

TABLE OF CONTENTS

PRESIDENT'S REPORT	2
CORRIDOR'S PRIMARY EXPLORATION PERMIT AREAS	4
DETAILS AND LICENCE AREAS	7
AUDITOR'S REPORT	13

PRESIDENT'S REPORT

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 publicly traded petroleum exploration company in eastern Canada. During the past year, the Company completed an 800 km \$1,400,000 marine seismic survey covering Corridor lands in the Gulf of St. Lawrence, including the giant "Old Harry" prospect. Additional seismic and geochemical programs were completed in Gaspé, New Brunswick, and Prince Edward Island. Shell Canada Limited and Encal Energy Limited drilled and evaluated the first two wells and completed 400 km of new seismic as part of their earning commitment on Anticosti Island to gain an interim earning of 15% working interest in Corridor's Anticosti Island permits (2,400,000 acres). Eastern Canada continues to attract growing interest in petroleum exploration and development.

FINANCING

The Company completed a private placement flow through share issue with Enervest Ltd. in December 1997 of 2,500,000 shares at \$1.00 per share. These funds were used for the offshore Gulf of St. Lawrence seismic program and various other exploration activities. In May 1998, purchase warrants from the May 1996 share issue were exercised at \$0.80 per share and contributed \$1,967,000 to the company. We were very pleased with the shareholder response and support in the exercise of these warrants. Since incorporation, the Company has raised external funding net of issue costs totalling \$10,400,000 (part equity and part flow through). 65% of these funds have been expended on exploration seismic and drilling projects, 3% on land licencing and fees, and 8% for corporate administration (24% is still on deposit).

YEAR 2000 READINESS

Externally, Corridor is exposed to similar disruptive business risks as other Canadian companies. To minimize those risks we will continue to use multiple suppliers for key goods and services. As work programs progress into late 1999, we will endeavour to ensure that suppliers with whom new contracts are entered into are year 2000 compliant.

Corridor has completed an internal impact assessment to determine the potential effects of Y2K. All computer hardware and software that may contain date-dependent code has been identified, the impacts of system failures assessed, and the key systems tested and found to be acceptable.

A BUSY YEAR AHEAD

1999 will be an exciting and very active year for the Company. Under the Anticosti farmout agreement, Shell/Encal will drill at least one more well during the year (with the fourth well in the program committed for the year 2000) and continue to acquire new seismic data on the Island. Corridor is negotiating with prospective partners to drill the large offshore "Old Harry" structure in August-September. The Company is also planning to drill exploration wells in New Brunswick, Gaspé and the Magdalen Islands. New farmouts are being progressed to finance planned programs. Through selective "value added" exploration work, new land acquisition and farmout arrangements, the Company is committed to increasing its net asset value over the coming year.

We thank the shareholders for their continuing support of our objectives.



Norman W. Miller, President and Director
December 7, 1998

RAPPORT DU DIRECTEUR GÉNÉRAL

SOMMAIRE GÉNÉRAL

Corridor Resources a été incorporée en mars 1995 avec l'objectif d'exploration et de développement de réserves de pétrole et de gaz naturel, initialement au Québec, Nouveau Brunswick et à l'Île du Prince Édouard. Présentement Corridor détient plus de 5,000,000 d'acres de permis d'exploration. Avec ces droits pétroliers importants, elle est la plus grande détentrice de droits pétroliers parmi toutes les compagnies publiques explorant dans l'Est canadien. Durant la dernière année la Compagnie a acquis 800 km de relevés sismiques marins, au coût de 1,400,000\$, sur ses permis dans le Golfe Saint-Laurent, recouvrant plus particulièrement une structure prospective géante: "Old Harry". Des travaux sismiques additionnels ainsi que des relevés géochimiques ont aussi été complétés dans la région de Gaspé, l'Île du Prince Édouard et le Nouveau Brunswick. Shell Canada Limited et Encal Energy Limited ont foré et évalué deux puits et acquis 400 km. de relevés sismiques sur l'Île d'Anticosti. Ces travaux sont effectués à l'intérieur d'une entente d'affermage avec Corridor et leur permettent de gagner un intérêt en intérim de 15 % dans 2,400,000 d'acres détenus par la Compagnie sur l'Île. La région Est canadienne continue à attirer un intérêt croissant dans le secteur de l'exploration et du développement pétrolier.

LE FINANCEMENT

La Compagnie a procédé à une émission d'actions "flow through" sur le marché privé, avec Enervest Ltd., de 2,500,000 actions à 1.00\$ par action en décembre 1997. Ces fonds ont été utilisés pour le programme sismique marin dans le Golfe Saint-Laurent et pour d'autres programmes d'exploration sur d'autres permis. En mai 1998 des options (warrants) d'achat provenant de l'émission d'actions de mai 1996 ont été exécutés au taux de 0.80\$ par action. Cet achat a contribué la somme de 1,967,000\$ aux fonds de la Compagnie. Nous avons été très heureux de la réaction et du soutien des actionnaires lors de l'exécution de cet achat. Depuis son incorporation, la Compagnie a obtenu des financements externes de 10,400,000\$ nets des coûts d'émission (en partie équité et en partie "flow through"). La répartition des dépenses se situe comme suit: 65% pour l'acquisition de relevés sismiques et de forages d'exploration, 3% pour l'obtention de permis et de frais associés, 8% pour frais administratifs et 24% en dépôt.

PRÊTS POUR L'AN 2000

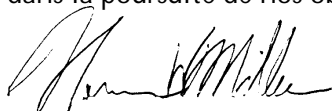
Comme toute autre compagnie canadienne, Corridor est exposée aux forces externes similaires qui altèrent les risques d'affaires normaux. Afin de minimiser ces risques la Compagnie continuera à utiliser plusieurs différents fournisseurs pour la fourniture de biens et services essentiels. Au fur et à mesure que les programmes de travaux s'acheminent vers la fin de 1999, Corridor fera tous les efforts nécessaires pour que tous les contrats en vigueur soient compatibles et continus pour le passage à l'an 2000.

La Compagnie a procédé à une évaluation de l'impact interne éventuel des effets possibles du problème Y2K. Tous les logiciels et progiciels qui risqueraient d'incorporer des données sensibles aux échéanciers ont été identifiés, les effets d'une éventuelle panne évalués et les systèmes clé mis à l'épreuve et trouvés acceptables.

UNE ANNÉE 1999 OCCUPÉE

Corridor peut anticiper une année stimulante et très active en 1999. À l'intérieur du contrat d'affermage avec Shell/Encal sur l'Île d'Anticosti, ces derniers foreront au moins un puits pendant l'an prochain (un quatrième est contractuellement prévu pour l'an 2000) et continueront l'acquisition de relevés sismiques.

Pour août-septembre 1999, Corridor est en voie de négocier avec des partenaires prospectifs les termes permettant le forage de la structure "Old Harry". La Compagnie planifie aussi le forage de puits d'exploration au Nouveau Brunswick, à Gaspé et aux Îles de la Madeleine. D'autres affermages et financement additionnel seront recherchés pour ces nouveaux programmes. Par son travail d'exploration avec une valeur ajoutée sélective, de nouvelles acquisitions de droits pétroliers et d nouvelles ententes d'affermage, Corridor est engagée à l'augmentation de la valeur nette de ses actifs pendant l'an prochain. Nous remercions les actionnaires pour leur support continu dans la poursuite de nos objectifs.



Norman W. Miller, Directeur Général
le 7 décembre, 1998

CORRIDOR'S PRIMARY EXPLORATION PERMIT AREAS

2,393,852 ACRES ANTICOSTI ISLAND, QUEBEC

Shell Canada Limited and Encal Energy Ltd. have completed drilling the first two wells and the acquisition of 400 kilometers of new seismic satisfying a portion of their farmin commitment. Although the first two wells, Roliff #1 and Jupiter #1, were dry holes, the excellent technical data obtained and the seismic results will be utilized by Shell/Encal in locating the next two Anticosti exploration wells. Shell/Encal have committed to drill the third well in 1999, and the fourth well in 2000.

1,449,765 ACRES OFFSHORE GULF OF ST. LAWRENCE, QUEBEC

Corridor has conducted 800 km of new 2D marine seismic in the area during the summer of 1998, surveying several large Ordovician prospects and including the giant "Old Harry" structure located on the northern margin of the Carboniferous Magdalen basin. "Old Harry" has the potential to hold several billion barrels of recoverable oil and/or trillions of cubic feet of natural gas. Corridor plans to assemble a consortium of oil companies to participate in the drilling of the "Old Harry" prospect during 1999, pending timely government approvals.

651,393 ACRES GASPE PENINSULA, QUEBEC

The Company followed the 1997 seismic survey (61 km) with a smaller survey of 20 km in August 1998. The seismic data has outlined what appears to be a large Silurian age reef present to the south of the Shick-Shock fault. Corridor is currently analysing oil samples from seeps along this trend, and plans to select a drilling location for testing the reefal structure in 1999.

284,665 ACRES MAGDALEN ISLANDS, QUEBEC

Corridor is currently evaluating the prospects for natural gas in sands flanking the salt domes in this area which could be economically exploited from onshore locations. Plans for an initial exploration well on the Islands are being formulated, with drilling expected to take place next summer.

14,826 ACRES PARKE UNDERGROUND STORAGE, QUEBEC

Corridor holds two permits covering the rights for oil/gas exploration and underground gas storage. The site has potential to support the extension of gas deliveries into eastern Quebec or have a role in the potential delivery of gas from Anticosti Island into the Quebec City area.

194,657 ACRES SACKVILLE SUBBASIN, NEW BRUNSWICK

Drilling of the Fairfield and Woodhurst prospects has been delayed pending the outcome of natural gas distribution hearings in New Brunswick. Numerous other exploration leads are located west of these prospects on Corridor lands and near the Sable gas pipeline. Partnered exploration drilling is planned to commence in the spring of 1999.

251,424 ACRES MONCTON SUBBASIN, NEW BRUNSWICK

Corridor's 1998 exploration activities were suspended pending the outcome of natural gas distribution hearings in New Brunswick. In November, the Select Committee on Energy issued its recommendation report recognizing the Producer Class Franchise which will ensure favourable local market access for indigenous natural gas. Exploration drilling activities in this basin are scheduled to commence during the spring of 1999.

153,882 ACRES CAVENDISH, PRINCE EDWARD ISLAND

The Green Gables #2 well was drilled, 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. Corridor plans to acquire a farmin partner to deepen the well using air drilling techniques and to frac the gas bearing zones to increase gas productivity to potentially commercial rates.

5,394,464 ACRES TOTAL

MAP TO BE A FOLD OUT

BACK OF MAP PULL OUT

ACTIVITY INCREASING IN EASTERN CANADA



North American oil and gas sources and markets

Atlantic Canada is emerging as the Continent's newest major oil and natural gas producing area. The regions petroleum production is well positioned to compete with supplies from western Canada and the Gulf of Mexico for the fast growing energy markets of eastern Canada and the United States.

As part of this growing new opportunity, Corridor has staked out a strategic land position covering some large and exciting oil and natural gas prospects.

RECENT ACTIVITIES AND EVENTS

Eastern Canada continues to attract increasing interest in petroleum exploration and development. During 1998, MariCo Oil & Gas Corporation made a gas discovery near Hillsborough New Brunswick, on lands adjacent to Corridor's, which is reported to have flowed natural gas at a rate of 2.5 million cubic feet per day. The Sable Offshore Energy Project and the Maritimes & North East Pipeline Project are proceeding, with first natural gas deliveries scheduled for late November 1999. Both in New Brunswick and Nova Scotia, several large gas distribution companies are competing for province-wide natural gas distribution franchises. Indigenous gas production franchises are being favourably recognized by both provinces, providing an excellent transportation and marketing opportunity for natural gas which Corridor may discover and develop in New Brunswick. In Newfoundland, the Hibernia Field is in production and the Terra Nova Field has entered the construction phase. PanCanadian Petroleum and Encal Energy (farming in on Hunt Oil's interest) are preparing to drill a well at Shoal Point in Western Newfoundland to further evaluate an oil discovery made at the Port au Port Peninsula in 1995. The Nova Scotia Natural Resources Department awarded eight new onshore exploration permits totalling in excess of 1,000,000 acres. The Canada Nova Scotia Offshore Petroleum Board issued a 2 block licence to Hunt Oil offshore Cape Breton, and most recently announced a call for bids for lands within the Gulf of St. Lawrence. Mobil announced the opening of new exploration offices in Halifax and St. John's. Shell Canada is completing a corehole drilling program to further define the oil shale deposits in south-eastern New Brunswick. Management and alliance personnel, oilfield equipment and supporting services will continue to flow into the Maritime region to support these new projects and activities. Numerous large new and prospective blocks of land have been nominated or posted offshore Nova Scotia and Newfoundland, with industry bids to be tendered in 1999.

ANTICOSTI ISLAND, QUEBEC

Corridor acquired its initial exploration licences on Anticosti Island 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 2,393,852 acres. The Company's second 2D geophysical acquisition program was completed in August 1997 with 70 kilometers of new data being obtained in the Jupiter and Brick areas.

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.

During the summer of 1998, Shell Canada Limited and Encal Energy Ltd. completed the drilling of the first two wells and the acquisition of 400 kilometers of new seismic satisfying a portion of their farmin commitment. The first two earning wells, Roliff #1 and Jupiter #1, failed to encounter commercial quantities of hydrocarbons and were abandoned. In addition to the new seismic, Shell/Encal have conducted new aeromagnetic, SFD, geochemical and gravity surveys on the Island this year. The results of these surveys, combined with the excellent technical data obtained from the Roliff and Jupiter wells, will be utilized by Shell/Encal in positioning the final 100 kilometers of seismic and in locating the next two Anticosti exploration wells. Shell/Encal have committed to drill the third well by the end of 1999, and the fourth well by the end of 2000.

Upon completing farmin obligations as set forth in the agreement, Shell and Encal will each earn an undivided 50% working interest and will each retain 50% of the funding obligations in the farmout lands, subject to a 12% over-riding royalty payable to Corridor on production from five exploration licences covering an area of 260,000 acres (the 35% lands), and a 10% over-riding royalty payable to Corridor on production from exploration licences covering approximately 2,110,000 acres (the 30% lands) on the balance of Anticosti Island, excluding the proposed Vaureal Park (see map).

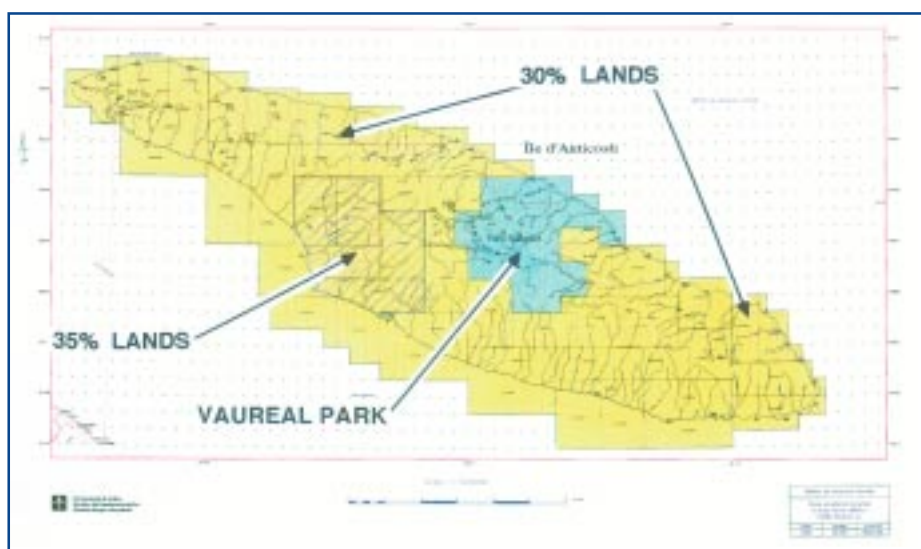
Once 5 million barrels of oil equivalent have been produced and removed from the Island, Corridor's 12% and 10% over-riding royalties automatically convert to 35% and 30% Corridor working interests, at no cost to Corridor. *The net effect is that all Corridor's costs (exploration and production) relating to its 35% and 30% ultimate working interests are carried by Shell/Encal until 5 million barrels of oil equivalent have been produced.*



Ralex #4 Rig at Jupiter #1 location

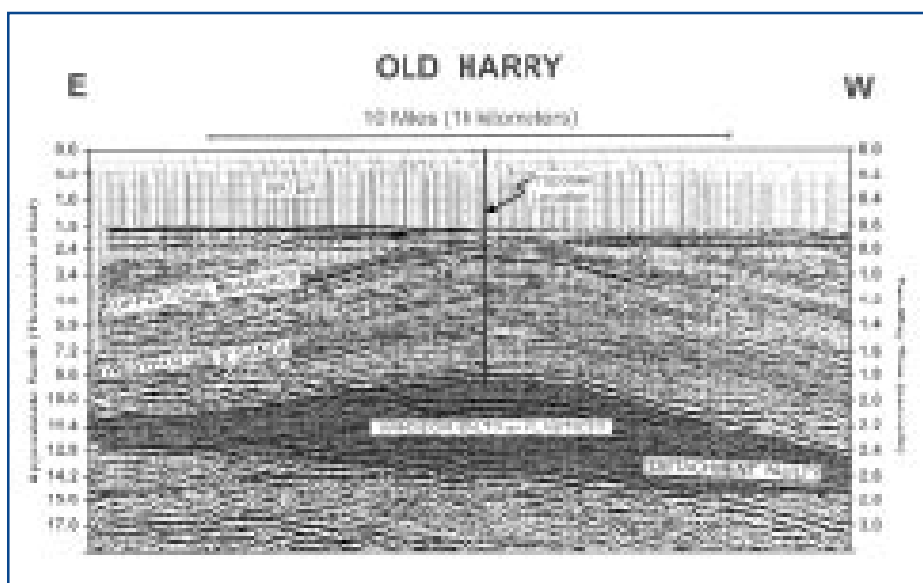


Senior Quebec Natural Resources officials accompany Corridor representatives to Jupiter well site



Shell/Corridor farmin licences

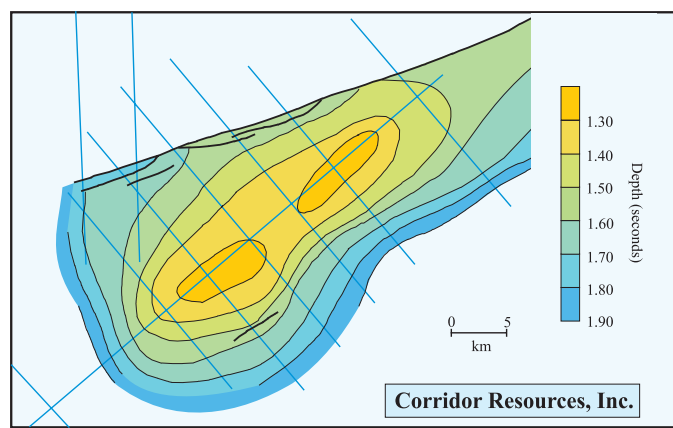
GULF OF ST. LAWRENCE, QUEBEC



Seismic section across "Old Harry"

Corridor holds Quebec exploration licences covering approximately 1,450,000 acres located offshore in the central part of the Gulf of St. Lawrence. Corridor has successfully reprocessed seismic in this area, delineating several large Ordovician prospects in the Anticosti Basin. On August 1st, 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 abarrels per day respectively. PanCanadian has announced revised plans to drill a follow-up well to Port au Port at Shoal Point, commencing January 1999.

The giant "Old Harry" structure, located on the northern margin of the Carboniferous Magdalen Basin, has simple 4-way closure covering an area of approximately 60,000 acres and is positioned on-trend with porous and permeable, oil stained Westphalian "B" sands tested (water-bearing) by the Texaco Brion Island well drilled in 1970. Located in a water depth of 1,400 feet, the prospective sands lie at a relatively shallow total depth of 4,000 to 6,000 feet. In August, 1998, Corridor acquired 800 kilometers of new 2-D seismic data across "Old Harry" and the adjacent Ordovician prospects as part of a marine seismic program conducted by GSI. The new data has greatly reduced and, in some cases eliminated, the water-bottom multiple problems that have previously plagued explorationists in the area. "Old Harry" has the potential to hold several billion barrels of recoverable oil and/ or trillions of cubic feet of natural gas, and is one of the largest undrilled structures in eastern Canada. Corridor is presently assembling a consortium of oil companies to participate in the drilling of the "Old Harry" prospect in August-September of 1999, pending timely approval of the drilling program by the Quebec and Federal governments.

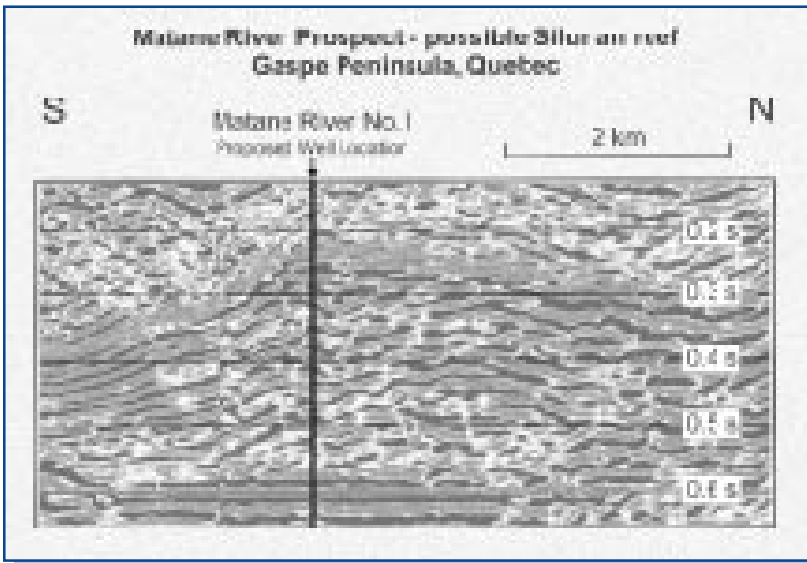


Plan view of "Old Harry" structure



Polar Duke Seismic Vessel in the Gulf of St. Lawrence

GASPE PENINSULA, QUEBEC



Prospect profile defined by Corridor seismic

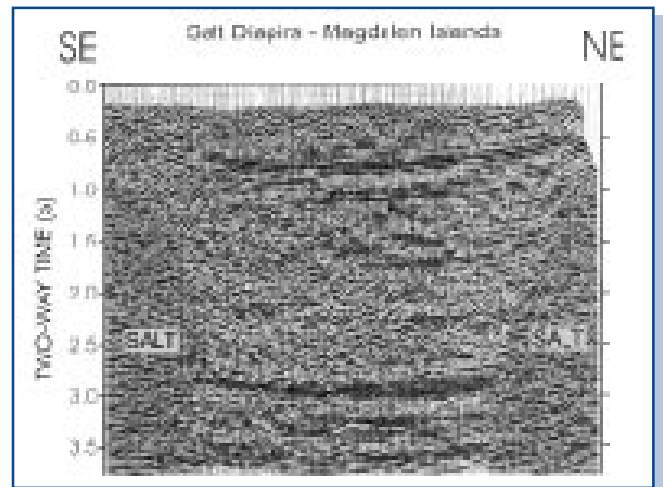
Corridor holds a large land position (651,393 acres) covering prospective Devonian/Silurian formations of the central Gaspé area. Corridor's lands lie between holdings acquired by PanCanadian to the north and by Shell to the east. Corridor has drilled a shallow well near Lac Matapédia which confirmed the presence of light crude oil within fractures in the Devonian/Silurian age sediments.

In 1997, Corridor completed a vibroseis seismic survey (approximately 61 kilometers) on its Gaspé lands, followed by 20 kilometers of additional dynamite seismic in August 1998. This latest seismic has outlined what appears to be a large Silurian age reef present to the south of the Shick-Shock fault. Corridor is currently analyzing geochemical data and oil samples from seeps along this trend, and plans to acquire a partner and drill the reefal structure in 1999.

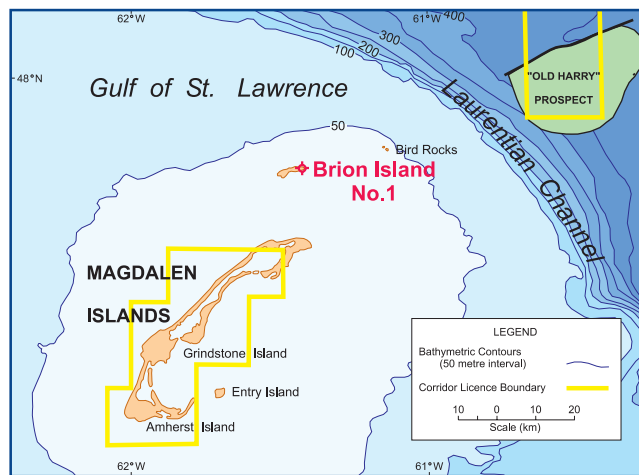
MAGDALEN ISLANDS, QUEBEC

Corridor has exploration licences covering 284,665 acres on the Magdalen Islands and the near offshore area in the Gulf of St. Lawrence. Previously run seismic has been reprocessed by Corridor and the edges of several salt domes exhibiting flanking sand/shale sequences have been profiled. Corridor is currently reviewing the salt piercement, salt pillow and unconformity combinations in the pursuit of basin-center gas in positions which can be directionally drilled in a cost effective manner from onshore drilling locations. The sands flanking the salt domes in this area may have potential for natural gas which could be economically exploited. Natural gas market opportunities for on-island use and export potential are being evaluated.

Plans are being formulated, including acquisition of a farm-in partner, to drill an initial exploration well on Cap-aux-Meules expected to take place next summer.



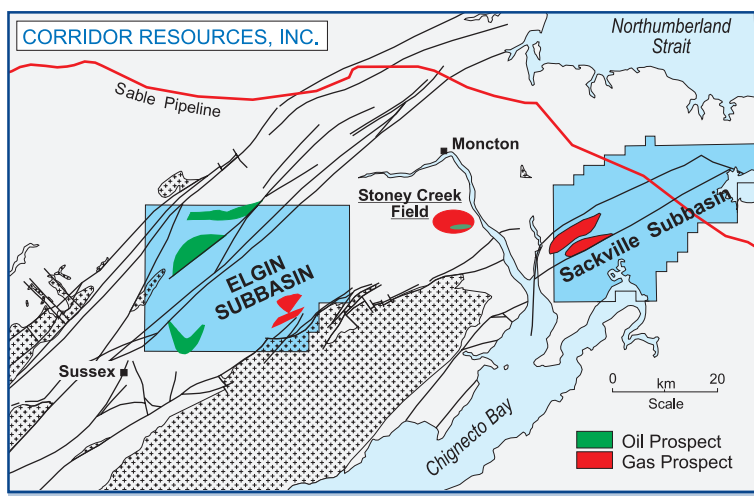
Petroleum prospects flanking salt domes under Magdalen Islands



Regional setting – Magdalen Islands and "Old Harry" areas

NEW BRUNSWICK

The New Brunswick Government announced in late June that a Select Committee on Energy would receive expressions of interest for natural gas distribution in August, followed by public hearings ending in mid September. The Panels final recommendations were made on November 4, 1998. This process has temporarily delayed Corridor's summer plans to shoot new seismic in the Elgin area and, with a partner, to commence exploration drilling. The resumption of partnered exploration work is now being planned for the spring of 1999.



Petroleum prospects on Corridor lands in Southeast New Brunswick

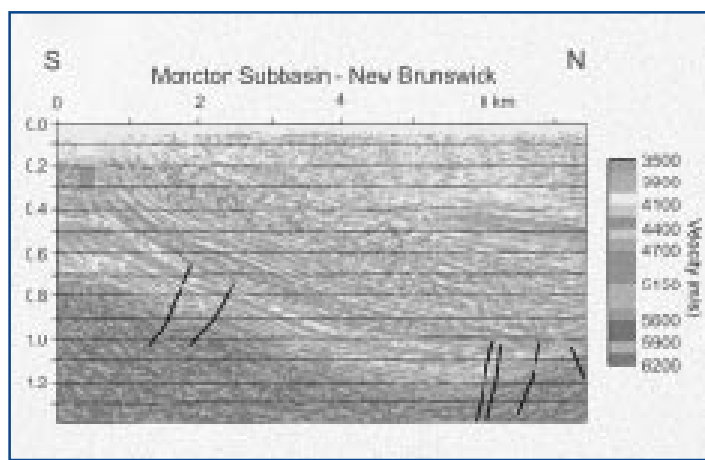
SACKVILLE SUBBASIN

Corridor holds exploration licenses of 194,657 acres in this area and has undertaken a seismic survey across the Fairfield and Woodhurst prospects. The results of the survey confirm two drilling locations to test these Albert formation prospects, which could contain substantial reserves of natural gas and/or oil. The Fairfield prospect has the potential to contain recoverable reserves in the order of 150 BCF of natural gas.

The Fairfield and Woodhurst prospects are located 15 kilometers south east of the Stoney Creek Field which produced 800,000 barrels of oil as well as 28 BCF of gas over the years for the cities of Moncton and Hillsborough. Numerous other exploration leads are located east of these prospects on Corridor lands and near the Sable gas pipeline.

MONCTON SUBBASIN

Corridor holds extensive petroleum exploration licences within the Moncton Subbasin south west of Moncton, totalling 251,424 acres, including the addition of 88,921 acres in 1998. The carboniferous sections within this Subbasin contain a variety of exploration targets. The Elgin and Havelock prospects are located west of the Stoney Creek oil and gas field. Corridor has reprocessed the 1982 seismic acquired by Chevron in the area and has delineated several additional oil and gas prospects. A small seismic survey was completed this fall over the Sally's Brook prospect with processing of this data currently underway. A recent discovery by MariCo Oil & Gas Corporation on adjacent lands is reported to have flowed natural gas at a rate of 2.5 million cubic feet per day and has increased exploration interest in the area.



Seismic cross-section – Elgin Basin

Auditors' Report

To the Shareholders of
Corridor Resources Inc.

We have audited the balance sheets of Corridor Resources Inc. as at August 31, 1998 and 1997 and the statements of loss and deficit and cash flow 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, 1998 and 1997, 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 14, 1998



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.
Statements of Loss and Deficit

Years ended August 31

1998

1997

Interest revenue	\$ 103,047	\$ 16,330
Expenses		
General and administrative	353,968	154,206
Depreciation	13,792	3,944
	<u>367,760</u>	<u>158,150</u>
Loss before other	(264,713)	(141,820)
Write-down of investment (Note 10)	47,250	
Loss before capital taxes	(311,963)	(141,820)
Capital tax expense	<u>(13,659)</u>	
Net loss	<u>\$ (325,622)</u>	<u>\$ (141,820)</u>

Deficit, beginning of year	\$ (348,859)	\$ (207,039)
Net loss	<u>(325,622)</u>	<u>(141,820)</u>
Deficit, end of year	<u>\$ (674,481)</u>	<u>\$ (348,859)</u>

Losses per share (Note 8)

See accompanying notes to the financial statements.

Corridor Resources Inc.

Balance Sheets

August 31

1998

1997

Assets

Current

Cash and short term investments	\$ 3,683,985	\$ 2,372,115
Receivables		
Dobrana Resources Ltd. (Note 3)		95,286
Trade	109,596	128,965
Accrued interest	39,373	
Prepays	14,481	31,959
Drilling permit deposit	15,000	10,000
	<u>3,862,435</u>	<u>2,638,325</u>

Property and equipment (Notes 2, 3, 4 and 9)

5,169,448

2,588,217

Investment (Notes 2 and 10)

6,000

53,250

\$ 9,037,883

\$ 5,279,792

Liabilities

Payables and accruals

\$ 1,225,601

\$ 716,901

Corporate taxes payable (Note 5)

74,480

Capital tax payable

13,659

1,313,740

716,901

Shareholders' Equity

Convertible Debentures (Note 6)

125,000

Capital stock (Notes 2 and 7)

8,273,624

4,911,750

Deficit

(674,481)

(348,859)

7,724,143

4,562,891

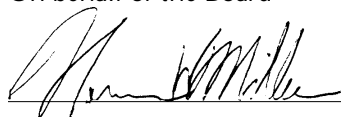
\$ 9,037,883

\$ 5,279,792

Contingencies (Note 9)

Uncertainty due to the Year 2000 Issue (Note 13)

On behalf of the Board



Director



Director

See accompanying notes to the financial statements.

Corridor Resources Inc. Statements of Cash Flow

Years Ended August 31

1998

1997

Cash flows from operating activities		
Net loss	\$ (325,622)	\$ (141,820)
Depreciation	13,792	3,944
	<u>(311,830)</u>	<u>(137,876)</u>
Changes in non-cash operating working capital	684,599	474,225
	<u>372,769</u>	<u>336,349</u>
Cash flows from investing activities		
Loss on writedown of investment	47,250	
Acquisition of investment		(53,250)
Purchase of fixed assets	(40,410)	(29,161)
Expenditures on exploration	(3,554,613)	(3,254,689)
Deferred income taxes on flow-through shares	1,125,000	829,440
	<u>(2,422,773)</u>	<u>(2,507,660)</u>
Cash flows from financing activities		
Proceeds from issue of capital stock	4,677,010	5,227,440
Deferred taxes on flow-through shares	(1,125,000)	(829,440)
Expenditure relating to capital stock issuance	(115,656)	(313,810)
Increase in current income taxes relating to capital stock	(74,480)	
	<u>3,361,874</u>	<u>4,084,190</u>
Net increase in cash and cash equivalents	1,311,870	1,912,879
Cash and cash equivalents		
Beginning of year	<u>2,372,115</u>	<u>459,236</u>
End of year	<u>\$ 3,683,985</u>	<u>\$ 2,372,115</u>

See accompanying notes to the financial statements.

Corridor Resources Inc.

Notes to the Financial Statements

August 31, 1998 and 1997

1. Nature of operations

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

2. Significant accounting policies

Petroleum and natural gas properties

The Company is in the exploration 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 petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration 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 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 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 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.

Corridor Resources Inc.

Notes to the Financial Statements

August 31, 1998 and 1997

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 areas in which licenses are held and their related cumulative exploration expenditures are as follows:

	<u>1998</u>	<u>1997</u>
PEI Green Gables	\$ 1,424,242	\$ 945,766
Anticosti Island	2,133,822	1,667,684
Gaspé Peninsula	899,942	313,400
Gulf of St. Lawrence	2,149,440	218,878
New Brunswick Sackville Basin	224,120	197,447
New Brunswick Moncton Basin	145,589	17,148
Parke Underground Storage	4,449	2,597
Magdalen Island	90,449	29,520
	<u>\$ 7,072,053</u>	<u>\$ 3,392,440</u>

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 \$7,072,053 (1997 - \$3,392,440) 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 from future production of oil and natural gas on Corridor's initial Onshore Anticosti Island and Green Gables, Prince Edward Island licenses, applicable to 40% of Corridor's onshore Anticosti Island license area and 57% of Corridor's Prince Edward Island license area. A 4% gross over-riding royalty was granted for the initial Sackville Basin licenses in New Brunswick, applicable to 44% of Corridor's total New Brunswick licenses. A 1% gross over-riding royalty was granted for initial licenses in the Offshore Gulf of St. Lawrence area (not including the "Old Harry" prospect), applicable to 82% of Corridor's offshore Gulf of St. Lawrence licenses.

Corridor Resources Inc. Notes to the Financial Statements

August 31, 1998 and 1997

3. Petroleum and natural gas properties (continued)

Green Gables, Prince Edward Island

In January 1997, the Company entered into a farm-out 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. In March 1998, Corridor Resources Inc. released Dobrana Resources Ltd. from the joint operating agreement and acquired a 100% interest in the Green Gables licenses. In consideration for the agreement, Corridor Resources Inc. released Dobrana Resources Ltd. from all manner of action, suits, accounts and demands under the joint operating agreement, including debts payable to Corridor Resources Inc. in the amount of \$169,300.

Anticosti, Quebec

On November 28, 1997, the Company entered into a farm-in 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 farm in obligations, Shell Canada Limited will earn an undivided 100% working interest and will retain 100% of the funding obligations on the farm-out lands, subject to 10% and 12% over-riding royalties payable on production from licenses covering two separate 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. During the 1998 fiscal year, Shell drilled the first two wells provided for under the agreement.

4. Property and equipment

	Rate	August 30/98			August 30/97		
		Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Exploration expenditures		\$ 7,072,053	\$	\$ 7,072,053	\$ 3,392,440	\$	\$ 3,392,440
Tax benefits transferred to shareholders		(1,954,440)		(1,954,440)	(829,440)		(829,440)
		<u>5,117,613</u>		<u>5,117,613</u>	<u>2,563,000</u>		<u>2,563,000</u>
Computer hardware	30%	29,659	6,328	23,331	6,265	940	5,325
Computer software	30%	27,752	8,451	19,301	14,292	2,144	12,148
Communication equipment	30%	411	62	349			
Equipment and furniture	20%	11,750	2,896	8,854	8,604	860	7,744
		<u>\$ 5,187,185</u>	<u>\$ 17,737</u>	<u>\$ 5,169,448</u>	<u>\$ 2,592,161</u>	<u>\$ 3,944</u>	<u>\$ 2,588,217</u>

Corridor Resources Inc.

Notes to the Financial Statements

August 31, 1998 and 1997

5. Corporate taxes payable

Renunciation of resource expenditures results in a commitment by the Company to expend \$2,300,523 by December 31, 1998. The Company expects to meet its expenditure requirements by December 31, 1998.

The taxes payable are calculated in accordance with income tax legislation and occur when a portion, or all of the amounts renounced have not been expended. The tax is calculated on a monthly basis on the balance of renounced expenditures that remain unspent.

6. Convertible debentures

On July 14, 1998, the Company created and issued a \$425,000 principal amount convertible debenture to a firm providing legal services to the Company. Of the debenture principal amount, \$125,000 is acknowledged and agreed by the parties as full payment for legal services expended to July 14, 1998 regarding an ongoing legal matter. All amounts payable under the debenture, which was issued pursuant to an agreement dated June 4, 1998 between the Company and the law firm, are convertible by the holder at any time prior to August 1, 2001 into common shares of the Company at the rate of \$1.60 per common share.

The agreement further provides that \$300,000 of the debenture is payable to the law firm in the event that the law firm assists the Company in achieving certain objectives by June 30, 1999. If the objectives are not achieved by such date, but are achieved by June 30, 2000, the amount payable shall be \$200,000. If the objectives are not achieved by June 30, 2000 but are achieved by June 30, 2001, the amount payable shall be \$100,000.

The debenture is non-interest bearing. The law firm has agreed to convert the amount payable to it under the debenture prior to August 1, 2001. Any portion of the debenture outstanding on August 1, 2001 shall be cancelled and returned to the Company. Shares issued on conversion of the debenture are subject to a one year hold period commencing with the date of issue of the convertible debenture.

7. Capital stock

Authorized:

Unlimited Class A common shares without nominal or par value.

Issued and outstanding:

	<u>Number of Shares</u>	<u>Amount</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 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" 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 "flow-through" shares issued		(757,440)
Balance, August 31, 1997	<u>16,016,946</u>	<u>\$ 4,911,750</u>

Corridor Resources Inc.
Notes to the Financial Statements
August 31, 1998 and 1997

7. Capital stock (continued)

Issued and outstanding:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, August 31, 1997	16,016,946	\$ 4,911,750
“Flow-through” share offering for cash	2,500,000	2,500,000
Less		
Related share issue costs		(56,229)
Tax on unused “flow-through” share expenditures		(74,480)
Deferred income taxes with respect to “flow-through” shares issued		(1,125,000)
Exercise of agent’s options	250,000	200,000
Exercise of share purchase warrants	2,458,750	1,967,000
Less		
Related share issue costs		(59,417)
Exercise of share purchase options	25,000	10,000
Cancellation of shares held in escrow	(166,166)	
Balance, August 31, 1998	<u>21,084,530</u> *	<u>\$ 8,273,624</u>

* As at August 31, 1998, 1,418,069 shares were held in escrow.

Under two flow-through share subscription agreements dated September 16, 1997, the Company issued 2,000,000 common shares of the Company at a subscription price of \$1 per common share. One agreement further provided for an option to acquire 500,000 additional flow-through shares at \$1.00 per share. The option was exercised on December 15, 1997.

Options

An aggregate of 2,145,000 options have been granted pursuant to the Company’s Stock Option Plan of which 495,000 have been exercised. Set forth below is a summary of the outstanding options to purchase common shares as at August 31, 1998.

<u>Holder</u>	<u>Number of Shares Under Option</u>	<u>Date of Grant</u>	<u>Expiration Date</u>	<u>Exercise Price</u>
Four Directors	480,000	May 14, 1996	May 14, 2001	\$ 0.40
	200,000	Jan. 26, 1998	Jan. 26, 2003	.85
Key shareholders	100,000	May 16, 1997	May 16, 2002	1.00
Director, key shareholders and employees	570,000	June 11, 1997	June 11, 2002	1.00
	50,000	Nov. 12, 1997	Nov. 12, 2002	.75
	100,000	Jan. 19, 1998	Jan. 19, 2003	.87
	75,000	April 11, 1998	April 1, 2003	1.15
	75,000	June 21, 1998	June 21, 2003	1.60

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 1998 and 1997

7. Capital stock (continued)

Share purchase warrants

On the exercise of a total of 250,000 agent's options in January, March and April 1998, 250,000 new warrants were issued.

Set forth below is a summary of the 3,146,000 outstanding warrants to purchase common shares as at August 31, 1998.

<u>Number of Common Shares Under Warrant</u>	<u>Date of Grant</u>	<u>Expiration Date</u>	<u>Exercise Price</u>
2,896,000	July 22, 1997	May 1, 1999	\$ 1.20
65,000	July 22, 1997	May 1, 1999	1.20
35,000	July 22, 1997	May 1, 1999	1.20
150,000	July 22, 1997	May 1, 1999	1.20

On May 2, 1998, 41,250 unexercised warrants expired.

8. Losses per share

	<u>1998</u>	<u>1997</u>
--	-------------	-------------

Losses per share are calculated based on the weighted-average number of shares outstanding during the year of 18,864,715; 1997 – 12,423,196.

Net loss for the year	\$ (325,622)	\$ (141,820)
Loss per share	<u>\$ (.02)</u>	<u>\$ (0.01)</u>

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

9. 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 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.

Corridor Resources Inc. Notes to the Financial Statements

August 31, 1998 and 1997

10. Financial instruments

Financial assets

The fair values of cash and short term investments, receivables, prepaids and deposits are assumed to approximate their carrying amounts because of their short term to maturity.

The Company wrote down its investment in Dobrana Resources Inc. to the stock market value on August 31, 1998.

Financial liabilities

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

11. Income taxes

At August 31, 1998, the Company has resource pools totalling approximately \$3,000,000 available to offset future taxable income. The tax benefits pertaining to these amounts are available for carry forward indefinitely. At August 31, 1998, the Company had non-capital losses of approximately \$735,000 which are due to expire as follows, unless applied against future taxable income of the Company.

1999	\$ 15,000
2000	12,000
2001	61,000
2002	53,000
2003	55,000
2004	196,000
2005	<u>343,000</u>
	\$ 735,000

12. Related party transactions

During the year, \$139,430 was paid to the Company's legal counsel. One of the partners of this firm became a Director of the Company during the year.

The Company currently has royalty agreements with significant shareholders, as disclosed in Note 3 to the financial statements. During the years ended August 31, 1998, and 1997, there were no payments under these agreements.

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 1998 and 1997

13. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Comparative figures

Certain of the 1997 comparative figures have been reclassified to conform with the presentation adopted in the current year.

PARK NATURAL GAS STORAGE, QUEBEC

The Company plans to prepare the Parke underground reservoir, located 180 km east from Quebec City, on the south shore of the St. Lawrence River near Riviere-du-Loup, as a natural gas storage site. Three wells were previously drilled by Shell/SOQUIP into the Parke reservoir to evaluate its natural gas storage potential. SCGM has recently made application to the Quebec Regie de l'energie for exclusive gas distribution rights along the south shore to Gaspesie as part of a planned future extension of gas deliveries into eastern Quebec. The Parke site may play a gas storage role for either the proposed SCGM distribution system or for the potential delivery of gas from Anticosti Island into the Quebec City area. Studies are currently under way regarding the next steps in preparing Parke as an active storage site by late 2000.



Green Gables #2 Wellhead

GREEN GABLES, PRINCE EDWARD ISLAND

In July, 1997, Corridor completed drilling the Green Gables #2 well to a total depth of 2293 meters. The well encountered natural gas in several intervals totalling up to 50 meters of potential net pay. Two production tests were attempted, resulting in only a small flow of natural gas (7,300 cubic feet per day) due to formation damage. Corridor retains a 100% working interest in this licence. Various technical and geochemical studies have been carried out during the past year. The well is currently suspended.

Corridor plans to deepen the well using air drilling techniques and frac the gas bearing zones to increase gas productivity to potentially commercial rates. If successful, the gas could be used to generate electricity for markets on or off the Island.