

**HUDSON RESOURCES INC.**

**REPORT AND FINANCIAL STATEMENTS**

March 31, 2006 and 2005

## **AUDITORS' REPORT**

To the Shareholders,  
Hudson Resources Inc.

We have audited the balance sheets of Hudson Resources Inc. as at March 31, 2006 and 2005 and the statements of operations 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
July 17, 2006

***“AMISANO HANSON”***  
Chartered Accountants

**HUDSON RESOURCES INC.**  
**BALANCE SHEETS**  
March 31, 2006 and 2005

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current			
Cash and term deposits		\$ 479,745	\$ 1,797,104
Accrued interest and amounts receivable – Note 5		200	14,069
Goods and services tax receivable		32,002	38,534
Prepaid expenses		<u>6,166</u>	<u>17,854</u>
		518,113	1,867,561
Resource properties – Note 3 and Schedule 1		<u>2,465,037</u>	<u>1,261,659</u>
		<u>\$ 2,983,150</u>	<u>\$ 3,129,220</u>

**LIABILITIES**

Current			
Accounts payable and accrued liabilities – Note 5		<u>\$ 83,815</u>	<u>\$ 271,863</u>

**SHAREHOLDERS' EQUITY**

Share capital – Notes 4 and 7		3,753,371	3,410,430
Contributed surplus		367,982	172,066
Deficit		<u>(1,222,018)</u>	<u>(725,139)</u>
		<u>2,899,335</u>	<u>2,857,357</u>
		<u>\$ 2,983,150</u>	<u>\$ 3,129,220</u>

Commitments – Notes 3 and 4  
Subsequent Events – Notes 3, 4 and 7

APPROVED BY THE DIRECTORS:

<u>“James Tuer”</u> James Tuer	Director	<u>“Robert Chase”</u> Robert Chase	Director
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SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
for the years ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Administrative expenses		
Audit and legal fees	\$ 25,698	\$ 27,439
Bank charges and interest	1,290	669
Filing fees	6,628	8,141
Management fees – Note 5	155,850	92,000
Office	12,491	14,045
Rent	18,441	10,440
Shareholder communication	26,964	71,621
Stock-based compensation – Note 4	237,166	115,379
Telephone	5,160	5,310
Transfer agent fees	5,283	6,563
Travel and promotion	<u>22,288</u>	<u>19,804</u>
Loss before other item	(517,259)	(371,411)
Other item:		
Interest income	<u>20,380</u>	<u>19,258</u>
Net loss for the year	(496,879)	(352,153)
Deficit, beginning of the year	<u>(725,139)</u>	<u>(372,986)</u>
Deficit, end of the year	<u>\$ (1,222,018)</u>	<u>\$ (725,139)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>14,113,513</u>	<u>9,802,038</u>

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**STATEMENTS OF CASH FLOWS**  
for the years ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Activities		
Net loss for the year	\$ (496,879)	\$ (352,153)
Item not involving cash:		
Stock-based compensation	<u>237,166</u>	<u>115,379</u>
	(259,713)	(236,774)
Changes in non-cash working capital items related to operations:		
Accrued interest and amounts receivable	13,869	(7,346)
Goods and services tax receivable	6,532	(27,081)
Prepaid expenses	11,688	(14,918)
Accounts payable and accrued liabilities	<u>(188,048)</u>	<u>245,707</u>
	<u>(415,672)</u>	<u>(40,412)</u>
Investing Activity		
Resource properties expenditures	<u>(1,203,378)</u>	<u>(1,041,063)</u>
Financing Activity		
Issuance of common shares	<u>301,691</u>	<u>2,301,099</u>
Increase (decrease) in cash during the year	(1,317,359)	1,219,624
Cash and term deposits, beginning of the year	<u>1,797,104</u>	<u>577,480</u>
Cash and term deposits, end of the year	<u>\$ 479,745</u>	<u>\$ 1,797,104</u>
Cash and term deposits consists of:		
Cash	\$ 207	\$ 308,497
Term deposits	<u>479,538</u>	<u>1,488,607</u>
	<u>\$ 479,745</u>	<u>\$ 1,797,104</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**SCHEDULE OF RESOURCE PROPERTIES**  
for the years ended March 31, 2006 and 2005

Schedule 1

<u>Naajat, Nalussivik, Sarfartoq and Sarfartuup Qulaa Claims, Greenland</u>	Balance March 31, <u>2004</u>	<u>Additions</u>	Balance March 31, <u>2005</u>	<u>Additions</u>	Balance March 31, <u>2006</u>
Acquisition costs					
Cash	\$ 13,281	\$ 29,668	\$ 42,949	\$ 7,180	\$ 50,129
Deferred exploration costs					
Assay and analysis	44,916	58,108	103,024	72,025	175,049
Consulting	25,030	126,447	151,477	106,806	258,283
Data processing	32,922	8,200	41,122	8,689	49,811
Drilling	-	155,646	155,646	277,086	432,732
Equipment	-	26,885	26,885	6,698	33,583
Explosives	-	-	-	13,568	13,568
Fuel	-	8,550	8,550	7,211	15,761
Geophysical data	22,221	165,986	188,207	90,158	278,365
Helicopter	52,462	367,374	419,836	464,367	884,203
Insurance	-	-	-	11,143	11,143
Legal	-	6,018	6,018	-	6,018
Shipping	-	4,566	4,566	1,417	5,983
Software	2,526	-	2,526	-	2,526
Supplies and sundry	1,128	8,902	10,030	3,473	13,503
Travel	26,110	74,713	100,823	133,557	234,380
	<u>207,315</u>	<u>1,011,395</u>	<u>1,218,710</u>	<u>1,196,198</u>	<u>2,414,908</u>
Totals	<u>\$ 220,596</u>	<u>\$ 1,041,063</u>	<u>\$ 1,261,659</u>	<u>\$ 1,203,378</u>	<u>\$ 2,465,037</u>

**HUDSON RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
March 31, 2006 and 2005

Note 1     Nature of Operations

The Company was incorporated on March 7, 2000 under the Company Act of the Province of British Columbia as Evolution Networking Corp. and changed its name on September 25, 2000 to Tekwerks Solutions Inc. and on December 6, 2002 to Hudson Resources Inc.

The Company is in the business of acquiring, exploring and evaluating resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At March 31, 2006, the Company was in the exploration stage and had interests in properties located in Greenland.

The recoverability of amounts shown for resource properties 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 financing to complete their exploration, and future profitable production or disposition thereof.

Note 2     Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may differ from these estimates.

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash and term deposits, accrued interest and amounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Note 2     Significant Accounting Policies – (cont'd)

b) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the “if converted” method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

c) Resource Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing resource properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in resource properties are credited to the carrying value of the resource properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its resource properties and has not yet determined the amount of reserves available. Management reviews the carrying value of resource properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for resource properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

d) Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitments to plan of action based on the then known facts.

Note 2     Significant Accounting Policies – (cont'd)

e) Income Taxes

The Company accounts for income taxes by the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely-than-not that they can be realized.

f) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

g) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At March 31, 2006, the fair value of the mineral properties site restoration costs are not significant.

h) Stock-based Compensation Plan

The Company has a stock-based compensation plan as disclosed in Note 4, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with amounts previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

Note 3      Resource Properties

Naajat Mineral Claim, Greenland

On July 15, 2002, the Company's application for the Naajat mineral claim (EL 2002/06) comprising 851 square kilometres in Western Greenland was approved by the Greenland mining authorities. In December, 2003, the Company reduced the area to 325 square kilometres, based on the results of the 2003 exploration program and reduced exploration commitments for 2003. The Company has met the exploration expenditures for 2003. Work expenditures are approved each April by the Bureau of Minerals and Petroleum ("BMP") for Greenland based on Company submissions due April 1st of each year. In December, 2004, the Company reduced the area to 243 square kilometres. In 2005, the Naajat property had an exploration commitment of CDN\$347,000 (1,832,425 DKK) (not including a credit of CDN\$35,200 (185,885 DKK) from previous years work). After factoring in credits and overheads, the net exploration commitment for (Calendar year "Calendar") 2005 was approximately CDN\$220,000. The Company believes that it has met this commitment for Calendar 2005. Unless ground is dropped in Calendar 2006, the exploration commitment for Calendar 2006 will be the same as Calendar 2005.

Nalussivik Mineral Claim, Greenland

On May 1, 2003, the Company's application for the Nalussivik mineral claim (EL 2003/04) comprising 208 square kilometres in Western Greenland was approved by the Greenland mining authorities. The Company was required to incur net exploration expenses of \$49,275 (260,157 DKK) in 2003 (incurred) in order to maintain ownership of the Nalussivik claim. The Company, which defers some of the expenditures and expenses others, has met this requirement. In 2004, the Company applied for and was granted an additional 193 square kilometres under the Nalussivik EL bringing the total to 401 square kilometres. Work commitments for calendar 2004 are approximately CDN\$100,000. Work commitments for 2004 totalling approximately CDN\$200,000 were submitted on April 1, 2005 and have been approved by the BMP. In 2005, the Nalussivik property had an exploration commitment of CDN\$540,800 (2,855,475 DKK) (not including a credit of CDN\$210,750 (1,112,742 DKK) from previous years work). After factoring in credits and overheads, the net exploration commitment for Calendar 2005 was approximately CDN\$235,000. The Company believes that it has met this commitment for Calendar 2005. Unless ground is dropped in Calendar 2006, the gross exploration commitment for Calendar 2006 will be the same as Calendar 2005.

Sarfartuup Qulaa Mineral Claim, Greenland

On January 31, 2005, the Company's application for the Sarfartuup Qulaa mineral claim (EL 2005/03) comprising 89 square kilometres in Western Greenland was approved by the Greenland mining authorities. The Company is required to incur net exploration expenses of approximately CDN\$35,000 in 2005 in order to maintain ownership of the Sarfartuup Qulaa claim. Hudson believes that it has met this commitment for Calendar 2005. Unless ground is dropped in Calendar 2006, the exploration commitment for Calendar 2006 will be the same as Calendar 2005.

Note 3 Resource Properties – (cont'd)

New Millennium Resources NL Joint Venture, Greenland

On June 20, 2003, the Company entered into an agreement with a Perth, Australia based company, New Millennium Resources NL, to acquire an 80 per cent interest of the diamond mineral rights (including all other minerals except for tantalum and niobium) on the Sarfartoq exploration license on property located in West Greenland. This property is contiguous to the southeast margin of the Company's Nalussivik exploration license. In order to earn its interest, the Company must make minimum annual exploration expenditures in Australian dollars as follows

	<u>Canadian Equivalent</u>	<u>Australian</u>
2004	\$ 97,750	\$ 100,000
2005	140,235	150,000
2006	233,725	250,000
2007	<u>467,450</u>	<u>500,000</u>
	<u>\$ 939,160</u>	<u>\$ 1,000,000</u>

New Millennium Resources NL has confirmed that Hudson has met 2004 and 2005 minimum annual exploration expenditures. Based on work conducted in 2005, Hudson believes that it has met the required exploration expenditures for 2006 and 2007 to earn the 80% interest in the Joint Venture. In 2005, the Sarfartoq property had an exploration commitment of CDN\$1,778,250 (9,388,750 DKK) (not including a credit of CDN\$1,461,600 (7,717,047 DKK) from previous years work). After factoring in credits and overheads, the net exploration commitment for 2005 was approximately CDN\$225,000. The Company believes that it has met this commitment for 2005. A licence renewal application was submitted in December 2005 in order to renew the licence for an additional 2 year period. The application has been approved by the governmental authorities. The Company will be required to make exploration commitments of CDN\$473,500 (2,500,000 DKK) in 2006 and 2007 and complete certain field work as submitted in the application.

Subsequent to March 31, 2006, the Company entered into an option agreement with New Millennium Resources Ltd., whereby the Company will acquire the remaining 20 percent interest in the Safartoq exploration licence in West Greenland for consideration of \$89,000 (paid) and 600,000 common shares of the company.

Note 4 Share Capital

a) Authorized:

Unlimited number of common shares without par value

Note 4 Share Capital – (cont'd)

b) Issued:

	<u>Number</u>	<u>Amount</u>
Balance as at March 31, 2004	7,729,337	1,109,331
For cash		
– pursuant to a private placement	– at \$0.30 – at \$0.55 – at \$0.55	436,500 1,332,485 264,000
pursuant to the exercise of share purchase warrants	– at \$0.30 – at \$0.40	435,000 11,000
Share issue costs	-	(177,886)
Shares issued for brokers commissions	<u>77,986</u>	<u>-</u>
Balance as at March 31, 2005	13,642,523	\$ 3,410,430
For cash		
- pursuant to the exercise of share purchase warrants	– at \$0.40	204,666
- pursuant to the exercise of share purchase options	– at \$0.15	97,025
For contributed surplus on exercise of options	<u>-</u>	<u>41,250</u>
Balance as at March 31, 2006	<u><u>14,801,023</u></u>	<u><u>\$ 3,753,371</u></u>

c) Escrow Shares:

At March 31, 2006, the Company has Nil (2005: 400,000) common shares held in escrow by the Company's transfer agent. The escrow shares were released in amounts of 200,000 common shares each on June 6 and December 6, 2005.

d) Commitments:

Stock-based Compensation Plan

The Company has granted directors, officers and consultants' common share purchase options. These options are granted with an exercise price equal to the market price of the Company's stock on the date of the grant. Under the stock option plan, 25% of the options vest when granted and 12-1/2% vest every three months thereafter. The maximum number of shares that may be issued under the plan is 1,545,866.

Note 4 Share Capital – (cont'd)

d) Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

A summary of the status of the stock option plan as at March 31, 2006 and March 31, 2005 and the changes during the periods ending on those dates is presented below:

	Years ended March 31,			
	<u>2006</u>		<u>2005</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, beginning of year	1,465,000	\$0.36	696,833	\$0.15
Cancelled	(100,000)	(0.35)	(80,000)	(\$0.60)
Granted	1,111,833	\$0.53	848,167	\$0.56
Exercised	<u>(646,833)</u>	\$0.15	<u>-</u>	-
Options outstanding, end of year	<u>1,830,000</u>	<u>\$0.54</u>	<u>1,465,000</u>	<u>\$0.36</u>
Options exercisable, end of year	<u>918,854</u>	<u>\$0.54</u>	<u>1,016,146</u>	<u>\$0.27</u>

As at March 31, 2006, there are 1,830,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
50,000	\$0.20	December 5, 2008
50,000	\$0.35	May 25, 2009
618,167	\$0.60	December 1, 2009
953,333	\$0.50	January 4, 2011
58,500	\$0.60	January 4, 2011
<u>100,000</u>	\$0.80	February 3, 2011
<u>1,830,000</u>		

Subsequent to March 31, 2006, the Company granted 100,000 common share purchase options exercisable at \$0.80 until April 26, 2011 and 5,000 common share purchase options were exercised at \$0.60 for total proceeds of \$3,000.

Note 4 Share Capital – (cont'd)

d) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

During the year ended March 31, 2006, stock-based compensation expense of \$237,166 (2005: \$115,379) was recorded. The fair value of the compensation expense has been determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2006</u>	<u>2005</u>
Weighted average fair value of options granted	\$0.38	\$0.27
Expected dividend yield	0.0%	0.0%
Expected volatility	85.8% - 89%	78.8% - 81.9%
Risk-free interest rate	3.75%	3%
Expected term in years	5	5

Share Purchase Warrants

As at March 31, 2006, there were 1,490,343 share purchase warrants outstanding. The warrants have acceleration provisions that allow the Company to call for the early conversion of the warrants if the shares trade above the Early Conversion Price for a set number of trading days.

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Early Conversion Price</u>
1,250,343	\$0.85	November 15, 2006	\$1.40
<u>240,000</u>	\$0.85	November 24, 2006	\$1.40
<u><u>1,490,343</u></u>			

Subsequent to March 31, 2006, 661,320 share purchase warrants were exercised at \$0.85 for total proceeds of \$562,122.

Note 5 Related Party Transactions

During the years ended March 31, 2006 and 2005, the Company incurred the following expenses with a company with a common director and officer of the Company.

	<u>2006</u>	<u>2005</u>
Management fees	<u>\$ 144,800</u>	<u>\$ 92,000</u>

Note 5 Related Party Transactions – (cont'd)

This transaction was measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Amounts receivable includes \$Nil (2005: \$593) due from a company with a common officer.

Accounts payable and accrued liabilities include \$Nil (2005: \$6,449) due to an officer and a company with a common officer.

Note 6 Corporation Income Taxes

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Net tax losses carried forward	\$ 15,054	\$ 15,543
Exploration and development expenses	321,286	225,180
Unused share issue costs	<u>41,140</u>	<u>57,497</u>
	377,480	298,220
Less: valuation allowance	<u>(377,480)</u>	<u>(298,220)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company recorded a valuation allowance against its future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will be realized during the carry-forward periods to utilize all the future tax assets.

At March 31, 2006, the Company has accumulated non-capital losses of \$43,636 and Foreign Exploration and Development Expenses of \$3,396,301 which may be applied against future years taxable income. The non-capital losses expire as follows:

2008	\$ 15,771
2009	<u>27,865</u>
	<u>\$ 43,636</u>

Note 7      Subsequent Event – Note 4

Subsequent to March 31, 2006, the Company issued 5,378,333 units at \$0.60 per unit for total proceeds of \$3,227,000 pursuant to a private placement with each unit consisting of one common share and one half common share purchase warrant. One warrant entitles the holder the right to purchase one additional common share of the Company at \$0.80 per share in the first year and \$1.00 per share in the second year. A commission of \$220,218 and 519,323 options are payable on this private placement. Each option entitles the holder the right to purchase one common share of the Company at \$0.60 per share for 12 months from closing.