

**SPIDER RESOURCES INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**SPIDER RESOURCES INC.**  
**DECEMBER 31, 2001**

**CONTENTS**

---

Auditors' report	2
Balance sheet	3
Statement of income and deficit	4
Statement of cash flow	5
Notes to financial statements	6 - 13

## AUDITORS' REPORT

---

*To the Shareholders of  
Spider Resources Inc.*

We have audited the balance sheet of Spider Resources Inc. as at December 31, 2001 and 2000, the statement of income and deficit and the statement of cash flow for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and 2000 and the results of its operations for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
May 8, 2002

*Signed*  
GREEN CHENCINSKI STARKMAN ELES LLP  
Chartered Accountants

**SPIDER RESOURCES INC.**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2001**

	2001	2000
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	4,916	493,370
Prepaid expenses and sundry receivables	556	60,357
	5,472	553,727
<b>Investment</b> (note 3)	15,773	29,031
<b>Capital assets</b> (note 4)	10,844	14,363
<b>Mining assets</b> (note 5)	10,965,875	10,542,318
	10,997,964	11,139,439
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	352,456	692,885
Notes payable (note 6)	118,725	448,962
	471,181	1,141,847
<b>Shareholders' deficiency</b>		
Capital stock (note 8)	18,182,257	17,538,621
Deficit	(7,655,474)	(7,541,029)
	10,526,783	9,997,592
	10,997,964	11,139,439

On behalf of the Board

*Signed* \_\_\_\_\_ Director  
 Norman Brewster

*Signed* \_\_\_\_\_ Director  
 Neil Novak

**SPIDER RESOURCES INC.**  
**STATEMENT OF INCOME AND DEFICIT**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	2001	2000
	\$	\$
<hr/>		
<b>REVENUE</b>		
Sale of geophysical and geochemical data <i>(note 11)</i>	309,530	88,374
<hr/>		
<b>EXPENSES</b>		
Administrative expenses	373,054	212,879
Write-down of investment	13,258	79,834
<hr/>		
	386,312	292,713
<hr/>		
<b>NET LOSS</b>	(76,782)	(204,339)
<b>DEFICIT, BEGINNING OF YEAR</b>	(7,541,029)	(7,223,931)
Share issue expenses	(37,663)	(112,759)
<hr/>		
<b>DEFICIT, END OF YEAR</b>	(7,655,474)	(7,541,029)
<hr/>		
<b>NET LOSS PER SHARE</b>	(0.001)	(0.002)
<hr/>		

**SPIDER RESOURCES INC.**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	2001 \$	2000 \$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net loss	(76,782)	(204,339)
Adjustment for item not affecting cash:		
Write-down of investment	13,258	79,834
Changes in non-cash working capital:		
Prepaid expenses and sundry receivables	59,801	(59,658)
Accounts payable and accrued liabilities <i>(note 12)</i>	(190,429)	87,424
	(130,628)	27,766
Cash used in operating activities	(194,152)	(96,739)
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Additions to mining assets	(420,038)	(898,646)
Cash used in investing activities	(420,038)	(898,646)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	193,636	1,412,130
Share issue expenses	(37,663)	(112,759)
Notes payable	(30,237)	9,502
Cash provided by financing activities	125,736	1,308,873
<b>NET CHANGE IN CASH</b>	<b>(488,454)</b>	<b>313,488</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>493,370</b>	<b>179,882</b>
<b>CASH, END OF YEAR</b>	<b>4,916</b>	<b>493,370</b>

**1 NATURE OF BUSINESS AND GOING CONCERN**

The recoverability of amounts shown as mining assets is dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying properties, the ability of the company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

These financial statements have been prepared on the basis that the company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the natural course of operations. The ability of the company to continue operations is dependent upon the necessary financing to complete the development of its properties and/or the realization of proceeds from the sale of one or more of its properties. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities should the company be unable to continue as a going concern.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the company may undertake in the future. Actual results may differ from these estimates.

**Fair value of financial instruments**

The carrying value of financial instruments approximates their estimated fair value unless otherwise disclosed in these financial statements.

**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.

**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.

**Capital assets**

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

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Mining assets**

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

Exploration costs 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 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.

### **Share issue expenses**

Share issue expenses are recorded as an increase to 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.

### **Stock option plan**

The company offers a stock option plan which is described in *note 9*. No expenses are recorded with respect to this plan when shares or shares options are issued to employees, officers, directors and consultants of the company. Any consideration paid at the exercise of share options is credited to the share capital. If share options are repurchased by the company, the consideration paid by the company would be applied against the deficit.

### **Future income taxes**

The company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. No future tax asset has been recorded as the ultimate realization of losses available is currently uncertain.

The adoption was applied retroactively in the year ended December 31, 2000 but had no effect on previously reported net losses nor on the reported net loss for the years ended December 31, 2000 and December 31, 2001.

**SPIDER RESOURCES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**3 INVESTMENT**

	2001	2000
	\$	\$
KWG Resources Inc. ("KWG")		
Estimated fair market value	<b>15,773</b>	29,031

**4 CAPITAL ASSETS**

	Cost	Accumulated Amortization	2001 Net	2000 Net
	\$	\$	\$	\$
Exploration equipment	19,240	12,935	6,305	7,881
Rolling stock	26,999	22,460	4,539	6,482
	<b>46,239</b>	<b>35,395</b>	<b>10,844</b>	14,363

**5 MINING ASSETS**

	Acquisition costs		Deferred Exploration expenses	
	2001	2000	2001	2000
	\$	\$	\$	\$
<u>Canada</u>				
Spider #1 (a)	1,873,160	1,873,160	6,392,550	6,026,274
Wawa	466,173	466,173	541,161	486,174
	<b>2,339,333</b>	2,339,333	<b>6,933,711</b>	6,512,448
<u>Brazil</u>				
Paranaiba (b)	-	-	1,692,831	1,690,537
	<b>2,339,333</b>	2,339,333	<b>8,626,542</b>	8,202,985

**Acquisition costs and deferred exploration expenses**

	2001	2000
	\$	\$
Balance at beginning of year	10,542,318	9,638,924
Acquisition costs and deferred exploration expenses	450,038	898,646
Capitalized amortization	3,519	4,748
Proceeds from disposal of mining assets	(30,000)	-
Balance at end of year	<b>10,965,875</b>	10,542,318

**SPIDER RESOURCES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

---

**5 MINING ASSETS (continued)**

- (a) The group of claims described as the Spider #1 project is subject to the terms of a joint venture exploration agreement with KWG 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.

- (b) The company owns a 23.5% direct interest in the Paranaiba diamond project in Brazil. The exploration program throughout 1999 was financed by a third party partner, Line Islands Exploration Inc. ("Line"). During the year ended December 31, 1999, the company sold to Line its option to acquire an additional interest of 23% in the Paranaiba diamond project.

- (c) During the prior year the company signed a letter of intent with PGM Ventures Corporation ("PGM") to enter into a joint venture in respect of a copper-nickel mineralization located in the Springer-Lavoie Lake region of Northwestern Ontario. The property has been dormant for several years and is comprised of 2 separate claims of 16 units covering 512 hectares. The company holds an 82% interest in the property.

By spending up to \$1 million on exploration on the property, PGM will earn up to an 80% direct interest in the company's 82% interest in the claims. In addition, PGM will grant the company a direct 20% interest in all new claims staked in the area. No amounts have been expended to date by PGM on the property.

- (d) During the current year, the company, KWG and De Beers Canada Exploration Inc. ("De Beers") entered into an agreement relating to the Spider #3 project. The mining assets related to Spider #3 were written off in prior years. The agreement allows De Beers to earn up to a 60% interest in the project by spending \$5.5 million over 6 years. De Beers expended approximately \$1 million during the current year on the Spider #3 project.

**6 NOTES PAYABLE**

The amounts are unsecured, non-interest bearing and have no set terms of repayment.

**SPIDER RESOURCES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

---

**7 RELATED PARTY INFORMATION**

- (a) Included in administrative expenses are fees charged by a company that is managed by two of the directors in the amount of \$106,090 (2000 - \$NIL). These fees relate to the management of exploration projects, various office expenses and the sale of geophysical and geochemical data. An amount of \$38,776 (2000 - \$NIL) is included in accounts payable related to unpaid fees.
- (b) During the year, a company controlled by a director of Spider charged \$48,000 (2000 - \$55,619) for professional fees which were charged to deferred exploration expenses. An amount of \$4,000 (2000 - \$8,560) is included in accounts payable related to these fees.
- (c) During the year, a company controlled by a director of the corporation charged \$44,000 (2000 - \$92,300) for professional fees which were charged to administrative expenses. An amount of \$8,000 (2000 - \$13,161) is included in accounts payable related to these fees.
- (d) The company has entered into a joint venture agreement with PGM Ventures Corporation ("PGM") with respect to the property at Lavoie Lake in Northwestern Ontario (see note 5(c)). A director of the company is also a director of PGM.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**8 CAPITAL STOCK**

Authorized

An unlimited number of common and preference shares issuable in series

Issued

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

	2001		2000	
	Number of shares	\$	Number of shares	\$
<b>a) Common shares</b>				
Balance, beginning of year	110,147,147	17,538,621	92,025,847	15,826,491
Issued and paid in cash	1,500,000	150,000	13,500,000	1,350,000
Issued in settlement of debt	4,500,000	450,000	-	-
Conversion of convertible debentures	-	-	4,000,000	300,000
Exercise of stock options	436,364	43,636	621,300	62,130
<b>Balance, end of year</b>	<b>116,583,511</b>	<b>18,182,257</b>	<b>110,147,147</b>	<b>17,538,621</b>

Subsequent to the year end 320,000 options were exercised at \$0.10 per share for proceeds of \$32,000 thereby increasing the number of outstanding shares to 116,903,511.

**SPIDER RESOURCES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

---

**8 CAPITAL STOCK (continued)**

**b) Warrants**

During the prior year, 650,000 warrants were issued to a broker related to a private placement completed during the prior year. The warrants are exercisable at \$0.10 per share until June 5, 2002. In addition a second private placement was completed whereby 500,000 warrants were issued to a broker. These warrants are exercisable at \$0.10 per share until June 29, 2002.

During the prior year, the company entered an agreement with an investor whereby the company issued 5,000,000 warrants related to a common share financing. The warrants entitle their holders to subscribe to an equivalent number of common shares at a price of \$0.12 per share until June 29, 2002.

During the current year the company entered into an agreement with an investor whereby the company issued 1,500,000 warrants related to a common share financing. The warrants entitle their holder to subscribe for an equivalent number of common share at a price of \$0.12 per share until October 26, 2002.

As at December 31, 2001, the following warrants were outstanding:

<b>Number of Warrants</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
650,000	0.10	June 05, 2002
500,000	0.10	June 29, 2002
5,000,000	0.12	June 29, 2002
1,500,000	0.12	October 26, 2002
<hr/>		
7,650,000		

---

**SPIDER RESOURCES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

---

**9 STOCK OPTION PLAN**

The company maintains an employee stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to employees, officers, directors of, or consultants to, the company or any subsidiary thereof, options to acquire common shares in such numbers, for such terms and at such exercise prices, as may be determined by the Board or such committee.

The stock option plan provides that the maximum number of common shares in the capital of the company that may be reserved for issuance for all purposes under the stock option plan shall be equal to 10% of the total issued and outstanding common shares and that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to share options may not exceed 5% of the common shares outstanding at the time of grant.

The maximum number of common shares that may be reserved for issuance to insiders of the company is limited to 10% of the common shares at the time of the grant.

The option exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of the grant.

Options granted must be exercised over a period no longer than ten years after the date of grant, and options are not transferable.

As at December 31, 2001 the following options were outstanding:

<b>Number of Options</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
60,000	0.495	May 5, 2002
492,336	0.10	September 15, 2003
3,590,000	0.10	October 19, 2004
3,935,000	0.11	October 25, 2005
<hr/>		
8,077,336		

Subsequent to the year end the following changes to the number of options outstanding occurred:

- the May 5, 2002 options totalling 60,000 expired
- a total of 320,000 options were exercised at \$0.10 per option reducing the total expiring September 15, 2003 by 207,318 and reducing the total expiring October 19, 2004 by 112,682
- a further 1,900,000 options were granted with an exercise price of \$0.10 per option expiring January 31, 2007

As a result of these transactions subsequent to the year end, a total of 9,657,336 options are outstanding with an exercise price of \$0.10 or \$0.11 per option as at May 8, 2002.

**SPIDER RESOURCES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

---

**10 INCOME TAXES**

Future income tax assets and liabilities arise from the following:

	2001	2000
	\$	\$
Future income tax assets:		
Resource properties	1,700,000	1,800,000
Loss carry forwards	1,250,000	1,300,000
	<u>2,950,000</u>	<u>3,100,000</u>
Valuation allowance	<u>(2,950,000)</u>	<u>(3,100,000)</u>
Net future income tax assets	-	-

The corporation's combined Canadian federal and provincial statutory tax rate was approximately 40% in 2001 and approximately 44% in 2000. The results of operations for the years ended December 31, 2001 and 2000 do not reflect a provision for recovery of income taxes based on those rates, primarily because of the uncertainty of realizing the future income tax benefits associated with the loss for income tax purposes and other deductions charged against the operations which are deferred for income tax purposes.

The corporation has loss carry-forwards of approximately \$3,100,000 which expire principally in the years 2002 to 2008. The future tax benefits attributable to these loss carry-forwards have been offset by a valuation allowance.

**11 SALE OF GEOPHYSICAL AND GEOCHEMICAL DATA**

The company has sold data related to property written off in prior years and has recognized the net proceeds from the sale of data as revenue in the statement of income.

**12 SUPPLEMENTARY CASH FLOW INFORMATION**

The company did not pay any income taxes or interest during either of the two years ended December 31, 2000 and December 31, 2001.

During the current year, the company settled \$150,000 of accounts payable and \$300,000 of notes payable through the issuances of common shares.