SPIDER RESOURCES INC.

1998 Annual Report

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Message to Shareholders

On behalf of the Board of directors of Spider Resources Inc., I am pleased to present to the shareholders a review of the company's activity for the year ended December 31, 1998.

The past year has been a period of relative quiescence. The condition of the resource sector provided limited financing alternatives for the company, as a consequence the level of exploration activities in comparison to past years was substantially reduced. However the directors were able to raise limited funds sufficient to maintain the company, to protect its holdings and to carry out limited exploration. Third party creditor accounts were reduced by approximately $530,000 in consideration for equity in the company.

Because of the financial conditions, certain of the company's diamond projects have been placed on hold and work has ceased on others. Limited funds were utilized wherein maximum tangible results were expected in the form of diamond recovery, thus exploration efforts were focused on the Alto Paranaiba project. Simultaneously the company actively sought joint venture participation for its other properties and continues to do so.

Management anticipates improved financing markets during the coming year which together with a renewed board outlook and corporate restructuring will create the conditions for success. The company expresses its gratitude for the retiring board members who have enthusiastically contributed their services for the past years.

On behalf of the Board,

(s) *Norman E. Brewster*

Norman E. Brewster,
President

July 14, 1999

Summary of Operations

During 1998, the company focused exploration efforts on the diamond holdings in the states of Goias and Minas Gerais Brazil. Within these a number of targets were developed through a combination of air photographic and Landstat imagery interpretation with limited ground verification, these remain for more extensive testing.

Late in the year a limited sampling program over the Contendas diamond target, utilizing a modified processing plant (equipped with an X-ray Sortex) purchased by Spider's joint venture partner KWG Resources Inc., was successful in recovering from surficial material 11 diamonds; ranging in size from 0.07 to 1.06 carats totaling 5.52 carats. This successful test represents an encouraging confirmation of the exploration concept developed at the Contendas site.

Limited budget, difficult working environment and equipment faults prevented a more extensive site program, during 1998, however both Spider and KWG are exploring methods to finance a more extensive program at Contendas, with allowance for the testing of other targets in 1999.

No work was carried out on the company's James Bay Lowland or Wawa projects during the past year, Spider actively sought joint venture opportunities for these programs and continues to do so.

OUTLOOK

The company will maintain its vested position in the Alto Paranaiba project in Brazil while actively seeking financing and new project opportunities during 1999. Management believes that corporate restructuring in preparation for improved resource market conditions will enhance the company's ability to implement future opportunity.

YEAR 2000 DISCLOSURE

The Year 2000 Issue arises because many computerized systems use two digits rather that four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

Management has evaluated the extent of potential problems related to the Year 2000 by reviewing operating and information systems and equipment used by the company. Management has concluded that the existing systems and equipment have a minimum exposure to the problem since they perform no calculations based on the date. Their only usage is for accounting consisting of basic entries, and the systems have no complex applications. However, the company remains vulnerable to any default relating to the Year 2000 with its transacting parties, such as trusts, brokers, stock exchanges and government agencies.

Management's Discussion and Analysis of the Financial Results

The following discussion and analysis should be read in conjunction with the financial statements and related notes thereto which appear elsewhere in this annual report.

OVERVIEW

The year 1998 continued to be very difficult for many of the junior exploration companies including Spider Resources Inc. In October 1998, the company entered into an agreement with Line Islands Exploration Inc. ("Line"), amended in April 1999, whereby the company sold to Line its option to acquire an additional 23% interest in the Brazilian properties for a cash consideration of $100,000 and 100,000 common shares of Line. Line is committed to spend a total of $600,000 over the next 24 months in exploration expenditures on the Brazilian properties in which the company retain a 27% interest.

OPERATIONS

For the year ended December 31, 1998, the company incurred a net loss of $3,016,024 ($0.03 per share) compared to a net loss of $2,342,272 ($0.03 per share) for the year ended December 31, 1997.

This loss is attributable mainly to the write-off of mining assets for a total amount of $2,375,792 and an additional write-down of $181,441 of its investment in KWG Resources Inc.

EXPENSES

Administrative expenses decreased by 60% from $1,042,429 in 1997 to $421,632 due to the overall downsizing of its activities. The company also wrote off costs and deferred exploration expenses of certain Canadian properties for which mining claims were not renewed due to unsatisfactory geological results and to the conditions prevailing on the capital market. However, the company maintained the Canadian Spider I and Wawa projects which have a good potential.

FINANCING, WORKING CAPITAL AND LIQUIDITIES

The exploration activities in Brazil in 1998 were financed through private placement in equity of the company in the amount of $150,000 and non-interest bearing convertible debentures in the amount of $300,000.

During the year, the company issued 2,869,565 common shares in conversion of $330,069 of payables and closed a private placement for 1,650,000 common shares which were issued after year-end for a total cash consideration of $150,000.

The company has a negative working capital of $965,476 compared to $1,075,390 at year-end 1997. Negotiations are on-going to convert part of its payables, including the amount due to the related companies, into equity of the company. The company has no liquidity at year-end but has recently sold to Line an option on properties in Brazil for a cash consideration of $100,000 to be paid over a 12-month period and 100,000 common shares of Line.

OUTLOOK

The Brazilian project will be financed by a third party over the next 24 months. In the meantime, as previously mentioned, discussions for conversion of certain payables will continue. The company will also benefit from the sale of its option in Brazil and the acquisition of Lines' shares to increase its liquidity level. The company will also work towards decreasing its administrative expenses in year 1999.

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.

PricewaterhouseCoopers, our independent auditors, are engaged to express a professional opinion on the financial statements. According to the auditors' report, 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. The Board of Directors discusses with the independent auditors the results of their audit and their audit report and approves the issuance to shareholders of the financial statements.

The Board of Directors has approved the company's financial statements.

(s) *Norman E. Brewster*

Norman E. Brewster
President

Auditors' Report

June 21, 1999

To the Shareholders of Spider Resources Inc.

We have audited the balance sheet of Spider Resources Inc. as at December 31, 1998 and the statements of operations 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, 1998 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.

(s) *PricewaterhouseCoopers*

PricewaterhouseCoopers
Chartered Accountants
Montreal, Canada

Balance Sheet

	December 31 1998	1997
Assets		
Current assets		
Cash	$ -	$ 7,024
Accounts receivable	15,572	145,056
	15,572	152,080
Due from a related company (Note 6)	-	695,622
Investments (Note 3)	108,865	80,000
Fixed assets (Note 4)	25,543	34,291
Mining assets (Note 5)	9,703,953	11,419,317
	$ 9,853,933	$ 12,381,310
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 585,190	$ 647,584
Due to related companies (Note 6)	395,858	579,886
	981,048	1,227,470
Convertible debentures (Note 7)	300,000	-
Shareholders' Equity		
Share capital (Note 8)	15,646,491	15,166,422
Deficit	(7,073,606)	(4,012,582)
	8,572,885	11,153,840
	$ 9,853,933	$ 12,381,310

(s) *Peter Purcell* (s) *Mousseau Tremblay*

Approved by the Board ______________________, Director ______________________, Director

Statement of Operations and Deficit

	Year ended December 31 1998	1997
Revenues		
Interest income	$ -	$ 14,432
Expenses		
Administrative expenses	421,632	1,042,429
Write-down of an investment	181,441	520,000
Write-down and write-off of mining assets	2,375,792	798,916
Loss (gain) on exchange	37,159	(4,641)
	3,016,024	2,356,704
Net loss for the year	(3,016,024)	(2,342,272)
Deficit at beginning of year	(4,012,582)	(1,522,566)
Share issue expenses	(45,000)	(147,744)
Deficit at end of year	$ (7,073,606)	$ (4,012,582)
Loss per share	$ (0.03)	$ (0.03)

Statement of Changes in Financial Position

	Year ended December 31 1998	1997
Operating activities		
Net loss for the year	$ (3,016,024)	$ (2,342,272)
Items not affecting cash		
Write-down of an investment	181,441	520,000
Write-down and write-off of mining assets	2,375,792	798,916
	(458,791)	(1,023,356)
Net change in non-cash items	67,090	525,584
Cash used for operating activities	(391,701)	(497,772)
Financing activities		
Issuance of convertible debentures	300,000	-
Issue of share capital	480,069	3,340,434
Share issue expenses	(45,000)	(147,744)
Net decrease (increase) in due to related companies	301,288	(716,401)
Cash generated from financing activities	1,036,357	2,476,289
Investing activities		
Addition to fixed assets	-	(61,079)
Increase in mining assets	(651,680)	(3,707,281)
Decrease in deposit for exploration expenses	-	1,740,000
Cash used for investing activities	(651,680)	(2,028,360)
Net change in cash during the year	(7,024)	(49,843)
Cash at beginning of year	7,024	56,867
Cash at end of year	$ -	$ 7,024

Notes to Financial Statements

1. Incorporation and nature and continuity of operations

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

The financial statements have been prepared in accordance with generally accepted accounting principles applied on a going concern basis, which presumes that Spider Resources Inc. ("Spider" or the "company") will be able to continue its operations, realize its assets and discharge its liabilities in the normal course of business in the foreseeable future.

The company has interests in diamond mining properties in Brazil and Canada presently at the exploration stage and has not yet determined whether these properties contain ore reserves which are 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.

The company is presently concentrating its activities on the Paranaiba diamond project in Brazil and is seeking financial partners for its Canadian diamond project.

2. Summary of significant accounting policies

Use of estimate
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair value of financial instruments
The company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The effective results may differ from those estimates and the use of different assumptions or methodologies may have material effects on the estimated fair values.

The fair value of short-term financial assets and liabilities is comparable to their carrying value due to the relatively short period to maturity of the instruments.

Interest rate risk
Accounts receivable and accounts payable do not bear interest.

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

Fixed assets
Fixed assets are recorded at acquisition cost and are depreciated using the declining balance method at rates varying from 20% to 30%. During the exploration phase, depreciation is capitalized as deferred exploration expenses.

2. **Summary of significant accounting policies** (cont'd)

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

Exploration cost are deferred until the economic viability of the project has been established, at which time costs are added to mining properties, plant and equipment. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development over a five-year consecutive period or results from exploration work not warranting further investment.

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 operations. In the case of a partial sale, if carrying costs exceed the proceeds, only the loss is reflected.

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Other assets and liabilities as well as items from the statement of operations are translated at the rates of exchange in effect on each transaction date. Gains or losses on translation are included in income.

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. **Investments**

	1998	**1997**
KWG Resources Inc. ("KWG")		
725,766 common shares		
(1997 - 200,000 common shares)		
(Estimated fair market value) (Note 10(a))	$ 108,865	$ 80,000

Balance at beginning of year	$ 80,000	$ 600,000
Conversion of receivable from KWG (Note 10(a))	659,015	-
Repayment in shares of KWG of amount due to St. Geneviève Resources Ltd.	(448,709)	-
Write-down of investment	(181,441)	(520,000)
Balance at end of year	$ 108,865	$ 80,000

4. Fixed assets

	1998			1997
Cost	Accumulated depreciation	Net book value	Net book value	
Exploration equipment	$ 19,240	$ 6,926	$ 12,314	$ 15,392
Rolling stock	26,999	13,770	13,229	18,899
$	46,239	$ 20,696	$ 25,543	$ 34,291

5. Mining assets

	Cost		Deferred exploration expenses	
1998	1997	1998	1997	
Canada				
Spider #1	$ 1,873,160	$ 1,873,160	$ 5,277,785	$ 5,216,694
Spider #2	-	70,500	-	553,762
Spider #3	-	38,340	-	1,453,437
Wawa	226,788	123,960	486,174	484,300
Lansdowne	-	261,610	-	-
	2,099,948	2,367,570	5,763,959	7,708,193
Brazil				
Paranaiba (Note 11)	-	-	1,840,046	1,343,554
	$ 2,099,948	$ 2,367,570	$ 7,604,005	$ 9,051,747

Cost and deferred exploration expenses

	1998	1997
Balance at beginning of year	$ 11,419,317	$ 8,484,164
Cost and deferred exploration expenses	651,680	3,707,281
Capitalized depreciation	8,748	26,788
Write-off of mining assets	(2,375,792)	(798,916)
Balance at end of year	$ 9,703,953	$ 11,419,317

The group of claims described as Spider #1 project is subject to the terms of a joint venture exploration agreement with KWG, a related company, whereby both partners must contribute on a pro rata basis to all incurred expenditures or undergo dilution.

The Spider #1 project, except for the Kyle Lake #1 kimberlite, is subject to an agreement whereby Ashton Mining of Canada Inc. may acquire a 25% interest by reimbursing 300% of the exploration and evaluation costs of the discovery prior to the decision to mine. The company would be awarded a pro rata portion of the reimbursement.

6. Due from related companies

	1998	1997
Due from KWG Resources Inc.	$ -	$ 695,622

Due to related companies

	1998	1997
Due to St. Geneviève Resources Ltd.	$ 227,509	$ 431,298
Due to KWG Resources Inc.	136,451	-
Other related companies	31,898	148,588
	$ 395,858	$ 579,886

The amounts due to related companies have no repayment terms and do not bear interest.

7. Convertible debentures

	1998	1997
Convertible debentures	$ 300,000	$ -

The convertible debentures do not bear interest and are convertible at the option of the holder into common shares of the company on the basis of one common share for each $0.10 of principal amount. The debentures mature on May 14, 2000.

8. 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:

8. **Share capital** (cont'd)

	1998		1997	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Common shares				
Balance at beginning of year	83,967,032	$ 14,966,422	73,009,784	$ 11,825,988
Issued for Canadian exploration expenses	-	-	1,003,980	522,070
Issued and paid in cash	-	-	3,150,020	1,368,010
Issued in payment of accounts payable	4,608,695	530,069	3,913,044	450,000
Issued following exercise of options	-	-	840,000	176,400
Issued following exercise of warrants	-	-	2,050,204	623,954
Total of shares issued and paid at end of year	88,575,727	15,496,491	83,967,032	14,966,422
Shares to be issued and paid in cash	1,650,000	150,000	-	-
Shares to be issued in payment of accounts payable	-	-	1,739,130	200,000
Balance at end of year	90,225,727	$ 15,646,491	85,706,162	$ 15,166,422

Options

As at December 31, 1998, under the share option plan, certain directors, officers and consultants of the company hold 450,000 share purchase options (1997 - 3,649,000) which can be exercised at prices ranging from $0.21 to $0.53 per share (average price of $0.33) and expire between March 2000 and June 2002.

	1998	**1997**
Balance at beginning of year	3,649,000	3,140,000
Granted	-	1,349,000
Exercised	-	(840,000)
Canceled or expired	(3,199,000)	-
Balance at end of year	450,000	3,649,000
Average exercise price of outstanding options	$ 0.49	$ 0.33

8. Share capital (cont'd)

Warrants

Under agreements entered into with various investors as at December 31, 1998, there were 1,650,000 warrants outstanding (1997 - 3,592,200), which were all granted in 1998. These warrants entitle their holders to subscribe to an equivalent number of common shares at a price of $0.115 until March 14, 1999 and at a price of $0.13 from March 15, 1999 to March 15, 2000.

	1998	1997
Balance at beginning of year	3,592,200	4,429,550
Granted	1,650,000	2,077,000
Exercised	-	(2,050,204)
Cancelled or expired	(3,592,200)	(864,146)
Balance at end of year	1,650,000	3,592,200
Average exercise price of outstanding warrants	$ 0.12	$ 0.53

9. Income taxes

As at December 31, 1998, the cost for income tax purposes of the mining assets, investments and capital assets totalled approximately $3,944,000. 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. For Brazilian tax purposes, the cost for income tax purposes of the mining assets is approximately $1,800,000.

The company has accumulated non-capital losses of approximately $2,600,000. These losses will expire between 1999 and 2005.

The unamortized balance for tax purposes of share issue expenses amounting to approximately $325,000 will be deductible over the next four years.

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

10. Related party transactions

(a) During the year, the company received in trust from KWG Resources Inc. ("KWG"), a related company, 1,647,538 common shares of KWG in settlement of an amount of $659,015 due from KWG on the basis of one common share for each $0.40 of indebtedness as provided in KWG's plan of arrangement under the *Companies Creditors Arrangement Act* which was approved by its creditors and sanctioned by the Court in 1998.

(b) During the year, the company reimbursed an amount of $448,709 due to St. Geneviève Resources Ltd. through the exchange of 1,121,772 shares of KWG on the basis of one share of KWG for each $0.40 of indebtedness.

(c) During the year, the company was charged $175,000 (1997 - $110,000) for premises and administrative services by a related company.

10. Related party transactions (cont'd)

(d) During the year, related companies controlled by directors of the company charged $30,000 (1997 - $243,124) for professional fees which were charged to exploration expenses and acquisition cost.

11. Subsequent events

On April 19, 1999, the company entered into an agreement with Line Islands Exploration Inc. ("Line") whereby Line acquires from Spider its option to acquire an additional 23% interest in the Paranaiba property in Brazil for a consideration of $100,000 in cash payable in three installments over a one-year period and the issuance by Line of 100,000 shares to the company. Line will incur a total of $600,000 of expenditures on the property over the next 24 months, of which $225,000 has already been incurred. Line could also earn an additional 0.5% interest from Spider for each $35,714 of additional exploration expenditures incurred, up to a maximum of 3.5%.

12. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

Corporate Information

Norman E. Brewster
President, Chief Executive Officer and Director

Neil Novak
Vice-President, Exploration and Director

Peter Purcell
Director

Donald A. MacFadyen
Director

Mousseau Tremblay
Director

Luce L. Saint-Pierre
Secretary

Martine Valcin
Assistant Secretary

Annual Meeting
The Annual and Special Meeting of Shareholders of Spider Resources Inc. will be held on September 13, 1999, at 2:00 p.m., at 630, René-Lévesque Boulevard West, 16th Floor, St. Laurent Room, in Montreal.

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Montreal, Quebec
H3B 5E9

Auditors
PricewaterhouseCoopers
1250 René-Lévesque Blvd. West
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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

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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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