

HUDSON RESOURCES INC.
REPORT AND FINANCIAL STATEMENTS
June 30, 2005

NOTICE CONCERNING AUDITOR REVIEW

The Company did not engage an independent auditor to perform a review of the interim financial statements for the three month period ended June 30, 2005. Accordingly, the interim financial statements for the three month period ended June 30, 2005 have been prepared by management and have not been reviewed by an independent auditor.

HUDSON RESOURCES INC.
BALANCE SHEETS

	June 30, 2005 <u>(unaudited)</u>	March 31, 2005 <u>(audited)</u>
<u>ASSETS</u>		
Current		
Cash and term deposits	\$ 944,035	\$1,797,104
Accrued interest and account receivable	6,340	14,069
Goods and services tax receivable	43,145	38,534
Prepaid Expenses	1,078	17,854
	994,598	1,867,561
Mineral properties – Note 3	1,845,146	1,261,659
	\$2,839,744	\$3,129,220
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 19,420	\$ 271,863
<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Note 4	3,410,430	3,410,430
Contributed surplus – Note 4	208,008	172,066
Deficit	(798,114)	(725,139)
	2,820,324	2,857,357
	\$2,839,744	\$3,129,220

APPROVED on behalf of the Board

“James Tuer”, Director
JAMES TUER

“Robert Chase”, Director
ROBERT CHASE

The accompanying notes are an integral part of the financial statements.

Nature and continuance of Operations – Note 1
Commitments – Notes 3, 4 and 6
Subsequent events – Note 6

SEE ACCOMPANYING NOTES

HUDSON RESOURCES INC.
STATEMENTS OF OPERATIONS AND DEFICIT

	Three Months Ended June 30,	
	<u>2005</u> (unaudited)	<u>2004</u> (unaudited)
Administrative Expenses		
Accounting and legal fees	\$ -	\$ 3,335
Bank	289	113
Filing fees	79	600
Management fees – Note 5	29,400	15,000
Non-cash compensation – Note 4	35,941	9,313
Office	2,957	4,178
Rent	4,707	2,858
Shareholder communication	911	31,134
Telephone	1,147	1,290
Travel & entertainment	2,431	8,153
Trust company	1,519	1,090
	<hr/>	<hr/>
Loss before other items	(79,381)	(77,064)
Other items:		
Interest income	6,406	2,152
	<hr/>	<hr/>
	6,406	2,152
Net income (loss) for the period	(72,975)	(74,912)
Deficit, beginning of the period	(725,139)	(331,736)
	<hr/>	<hr/>
Deficit, end of the period	\$ (798,114)	\$ (406,648)
	<hr/> <hr/>	<hr/> <hr/>
Earnings per share - Basic	\$ (0.01)	\$ (0.01)
- Fully diluted	<hr/>	<hr/>
	\$ (0.01)	\$ (0.01)
	<hr/> <hr/>	<hr/> <hr/>

SEE ACCOMPANYING NOTES

HUDSON RESOURCES INC.
STATEMENTS OF CASH FLOWS

	Three Months Ended June 30,	
	<u>2005</u> <u>(unaudited)</u>	<u>2004</u> <u>(unaudited)</u>
Operating Activities		
Net loss for the period	<u>\$ (72,975)</u>	<u>\$ (74,912)</u>
Items not involving cash:		
Non-cash compensation	35,941	9,313
Changes in non-cash working capital items related to operations		
Accrued interest and account receivable	7,729	1,159
Goods and services tax receivable	(4,611)	3,470
Accounts payable and accrued liabilities	(252,442)	(17,873)
Prepaid expense	16,776	(95,614)
	<u>(269,582)</u>	<u>(174,457)</u>
Investing Activities		
Deferred exploration expenses	(583,487)	(104,547)
Property acquisition costs	-	(5,745)
	<u>(583,487)</u>	<u>(110,292)</u>
Financing Activities		
Shares subscribed	-	199,800
Decrease in cash during the period	(853,069)	(84,949)
Cash and term deposits, beginning of the period	1,797,104	577,480
Cash and term deposits, end of the period	<u><u>\$ 944,035</u></u>	<u><u>\$ 492,531</u></u>

HUDSON RESOURCES INC.
SCHEDULE OF RESOURCE PROPERTY COSTS

Resource properties	March 31, <u>2005</u> (audited)	<u>Additions</u>	June 30, <u>2005</u> (unaudited)	June 30, <u>2004</u>
Greenland Exploration Licences				
Acquisition costs	\$ 42,949	\$ -	\$ 42,949	\$ 19,026
Deferred exploration expenditures				
Assay & analysis	103,024	-	103,024	44,916
Consulting	151,477	37,842	189,319	25,030
Data processing	41,122	-	41,122	38,297
Drilling costs	155,646	229,534	385,180	10,035
Equipment	26,885	6,698	33,583	
Fuel	8,550	3,547	12,097	
Geophysical data	188,207	-	188,207	107,900
Helicopter	419,836	245,560	665,396	52,462
Insurance	-	143	143	
Legal	6,018		6,018	
Shipping	4,566		4,566	
Software	2,526	-	2,526	2,526
Supplies & sundry	10,030	1,339	11,369	1,128
Travel	100,823	58,824	159,647	29,568
	<u>1,218,710</u>	<u>583,487</u>	<u>1,802,197</u>	<u>311,862</u>
Total resource property costs	<u>\$1,261,659</u>	<u>\$ 583,487</u>	<u>\$1,845,146</u>	<u>\$ 330,888</u>

HUDSON RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
Three months ended June 30, 2005

Note 1 Nature and Continuance of Operations

The Company is in the business of acquiring, exploring and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At June, 2005, 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.

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 mineral properties are credited to the carrying value of the mineral 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) 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.

e) 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.

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 1 of each year. In December, 2004, the Company reduced the area to 243 square kilometres. Work commitments for calendar 2004 totalling approximately \$270,000 have been submitted to the BMP for approval. Expenditures in excess of this amount can be carried forward to future years. This amount can be reduced or eliminated by reducing or dropping the licence by December 31, 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 \$55,350 (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 \$100,000. Work commitments for 2004 totalling approximately \$200,000 were submitted on April 1, 2005. Work commitments for 2005 are expected to be approximately \$420,000. Expenditures in excess of this amount can be carried forward to future years. This amount can be reduced or eliminated by reducing or dropping the licence by December 31, 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 \$35,000 in 2005 in order to maintain ownership of the Sarfartuup Qulaa claim.

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 Sarfartuup 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.

Note 4 Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

	<u>Number</u>	<u>Amount</u>
Balance as at March 31, 2003	5,223,003	\$ 610,689
For cash		
– pursuant to the exercise of share purchase warrants – at \$0.20	1,156,334	231,267
– pursuant to a private placement – at \$0.225	1,350,000	303,750
Share issue costs	-	(36,375)
Balance as at March 31, 2004	7,729,337	1,109,331
For cash		
– pursuant to a private placement – at \$0.30	1,455,000	436,500
– at \$0.55	2,422,700	1,332,485
– at \$0.55	480,000	264,000
– pursuant to the exercise of share purchase warrants – at \$0.30	1,450,000	435,000
– at \$0.40	27,500	11,000
Share issue costs	-	(177,886)
Shares issued for brokers commissions	<u>77,986</u>	<u>-</u>
Balance as at March 31, 2005 & June 30, 2005	<u>13,642,523</u>	<u>\$ 3,410,430</u>

c) Escrow Shares:

At June 30, 2005, the Company had 200,000 common shares held in escrow by the Company's transfer agent. The remaining escrow shares will be released on December 6, 2005.

d) Commitments:

Stock-based Compensation Plan:

The Company has granted directors, officers and consultants' common share purchase options pursuant to the Company's stock option plan (the "Option Plan"). 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 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 Option Plan is 1,545,866.

A summary of the status of the Option Plan as at June 30, 2005 and March 31, 2005 and the changes during the three and twelve month periods ending on those dates, respectively, are presented below:

	Period ended June 30, 2005		Year ended March 31, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	1,465,000	\$0.36	696,833	\$0.15
Cancelled			(80,000)	(\$0.60)
Granted	<u>-</u>		<u>848,167</u>	<u>\$0.56</u>
Options outstanding, end of period	<u>1,465,000</u>	<u>\$0.36</u>	<u>1,465,000</u>	<u>\$0.36</u>
Options exercisable, end of period	<u>1,118,417</u>	<u>\$0.30</u>	<u>1,016,146</u>	<u>\$0.27</u>

As at June 30, 2005, there were 1,465,000 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>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
50,000	\$0.35	May 25, 2009
<u>618,167</u>	<u>\$0.60</u>	<u>December 1, 2009</u>
<u>1,465,000</u>		

Share Purchase Warrants

As at June 30, 2005, there were 2,460,343 share purchase warrants outstanding, including 270,000 Agent's Warrants exercisable at \$0.55 per share. 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>Price</u>	<u>Expiry</u>	<u>Early Conversion Price</u>
700,000	\$0.40	August 17, 2005	\$0.80
270,000	\$0.55	November 15, 2005	N/A
1,250,343	\$0.85	November 15, 2006	\$1.40
<u>240,000</u>	<u>\$0.85</u>	<u>November 24, 2006</u>	<u>\$1.40</u>
<u>2,460,343</u>			

Note 5 Related Party Transactions

During the three month periods ended June 30, 2005 and 2004, respectively, the Company incurred the following transactions with a director/officer and an officer of the Company:

	<u>2005</u>	<u>2004</u>
Management fees	<u>\$29,400</u>	<u>\$15,000</u>

Note 6 Subsequent Events

Subsequent to the end of the period, 511,667 warrants, out of a possible 700,000 warrants, were exercised prior to expiry on August 17, 2005. The warrants were exercised at \$0.40 per share generating \$204,667 in additional funds to the company. As well, at the Company's Annual General Meeting on August 25, 2005, a majority of shareholders excluding insiders and their associates (the "disinterested shareholders") approved an amendment to the Company's Option Plan to increase the maximum number of shares issuable under the Plan from 1,545,866 to 2,728,505 shares. Accordingly, at the meeting, the following resolution was passed:

"UPON MOTION IT WAS RESOLVED by the disinterested shareholders that the directors have the discretion under the amended Plan to reserve common shares for issue upon exercise of stock options to all optionees who are insiders in aggregate of a maximum of 20% of the issued shares of the Company."