>\$ (154,095)</u> |

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|                                 |                     |                     |
|---------------------------------|---------------------|---------------------|
| Deficit, beginning of year      | \$ (207,039)        | \$ (1,094)          |
| Net loss                        | (141,820)           | (154,095)           |
| Costs related to reorganization |                     | (51,850)            |
|                                 | <u></u>             | <u></u>             |
| Deficit, end of year            | <u>\$ (348,859)</u> | <u>\$ (207,039)</u> |

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Losses per share (Note 6)

See accompanying notes to the financial statements.

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**Corridor Resources Inc.****Balance Sheets**

August 31

1997

1996 (Restated)

**Assets**

## Current

|  |                     |                     |
|--|---------------------|---------------------|
| Cash and short term investments                        | \$ 2,372,115        | \$ 459,236          |
| Receivables  |                     |                     |
| Dobrana Resources Ltd. (Note 11)                       | 95,286              |                     |
| Other  | 128,965             | 46,472              |
| Prepays  | 31,959              | 9,397               |
| GG #2 Drilling permit deposit                          | 10,000              |                     |
|  | <u>2,638,325</u>    | <u>515,105</u>      |
| Property and equipment (Notes 2, 3, 4, 7, 11, 12 & 13) | 2,588,217           | 895,191             |
| Investment (Notes 2 & 8)                               | 53,250              |                     |
|  | <u>\$ 5,279,792</u> | <u>\$ 1,410,296</u> |

**Liabilities**

|                       |            |           |
|-----------------------|------------|-----------|
| Payables and accruals | \$ 716,901 | \$ 32,335 |
|-----------------------|------------|-----------|

**Shareholders' Equity**

|                                   |                     |                     |
|-----------------------------------|---------------------|---------------------|
| Capital stock (Notes 2, 5 and 13) | 4,911,750           | 1,585,000           |
| Deficit                           | (348,859)           | (207,039)           |
|                                   | <u>4,562,891</u>    | <u>1,377,961</u>    |
|                                   | <u>\$ 5,279,792</u> | <u>\$ 1,410,296</u> |

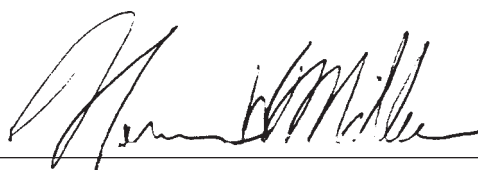
Contingencies (Note 7)

Subsequent events (Note 13)

On behalf of the Board



Director



Director

See accompanying notes to the financial statements.

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**Corridor Resources Inc.**  
**Statements of Changes in Financial Position**

Years Ended August 31

1997

1996

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Cash derived from (applied to)

|   |                     |                   |
|---|---------------------|-------------------|
| <b>Operating</b>                                |                     |                   |
| Net loss  | \$ (141,820)        | \$ (154,095)      |
| Depreciation                                    | 3,944               |                   |
|   | <u>(137,876)</u>    | <u>(154,095)</u>  |
| Change in non-cash operating working capital    | 474,225             | (51,727)          |
|   | <u>336,349</u>      | <u>(205,822)</u>  |
| <b>Financing</b>                                |                     |                   |
| Issue of common shares                          | 4,398,000           | 1,580,500         |
| Share issue costs                               | (313,810)           |                   |
| Costs related to reorganization                 |                     | (51,850)          |
|   | <u>4,084,190</u>    | <u>1,528,650</u>  |
| <b>Investing</b>                                |                     |                   |
| Acquisition of investment                       | (53,250)            |                   |
| Purchase of furniture and equipment             | (29,161)            |                   |
| Exploration expenditures                        | (2,425,249)         | (967,191)         |
|   | <u>(2,507,660)</u>  | <u>(967,191)</u>  |
| Net increase in cash and short term investments | 1,912,879           | 355,637           |
| Cash and short term investments                 |                     |                   |
| Beginning of year                               | 459,236             | 103,599           |
| End of year                                     | <u>\$ 2,372,115</u> | <u>\$ 459,236</u> |

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See accompanying notes to the financial statements.

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## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997 and 1996

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#### 1. Nature of operations

The Company is a junior natural resource corporation primarily engaged in the exploration for, and development of, petroleum and natural gas in Eastern Canada.

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#### 2. Significant accounting policies

##### **Petroleum and natural gas properties**

The Company is in the exploration and development stage and 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. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

Some of the exploration and development activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in these activities.

##### **Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Exploration expenditures and share capital are reduced by the estimated tax benefits transferred to shareholders.

##### **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.

##### **Investment**

The investment is represented by shares in the capital stock of Dobrana Resources Ltd. and is valued at the lower of cost and net realizable value.

##### **Depreciation**

Depreciation is calculated on the declining balance method for all property and equipment at the rates indicated in Note 4. One half of the year's depreciation is taken in the year of acquisition.

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## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997

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#### 3. Petroleum and natural gas properties

The Company currently holds licenses and permits in New Brunswick, Prince Edward Island and Quebec. These licenses and permits give the Company the exclusive right to explore and obtain a lease allowing for the production of oil and natural gas from the properties.

The Company has an underground storage license for the Parke natural gas storage prospect in Quebec, as well as exploration licenses in the Gaspé Peninsula, Anticosti Island and the Magdalen Islands and in the Gulf of St. Lawrence. The Federal and Quebec governments have yet to agree on jurisdictional and management control of the Gulf of St. Lawrence lands. Land retention and expenditure requirements are under review with the Quebec government.

The Company has incurred cumulative exploration expenditures of \$3,392,440 (1996 - \$964,191) in carrying out its exploration activities. Of these expenditures, the largest amounts were incurred in conducting seismic surveys on Anticosti Island, the Gaspé Peninsula and in southeastern New Brunswick and the drilling of one well on the Company's Green Gables, PEI license.

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

The Company has granted a 3% gross over-riding royalty on wellhead revenues on future production of oil and natural gas from Corridor's original Onshore Anticosti Island and Onshore Prince Edward Island licenses. 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 license, and a 1% gross over-riding royalty for production from licenses in the Offshore Gulf of St. Lawrence.

In January 1997, the Company entered into a farmout and joint operating agreement with Dobrana Resources Ltd. pursuant to which Dobrana Resources Ltd. earned a 50% interest in the Company's Green Gables license. This interest was earned through payment of 50% of the costs of drilling and testing the well and the Company receiving 75,000 shares of Dobrana Resources Ltd. and \$25,000 cash. Under the terms of the agreement, the parties will share equally any development costs, as well as any natural gas production. As at August 31, 1997, Dobrana Resources Ltd. was indebted to the Company in the amount of \$95,286 respecting drilling and testing of the subject well. As at October 31, 1997, this indebtedness had increased to \$275,348 (net of GST refunds).

## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997 and 1996

|   | Rate | Cost                | Accumulated<br>Depreciation | 1997                | (Restated)<br>1996 |
|---|------|---------------------|-----------------------------|---------------------|--------------------|
|   |      |                     |                             | Net<br>Book Value   | Net<br>Book Value  |
| 4. Property and equipment                   |      |                     |                             |                     |                    |
| Exploration expenditures                    |      | \$ 3,392,440        | \$                          | \$ 3,392,440        | \$ 967,191         |
| Tax benefits transferred<br>to shareholders |      | (829,440)           |                             | (829,440)           | (72,000)           |
|   |      | <u>2,563,000</u>    |                             | <u>2,563,000</u>    | <u>895,191</u>     |
| Computer hardware                           | 30%  | 6,265               | 940                         | 5,325               |                    |
| Computer software                           | 30%  | 14,292              | 2,144                       | 12,148              |                    |
| Equipment and<br>furniture                  | 20%  | <u>8,604</u>        | <u>860</u>                  | <u>7,744</u>        |                    |
|   |      | <u>\$ 2,592,161</u> | <u>\$ 3,944</u>             | <u>\$ 2,588,217</u> | <u>\$ 895,191</u>  |

#### 5. Capital stock

##### Authorized:

Unlimited Class A common shares without nominal or par value.

##### Issued and outstanding:

|   | Number of<br>Shares | (Restated)<br>Amount |
|---|---------------------|----------------------|
| Balance, August 31, 1995  | 4,561,946           | \$ 76,500            |
| Exercise of share purchase options  | 200,000             | 80,000               |
| "Flow-through" share offering for cash  | 640,000             | 160,000              |
| Deferred income taxes with respect<br>to "flow-through" shares issued                         |                     | (72,000)             |
| Conversion of debt  | 170,000             | 25,500               |
| Public issue for cash   | <u>4,075,000</u>    | <u>1,315,000</u>     |
| Balance, August 31, 1996  | 9,646,946           | 1,585,000            |
| Exercise of share purchase warrants   | 1,350,000           | 390,000              |
| Exercise of share purchase options  | 20,000              | 8,000                |
| Public issue of special Class B share purchase<br>warrants for cash, exercised during year    | 2,896,000           | 2,316,800            |
| Less related share issue costs  |                     | (181,759)            |
| Public issuance of special Class A "flow-through"<br>warrants for cash, exercised during year | 2,104,000           | 1,683,200            |
| Less related share issue costs  |                     | (132,051)            |
| Deferred income taxes with respect to<br>"flow-through" shares issued                         |                     | (757,440)            |
| Balance, August 31, 1997  | <u>16,016,946</u>   | <u>\$ 4,911,750</u>  |

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## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997 and 1996

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#### 5. Capital stock (continued)

##### Options

An aggregate of 1,645,000 options have been granted pursuant to the Company's Stock Option Plan of which 220,000 have been exercised. Set forth below is a summary of the outstanding options to purchase common shares as at August 31, 1997.

| <u>Holder</u>                               | <u>Number of<br/>Shares Under<br/>Option</u> | <u>Date of<br/>Grant</u> | <u>Expiration<br/>Date</u> | <u>Exercise<br/>Price</u> |
|---|--|--------------------------|----------------------------|---------------------------|
| Four directors                              | 505,000                                      | May 14, 1996             | May 14, 2001               | \$ 0.40                   |
| Key shareholders                            | 100,000                                      | May 16, 1997             | May 16, 2002               | 1.00                      |
| Director, key shareholders<br>and employees | 570,000                                      | June 11, 1997            | June 11, 2002              | 1.00                      |
| Stock agent                                 | 250,000                                      | May 1, 1997              | May 1, 1998                | 0.80                      |

##### Share purchase warrants

Set forth below is a summary of the outstanding warrants to purchase common shares as at August 31, 1997.

| <u>Number of<br/>Common Shares<br/>Under Warrant</u> | <u>Date of<br/>Grant</u> | <u>Expiration<br/>Date</u> | <u>Exercise<br/>Price</u> |
|--|--------------------------|----------------------------|---------------------------|
| 2,475,000  | May 9, 1996              | May 9, 1998                | \$ .80                    |
| 2,896,000  | July 22, 1997            | May 1, 1999                | 1.00*                     |

\* Exercise price increases to \$1.20 effective May 2, 1998.

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#### 6. Losses per share 1997 1996

Losses per share are calculated based on the weighted-average number of shares outstanding during the year of 12,423,196; 1996 - 5,968,023.

|                       |                  |                 |
|-----------------------|------------------|-----------------|
| Net loss for the year | \$ (141,820)     | \$ (154,095)    |
| Loss per share        | <u>\$ (0.01)</u> | <u>\$ (.03)</u> |

Losses per share on a fully diluted basis would be as per above, as all factors are anti-dilutive.

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## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997 and 1996

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#### 7. Contingencies

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 \$3,392,440 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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#### 8. Financial instruments

##### Financial assets

The fair values of cash and short term investments, receivables, prepaids and application deposit are assumed to approximate their carrying amounts because of their short term to maturity. The fair value of the long term investment is approximately \$18,750.

##### Financial liabilities

The fair values of payables and accruals are assumed to approximate their carrying amount because of their short term to maturity.

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#### 9. Change in accounting policy

As a result of a change in the current period of the policy of accounting for the tax benefits transferred to shareholders resulting from flow-through expenditures, capital stock outstanding as at August 31, 1996 and petroleum and natural gas interests have been reduced by \$72,000, representing the tax benefits related to flow-through shares issued in 1996. The balance sheet as at August 31, 1996 has been restated to reflect this change.

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#### 10. Income taxes

At August 31, 1997, the Company has resource pools totalling approximately \$3,500,000 available to offset future taxable income. The tax benefits pertaining to these amounts are available for carry forward indefinitely. At August 31, 1997, the Company had non-capital losses of approximately \$357,000 which are due to expire as follows, unless applied against future taxable income of the Company.

|      |                   |
|------|-------------------|
| 1998 | \$ 27,000         |
| 1999 | 15,000            |
| 2000 | 12,000            |
| 2001 | 61,000            |
| 2002 | 53,000            |
| 2003 | 55,000            |
| 2004 | 134,000           |
|      | <u>\$ 357,000</u> |

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## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997 and 1996

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#### 11. Joint venture

The Company uses the proportionate consolidation method to account for its 50% share in a joint venture with Dobrana Resources Ltd. for the Green Gables well #2 on Prince Edward Island. The financial statements include the following with respect to the joint venture:

|  | <u>1997</u> |
|--|-------------|
| Current assets                                 | \$ 65,670   |
| Exploration expenditures                       | 920,880     |
| Current liabilities                            | 138,104     |
| Cash flows resulting from operating activities | 86,744      |
| Cash flows resulting from investing activities | (920,880)   |

There were no revenues, expenditures or net income resulting from the joint venture.

Corridor Resources Inc. is the named operator of the joint venture and, as a result, the Company is solely responsible for the liabilities of the joint venture and subsequent recovery from the joint venture partner.

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#### 12. Related party transactions

During the year, \$171,369 (1996 - \$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. During the years ended August 31, 1997 and 1996, there were no payments under these agreements.

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#### 13. Subsequent events

Effective October 1, 1997, the Company acquired additional exploration leases for the northern half of Anticosti Island totalling 410,237 hectares.

Under a flow-through share subscription agreement dated September 16, 1997, the Company has arranged with an investor to issue 2,000,000 common shares of the Company at a subscription price of \$1 per common share. The Company has further agreed to incur sufficient Qualifying Expenditures on or before December 31, 1998 to enable it to renounce to the investor, with an effective date of December 31, 1997, the Qualifying Expenditures in an amount equal to \$2,000,000. The investor has an option to December 15, 1997 to purchase an additional 500,000 flow through shares at \$1.00 per share, under this agreement. The number of shares to be issued and the issue price under the option are subject to approval by the Alberta Stock Exchange.

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## Corridor Resources Inc.

### Notes to the Financial Statements

August 31, 1997 and 1996

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#### 13. Subsequent events (continued)

On November 28, 1997, the Company entered into a farmin agreement with Shell Canada Limited on the Company's Anticosti Island licenses. Under the terms of the agreement, Shell Canada Limited has committed to drill and operate four wells and conduct 500 kilometres of seismic, up to a maximum earning expenditure of \$20 million. Upon completing its farmin obligations, Shell Canada Limited will earn an undivided 100% working interest and will retain 100% of the funding obligations on the farmout lands, subject to 10% and 12% over-riding royalties payable on production from licenses covering two areas. Subsequent to the production and removal of 5,000,000 barrels of oil equivalent from the lands, the Company's 10% and 12% over-riding royalties will automatically convert to 30% and 35% working interests respectively in the lands at no cost to the Company. The net effect is that all of Corridor Resources Inc.'s costs relating to its 30% and 35% ultimate working interests are carried by Shell Canada Limited until 5,000,000 barrels of oil equivalent have been produced.

On November 7, 1997, the Company's Class A common shares commenced trading on the Alberta Stock Exchange.

## 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  
E-mail [corridor@istar.ca](mailto:corridor@istar.ca)

### 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

Alberta Stock Exchange  
Symbol CDH

### DIRECTORS AND OFFICERS

Norman W. Miller, President and Director  
Paul Hopkins, Vice President and Director  
Brad R. Perry, Chief Financial Officer  
Charles MacDonald, Chairman  
Jacques Plante, Director

### SHARE CAPITAL

Shares Authorized – Unlimited  
Class A Shares issued as of  
August 31, 1997 – 16, 016, 946

### NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Corridor Resources Inc. will be held on Thursday, February 26, 1998 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