



Corridor Resources Inc. 2001 Annual Report

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Cover photo: Seismic acquisition vehicles working along a Millstream area seismic line – summer 2001.

PRESIDENT'S REPORT

GENERAL

This report covers activities during Corridor's fiscal year (to August 31, 2001), excluding certain events that occurred early in our fiscal year, that were discussed as subsequent events in last year's report. During the year, Corridor, in partnership with Potash Corporation of Saskatchewan Inc. (PCS), completed the drilling and evaluation of three wells, McCully #2, McCully P-56 (#3) and McCully C-75 (#4), on the McCully structure. All three wells encountered over-pressured gas sands interbedded with shales in the Albert formation. The McCully #1 and #2 wells have been completed without stimulation as gas wells for production to PCS's potash mining and milling facility, located just over a mile from the discovery well in Penobsquis, near Sussex, New Brunswick. An independent analysis of test results indicates the two wells are capable of producing sufficient gas to meet the PCS facility requirements of approximately 3 million cubic feet per day for a period of three to four years. On July 31, 2001, PCS was awarded a "Local Gas Producer Franchise" by the New Brunswick Public Utilities Board. Corridor and PCS will jointly produce and sell the gas to the PCS facility once the midstream gathering lines and choke plant facilities have been installed, expected to be during the first quarter of calendar 2002.

The gas will be competitively priced against #2 fuel oil currently consumed by the mill, primarily to dry potash. It is expected that Corridor will derive a cash flow in the order of \$2.5 million to \$4 million per year, dependent on the price of fuel oil, for its 50% share of the gas. This will be Corridor's first revenue from the sale of natural gas or oil, and will represent a significant forward step for the company.

EOG FARMOUT

On October 9, 2001 Corridor announced that it had entered into a farmout agreement with EOG Resources Canada Inc. (EOG). EOG has agreed to farm in and operate certain of Corridor's interests in the McCully natural gas discovery area. The agreement covers Corridor's 100% interest in two exploration licences and its 50% interest in a third exploration licence. (Please refer to the map on page 6 outlining the EOG farmout lands.) The agreement excludes the four section area covered by a joint venture agreement between Corridor and PCS, where the first three McCully wells have been drilled, as well as the quarter section containing the fourth McCully well.

FINANCING

In June, 2001, Corridor completed a private placement of 3,000,000 flow-through common shares at \$2.00 per share for total proceeds of \$6,000,000. These funds are being directed at drilling activities in New Brunswick, including further delineation of the McCully discovery. At the same time, an equity financing of 700,000 shares at \$1.80 per share raised \$1,260,000 for general corporate purposes.

PRESIDENT'S REPORT CONTINUED

FORWARD PLANS

During the 2001/2002 fiscal year, Corridor will be working with its partner PCS to expedite installation of midstream facilities and to commence delivery of natural gas to the PCS potash facility as early as possible in calendar 2002. There are thirteen undrilled spacing units (well locations) within the four section Corridor/PCS joint venture area surrounding the first three McCully wells. It is Corridor's intent, with its partner PCS, to drill and frac wells at these locations once the results of EOG's initial three wells are known. Results from these and other future McCully wells, including the degree of success in fracing (stimulating) these wells, will determine the ultimate reserves and productive capacity of the McCully field.

Globex Resources Ltd., Corridor's farmin partner on three new exploration licences located to the west of McCully, plans to commence drilling operations at its first prospect as soon as a suitable rig becomes available. Corridor will operate activities on these licences. On Prince Edward Island, Corridor is undertaking new seismic this fall on the Green Gables prospect in preparation for farming out part of its interest and drilling a new well on the prospect in 2002. On the Magdalen Islands, Corridor and its 40% partner, Foothills Minerals, are actively seeking a farmin partner to drill the onshore Fatima prospect in the spring of 2002.

Offshore in the Gulf of St. Lawrence, Corridor is actively discussing a farmout of its Old Harry prospect under a seismic option agreement. While progress is slow regarding resolution of issues between the Quebec and Canada, the path is clear to drill an exploratory well on the Newfoundland side of this giant structure. Accordingly, Corridor has restructured its farmout agreement terms to provide for a seismic option leading to a possible well on the structure in 2002 or 2003.

Offshore Cape Breton, Corridor and Hunt Oil are participating in public hearings directed by the Canada-Nova Scotia Offshore Petroleum Board to determine if, and under what conditions, exploration seismic and drilling are to be permitted on nearshore licence areas. Government decisions regarding this issue are expected in the spring of 2002.

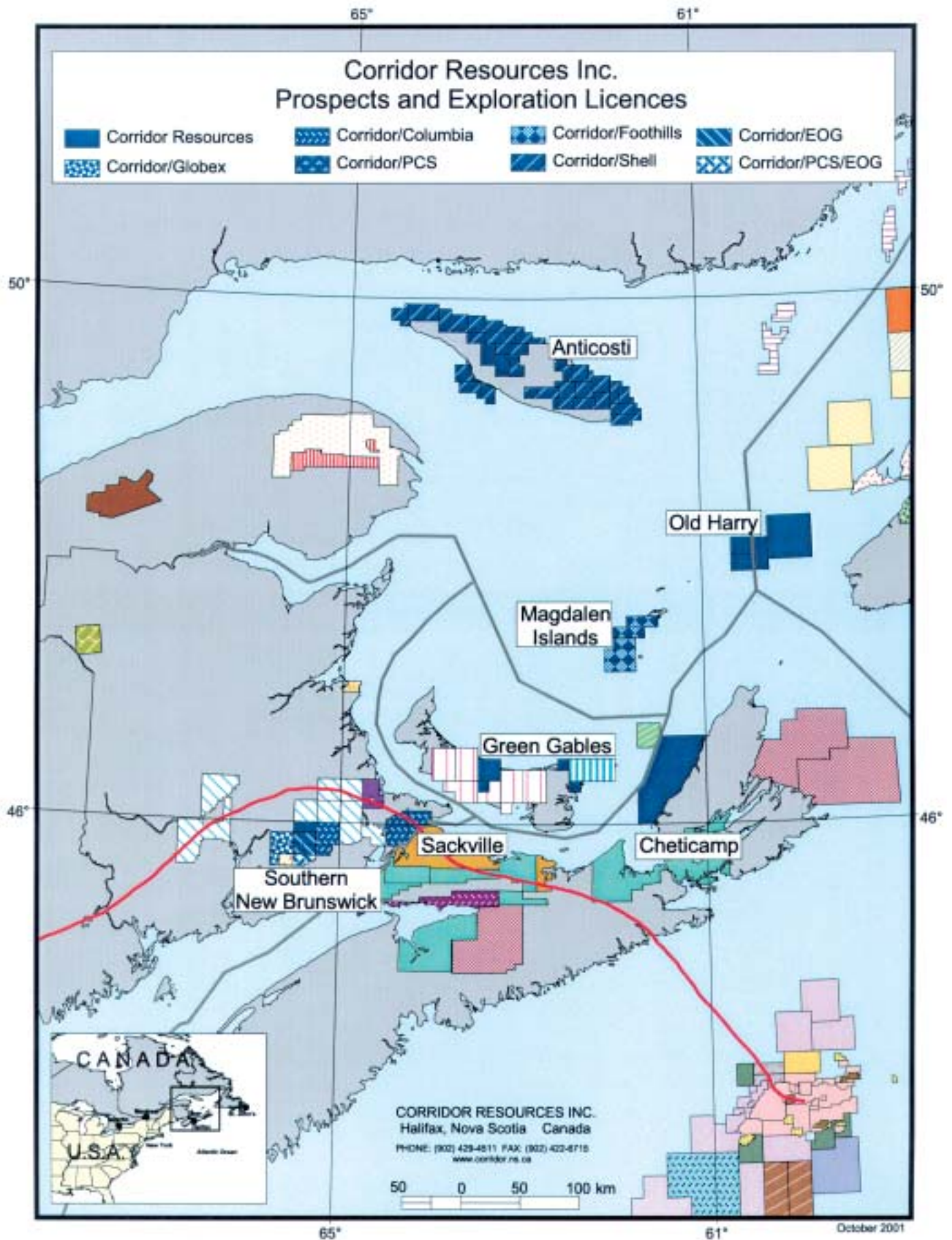
I wish to thank our staff for their hard work and dedication in carrying the McCully exploration work forward to the point where we have been successful in attracting EOG to further explore and develop this large prospect. We look forward with excitement to a busy and productive 2002.



Norman W. Miller, President and Director

October 29, 2001

REGIONAL MAP



CORRIDOR - 2001 ANNUAL REPORT

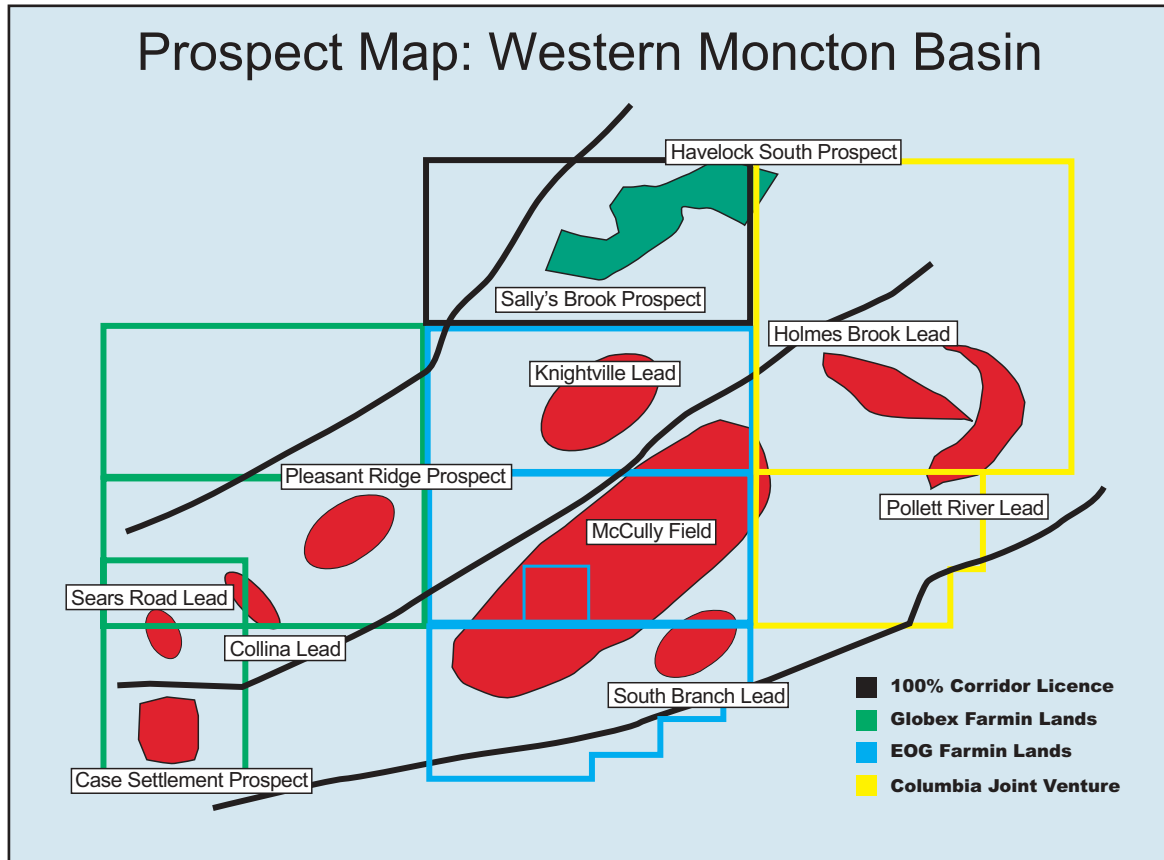
Corridor is an active explorer of the Maritimes and Gulf of St. Lawrence region, focusing on both the Anticosti and Magdalen basins. Onshore, Corridor has made an exciting new natural gas discovery at McCully, near Sussex, New Brunswick. Corridor has drilled four successful wells in the McCully field to date and has recently announced the farmout of part of its interest to EOG Resources Canada Inc. With the Maritimes & Northeast Pipeline now transporting natural gas from the offshore Sable fields to markets in the Maritimes and New England, industry interest is focussing increasingly on exploration opportunities in eastern Canada. Several new oil and natural gas companies are now entering as players in the area, and Corridor expects that trend will continue and accelerate.

Offshore, Corridor believes that the Gulf of St. Lawrence region will emerge as a major natural gas producing area in the years ahead. Geologically, the area is similar in many respects to the Carboniferous basin in the southern North Sea, a large natural gas producing area. The exploration potential of the region has barely been scratched. Much of this potential lies in the northern part of the basin, where only two exploration wells have been drilled to date. None of these wells were located with the advantages of modern seismic and exploration concepts.

CURRENT EXPLORATION ACTIVITIES – SOUTHERN NEW BRUNSWICK

Corridor, along with its 50% partner Potash Corporation of Saskatchewan Inc. (PCS), has now completed the drilling of four successful natural gas wells in the McCully field, located approximately 12 kilometers northeast of Sussex. The wells have encountered a thick sequence of inter-bedded shales and gas bearing sands in the Albert formation, at depths between 1900 and 3000 meters. The formation is over-pressured, with the pressure in the main gas-bearing reservoir measured at greater than 4100 pounds per square inch (psi). The first two wells have been completed without stimulation, in preparation for supplying gas to the PCS potash mill located two kilometers southwest of the wells. Independent reservoir consultants have undertaken preliminary analyses of the flow and pressure data from tests of these two wells, and have projected that the two initial wells are capable of supplying gas to the mill facility at a rate of approximately three million cubic feet per day for a period of four years without compression. PCS has been awarded a local gas producer franchise and Corridor has elected to participate as a 50% partner in the franchise. The two partners expect to commence gas deliveries to the mill in the first quarter of calendar 2002.

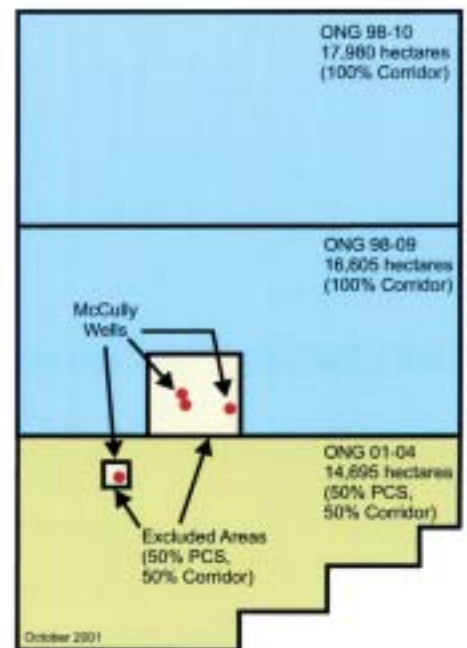
Corridor and PCS have now completed the drilling and casing of the third and fourth wells on the McCully structure. The third well (McCully P-56) encountered a thick sequence of over-pressured, interbedded shales and gas-bearing sands containing various amounts of inter-granular cement and bitumen. Corridor recently announced that drilling and well logging operations at the McCully #4 (C-75) well have been completed after reaching a total depth of 3159 meters. The well encountered numerous natural gas bearing sands in the upper Albert formation, confirming the extension of the McCully field at least five kilometers to the southwest of the McCully #1 discovery well. The lower most productive zone in the McCully #1 well was encountered more than 500 meters deeper (i.e., below 2900 meters) in the McCully #4 well, where well data indicate a gas/water interface within this interval. This interface supports the existence of a regional gas/water contact initially predicted from abnormally high gas pressures encountered in the first three McCully wells. New seismic indicates the productive McCully sands may extend over a large area above this regional gas/water interface. The McCully #4 well has been suspended after running and cementing 7" casing to total depth. Corridor and PCS plan to frac the McCully #4 and #3 wells to complete them as future gas producers once a definitive fracing program has been prepared.



EOG FARMIN

On October 9th, 2001, Corridor announced that it had entered into a farmout agreement with EOG Resources Canada Inc. (EOG) whereby EOG has agreed to farm in and operate certain of Corridor's interests in the McCully natural gas discovery area. The agreement covers Corridor's 100% interest in two exploration licences and its 50% interest in a third exploration licence. The agreement excludes the four section area covered by a joint venture agreement between Corridor and PCS, where the first three McCully wells have been drilled, as well as the quarter section area containing the fourth McCully well. (Please refer to the map illustrating the EOG farmin lands).

Under the terms of the farmout agreement, EOG has committed to drill, evaluate and complete three test wells. EOG has options to drill additional wells to earn an interest in all of the farmout lands. Upon completion of 12 wells or the expenditure of \$50 million on seismic, drilling and development on the farmout lands, EOG will have earned 50% of Corridor's interest in the



EOG Farmin Lands

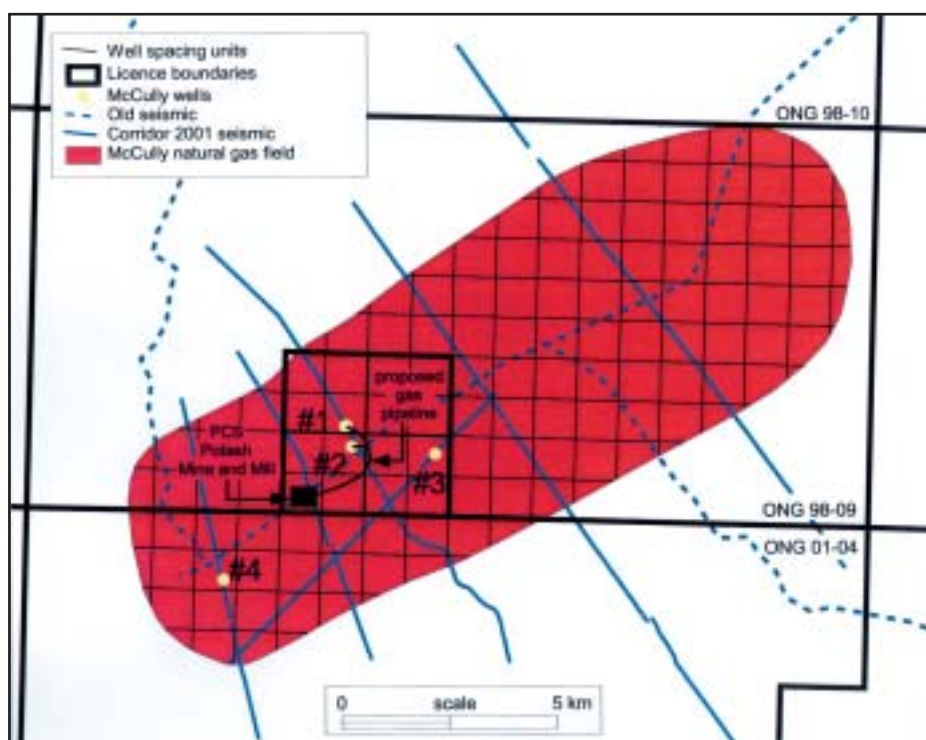
CORRIDOR - 2001 ANNUAL REPORT CONTINUED

farmout lands subject to certain payout conditions. All 12 wells or the \$50 million in exploration expenditure has to occur before December 31st, 2003 or the options expire. Corridor will retain a 15% gross over-riding royalty on natural gas production with respect to the earning wells during the payout period. EOG is a wholly owned subsidiary of EOG Resources, Inc., one of the largest independent (non-integrated) oil and gas companies in the United States, and the operator of substantial proved reserves in the U.S., Canada and offshore Trinidad.

FUTURE EXPLORATION AND DEVELOPMENT AT McCULLY

The McCully structure is a large, anticlinal feature with simple 4-way closure, covering an area of at least 3,000 hectares and possibly up to 12,000 hectares. The overlying Hillsborough unconformity provides a regional stratigraphic trap across the top of the prospect. New 2-D seismic acquired by Corridor and PCS this summer confirms the extension of the McCully structure to the southwest and northeast of the 4-section Joint Venture lands. The field is located approximately 30 miles from the Maritimes & Northeast Pipeline which currently delivers natural gas from offshore fields in the Sable Island area to markets in the Maritimes and New England. As discussed above, the initial two McCully wells are dedicated to supplying natural gas to PCS's potash mill located nearby, commencing early in calendar 2002. Future wells at McCully (including #3 and #4) are directed towards proving and developing sufficient reserves to serve other potential local markets and to economically justify connecting by pipeline to the Maritimes & Northeast Pipeline system. The ultimate reserves and productive capacity of the field will be dependent upon the new wells to be drilled by EOG, in addition to new wells within the original four section joint venture area with PCS, where 13 spacing units (wells) remain to be drilled. The degree of success experienced in fracturing (stimulating) these wells will also be key to the field's long-term ultimate production rate and recoverable reserves.

Plan View McCully Natural Gas Field



CORRIDOR - 2001 ANNUAL REPORT CONTINUED

GLOBEX FARMIN

Corridor holds three new exploration licences located to the west of the McCully discovery, where Globex Resources Ltd. of Calgary has commenced a \$2 million farmin to earn a 50% working interest in these lands. Globex has completed a new 2-D seismic survey over these lands this past summer and is preparing to spud the first exploration well before mid February 2002, with Corridor acting as operator. The three licences cover an area of 43,200 hectares, located to the north and west of the town of Sussex and to the west of the McCully natural gas discovery recently announced by Corridor.

COLUMBIA JOINT VENTURE

Corridor is a 50% working interest participant with Columbia Natural Resources (the Operator) in licences covering the Sackville and Elgin sub-basin areas in southeastern New Brunswick. The companies recently completed the drilling of the Copper Mine Hill well, located near Sackville, New Brunswick, approximately 70 kilometers east of the McCully discovery. The well was drilled to a depth of 3420 meters to evaluate shows of natural gas in the Hillsborough formation and to test the underlying Albert formation (the main objective). However, well logs and other data indicated that the well was non-commercial and it was abandoned.



Helicopter carrying seismic equipment to a McCully area line.

LEAD PROSPECTS – OTHER AREAS

Corridor has developed exploration leads and prospects in a number of areas within the Gulf of St. Lawrence region. The Company has participated in a number of modern seismic surveys in the area and in a number of exploration wells. While this early work has yet to result in the discovery of commercial hydrocarbons, the information obtained is promising and very supportive of the exploration potential of the Gulf region. Some of the emerging plays that are showing particular promise are:

'OLD HARRY' PROSPECT

Corridor holds Quebec exploration licences (50,000 hectares) covering the giant 'Old Harry' prospect lying in 1500 feet of water in the Laurentian Channel. The prospect has simple 4-way closure covering an area of more than 20,000 hectares, and is perhaps the largest undrilled prospect in eastern Canada. Reserves potential is estimated to be in the order of 1.5 to 2 billion barrels (if oil) or 4 to 5 TCF (if gas). Corridor acquired 800 kilometers of modern seismic across and in proximity to this structure in 1998. Six natural oil seeps have been detected on the ocean surface by satellite, emanating from the flanks of this prospect. 'Old Harry' lies partly in the Quebec sector of the Gulf, where the Quebec and federal governments are in the process of discussions that ultimately may open up the Quebec sector of the Gulf to petroleum exploration.

CORRIDOR - 2001 ANNUAL REPORT CONTINUED

On December 11th, 2000 Corridor bid for and acquired an exploration permit covering the eastern side of the 'Old Harry' prospect and which is located in the Newfoundland sector of the Gulf. This new licence will allow Corridor and partners to drill the prospect without having to await the outcome of an agreement between Quebec and the federal government. Corridor is reopening farmout discussions with a number of major oil companies that have expressed an interest in participating in drilling the 'Old Harry' structure. Corridor also holds a 100% working interest in a neighboring block (137,740 hectares) in the Newfoundland sector that covers a large 'follow-up' structure called Cape Ray if 'Old Harry' is successful.

MAGDALEN ISLANDS

The Cap-aux-Meules prospect on the Magdalen Islands offers an opportunity to test early Permian/late Carboniferous sands flanking the Cap-aux-Meules salt dome located in the middle of a large basin. A proposed well at the Fatima location is designed to test this virgin play from an onshore position at a fraction of the cost to drill surrounding prospects in the area utilizing an offshore drilling rig. The prospect is underlain by the Westphalian "coal measures" which are an excellent source of natural gas for this play. Corridor, along with its 40% working interest partner Foothills Minerals Inc., attempted to drill a deep corehole on this prospect in 1999 but had to abandon the well after encountering down-hole mechanical problems. The well reached a total depth of only 686 meters and failed to reach any of the well's geological objectives. Corridor and Foothills are actively seeking a new partner to drill an exploration well on this prospect using a conventional rotary rig in the spring of 2002. The Magdalen licences cover an area of 115,000 hectares.

CHETICAMP – OFFSHORE WESTERN CAPE BRETON

Corridor holds a large offshore exploration licence (240,000 hectares) lying off the west coast of Cape Breton and adjacent to the East Point natural gas discovery made by Hudson's Bay Oil and Gas Company (HBOG) back in the 1970s. The East Point E-49 well tested gas at a rate of 5.5 million cubic feet per day but was too small on its own to justify commercial development. Corridor has reprocessed seismic in this region and has demonstrated the presence of the Cheticamp natural gas prospect lying to the east of E-49. Corridor is preparing to undertake a modern 2-D seismic survey across the prospective area. However, permission by the Canada-Nova Scotia Offshore Petroleum Board to undertake exploration activities on this licence is dependent upon the outcome of a public review process to be concluded by March, 2002. The federal and provincial governments have ordered this review to ensure that exploration activities do not compromise the economic interests of other stakeholders in the area, in particular the fishery. Corridor is committed to working closely with the local communities and particularly with local fishermen to ensure that seismic and drilling operations are carried out in a manner and at a time of year that is most acceptable to the fishermen. Corridor believes that the Cheticamp prospect could provide the basis for commercial development of natural gas from this region, and that the exploration and potential development activities can be undertaken in a manner that accommodates the interests of the region's important fishing and tourism industries.

CORRIDOR - 2001 ANNUAL REPORT CONTINUED

ANTICOSTI ISLAND

Corridor has farmed out its onshore Anticosti licences (one million hectares) to Shell Canada Limited and Calpine Energy Ltd. (formerly Encal), while retaining a 30 to 35 percent carried interest in future production on the Island. Shell and Encal conducted 400 kilometers of new seismic and drilled five exploration wells on the Island in 1998 and 1999. No commercial discoveries were made, but information from the wells is encouraging for future additional exploration on the Island, particularly with respect to the Trenton/Black River formations. Shell and Calpine relinquished part of their holdings in 2000 but remain interested in attracting a new partner to carry out additional exploration drilling on the Island. In January 2001, Corridor acquired two new exploration licences covering the large Jupiter fault prospect in the south/central part of the Island. This prospect is analogous to prospects that are being successfully explored and developed along the same geological trend in Ontario, Michigan and New York State.

PRINCE EDWARD ISLAND

Corridor has a large onshore natural gas discovery at the Green Gables structure near Cavendish on Prince Edward Island (37 meters net potential gas pay, 300 to 500 BCF in place). The Green Gables #2 well, drilled by Corridor in 1997, encountered gas pay in sandstones of Westphalian (Pennsylvanian) age and up-dip from gas pay encountered by Hudson's Bay Oil & Gas Company at Green Gables #1 in 1972. The drilling mud damaged the reservoirs in both wells, and only minor amounts of gas were produced on test (20 MCFPD - 94% methane, 4% ethane, 1% propane and 1% nitrogen). Corridor plans to undertake new seismic on the prospect prior to the end of 2001 in preparation for discussions with prospective farmees to drill a new well on the prospect in 2002. Corridor believes that the seismic can help locate a new well to penetrate the thick, gas-bearing reservoir section at a position (fault-related) similar to the offshore HBOG East Point E-49 well which tested gas at a rate of 5.5 million cubic feet per day.

Corridor currently holds a 100% working interest in two onshore PEI exploration permits covering 52,000 hectares (expire in December, 2003) in which the Green Gables and Hunter River prospects are situated. Corridor also holds two exploration licences on prospects located towards the eastern end of the Island. An exploration well recently drilled adjacent to Corridor's blocks by another operator is reported to have encountered over-pressured gas.

PARKE NATURAL GAS STORAGE PROJECT

Corridor holds the exploration and natural gas storage rights to 6000 hectares covering the Parke natural gas storage prospect located south of Riviere-du-Loup, Quebec. The site is near the planned route of the Cartier natural gas pipeline proposed by GMI and Enbridge to deliver Sable gas from the New Brunswick border to the Quebec City area. The proposed pipeline is the subject of recent NEB hearings conducted in Halifax. The Parke prospect was initially drilled by Shell in the late 1970's to explore for natural gas, encountering a porous and permeable water bearing sandstone (Ordovician) reservoir. Seismic and two new wells drilled by Soquip in the early 1980's further outlined the nature of Parke as a potential natural gas storage site. After reviewing this data, Corridor has developed a forward plan for evaluating and potentially developing Parke as a natural gas storage site, and has commenced discussions with potential partners interested in participating in this project.

Auditors' Report

To the Shareholders of
Corridor Resources Inc.

We have audited the balance sheets of Corridor Resources Inc. as at August 31, 2001 and 2000 and the statements of loss and deficit and cash flows 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 audits.

We conducted our audits in accordance with Canadian 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, 2001 and 2000, and the results of its operations and the changes in cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Canada
October 12, 2001


Chartered Accountants

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Halifax, NS B3J 2P8
Tel: (902) 421-1734
Fax: (902) 420-1068

Corridor Resources Inc.
Statements of Loss and Deficit

Years ended August 31

2001

2000

	2001	2000 (Restated)
Interest revenue	<u>\$ 154,037</u>	<u>\$ 76,561</u>
Expenses		
General and administrative (Note 2)	328,534	315,601
Depreciation	<u>10,466</u>	<u>13,343</u>
	<u>339,000</u>	<u>328,944</u>
Loss before other	(184,963)	(252,383)
Exploration write offs (Note 4)	<u>2,359,559</u>	<u>3,839,865</u>
Loss before income and capital taxes	(2,544,522)	(4,092,248)
Future income tax recovery	1,814,050	1,478,314
Capital tax expense	<u>(39,677)</u>	<u>(5,476)</u>
Net loss	<u>\$ (770,149)</u>	<u>\$ (2,619,410)</u>
Deficit, beginning of year, as previously reported	\$ (5,090,132)	\$ (990,722)
Change in accounting policy (Note 3)	<u>2,219,940</u>	<u>739,940</u>
Deficit, beginning of year, as restated	(2,870,192)	(250,782)
Net loss	<u>(770,149)</u>	<u>(2,619,410)</u>
Deficit, end of year	<u>\$ (3,640,341)</u>	<u>\$ (2,870,192)</u>
Nature of operations (Note 1)		
Income taxes (Note 12)		
Loss per share (Note 9)	<u>\$ (0.03)</u>	<u>\$ (0.12)</u>

See accompanying notes to the financial statements.

Corridor Resources Inc.**Balance Sheets**

August 31

2001

2000

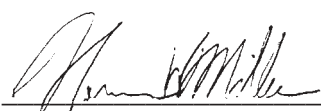
		(Restated)
Assets		
Current		
Cash and cash equivalents (Note 11)	\$ 2,368,534	\$ 408,423
Receivables		
Advances to joint venture partners	2,058,002	59,532
Trade and commodity taxes	744,255	41,748
Accrued interest	22,250	2,674
Prepays and drilling permit deposits	22,845	19,621
	<u>5,215,886</u>	<u>531,998</u>
Property and equipment (Notes 2, 4 and 5)	10,581,040	5,259,997
Cash held for licence security (Note 6)	633,100	332,100
Investment	1,800	1,800
	<u>\$ 16,431,826</u>	<u>\$ 6,125,895</u>
<hr/>		
Liabilities		
Payables and accruals	\$ 1,152,367	\$ 196,277
Corporate taxes payable	91,878	-
Capital tax payable	39,677	-
	<u>1,283,922</u>	<u>196,277</u>
Future income taxes (Note 12)	706,162	-
	<u>1,990,084</u>	<u>196,277</u>
<hr/>		
Shareholders' Equity		
Convertible debentures (Note 7)	-	125,000
Capital stock (Notes 2 and 8)	18,082,083	8,674,810
Deficit	(3,640,341)	(2,870,192)
	<u>14,441,742</u>	<u>5,929,618</u>
	<u>\$ 16,431,826</u>	<u>\$ 6,125,895</u>

Financial instruments (Note 10)

Comparative figures (Note 14)

Subsequent event (Note 15)

On behalf of the Board



Director



Director

See accompanying notes to the financial statements.

Corridor Resources Inc.
Statements of Cash Flows

Years Ended August 31

2001

2000

	2001	2000
		(Restated)
Increase (decrease) in cash and cash equivalents		
Operating		
Net loss	\$ (770,149)	\$ (2,619,409)
Depreciation	10,466	13,342
Exploration write offs	2,359,559	3,839,865
Future income tax recovery	<u>(1,813,339)</u>	<u>(1,480,000)</u>
	(213,463)	(246,202)
Change in non-cash operating working capital (Note 11)	<u>(904,846)</u>	<u>(23,536)</u>
	<u>(1,118,309)</u>	<u>(269,738)</u>
Investing		
Payables and accruals	966,184	(360,213)
Advances to joint venture partners	(1,998,470)	141,985
Purchase of equipment	(3,708)	(2,900)
Expenditures on exploration (Note 4)	<u>(7,687,360)</u>	<u>(1,787,011)</u>
	<u>(8,723,354)</u>	<u>(2,008,139)</u>
Financing		
Proceeds from issue of capital stock	12,405,030	-
Share issue costs	(511,378)	(3,478)
Tax relating to flow-through shares	<u>(91,878)</u>	<u>(1,735)</u>
	<u>11,801,774</u>	<u>(5,213)</u>
Net increase (decrease) in cash and cash equivalents	1,960,111	(2,283,090)
Cash and cash equivalents		
Beginning of year	<u>408,423</u>	<u>2,691,513</u>
End of year	<u>\$ 2,368,534</u>	<u>\$ 408,423</u>
Cash flow per share from operations (Note 9)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

See accompanying notes to the financial statements.

Corridor Resources Inc.

Notes to the Financial Statements

August 31, 2001 and 2000

1. Nature of operations

Corridor Resources Inc. (Corridor or the Company) is a junior natural resource corporation primarily engaged in the exploration for petroleum and natural gas in Eastern Canada.

Corridor is in the 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 and to finance ongoing administrative expenses.

2. Summary of significant accounting policies

Petroleum and natural gas properties

Corridor follows the full cost method of accounting 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. There are currently no producing properties.

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

Use of estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

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. Capital stock is reduced and future income tax liability increased by the estimated tax benefits transferred to shareholders.

Investment

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

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

2. Summary of significant accounting policies (continued)

Stock options

The Company has a stock option plan which is described in Note 8. No compensation expense is recognized when options are granted. The consideration paid on exercise of options is credited to capital stock.

Income taxes

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse, see Note 3.

Depreciation

Depreciation is calculated on the declining balance method for all property and equipment at the rates indicated in Note 5. One half of the year's depreciation is taken in the year of acquisition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks (net of bank overdrafts) and highly liquid temporary investments.

General and administrative

General and administrative expenses totalled \$821,336 (2000-\$789,003) in the fiscal year. Of this amount, \$492,802 (2000 - \$473,402) was capitalized to exploration expenditures and the remainder expensed to operations.

Future site restoration and abandonment costs

Estimated costs of future site restoration and abandonments, net of recoveries, will be provided for over the life of future proved reserves on a unit-of-production basis. An annual provision will be recorded as depletion and depreciation. As the Company has no proved reserves at its fiscal year end, no provision has been provided in the financial statements.

3. Change in accounting policy

Effective August 31, 2001 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. Previously, the deferral method was used, based on differences in the timing of reporting income and expenses in financial statements and tax returns. The new method was applied retroactively with restatement of the 2000 and 1999 financial statements.

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

3. Change in accounting policy (continued)

Under the previous method of accounting for income taxes, the tax benefits transferred to shareholders related to flow through shares had been deducted from petroleum and natural gas properties. Under the new method, future income taxes are set-up in the amount of the future tax benefits so transferred. Property expenditures are reported at actual gross value.

The effect of the new recommendations on the opening 2000 financial statements was as follows:

	<u>Increase</u>	<u>Decrease</u>
Property and equipment	\$ 2,219,940	
Deficit, beginning of year		\$ 739,940
Future income taxes		1,480,000

4. Petroleum and natural gas properties

Corridor currently holds licences and permits in Nova Scotia, New Brunswick, Newfoundland, Prince Edward Island and Quebec. These licences and permits give the Company the exclusive right to explore and obtain a lease allowing for the production of petroleum and natural gas from the properties. The areas in which licences or licence interests are held and their related cumulative exploration expenditures are as follows:

	<u>2001</u>	<u>2000</u>
New Brunswick Sackville Basin	\$ 2,456,359	\$ 569,308
New Brunswick Moncton Basin	7,241,947	1,535,265
Magdalen Islands	323,768	310,993
Offshore Nova Scotia	175,542	154,137
Anticosti Island	2,322,352	2,318,404
Parke Underground Storage	44,224	43,224
Prince Edward Island	1,531,029	1,514,910
Gaspé Peninsula	1,527,467	1,521,461
Gulf of St. Lawrence	2,726,831	2,711,924
Offshore Newfoundland	49,248	31,781
Gross Cumulative Expenditures	<u>18,398,767</u>	<u>10,711,407</u>
Less: Farmout Payments Received	(1,646,650)	(1,646,650)
Less: Write-off of Gaspé Area Expenditure	(1,527,467)	(1,521,461)
Write-off of Anticosti Area Expenditure	(2,318,404)	(2,318,404)
Write-off of specific Sackville Area Expenditures	(569,308)	-
Write-off of specific Moncton Area Expenditures	<u>(1,784,245)</u>	<u>-</u>
Total	<u>\$ 10,552,693</u>	<u>\$ 5,224,892</u>

Corridor Resources Inc.

Notes to the Financial Statements

August 31, 2001 and 2000

4. Petroleum and natural gas properties (continued)

Corridor has incurred cumulative exploration expenditures of \$18,398,767 (2000 - \$10,711,407) carrying out its exploration activities. These expenditures have been partially offset by farmout payments received from joint venture partners during 1999 and write-offs of property expenditures against properties for which the Company has no future plans. Expenditures include seismic reflection surveys on Anticosti Island, offshore Gulf St. Lawrence, the Gaspé Peninsula and in southeastern New Brunswick. The Company also has expenditures incurred from sole participation of one well and from shared participation in the drilling of nine wells. A further six wells were drilled solely at partners' expense and are not included in the above totals.

In order for the Company to keep its licences in good standing, annual expenditures are required. Corridor expects, however, that information gained from geological and geophysical studies and the drilling of wells will assist in selecting the most promising areas to be retained while relinquishing interest in less promising lands. To date Corridor has written off expenditures as follows: Gaspé and Anticosti Island expenditures to August 2000; Sackville area expenditures to August 2000, and Moncton area expenditures not related to the McCully discovery area to August 2001. Corridor has abandoned all ten of its licences in the Gaspé area (eight in 2000 and the remaining two in 2001).

During the 2001 fiscal year Corridor was the successful bidder for a parcel of land tendered by the Canada-Newfoundland Offshore Petroleum Board. This 31,068 hectares offshore licence is located off the southwest coast of Newfoundland in the Gulf of St. Lawrence. It is adjacent to a 137,740 hectare licence acquired in 2000 and overlays a portion of the "Old Harry" prospect.

Also, during the 2001 fiscal year Corridor was the successful bidder for four new licences in New Brunswick. One licence is located south of the McCully discovery and was acquired jointly with Potash Corporation of Saskatchewan Inc. (PCS). Three of the licences are located west of the McCully discovery and are included in a Farmout agreement with Globex Resources Ltd.

Corridor licence holdings in Quebec include: an underground storage licence for the Parke natural gas storage prospect and licences located onshore on the Magdalen Islands and Anticosti Island and offshore in the Gulf of St. Lawrence. The Federal and Quebec governments are addressing management arrangements regarding offshore Gulf of St. Lawrence lands. In December 1999, the Quebec Government granted Corridor a suspension of work requirements for its two offshore licences which cover the 'Old Harry' prospect until such time as a joint administration agreement can be reached between the Quebec and Federal Governments.

Southeastern New Brunswick

On December 22, 2000, Globex Resources Ltd. of Calgary entered into a farmout agreement on the three licences west of the McCully area. Under the terms of the agreement, Globex will spend approximately \$2,000,000 to earn a 50% working interest in these lands. Globex has completed a new 2-D seismic survey over the lands this past summer and is preparing to drill the first exploration well at Case Settlement.

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

4. Petroleum and natural gas properties (continued)

Six wells were commenced during the 2001 fiscal year; four wells on the McCully field and two wells located near Sackville, New Brunswick - Copper Mine Hill #1 and #2. Two of the subject wells were completed after August 31, 2001. The first McCully well was the farm-in well for PCS and under the terms of the joint venture agreement the costs were born 100% by PCS. Costs for the following McCully wells were shared 50/50 between Corridor and PCS. Costs for the two Copper Mine Hill wells were shared 50/50 between Corridor and Columbia Natural Resources Canada, Inc. under a joint venture agreement.

During 2001, Corridor has written-off all expenses for the Moncton Basin area that are not related to the McCully field. Corridor has also written-off all expenses for the Sackville area that do not relate to the Copper Mine Hill wells.

Magdalen Islands, Quebec

There was no activity on this licence during fiscal year 2001. The Magdalen licences cover an area of 115,000 hectares.

Offshore Nova Scotia

On December 11, 2000, the Canada-Nova Scotia Offshore Petroleum Board directed Corridor to cease any activities on the licence pending a public review. The public review process is scheduled to be concluded by March, 2002. Due to the direction to cease activities on the license, Corridor was granted a suspension of work requirements for its licenses.

Anticosti, Quebec

In January, 2001, Corridor acquired two new exploration licences covering the large Jupiter fault prospect in the south/central part of the Island. To date, no work has been conducted on these new licences.

In 1998 and 1999, under the terms of a farm-out agreement, the farmee conducted 400 kilometers of new seismic and drilled 5 exploration wells on the Island. No commercial discoveries were made. In 2000, Corridor wrote-off its expenditures respecting these licenses.

Parke Natural Gas Storage Project

Corridor holds the exploration and natural gas storage rights to 6,000 hectares covering the Parke natural gas storage prospect located south of Riviere-du-Loup. The site is near the planned route of the proposed Cartier natural gas pipeline to deliver Sable gas from the New Brunswick border to the Quebec City area.

Prince Edward Island

Corridor holds four licences on the island. Two of the licences are located near the eastern tip of the island and two are located in the centre of the island extending from the Green Gables area southward.

Corridor Resources Inc. Notes to the Financial Statements

August 31, 2001 and 2000

5. Property and equipment

	August 31, 2001			August 31, 2000			
	Rate	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Exploration expenditures		\$ 18,398,767	\$ —	\$ 18,398,767	\$ 10,711,407	\$ —	\$ 10,711,407
Farmout payments received		(1,646,650)	—	(1,646,650)	(1,646,650)	—	(1,646,650)
Exploration write offs		(6,199,424)	—	(6,199,424)	(3,839,865)	—	(3,839,865)
		<u>10,552,693</u>	<u>—</u>	<u>10,552,693</u>	<u>5,224,892</u>	<u>—</u>	<u>5,224,892</u>
Computer hardware	30%	37,557	25,720	11,837	35,183	21,156	14,027
Computer software	30%	38,665	28,669	9,996	38,664	24,386	14,278
Communication equipment	30%	2,403	1,028	1,375	1,400	653	747
Equipment and furniture	20%	13,260	8,121	5,139	12,930	6,877	6,053
		<u>\$ 10,644,578</u>	<u>\$ 63,538</u>	<u>\$ 10,581,040</u>	<u>\$ 5,313,069</u>	<u>\$ 53,072</u>	<u>\$ 5,259,997</u>

6. Cash held for licence security

During the 2001 fiscal year Corridor was the successful bidder for a parcel of land tendered by the Canada-Newfoundland Offshore Petroleum Board (CNOBP). The CNOBP required Corridor to post a bond of \$301,000 which represents 25% of the work commitment in respect of the parcel of land awarded to Corridor. In total, Corridor has posted bonds for three offshore licences (two in Newfoundland and one in Nova Scotia) totalling \$633,100. As work is completed, Corridor is entitled to apply for a reduction in the deposits equal to 25% of approved allowable expenditures.

7. Convertible debenture

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 was acknowledged and agreed by the parties as full payment for legal services expended to July 14, 1998 regarding an ongoing legal matter. This amount has been converted by the firm.

This debenture expired on June 30, 2001, without any further conversions.

Corridor Resources Inc. Notes to the Financial Statements

August 31, 2001 and 2000

8. Capital stock

Authorized:

Unlimited common shares without nominal or par value.

Issued and outstanding:	<u>Shares</u>	<u>Amount</u>
Balance, August 31, 1999	<u>22,234,530</u>	<u>\$ 8,680,023</u>
Less		
Tax on unused flow-through share financing	–	(1,735)
Issue costs (1999 financing)	<u>–</u>	<u>(3,478)</u>
* Balance, August 31, 2000	<u>22,234,530</u>	<u>8,674,810</u>
Share offering for cash	1,400,000	1,960,030
Less issue costs	–	(104,976)
Exercise of stock options for cash	530,000	221,000
Conversion of Debenture	78,125	125,000
Flow-through share offering for cash	7,290,000	10,224,000
Less		
Issue costs	–	(406,402)
Tax on unused flow-through share financing	–	(91,878)
Income tax benefits renounced with respect to flow-through shares issued	<u>–</u>	<u>(2,519,501)</u>
** Balance, August 31, 2001	<u><u>31,532,655</u></u>	<u><u>\$ 18,082,083</u></u>

* As at August 31, 2000, 450,000 shares were held in escrow.

** As at August 31, 2001, no shares were held in escrow and the fully diluted share balance was 32,277,655.

On July 9, 2001, the Company signed a share subscription agreement with an arms-length limited partnership whereby Corridor would issue 250,000 flow-through common shares at a subscription price of \$2.00/share. These shares are issuable at the time that sufficient qualifying expenditures are incurred and the limited partnership has been provided with the appropriate documentation that the tax benefits associated with the expenditures have been renounced.

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

8. Capital stock (continued)

Options

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, key employees and consultants of the Company. The aggregate number of common shares which may be reserved for issuance under the plan shall not exceed 10% of the total number of issued and outstanding shares, subject to change by approval of the shareholders and regulatory authorities. The maximum number of common shares which may be reserved for issuance to any one person who is a director, officer or key employee under the plan shall be 5% of the shares outstanding at the time of grant (on a non-diluted basis). The maximum number of common shares which may be reserved for issuance to any one person who is a consultant of the Company shall not exceed 1% of the shares outstanding at the time of the grant (on a non-diluted basis).

Set forth below is a summary of the outstanding options to purchase common shares as at August 31, 2001.

Number of Shares Under Option	Date of Grant	Expiration Date	Exercise Price
100,000	May 16, 1997	May 16, 2002	\$ 1.00
540,000	June 11, 1997	June 11, 2002	1.00
30,000	Nov. 12, 1997	Nov. 12, 2002	0.30
100,000	Jan. 19, 1998	Jan. 19, 2003	0.87
200,000	Jan. 26, 1998	Jan. 26, 2003	0.85
75,000	April 1, 1998	April 1, 2003	0.30
75,000	June 21, 1998	June 21, 2003	1.60
125,000	June 11, 1999	June 11, 2004	0.30
<u>1,245,000</u>			

<u>Fixed Options</u>	<u>2001</u>		<u>2000</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,775,000	\$ 0.73	1,775,000	\$ 0.83
Exercised	530,000	\$ 0.42	—	—
Outstanding, end of year	1,245,000	\$ 0.86	1,775,000	\$ 0.73
Options exercisable, end of year	1,245,000	\$ 0.86	1,775,000	\$ 0.73

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

9. Loss and cash flow per share

Loss and cash flow per share is calculated based on the weighted-average number of shares outstanding during the year of 2001 - 26,669,653; 2000 - 22,234,530. The loss and cash flow per share on a fully diluted basis would be as stated, as all factors are antidilutive.

10. Financial instruments

Financial assets

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

Financial liabilities

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

Credit risk

The company is exposed to losses in the event of non-performance by counterparties with respect to advances to joint ventures. The Company believes the counterparties are credit worthy and accordingly the Company views credit risks on these amounts as low.

11. Supplemental cash flow information

	<u>2001</u>	<u>2000</u>
Change in non-cash operating working capital		
Receivables, advances, prepaids and permit deposits	\$ (725,307)	\$ 113,398
Payables and accruals	(10,094)	(41,819)
Taxes payable	131,555	(26,145)
Cash held for licence security	(301,000)	(68,970)
	<u>\$ (904,846)</u>	<u>\$ (23,536)</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	<u>\$ 2,368,534</u>	<u>\$ 408,423</u>
Interest and income taxes paid:		
Interest	<u>\$ Nil</u>	<u>\$ Nil</u>
Income taxes	<u>\$ Nil</u>	<u>\$ 33,307</u>

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

12. Income taxes

The provision for future income taxes differs from the result which would be obtained by applying the Canadian Federal and Provincial statutory income tax rates to income before income taxes. This difference results from the following:

	<u>2001</u>	<u>2000</u>
Loss before income taxes	\$ (2,544,522)	\$ (4,092,248)
Statutory income tax rate	<u>45.12%</u>	<u>45.12%</u>
Expected income taxes	(1,148,088)	(1,846,422)
Effect on income taxes of:		
Change in valuation allowance	(403,000)	–
Benefit of temporary differences (unused tax losses and other)	<u>(262,962)</u>	<u>368,108</u>
Provision for income taxes	<u>\$ (1,814,050)</u>	<u>\$ (1,478,314)</u>

The components of the future income tax liability as at August 31, 2001 are as follows:

	<u>2001</u>	<u>2000</u>
Operating losses	\$ (421,538)	\$ (222,767)
Deductible share issue costs	(195,025)	(51,630)
Tax value of intangible assets in excess of accounting value	(17,695)	(17,695)
Tax value of capital assets in excess of accounting value	(28,669)	(23,947)
Accounting value of deferred development in excess of tax value	1,364,464	(90,825)
Resource allowance deduction	<u>4,625</u>	<u>3,864</u>
	706,162	(403,000)
Less: Valuation Allowance	–	403,000
	<u>\$ 706,162</u>	<u>\$ –</u>

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

12. Income taxes (continued)

At August 31, 2001, Corridor has resource pools totalling approximately \$7,529,000 (2000 - \$5,426,000) available to offset future taxable income. The tax benefits pertaining to these amounts are available for carry forward indefinitely. The breakdown of resource pools are as follows:

	<u>2001</u>	<u>2000</u>
Canadian Exploration Expenditures	\$ 7,349,000	\$ 5,301,000
Earned Depletion Base	76,000	76,000
Canadian Oil and Gas Property Expenditures	<u>104,000</u>	<u>49,000</u>
Total	<u>\$ 7,529,000</u>	<u>\$ 5,426,000</u>

At August 31, 2001, the Company has recognized in its accounts the tax benefits of non-capital losses of approximately \$967,000 which are due to expire as follows: \$95,000 in 2005, \$398,000 in 2007, and \$474,000 in 2008 unless applied against future taxable income of the Company.

The issue of flow-through common shares requires the renunciation of resource expenditures in the same tax year and in an amount of equal value to the shares issued. In accordance with income tax legislation, the Company must incur these resource expenditures on a date forward basis in the year of renunciation or in the subsequent year. The tax is calculated monthly on any unspent balance in the subsequent year.

Under the terms of the Company's flow through share agreements, the Company is required to expend and renounce funds raised on qualifying Canadian Exploration Expenditures. As at August 31, 2001 existing agreements require the Company to make further expenditures totalling \$3,589,026 prior to December 31, 2002. As at August 31, 2000 no such expenditures were required.

13. Related party transactions

During the year, \$81,475 (2000 - \$8,366) was paid to Corridor's legal counsel. One of the partners of this firm is a Director of Corridor. These services were acquired at market rates.

The Company currently has royalty agreements with some Directors as follows:

- a 3% gross over-riding royalty from future production of oil and natural gas on Corridor's initial onshore Green Gables, Prince Edward Island licences.
- a 4% gross over-riding royalty for the initial Sackville Basin licences in New Brunswick.

During the years ended August 31, 2001 and 2000, there were no payments required under these agreements.

Corridor Resources Inc.
Notes to the Financial Statements

August 31, 2001 and 2000

14. Comparative figures

Certain of the 2000 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2001.

15. Subsequent event

On October 9, 2001, Corridor entered into a farmout agreement with EOG Resources Canada Inc. (EOG). EOG has agreed to farm in and operate certain of Corridor's interests in the McCully natural gas discovery area. The agreement covers Corridor's 100% interest in two exploration licences and its 50% interest in a third exploration licence.

Under the terms of the farmout agreement, EOG has committed to drill, evaluate and complete three test wells. EOG has options to drill additional wells to earn an interest in all of the farmout lands. Upon completion of 12 wells or the expenditure of \$50 million in seismic, drilling and development on the farmout lands, EOG will have earned 50% of Corridor's interest in the farmout lands subject to certain payout conditions. All 12 wells or the \$50 million in exploration expenditure has to occur before December 31, 2003 or the options expire. Corridor will retain a 15% gross over-riding royalty on natural gas production with respect to the earning wells during the payout period.

CORPORATE INFORMATION

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Halifax, Nova Scotia

AUDITORS

Grant Thornton LLP
Halifax, Nova Scotia

SOLICITORS

Bennett Jones LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE

Canadian Venture Exchange
Symbol CDH

DIRECTORS AND OFFICERS

Norman W. Miller, President and Director
Paul J. Hopkins, Vice President and Director
Brad R. Perry, Chief Financial Officer
Charles MacDonald, Chairman
Jacques Plante, Director
J. Douglas Foster, Director and Secretary
Jack Bray, Director
David Fischer, Director

SHARE CAPITAL

Shares Authorized – Unlimited
Common Shares issued as of
August 31, 2001 – 31,532,655

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING

The Annual and Special General Meeting of the Shareholders of Corridor Resources Inc. will be held on Thursday, December 6, 2001, at 3:00 p.m. in The Boardroom at Bennett Jones LLP, 4500 Bankers Hall East, 855-2nd St. S.W., Calgary, Alberta T2P 4K7

Corridor Resources Inc.
www.corridor.ns.ca