

# **HUDSON RESOURCES INC.**

## **Management Discussion and Analysis**

**(Form 51-102F1)**

**For the Six Months ended September 30, 2004**

**Information as of November 25, 2004 unless otherwise stated**

### **Note to Reader**

The following management discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's annual audited financial statements for the year ended March 31, 2004 and for the three months ended June 30, 2004, together, with the notes thereto. The material herein, as of November 25, 2004 updates the information as of August 25, 2004 contained in the MD&A of that report. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

### **Forward-Looking Information**

This discussion includes certain statements that may be deemed "forward-looking statements." All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

### **Overall Performance**

Hudson is a mineral exploration company that has focused its exploration activities on the search for diamonds in the Sarfartoq region of West Greenland.

The Company was started in March 2000 and began trading on the TSX Venture Exchange in February 2001 classified as a Capital Pool Company. Since December 2002, Hudson has been active exploring for diamonds in Greenland.

The Company has a direct 100% interest in two contiguous exploration licences totaling 726 square kilometers in the Sarfartoq region, near Kangerlussuaq, Greenland, as well as, an application for a further 89 square kilometers. It has a further 80% interest in an additional 765 square kilometres as a result of its joint venture with New Millennium Resources NL of Perth Australia.

The Company's loss from operations for the six months ended September 30, 2004 totaled \$131,924, a loss of \$0.02 per share, as compared to a loss of \$59,624 for the six months ended September 30, 2003, a loss of \$0.01 per share. Assets increased from \$479,759 as at September 30, 2003 to \$1,135,289 as at September 30, 2004 as a result of capitalizing resource expenditures and raising additional capital over the period. The proceeds of the capital raising

were used to fund the Company's exploration program (expenditures which have been capitalized) and to cover operating expenses.

General and administrative expenses increased from \$36,233 in the three months ended September 30, 2003 to \$58,714 in the three months ended September 30, 2004. For the second quarter ended September 30, 2004, stock-based compensation expense accounted for approximately 12%, or \$5,062 (2003 - \$0) of the Company's total general and administrative expenses and reflects the Company's adoption of full fair value based accounting for all stock options granted after April 1, 2002, in accordance with the recommendations of CIC Handbook S. 3870. There were no deferred exploration or property write-offs in the second quarter ended September 30, 2004. Interest income was \$1,702 (2003 - \$1,492) for the second quarter ended September 30, 2004.

The increase in expenses over the previous period is attributed to higher costs related to running and promoting a public company. Significant changes in General and Administrative costs were: Accounting and legal fees increased by \$8,973 to \$12,331, Filing fees increased by \$3,728 to \$6,122, Management fees increase by \$6,000 to \$21,000, and Non-cash compensation of \$5,062 was included in the quarter.

### **Exploration Update**

The Company had an active summer exploration program in Greenland. During the period, Fugro Airborne Surveys conducted a Dighem Mag-EM geophysical survey on behalf of Hudson. The survey was conducted on 100m intervals for a total of approximately 2,000 line kilometres. The final data set is expected to be delivered shortly. To date, one significant low frequency EM anomaly has already been identified. The anomaly exists within Spider Lake lake on strike with the diamondiferous kimberlite dykes identified by the Company during the 2003 field season. Because of its position within the lake, drilling the anomaly will need to take place when the lake is frozen.

During July, the Company conducted a field program which included the collection of approximately 675 kilograms of kimberlite material and till samples. A number of previously unknown kimberlite sites were found during the program. As a result, approximately 436 kilograms of kimberlite (averaging 30 kilograms per sample) were tested for diamonds by caustic fusion at the Saskatchewan Research Council's Geoanalytical Laboratories. As well, a portion of each sample was preserved to test for Kimberlite Indicator Minerals ("KIM's"). Apart from regional prospecting and the collection of samples, the program also tested a number of prospective sites by ground magnetics. These surveys were designed to test areas which have demonstrated good KIM's and/or kimberlite in conjunction with topographical lows. At least one of these sites provided a good correlation to the airborne geophysics as well as being coincident with the Garnet Lake kimberlite find.

On September 15, 2004, the Company confirmed that they had found significantly diamondiferous kimberlite at the Garnet Lake location. A total of 120 diamonds greater than 106 microns in size were recovered, including 9 diamonds which were classified as macrodiamonds (defined as remaining on the +0.5 mm square mesh sieve). The three largest diamonds measured 1.90 X 1.70 x 1.42 mm; 1.98 X 1.34 X 0.98 mm; and 1.56 X 1.40 X 1.16 mm. This 107.9 kg kimberlite sample also contained another 31 microdiamonds in the 75 micron size fraction. The complete Caustic Fusion Diamond Report prepared by the SRC Geoanalytical Laboratories, including individual stone size and description, is available on the Company's website ([www.hudsonresources.ca/files/srcreport.pdf](http://www.hudsonresources.ca/files/srcreport.pdf)).

The sample location has been named "Garnet Lake" because of the existence of visible garnets in the kimberlite matrix. The total Garnet Lake sample comprises a nodular rich selection of kimberlite (MHG9-5), a portion of matrix-dominant kimberlite (MHG9-7) and a representative kimberlite selection (MHG9-13) processed separately. Additionally, samples totalling 144.65 kg

collected from 3 other localities were marginally diamondiferous yielding a total of 4 micro-diamonds. The remaining 184.05 kg of kimberlite processed from 3 other localities failed to reveal diamonds.

Kimberlite Sample	Weight (kg)	Diamonds in Square Mesh Sieve Sizes (microns)									Total Diamonds	Wt+ (milligrams)	Wt- (milligrams)
		+75	+106	+150	+212	+300	+425	+600	+850	+1180			
<b>Garnet Lake</b>													
MHG9-5	29.65	14	17	15	18	2	3	-	2	-	71	5.448	1.206
MHG9-7	21.20	9	4	6	3	3	1	1	1	-	28	3.769	0.500
MHG9-13	<u>57.05</u>	<u>8</u>	<u>11</u>	<u>9</u>	<u>11</u>	<u>5</u>	<u>6</u>	<u>1</u>	-	<u>1</u>	<u>52</u>	<u>8.393</u>	<u>1.303</u>
<b>Totals</b>	107.90	31	32	30	32	10	10	2	3	1	151	17.610	3.009

Notes: Wt+ refers to the weight of macrodiamonds (>500 microns)

Wt- refers to the weight of microdiamonds (>75 microns and < 500 microns)

The Garnet Lake sample site is a narrow drainage leading north into a 200m x 175m lake. Kimberlite was found across a width of approximately 15m at the mouth of the lake and samples could be traced back at least 40m to the south. The kimberlite is closely constrained to the drainage basin. No other kimberlite was found in the immediate area outside the basin or upon surveying around the lake. It is believed therefore that the kimberlite has been frost heaved to the surface from a nearby in-situ source below. The Company intends to initiate a drill program to confirm the existence of buried in-situ kimberlite and to determine its extent.

The SRC has now completed the picking of kimberlite indicator minerals from the kimberlite and till samples submitted in August. The probe work is being carried out by Dr. Mark Hutchison at the GEUS facilities in Copenhagen. Results are expected shortly. The results are expected to be a significant contribution to the understanding of the chemistry of the indicators in significantly diamondiferous kimberlite. The Company hopes to use these results to target areas with similar chemistry in the till samples.

The Garnet Lake samples and a nearby sample yielding two diamonds were collected from the Sarfartoq Exploration Licence area. Through a joint venture with New Millennium Resources NL, of Perth Australia, Hudson has an 80% interest in all minerals, except niobium and tantalum. It must meet minimum payments totalling \$1,000,000 over a 4 year period. It has already met its minimum requirements for 2004.

As a result of these findings, Hudson made an application to acquire the remaining 89 sq km of open ground to the north of the Garnet Lake area. Hudson now has an interest in 1,580 sq km (390,425 acres) of exploration ground in the Sarfartoq region of West Greenland (52% of which is a 100% interest in the licensed and application areas and the balance representing an 80% interest in the mineral rights as described above).

The samples were processed by the Geoanalytical Laboratories at the Saskatchewan Research Council ("SRC"), Saskatoon, Saskatchewan, an independent laboratory. SRC GeoAnalytical Laboratories is accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for specific tests. Dr. Mark Hutchison, Trigon GeoServices Ltd., was in charge of the collection of the samples in Greenland and managed the chain of custody from the field to the SRC. He is co-ordinating the description and scientific interpretation of the finds in order to facilitate ongoing exploration and drilling. Dr. John Ferguson oversaw the program and is a qualified person under National Instrument 43-101.

In addition to the Company's diamond exploration program, during the summer the Bureau of Minerals and Petroleum of Greenland awarded the Company a 208 square kilometre property in the Disko Bay area which, the Company believed to be prospective for gold. An initial prospecting program was initiated in August and a small number of samples were shipped to SGS Canada

Inc. for multi-element analysis. Based on the field work and the lack of any significant sample results, the company does not believe that future work is warranted. This property is not material to the Company's overall exploration program in Greenland.

## **GENERAL**

The Company is a junior mineral exploration company listed on the TSX Venture Exchange and engaged in the acquisition, exploration and development of mineral properties. It has not yet determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for resource assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company's ability to continue its operations is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. In order to continue developing its mineral properties, management is actively pursuing such additional sources of financing; however, in the event this does not occur, there is doubt about the ability of the Company to continue as a going concern. The Financial Statements and discussion and analysis of the financial condition, changes in financial condition and results of operations of the Company for the periods ended September 30, 2004 and 2003 do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

The amount of the Company's administrative expenditures is related to the level of financing and exploration activities that are being conducted, which in turn may depend on the Company's recent exploration experience and prospects, as well as the general market conditions relating to the availability of funding for exploration-stage resource companies. Consequently, the Company does not acquire properties or conduct exploration work on them on a pre-determined basis and as a result there may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

## **Trends**

The Company's financial success is dependent upon the discovery of properties which could be economically viable to develop. Such development could take years to complete and the resulting income, if any, is difficult to determine. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company's control, such as the market value of the products produced. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

## **Competitive Conditions**

The resource industry is intensively competitive in all of its phases. The Company competes with other mining companies for the acquisition of mineral claims and other mining interests as well as for the recruitment and retention of qualified employees and contractors. There is significant and increasing competition for a limited number of gold and other resource acquisition opportunities and as a result, the Company may be unable to acquire suitable producing properties or prospects for exploration in the future on terms it considers acceptable. The Company competes with many other companies that have substantially greater financial resources than the Company.

## **Environmental Factors and Protection Requirements**

The Company currently conducts exploration and development activities in Greenland. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. There is no assurance that regulatory and environmental approvals will be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or to preclude entirely the economic development of a property. Environmental hazards may exist on the properties which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties. The Company is currently engaged in exploration with nil to minimal environmental impact.

## **Risks and Uncertainties**

The risks and uncertainties affecting the Company remain unchanged from those disclosed in its Annual MD&A.

## **RELATED PARTY TRANSACTIONS**

During the periods ended September 30, 2004 and 2003, the Company incurred the following transactions with a director of the Company:

	<u>2004</u>	<u>2003</u>
Management fees	\$ 21,000	\$15,000

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

## **COMMITMENTS**

The Company has made certain commitments in the course of running its business. The Company rents office space on a month to month basis with a 60 day notice provision. The other notable commitment is the annual exploration commitment on the Company's exploration licenses in Greenland. For 2004, the Company expects that total work expenditures will need to be in the order of \$750,000 in order to maintain all of its land holdings. The Company recognizes that it is desirable and required to reduce a portion of its Naajat exploration licence prior to December 31, 2004. The Company does not believe that this planned reduction will have a material effect on the mineral potential of the Naajat licence area. Based on work done to date and work to be completed by the end of 2004, Hudson believes that it will meet all of the expenditure commitments required under its licence agreements with the Bureau of Minerals and Petroleum of Greenland.

## **SUBSEQUENT EVENTS**

Subsequent to September 30, 2004, the Company completed a Brokered private placement of 2,422,700 units at a price of \$0.55 per unit to raise gross proceeds of \$1,332,485. Each unit consists of one common share and one-half non-transferrable share purchase warrant, each full warrant entitling the holder to purchase one additional common share for a period of one year from the date of closing of the private placement, at an exercise price of \$0.85 per share. The warrants contain provisions for earlier conversion in the event that the Company's shares trade for any 20 consecutive days at a trading price exceeding \$1.40 per share. An additional 480,000 units were also sold on a non-brokered basis on the same terms and conditions as above.

## SUMMARY OF QUARTERLY INFORMATION

The following table sets forth a comparison of revenues and earnings for the previous eight quarters ending with September 30, 2004. Financial information is prepared according to GAAP and is reported in Canadian \$.

	Sep-30 <u>2004</u>	Jun-30 <u>2004</u>	Mar-31 <u>2004</u>	Dec-31 <u>2003</u>	Sep-30 <u>2003</u>	Jun-30 <u>2003</u>	Mar-31 <u>2003</u>	Dec-31 <u>2002</u>
Interest Income	\$1,702	\$2,152	\$927	\$1,152	\$1,492	\$2,120	\$2,434	\$1,905
Net loss	\$(57,012)	\$(74,912)	\$(65,449)	\$(61,635)	\$(34,714)	\$(24,883)	\$(22,950)	\$(41,059)
Net loss per share	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01

## LIQUIDITY AND CAPITAL RESOURCES

The Company currently has sufficient financial resources to undertake by itself all of its planned exploration and possible development programs for the next twelve months including its proposed drill program. The exploration and subsequent development of the Company's properties beyond that will depend on the Company's ability to obtain additional required financing. The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company to fulfill its obligations on existing exploration (or joint venture) properties. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and the possible, partial or total loss of the Company's interest in certain properties. The Company may, in the future, be unable to meet its obligations under agreements to which it is a party and the Company may consequently have its interest in the properties subject to such agreements jeopardised. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the cost required to complete recommended programs.

The Company is dependent on raising funds by the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sales) in order to finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in raising their required financing.

The Company's financial performance is dependent on many external factors. The Company expects that any revenues it may earn from its operations in the future will be from the sale of minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and respond to changes in domestic and international, political, social and economic environments. In addition, the availability and cost of funds for exploration, development and production costs are difficult to predict. These changes in events could materially affect the financial performance of the Company.

The Company has working capital at September 30, 2004 of \$596,344 compared with \$310,300 as at September 30, 2003. The Company has no material income from operations and any improvement in working capital results primarily from the issuance of share capital.

## FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point of time, based on relevant information about financial markets and specific financial instruments. At these estimates are subjective in nature, involving uncertainties and matter of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, marketable securities, sundry receivable, and accounts payable and accrued liabilities and mortgage loans approximate their fair market value because of the short-term nature of these instruments.

**OUTSTANDING SHARE DATA AS OF NOVEMBER 25, 2004:**

Authorized and issued share capital:

<b>Class</b>	<b>Par Value</b>	<b>Authorized</b>	<b>Number</b>	<b>Issued Value</b>
Common	No par value	100,000,000	12,205,023	2,950,000*

\* Approximate value based on an estimate of expenses and commission from private placements closed subsequent to September 30, 2004.

There are currently 846,833 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>Price</u>	<u>Expiry</u>
271,833	\$0.15	February 7, 2006
375,000	\$0.15	January 8, 2008
50,000	\$0.20	December 5, 2008
100,000	\$0.35	May 12, 2009
<u>50,000</u>	<u>\$0.35</u>	<u>May 25, 2009</u>
<u>846,833</u>		

**OTHER INFORMATION**

The Company's website address is [www.hudsonresources.ca](http://www.hudsonresources.ca). Other information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**BY ORDER OF THE BOARD**

James Tuer  
President and Director

Robert Chase  
Director