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## T A B L E O F C O N T E N T S

• Mission	1
• Highlights	1
• Message to Shareholders	2
• Summary of Operations	4
• Management's Analysis of the Financial Situation	8
• Management's Responsibility for Financial Reporting	9
• Auditors' Report	9
• Balance Sheet	10
• Statement of Loss and Deficit	11
• Statement of Changes in Financial Position	12
• Notes to Financial Statements	13
• Corporate Information	16

## M I S S I O N

The acquisition and exploration of diamond projects throughout the world, notably in the James Bay Lowlands of Canada, in Guinea and Brazil.

## H I G H L I G H T S

Spider has recovered 3,927 diamonds from a 10.2 tonne bulk sample of its Kyle Lake #1 kimberlite; 704 are macrodiamonds, for an average grade of 62,7 carats per 100 tonnes. Recent property acquisitions include the Wawa area of Ontario, Apredor in Guinea and the Paranaíba area of Brazil. The newly nominated four directors, together with the other members of the Board and senior officers, bring to Spider over 280 years of collective experience in the mining industry.

## M E S S A G E T O S H A R E H O L D E R S

On behalf of Spider Resources Inc. and myself, I am pleased to present shareholders with a review of the company's recent activities and its proposed plans for the future. The past couple of years have witnessed the establishment of firm foundations for the company's future, most notably the assemblage of an enviable package of diamond properties, some of which are the result of recent negotiations with an affiliated company, KWG Resources Inc.

In comparison to the hectic activity experienced during the first half of this decade, the Canadian diamond market appeared almost subdued for much of last year, with only those companies with proven reserves attracting much investor interest. The principal highlight was the formal go-ahead being given for the BHP/Dia Met joint venture in the Lac de Gras region of the Northwest Territories. As a consequence, sometime during 1998, Canada will become a member of that small but exclusive club of major diamond producing countries. The nearby Diavik joint venture of Kennecott/Aber will further cement this position by becoming a substantial producer not long afterwards.

A wide variety of estimates have been made for the number of kimberlite pipes and dykes (the principal hard rock host for diamonds) found to date in the world's ancient cratonic areas; the actual number is probably around 6,000. Not all kimberlites contain diamonds and only about 1% of those identified so far are known to be of economic grade and size. The problems encountered in exploring for a large economic deposit are further emphasized by the fact that less than one third of the above 1% figure represents orebodies capable of supporting operations with a profit potential exceeding \$50 million annually.

The nature of Canada's geological environment has made diamond exploration difficult and expensive. Most countries have been fortunate to discover diamond alluvial deposits on the surface which has then led them to their kimberlitic source. In some cases, kimberlites or weathered kimberlites (yellow ground) are exposed on the surface. We, here in Canada, have had to deal with glacial overburden material and/or Paleozoic sedimentary rocks overlying and masking a possible kimberlite diatreme; no economic

alluvial deposits of diamonds are believed to exist in Canada. While it is difficult to explore for kimberlites and/or diamonds in Canada, sophisticated geophysical and geochemical techniques have made it possible. The discovery of an economic kimberlite holds the potential for a company to be a major player, capable of generating substantial profits for decades to come.

Spider's principal objective is to locate and develop one or more such kimberlites. To this end, we have put together one of the most prospective assemblages of diamond properties of any company in North America and a qualified experienced technical staff actively assessing their potential.

### S P I D E R W E L C O M E S F O U R N E W D I R E C T O R S

During the year four new directors, each with international diamond exploration expertise, were welcomed to the Board. They include the company's new Chairman, Mr. Peter Miller (Geologist) along with Donald A. MacFadyen (Geophysical Consultant), Dr. Mousseau Tremblay (Consulting Geologist) and Dr. A.J.A. (Bram) Janse (Consulting Geologist). These new directors, together with the other members of the Board and senior officers, bring to Spider over 280 years of collective experience in the exploration, financing and legal sectors of the mining industry, half of which is directly related to the diamond industry.

### 1 9 9 6 A C T I V I T I E S

During 1996, two new diamond projects were acquired by Spider. The first is located near the village of Wawa, Ontario, where diamonds were discovered in exposed bedrock close to the Trans-Canada Highway. The second new project covers a large resource concession in central Guinea, West Africa. In Guinea, a resource of 200,000 carats of alluvial diamonds has been identified close to several promising magnetic anomalies, possibly representing two kimberlites which may be the source of nearby diamonds. A third project, in Brazil, is being considered by the Board as an acquisition from KWG Resources Inc. This transaction would also increase

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Spider's interest in all of KWG's diamond projects and allow Spider to take over management of these projects.

○ UTLOOK FOR 1997

We anticipate an active year in 1997 and many years thereafter. Plans and budgets have been prepared for all of the company's diamond projects. Some of these projects are currently active, others will be initiated when personnel and climatic conditions make it possible. The listing application for the Toronto Stock Exchange remains an active file. Thanks to the avid interest of several key investors and the innumerable shareholders who have supported the market, Spider is well financed to meet its exploration commitments throughout 1997 and possesses sufficient funds to meet the listing requirements of the Toronto Stock Exchange.

On behalf of the Board of Directors, I would like to thank you for the continuing support of the company's activities.



Norman E. Brewster  
President  
February 14, 1997

## S U M M A R Y O F O P E R A T I O N S

### D I A M O N D P R O J E C T S

In a joint venture with KWG Resources Inc., Spider continued to carry out exploration activities in three of its four Canadian projects. The Spider #1 and Spider #3 projects were subjected to an aggressive exploration program in 1996 while the Spider #2 project remained inactive. A new project at Wawa, Ontario was acquired in early 1996 and includes the site where macro and microdiamonds were found in a roadside cut along the Trans-Canada Highway by two prospectors late in 1995.

In association with St. Geneviève Resources Ltd., Spider has acquired the rights to a 70% interest in the primary source diamond potential and a 50% interest in the alluvial diamond potential of the Apredor Project. This project includes a diamond concession in east-central Guinea (West Africa) covering several magnetically rendered targets intersected to be kimberlite diatremes and fissure targets located adjacent to a probable 200,000 carat alluvial diamond occurrence.

Spider continues its negotiations for the Brazil Project with KWG regarding diamond concessions situated in the Paranaíba River area of north-central Brazil. KWG has identified a kimberlite in situ at one location and magnetically determined kimberlite targets at 51 other locations.

### S P I D E R # 1 P R O J E C T — O N T A R I O

Highlights of 1996 in this project area include the successful collection of a minibulk sample at the Kyle Lake #1 kimberlite. Approximately 15 tonnes of kimberlite and xenolithic material were collected from this complex diatreme in early 1996. Logging and sorting of this drill core material reduced the volume to approximately 10 tonnes which were sent to two independent diamond recovery laboratories for complete diamond extraction. The final results of the 10.2-tonne bulk sample, which excludes non-diamondiferous xenolithic material, yielded 3,927 diamonds. Of the total count, 704 are macrodiamonds having dimensions in excess of 0.5 mm. The average grade of diamond for this test is estimated to be 62.7 carats per 100 tonnes of kimberlite. To date, the total number of diamonds recovered from

12,173.2 kilograms (including previous core samples) of this kimberlite diatreme amounts to 4,665, of which 875 are macrodiamonds. The parcel of macrodiamonds will be submitted to a recognized diamond evaluator for an economic appraisal; this process is expected to take several months.

In late summer, exploration personnel confirmed the presence of two new kimberlites within the Spider #1 project area, bringing the total to seven discovered by this highly successful team. Since the start of this project in early 1992, 62 diamond drill holes have been completed, totaling 13,586 metres, and testing of 35 separate magnetic survey rendered kimberlite targets. Seven of these targets have been drill-tested and confirmed to be kimberlite for a remarkable success ratio of 20% (one in every five holes intersected a kimberlite). Sixteen of the 62 holes were designed to retest Spider's previously discovered kimberlites for sampling purposes while others tested airborne electromagnetic anomalies.

During the year, Spider paid \$1 million to KWG to buy out Ashton Mining of Canada Inc.'s potential 51% interest in the Spider #1 project. In return, Ashton acquired a 25% clawback right into any diamondiferous discovery in this project area. In order to exercise this right, Ashton must reimburse KWG 300% of all exploration and evaluation costs of the discovery prior to the decision to mine. Spider will be awarded a pro rata portion of the reimbursement. In addition, Spider is now in agreement with KWG to dilute KWG's interest in all diamond projects to 50%. Accordingly, Spider will solely provide funding matching the accrued exploration expenditures of KWG on diamond related projects since 1992, including the Spider #2, Spider #3 and Brazilian projects of KWG.

Exploration on this exciting project area will continue throughout 1997 with the testing of the Kyle #4 and Kyle #5 kimberlites (discovered at the end of the 1996 field season) and the regional assessment of the area. As noteworthy events, it has been confirmed that two diamond exploration companies, Monopros Ltd. and Jonpol Explorations Inc., will be undertaking drilling activities in the early part of 1997. Jonpol will be drill testing kimberlite targets northwest of Kyle Lake #1 (in the vicinity of Kyle #3) and Monopros will be collecting bulk

• SPIDER CONTINUED TO CARRY OUT EXPLORATION ACTIVITIES IN THREE CANADIAN PROJECTS.

• IN LATE SUMMER, EXPLORATION PERSONNEL CONFIRMED THE PRESENCE OF TWO NEW KIMBERLITES WITHIN THE SPIDER #1 PROJECT AREA, BRINGING THE TOTAL TO SEVEN.

sample material from at least one of its kimberlites in the Attawapiskat River cluster, proximal to the MacFadyen #1 and #2 kimberlite bodies.

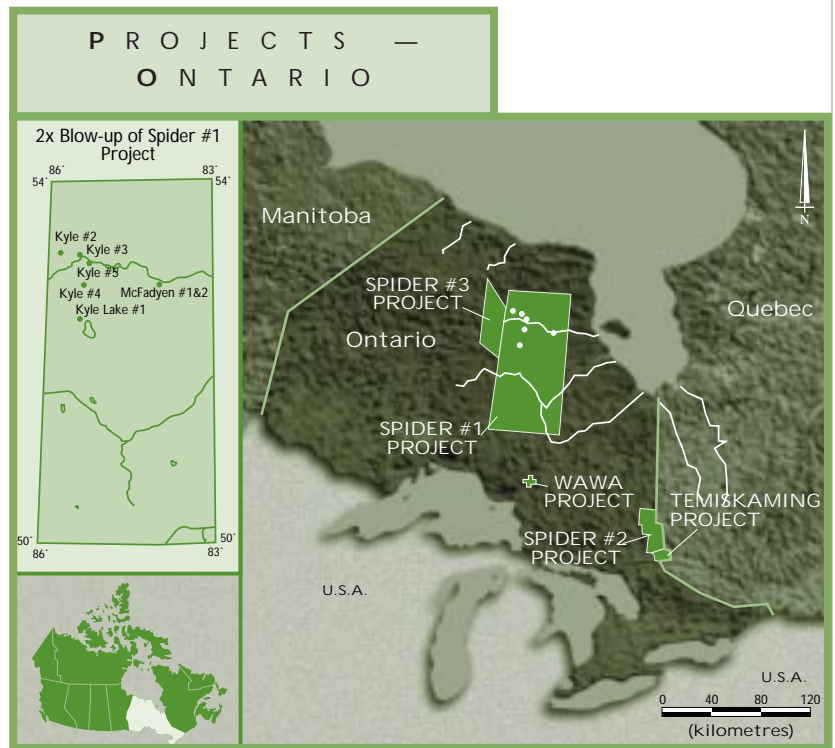
**S P I D E R # 2 P R O J E C T —**  
**O N T A R I O / Q U E B E C**

This project area remains one of passive interest for Spider. Though other diamond companies are active in this area including Sudbury Contact Mines Ltd. and Strike Minerals Inc., neither has to date announced significant numbers of recoverable diamonds from any of its kimberlites. Consequently, Spider has decided to center its exploration efforts on the Spider #1 and Spider #3 projects.

**S P I D E R # 3 P R O J E C T —**  
**O N T A R I O**

A 43,900-kilometre airborne magnetic survey was completed in 1995 and the area underwent an initial limited drilling program during 1996. No kimberlites were encountered among the anomalies tested. Geochemical sampling for indicator (kimberlite satellite) minerals in glacial till and river sediments completed in 1996 outlined several glacial dispersion fans which suggest local sources of kimberlites. This new geochemical information, coupled with earlier aeromagnetic and airphoto interpretation, upgraded earlier magnetically rendered priority targets to drill target status. Confirmation by ground magnetics of selected targets will be completed for drill sitting purposes only.

The Spider #3 area is underlain by Precambrian rock covered by thin veneer of glacial till, unlike Spider #1 which is covered by glacial till and Paleozoic bedrock. The discovery and subsequent age-dating of the Kyle type kimberlite (five located to date) in the Spider #1 area confirmed these kimberlites are pre-Paleozoic in age (1.01 billion years). Until the discovery of these older kimberlites that pre-date the Paleozoic rocks, only those that pierced (post-dated) the Paleozoics were sought. With this strategic knowledge and expertise in hand, Spider was in a position to design and implement a geochemical indicator mineral program searching for old kimberlites in an area where no one has searched before. The summer exploration season of 1996 wit-



nessed the completion of a regional geochemical program during which 626 samples were collected, assayed and processed for kimberlite indicator minerals. Several glacial dispersion fans of indicator minerals as well as some precious metals are evident in the preliminary results. Magnetically sampled diatremes are located near to these dispersion fans. However, there are three glacial directions which must be applied to the sample location data in order to determine which magnetic anomaly is the likely source of the indicator minerals. In addition, this regional program encountered traces of gold at several sample sites.

Spider is committed to continuing the exploration program on the Spider #3 project in 1997.

**W A W A P R O J E C T —**  
**O N T A R I O**

In early 1996, management completed due diligence on a new project located near the village of Wawa, Ontario. Six diamonds were recovered from an 18.1-kilogram sample taken from a roadside cut along the Trans-Canada Highway. Subsequently, Spider secured prospecting rights on 45 square kilometres covering the discovery site from the regional landowner,

- NEW GEOCHEMICAL INFORMATION UPGRADED EARLIER MAGNETICALLY SAMPLED PRIORITY TARGETS TO DRILL TARGET STATUS IN THE SPIDER # 3 AREA.

**APREDOR PROJECT —  
REPUBLIC OF GUINEA, AFRICA**

Algoma Central Corporation (“ACC”). In January 1997, Spider signed an option agreement to acquire this land, subject to several conditions, most of which were met during 1996. A mineral exploration agreement with ACC was formalized during the latter part of 1996.

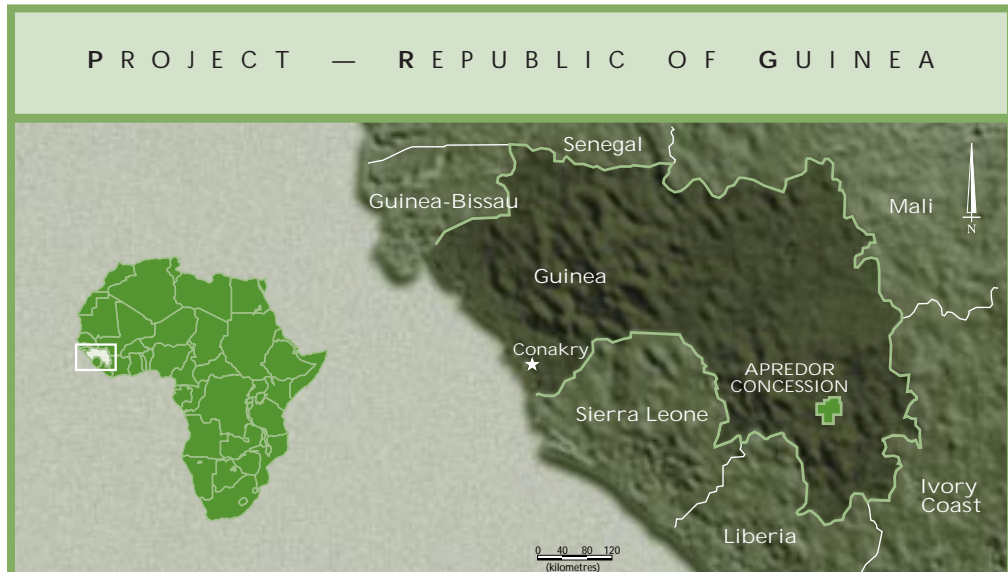
During the due diligence, minimal exploration and sampling took place totaling some \$100,000 in expenditures. In a 67.6-kilogram sample taken from the outcrop which hosts the discovery site, 64 diamonds, including 8 macrodiamonds, were recovered. Geologically, the site has been described as a xenolith-rich mafic to ultramafic tuffaceous horizon encased in Archean aged metavolcanics and metasediments. Other nearby outcrops have been located, mapped and sampled. Complete results of the samplings are pending. The geological mapping exercise suggests that there is an other mode of occurrence for the preferred rock type: narrow dikes which crosscut the metavolcanics and metasediments.

Spider has signed the mineral exploration agreement with ACC in January 1997. This agreement covers 204 square kilometres centered on the discovery site, which adequately protects the project from outside competition. Spider has committed \$500,000 in exploration expenses to advance this project. This expenditure also complies with the conditions of the mineral exploration agreement with ACC.

As a result of the association of Spider with St. Geneviève Resources Ltd., the company has acquired an option on St. Geneviève’s rights to a 606-square-kilometre alluvial and primary source diamond concession in the Kankan-Kirouani area. St. Geneviève acquired a net interest of 50% of the alluvial diamond deposits and a 70% net interest in the primary source diamond deposits. Spider must assume all expenses (exploration and otherwise) until production to acquire this interest from St. Geneviève. According to studies carried out by Apredor during the past ten years, the alluvial diamond reserves are estimated to be 200,000 carats (80% being gem quality). The search for primary diamond occurrences still remains to be systematically undertaken. Two kimberlites and dike intrusions of diamondiferous peridotites have been identified on the property. Access to an exclusive copy of the aeromagnetic survey data completed in the early 1980’s which covers most of Guinea has been obtained and is currently being analyzed by Spider. Several anomalies which resemble kimberlites have been identified surrounding and within the concession. These anomalies will be investigated during the 1997 exploration season.

- A 67.6-KILOGRAM SAMPLE TAKEN FROM THE OUTCROP WHICH HOSTS THE WAWA DISCOVERY SITE RECOVERED 64 DIAMONDS, INCLUDING 8 MACRODIAMONDS.

- TWO KIMBERLITES AND DIKE INTRUSIONS OF DIAMONDIFEROUS PERIDOTITES HAVE BEEN IDENTIFIED ON THE PROPERTY.



PARANAÍBA PROJECT — BRAZIL

Spider has entered into an agreement with KWG whereby Spider can earn a 50% interest in the Brazilian diamond properties of KWG by financing and completing an exploration program totalling US\$1.8 million, that is, twice the exploration expenditure to date that KWG has incurred on its diamond mineral leases in Brazil. This agreement involves an area of approximately 2,000 square kilometres.

A large (131 hectares) topographically rendered structure in the Alto Paranaíba area of Brazil has been field-identified as a yellow kimberlite breccia. A productive diamond garimpero operation was worked in the area of what is described as gravel grit facies of a nearby kimberlite, located 50 metres east of the outcropping kimberlite breccia. This discovery is referred to as the Contendas Structure, defined as occupying a low flat swampy area coincident with a satellite imagery anomaly.

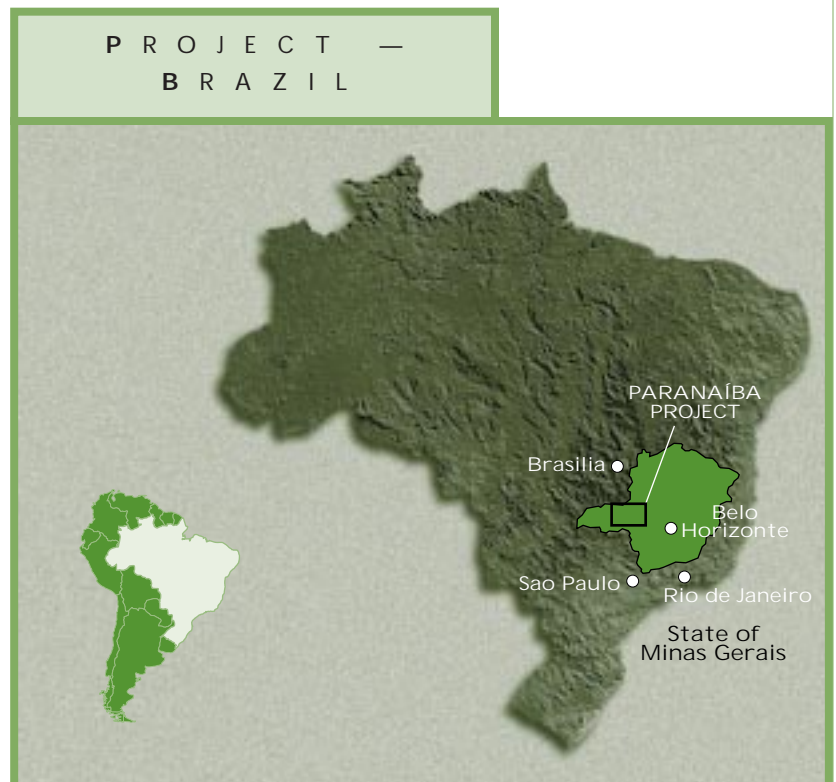
Historically, KWG began exploration in this area of Brazil in May 1993 and mobilized a 300-ton-per-day alluvial diamond plant in the Alto Paranaíba area in August 1993. By September 1993, the plant was operating on the Charneca concession yielding 0.042 carats per cubic metre at a rate of 100 cubic metres per day. In September 1993, additional alluvial concessions were obtained covering a 24-kilometre stretch of the fertile Paranaíba River. The following summer, the alluvial plant was moved to the Paranaíba concession and operated intermittently. Diamond production figures for the period August 3 to September 15, 1994 were 190 stones recovered, weighing 301.35 carats in total. This production was from previously washed gravel, and it was speculated at the time that an eroding source of diamonds was within the local drainage system. The summer of 1994 was highlighted by the discovery of a 107-carat stone from a small reserve plot within the Paranaíba River concession, which sold for US\$500,000. KWG terminated the alluvial operation, which was just breaking even, in early 1995. The site of these historical alluvial activities by KWG is within a few kilometres of this new discovery.

In January 1995, KWG applied for mineral concessions surrounding its alluvial operations and covering an area of

more than 2,000 square kilometres. In February 1995, KWG identified 52 anomalies (airborne magnetic and landsat), each of which warranted subsequent work. Seven of the anomalies were visited and sampled (10-kilogram samples); all tested positive to various kimberlite indicator minerals (magnesium-rich ilmenite, olivine, chrome diopside and pyrope garnets), including one sample which yielded a 2-mm 12-point diamond.

An orientation sampling program financed by KWG was initiated in the fall of 1996 using the local geological and engineering consulting firm SHAFT Consultoria Ltda and Associates. This regional program included the continuation of the investigation of the 52 anomalies as well as a river sediment and geological mapping program. Spider has agreed to continue the regional program and to complete an airborne survey and bulk sampling program of any kimberlites encountered. The proposed program is estimated to initially cost US\$1,800,000.

• A LARGE (131 HECTARES) TOPOGRAPHICALLY RENDERED STRUCTURE IN THE ALTO PARANAÍBA AREA OF BRAZIL HAS BEEN IDENTIFIED AS A YELLOW KIMBERLITE BRECCIA.



## M A N A G E M E N T ' S   A N A L Y S I S   O F T H E   F I N A N C I A L   S I T U A T I O N

For the year ended December 31, 1996, the company incurred a net loss of \$208,001 (\$0.01 per share) compared to a net loss of \$142,764 (\$0.01 per share) for the year ended December 31, 1995. The increase in net loss is mainly attributable to higher management fees charged by a related company following the increased level of activities in 1996.

### L I Q U I D I T Y   A N D   C A P I T A L R E S O U R C E S

During the year, the company issued 15,616,508 flow-through common shares for a total consideration of \$3,799,589. Part of these funds financed the exploration programs of the Spider #1 and Spider #3 projects together with the initial activities on the Wawa project. As at December 31, 1996, an amount of \$1,740,000 was held as a deposit for exploration expenses resulting from the last flow-through financing. Total net cashflow generated by the issue of share capital amounted to \$4,114,994 in 1996 compared to \$2,098,746 in 1995.

### O U T L O O K

With a \$1,740,000 deposit for exploration expenses, the company has the required funding to continue its exploration programs on the Spider #1, Spider #3 and Wawa projects for 1997. The company will also concentrate its efforts on obtaining the appropriate financing to undertake the exploration program on its new project in Guinea.

MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL REPORTING

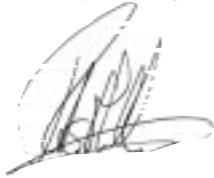
Management is responsible for the preparation of the financial statements and other financial information relating to the company included in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada and necessarily include amounts based on estimates and judgments of management.

Price Waterhouse, our independent auditors, are engaged to express a professional opinion on the financial statements. Their examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow the auditors to report whether the financial statements prepared by management are presented

fairly in accordance with generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of three directors, who are not members of management. The Committee meets with the independent auditors to discuss the results of their audit and their audit report prior to submitting the financial statements to the Board of Directors for its consideration and approval for issuance to shareholders.

On the recommendation of the Audit Committee, the Board of Directors has approved the company's financial statements.



Peter Miller  
Chairman of the Board



Alain Taillefer  
Vice-President, Finance

AUDITORS' REPORT

January 24, 1997

To the Shareholders of  
Spider Resources Inc.

We have audited the balance sheet of Spider Resources Inc. as at December 31, 1996 and the statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

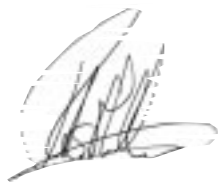


Chartered Accountants  
Montreal, Canada

## B A L A N C E   S H E E T

	\$                      December 31	
	1996	1995
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$    56,867	\$   550,360
Accounts receivable	77,577	6,779
Due from a related company	-	2,363
	134,444	559,502
Investment (Note 4)	600,000	600,000
<b>Mining assets (Notes 1 and 5)</b>		
Deposit for exploration expenses	1,740,000	77,613
Cost and deferred exploration expenses	8,484,164	5,179,372
	10,224,164	5,256,985
	\$10,958,608	\$ 6,416,487
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$    67,586	\$    20,058
Due to a related company without interest or repayment terms	587,600	-
<b>Shareholders' Equity</b>		
Share capital (Note 6)	11,825,988	7,237,244
Deficit	(1,522,566)	(840,815)
	10,303,422	6,396,429
	\$10,958,608	\$ 6,416,487

Approved by the Board



, Director



, Director

S T A T E M E N T O F  
L O S S A N D D E F I C I T

	Year ended December 31	
	1996	1995
Administrative expenses	\$ 208,001	\$ 142,764
Net loss for the year	208,001	142,764
Deficit at beginning of year	840,815	572,796
Share issue expenses	473,750	125,255
Deficit at end of year	\$ 1,522,566	\$ 840,815
Loss per share	\$ 0.01	\$ 0.01

S T A T E M E N T O F C H A N G E S  
I N F I N A N C I A L P O S I T I O N

	Year ended December 31	
	1996	1995
<b>Operating activities</b>		
Net loss for the year	\$ (208,001)	\$ (142,764)
Net change in non-cash items	(23,270)	(36,385)
Cash used for operating activities	(231,271)	(179,149)
<b>Financing activities</b>		
Issue of share capital	4,588,744	2,224,001
Share issue expenses	(473,750)	(125,255)
Increase in due to a related company	589,963	-
Cash generated from financing activities	4,704,957	2,098,746
<b>Investing activities</b>		
Increase of cost and deferred exploration expenses	(3,304,792)	(1,716,097)
(Increase) decrease in deposit for exploration expenses	(1,662,387)	307,387
Cash used for investing activities	(4,967,179)	(1,408,710)
Net change in cash during the year	(493,493)	510,887
Cash at beginning of year	550,360	39,473
Cash at end of year	\$ 56,867	\$ 550,360

# NOTES TO FINANCIAL STATEMENTS

## 1. INCORPORATION AND NATURE OF OPERATIONS

The company was incorporated under the Canada Business Corporations Act on July 20, 1992.

The company has interests in mining properties presently at the exploration stage and has not yet determined whether these properties contain ore reserves economically recoverable. The recoverability of costs relating to these mining properties, including deferred exploration expenses, is dependent upon the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying mineral claims, the ability of the company to obtain the necessary financing to complete the development, as well as future profitable production or alternatively, upon disposition of such properties at an amount equal to the company's investment therein.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Investments**

Investments are recorded at acquisition cost and their carrying value is written down if there is a loss of value which is considered to be other than temporary.

### **Mining assets**

Mining assets include wholly-owned mining properties, interests and rights to acquire interests in mining properties and deferred exploration expenses.

Proceeds from the sale of a mining asset are applied against related carrying costs and any excess is reflected as a gain in the statement of loss. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

During the start-up period, the proceeds from the sale of ore are credited to mining assets. When a property is put into production, related costs are transferred to capital assets and amortized over the expected production period. These costs are written off if properties are abandoned or devaluated.

### **Share issue expenses**

Share issue expenses are recorded as an increase in the deficit in the year in which they are incurred.

### **Loss per share**

Loss per share is computed using the weighted average number of shares outstanding during the year.

## 3. FINANCIAL INSTRUMENTS

### **Fair value**

The company has determined the estimated fair value of its financial instruments. These estimates are based on judgement and may not be indicative of the amounts the company could realize in a current market exchange. The use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

Short-term financial assets and liabilities are valued at their carrying amounts as presented in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

### **Interest rate risk**

The company's cash, receivables and payables are non-interest bearing.

## 4. INVESTMENT

The investment is comprised of:  
200,000 common shares of KWG Resources Inc.  
(fair market value \$1,540,000; 1995 - \$990,000)

	1996	1995
\$ 600,000	\$ 600,000	

## 5. MINING ASSETS

	Cost		Deferred exploration expenses	
	1996	1995	1996	1995
Spider #1	\$ 1,873,160	\$ 873,160	\$ 4,175,496	\$ 2,482,793
Spider #2	70,500	66,000	553,293	553,000
Spider #3	9,540	-	1,045,513	542,809
Wawa	50,000	-	45,052	-
Lansdowne	261,610	261,610	-	-
Tystar	400,000	400,000	-	-
	\$ 2,664,810	\$ 1,600,770	\$ 5,819,354	\$ 3,578,602

The company entered into agreements with subscribers and partnerships whereby the company agreed to incur \$1,740,000 of exploration expenses on the Spider #1 and Spider #3 properties by December 31, 1997. As at December 31, 1996, the company had not incurred any exploration expenses in relation to these agreements.

The group of claims described as Spider #1, #2 and #3 are subject to the terms of an exploration agreement with KWG Resources Inc. ("KWG"), a related company, whereby both partners must contribute on a pro rata basis to all future expenditures or undergo dilution (Note 8). Spider #1 was subject to an agreement with Ashton Mining of Canada Inc. ("Ashton"), whereby Ashton could acquire a 51% interest in any discovered deposit by completing a feasibility study and providing the financing mechanism enabling commercial production. During the year, KWG signed an agreement with Ashton according to which KWG would pay \$1 million to Ashton to reduce Ashton's potential interest to a 25% clawback right into any diamondiferous discovery in the area, subject to the reimbursement by Ashton to KWG of 300% of exploration and evaluation costs of the discovery prior to the decision to mine, with the notable exception of the Kyle Lake #1 kimberlite property, in which Ashton relinquished its interest in September 1995. The company will be awarded a pro rata portion of the reimbursement. In agreement with KWG, Spider has accepted to pay the \$1 million to Ashton to increase its interest in all of KWG's Canadian diamond projects (Note 8(c)).

## 6. SHARE CAPITAL

### Authorized

An unlimited number of common and preferred shares issuable in series

### Issued

Changes in the company's share capital were as follows:

	1996		1995	
	Number of shares	Amount	Number of shares	Amount
<b>Common shares</b>				
Balance at beginning of year	54,119,684	\$ 7,237,244	39,238,950	\$ 4,099,577
Issued for Canadian exploration expenses	15,616,508	3,799,589	9,537,090	2,079,568
Issued and paid in cash	2,333,592	567,755	1,746,955	388,475
Issued following the exercise of options	740,000	155,400	32,000	6,720
Issued for acquisition of mining properties	-	-	150,000	31,000
Issued following the exercise of warrants	200,000	66,000	3,414,689	631,904
Balance at end of year	73,009,784	\$ 11,825,988	54,119,684	\$ 7,237,244

## 6 . S H A R E C A P I T A L ( C O N T ' D )

### **Options**

Certain directors, officers and consultants of the company hold 3,140,000 common share purchase options (1995 - 3,200,000) which can be exercised at prices ranging from \$0.21 to \$0.44 per share (average price of \$0.24) and expiring between February 1999 and June 2001.

### **Warrants**

Under agreements entered into with various investors, the company has issued 4,429,550 common share purchase warrants (1995 - 4,159,000) entitling their holders to subscribe to 4,429,550 common shares at prices ranging from \$0.21 to \$0.43 per share (average price of \$0.31), expiring between July 1997 and January 1998.

## 7 . I N C O M E T A X E S

As at December 31, 1996, the cost for income tax purposes of the mining assets totalled approximately \$2,842,000. The difference between this cost and the amount capitalized in the financial statements arises mainly as a result of the tax benefits related to some exploration expenses being renounced to subscribers.

The company has accumulated non-capital losses of approximately \$974,000. These losses will expire between 1999 and 2003.

The unamortized balance for tax purposes of share issue expenses amounting to approximately \$536,000 will be deductible over the next four years.

The potential tax effects of these items are not reflected in the financial statements.

## 8 . R E L A T E D P A R T Y T R A N S A C T I O N S

(a) During the year, the company was charged \$100,000 (1995 - \$50,000) for premises and administrative services by a related company.

(b) During the year, the company was charged \$2,195,700 by KWG for its share of the actual cost incurred for exploration expenditures in Spider #1, #2 and #3, pursuant to the exploration agreement between KWG and the company.

(c) During the year, the company entered into an agreement with KWG to increase its interest in Spider #1, #2 and #3 to 50%. Starting in 1997, the company will provide all exploration funds on these projects up to the amount incurred by KWG since 1992 on these projects.

**Peter Miller**  
Chairman of the Board  
and Director

**Norman E. Brewster**  
President and Director

**Neil Novak**  
Vice-President, Exploration  
and Director

**Peter Purcell\***  
Director

**Donald A. MacFadyen**  
Director

**A.J.A. (Bram) Janse\***  
Director

**Mousseau Tremblay\***  
Director

**Pierre R. Gauthier**  
Vice-President, Corporate Development

**Alain Taillefer**  
Vice-President, Finance

**Luce L. Saint-Pierre**  
Secretary

**Martine Valcin**  
Assistant Secretary

\* Member of the Audit Committee

**Annual Meeting**  
The Annual Meeting of Shareholders of Spider Resources Inc. will be held on April 16, 1997 at 11:00 a.m. in the Norfolk Room of the Sheraton Centre, 123 Queen Street West in Toronto.

**Solicitors**  
Lapointe Rosenstein  
1250 René-Lévesque Blvd. West  
Suite 1400  
Montreal, Quebec  
H3B 5E9

**Auditors**  
Price Waterhouse  
1250 René-Lévesque Blvd. West  
Suite 3500  
Montreal, Quebec  
H3B 2G4

**Registrar and Transfer Agent**  
Montreal Trust Company  
Place Montréal Trust  
1800 McGill College Avenue  
Montreal, Quebec  
H3A 3K9

**Exchange Listing**  
Alberta Stock Exchange  
Symbol: SPQ

**Cusip**  
84844C 10 7

**Terms**  
All amounts stated, unless otherwise specified, in this report are in Canadian dollars, and all quantities are in metric tonnes (2,204.6 pounds).

**Annual Report**  
Additional copies of this report may be obtained upon written request to:  
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