

**HUDSON RESOURCES INC.**  
**REPORT AND FINANCIAL STATEMENTS**  
June 30, 2006

**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, 2006. Accordingly, the interim financial statements for the three month period ended June 30, 2006 have been prepared by management and have not been reviewed by an independent auditor.

**HUDSON RESOURCES INC.**  
**BALANCE SHEETS**  
June 30, 2006 and March 31, 2006

	<u>June 30,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
<u>ASSETS</u>		
Current		
Cash and term deposits	\$2,578,364	\$479,745
Accrued interest and account receivable	5,270	200
Goods and services tax receivable	48,723	32,002
Prepaid Expenses	<u>12,968</u>	<u>6,166</u>
	2,645,325	518,113
Mineral Properties	3,760,808	2,465,037
Total Assets	<u>\$6,406,133</u>	<u>\$2,983,150</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	<u>\$583,802</u>	<u>\$83,815</u>
<u>SHAREHOLDERS' EQUITY</u>		
Share Capital	6,744,136	3,753,371
Contributed surplus	467,348	367,982
Deficit	<u>(1,389,153)</u>	<u>(1,222,018)</u>
	5,822,331	2,899,335
	<u>\$6,406,133</u>	<u>\$2,983,150</u>

APPROVED BY THE DIRECTORS:

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*"James Tuer"*, Director  
 JAMES TUER

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*"Robert Chase"*, Director  
 ROBERT CHASE

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**STATEMENTS OF OPERATIONS**  
for the first quarter ended June 30, 2006 and 2005

	Three Months Ended June 30,	
	<u>2006</u>	<u>2005</u>
Administrative Expenses		
Accounting and legal fees	\$ -	\$ -
Bank	684	289
Filing Fees	3,290	79
Management Fees	48,400	29,400
Non-cash compensation	99,365	35,941
Office	5,920	2,957
Rent	7,006	4,707
Shareholder communication	5,465	911
Telephone	2,239	1,147
Travel & Entertainment	10,304	2,431
Trust Company	2,839	1,519
	<hr/>	<hr/>
Loss before other items	(185,512)	(79,381)
Other items:		
Interest income	18,377	6,406
	<hr/>	<hr/>
	18,377	6,406
Net income for the period	(167,135)	(72,975)
Retained Earnings, beginning of the year	<hr/> (1,222,018)	<hr/> (725,139)
Retained Earnings, end of the period	<hr/> <u>\$(1,389,153)</u>	<hr/> <u>\$(798,114)</u>
Earnings per share	<hr/> <u>\$(0.01)</u>	<hr/> <u>\$(0.01)</u>
Weighted average shares outstanding	16,802,680	13,642,523

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**STATEMENTS OF CASH FLOWS**  
for the first quarter ended June 30, 2006 and 2005

	Three Months Ended June 30,	
	<u>2006</u>	<u>2005</u>
Operating Activities		
Net Income for the period	\$(167,135)	\$(72,975)
	(167,135)	(72,975)
Items not involving cash:		
Non-cash compensation	99,365	35,941
Changes in non-cash working capital items related to operations		
Accrued interest and account receivable	(5,070)	7,729
Goods and services tax receivable	(16,721)	(4,611)
Accounts payable and accrued liabilities	499,987	(252,442)
Prepaid Expense	(6,802)	16,776
	403,624	(269,582)
Investing Activities		
Deferred Exploration Expenses	(1,206,592)	(583,487)
Property acquisition costs	(89,178)	-
	(1,295,770)	(583,487)
Financing Activities		
Issuance of common shares	2,902,765	-
Exercise of options	3,000	-
Exercise of warrants	85,000	-
	2,990,765	-
Increase in cash during the period	2,098,619	(853,069)
Cash and term deposits, beginning of the period	479,745	1,797,104
Cash and term deposits, end of the period	<u>\$2,578,364</u>	<u>\$944,035</u>

**HUDSON RESOURCES INC.**  
**SCHEDULE OF RESOURCE PROPERTY COSTS**  
for the first quarter ended June 30, 2006 and 2005

Resource Properties	March 31, <u>2006</u> (Audited)	<u>Additions</u>	June 30, <u>2006</u> (Unaudited)	June 30, <u>2005</u> (Unaudited)
Greenland				
Property acquisition costs	50,129	89,178	139,307	42,949
Deferred exploration expenditures				
Assay & analysis	175,049	-	175,049	103,024
Consulting	258,283	90,101	348,384	189,319
Data processing	49,812	-	49,812	41,122
Drilling costs	432,732	344,251	776,983	385,180
Equipment	33,583	3,818	37,401	33,583
Explosives	13,568	-	13,568	
Fuel	15,761	16,299	32,060	12,097
Geophysical data	278,365	104,525	382,890	188,207
Helicopter	884,203	593,928	1,478,131	665,396
Insurance	11,143	11,750	22,893	143
Legal	6,018	-	6,018	6,018
Shipping	5,983	17,769	23,752	4,566
Software	2,526	-	2,526	2,526
Supplies & sundry	13,503	-	13,503	11,369
Travel	234,380	24,151	258,531	159,647
	<u>2,414,909</u>	<u>1,206,592</u>	<u>3,621,501</u>	<u>1,802,197</u>
Total resource property costs	<u>2,465,038</u>	<u>1,295,770</u>	<u>3,760,808</u>	<u>1,845,146</u>

**HUDSON RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Three months ended June 30, 2006

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 June 30, 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.

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.

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 June 30, 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.

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.

Subsequent to June 30, 2006, the Company's application to transfer the EL to Hudson was approved by the Greenland government. Hudson acquired remaining 20 percent interest in the Sarfartoq exploration licence in West Greenland from New Millennium for consideration of \$89,000 (paid) and 600,000 common shares of the company (to be issued). 300,000 common shares become free trading on July 7, 2007 and the balance on July 7, 2008.

In order to maintain the claim, Hudson 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.

Sarfartoq Øst Mineral Claim, Greenland

Subsequent to the end of the quarter, the Company's application for the Sarfartoq Øst mineral claim (EL 2006/02) comprising 1,117 square kilometres in Western Greenland was approved by the Greenland mining authorities. The Company is required to incur net exploration expenses of approximately CDN\$230,000 in 2006 in order to maintain ownership of the Sarfartoq Øst claim.

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, 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			
		13,642,523	\$ 3,410,430
For cash			
- pursuant to the exercise of share purchase warrants			
	– at \$0.40	511,667	204,666
- pursuant to the exercise of share purchase options			
	– at \$0.15	646,833	97,025
For contributed surplus on exercise of options			
		<u>-</u>	<u>41,250</u>
Balance as at March 31, 2006			
		14,801,023	\$ 3,753,371
For cash			
	– pursuant to a private placement – at \$0.60	5,378,333	3,226,999
- pursuant to the exercise of share purchase warrants			
	– at \$0.85	100,000	85,000
- pursuant to the exercise of share purchase options			
	– at \$0.60	5,000	3,000
Share issue costs			
		-	(324,234)
Balance as at June 30, 2006			
		<u>20,279,356</u>	<u>\$ 6,744,136</u>

c) Escrow Shares:

At June 30, 2006, the Company has Nil (2005: 200,000) 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.

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 2,728,505.

Subsequent to the end of the quarter, the company adopted a 10% rolling stock option plan. This plan was approved by the company's shareholders at the Annual General Meeting on August 24, 2006. As such, at the end of the

quarter dated June 30, 2006, 2,027,935 shares would have been issueable under the new plan.

A summary of the status of the stock option plan as at June 30, 2006 and March 31, 2005 and the changes during the periods ending on those dates is presented below:

	Period ended June 30, 2006		Year ended March 31, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	1,830,000	\$0.36	1,465,000	\$0.36
Cancelled	-	-	(100,000)	(0.35)
Granted	100,000	\$0.80	1,111,833	\$0.53
Exercised	<u>5,000</u>	\$0.60	<u>(646,833)</u>	\$0.15
Options outstanding, end of period	<u>1,925,000</u>	<u>\$0.55</u>	<u>1,830,000</u>	<u>\$0.54</u>
Options exercisable, end of period	<u>1,155,104</u>	<u>\$0.55</u>	<u>918,854</u>	<u>\$0.54</u>

As at June 30, 2006, there are 1,925,000 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
613,167	\$0.60	December 1, 2009
953,333	\$0.50	January 4, 2011
58,500	\$0.60	January 4, 2011
100,000	\$0.80	February 3, 2011
<u>100,000</u>	\$0.80	April 25, 2011
<u>1,925,000</u>		

During the period ended June 30, 2006, stock-based compensation expense of \$99,365 (2005: \$35,941) 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 June 30, 2006, there were 4,603,842 share purchase warrants outstanding, including 524,333 agent's warrants exercisable at \$0.60. Some of 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>
1,150,343	\$0.85	November 15, 2006	\$1.40
240,000	\$0.85	November 24, 2006	\$1.40
1,346,500	\$0.80/\$1.00	April 21, 2007/April 25, 2008	\$1.50
1,342,666	\$0.80/\$1.00	April 21, 2007/April 25, 2008	\$1.50
269,319	\$0.60	April 21, 2007	
<u>255,014</u>	\$0.60	April 25, 2007	
<u>4,603,842</u>			

#### Note 5 Related Party Transactions

During the years ended June 30, 2006 and 2005, the Company incurred the following expenses with a director/officer and an officer of the Company.

	<u>2006</u>	<u>2005</u>
Management fees	<u>\$ 33,400</u>	<u>\$ 29,400</u>

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