HUDSON RESOURCES INC

# HUDSON RESOURCES INC.

REPORT AND FINANCIAL STATEMENTS

June 30, 2007

(unaudited)

## 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, 2007. Accordingly, the interim financial statements for the three month period ended June 30, 2007 have been prepared by management and have not been reviewed by an independent auditor.

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**HUDSON RESOURCES INC.**
BALANCE SHEETS

| | June 30, 2007 (unaudited) | March 31, 2007 (audited) |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and term deposits | $ 6,815,287 | $ 1,758,250 |
| Accrued interest and account receivable | 28,119 | 19,656 |
| Goods and services tax receivable | 93,606 | 64,459 |
| Prepaid Expenses | 17,623 | 20,564 |
| | 6,954,635 | 1,862,929 |
| Equipment | 3,952 | 4,272 |
| Resource Properties | 8,309,489 | 6,360,236 |
| Total Assets | $15,268,076 | $ 8,227,437 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 998,096 | $ 254,618 |
| **SHAREHOLDERS' EQUITY** | | |
| Share Capital | 15,589,151 | 9,285,015 |
| Share Subscription Receivable | ( 20,000) | ( 20,000) |
| Contributed surplus | 885,200 | 623,731 |
| Deficit | ( 2,184,372) | ( 1,915,927) |
| | 14,269,980 | 7,972,819 |
| Total Liabilities and Equity | $15,268,076 | $ 8,227,437 |

APPROVED BY THE DIRECTORS:

*"James Tuer"*, Director
JAMES TUER

*"Robert Chase"*, Director
ROBERT CHASE

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**
STATEMENTS OF OPERATIONS AND DEFICIT
(unaudited)

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 |
|---|---|---|
| Administrative Expenses | | |
| Amortization | $ 320 | $ - |
| Accounting and legal fees | 8,259 | - |
| Bank charges and interest | 2,024 | 684 |
| Directors' fees | 11,000 | - |
| Filing Fees | 1,375 | 3,290 |
| Management fees | 68,751 | 48,400 |
| Stock-based compensation | 165,494 | 99,365 |
| Office | 9,250 | 5,920 |
| Rent | 14,738 | 7,006 |
| Shareholder communication | 1,061 | 5,465 |
| Telephone | 2,342 | 2,239 |
| Travel & promotion | 7,235 | 10,304 |
| Transfer agent fees | 2,422 | 2,839 |
| Loss before other items | ( 294,271) | ( 185,512) |
| Other items: | | |
| Interest income | 25,826 | 18,377 |
| Net loss for the period | ( 268,445) | ( 167,135) |
| Deficit, beginning of the period | ( 1,915,927) | ( 1,222,018) |
| Deficit, end of the period | $ (2,184,372) | $ (1,389,153) |
| Loss per share | $ (0.01) | $ (0.01) |
| Weighted average number of shares outstanding | 24,010,537 | 16,802,680 |

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**
STATEMENTS OF CASH FLOWS
(unaudited)

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 |
|---|---|---|
| Operating Activities | | |
| Net Income for the period | $( 268,445) | $( 167,135) |
| Items not involving cash: | | |
| Amortization | 320 | - |
| Non-cash compensation | 165,494 | 99,365 |
| Changes in non-cash working capital items related to operations | | |
| Accrued interest and account receivable | ( 8,463) | ( 5,070) |
| Goods and services tax receivable | ( 29,147) | ( 16,721) |
| Accounts payable and accrued liabilities | 743,478 | 499,987 |
| Prepaid Expense | 2,941 | ( 6,802) |
| | 606,178 | 403,624 |
| Investing Activities | | |
| Deferred Exploration Expenses | ( 1,931,090) | ( 1,206,592) |
| Property acquisition costs | ( 18,162) | ( 89,178) |
| | ( 1,949,252) | ( 1,295,770) |
| Financing Activities | | |
| Issuance of common shares | 5,673,972 | 2,902,765 |
| Exercise of options | - | 3,000 |
| Exercise of warrants | 726,140 | 85,000 |
| | 6,400,111 | 2,990,765 |
| Increase in cash during the period | 5,057,037 | 2,098,619 |
| Cash and term deposits, beginning of the period | 1,758,250 | 479,745 |
| Cash and term deposits, end of the period | $ 6,815,287 | $ 2,578,364 |

Schedule 1

**HUDSON RESOURCES INC.**
SCHEDULE OF RESOURCE PROPERTY COSTS

| Resource Properties | March 31, 2007 (Audited) | Additions | June 30, 2007 (Unaudited) | June 30, 2006 (Unaudited) |
|---|---|---|---|---|
| Greenland | | | | |
| Naajat & Nalussivik | | | | |
| Acquisition costs | $ 592,527 | $ 18,162 | $ 610,689 | $ 139,307 |
| Deferred exploration expenditures | | | | |
| Assay & analysis | 283,775 | - | 283,775 | 175,049 |
| Bulk Sample | 380,196 | 77,240 | 457,436 | - |
| Camp | - | 154,640 | 154,640 | - |
| Consulting | 600,745 | 178,140 | 778,885 | 348,384 |
| Data processing | 52,276 | - | 52,276 | 49,812 |
| Diamond recovery plant | 146,000 | 573,804 | 719,804 | - |
| Drilling | 1,247,757 | 427,964 | 1,675,721 | 776,983 |
| Equipment | 48,029 | 20,241 | 68,270 | 37,401 |
| Explosives | 44,905 | - | 44,905 | 13,568 |
| Fuel | 36,448 | 2,657 | 39,105 | 32,060 |
| Geophysical data | 405,035 | - | 405,035 | 382,890 |
| Helicopter | 2,039,764 | 337,489 | 2,377,253 | 1,478,131 |
| Insurance | 22,937 | 3,350 | 26,287 | 22,893 |
| Legal | 6,018 | - | 6,018 | 6,018 |
| Shipping | 31,898 | 84,696 | 116,594 | 23,752 |
| Software | 2,526 | - | 2,526 | 2,526 |
| Supplies & sundry | 37,980 | 7,510 | 45,490 | 13,503 |
| Travel & accomodation | 381,420 | 63,358 | 444,778 | 258,531 |
| | 5,767,709 | 1,931,090 | 7,698,799 | 3,621,501 |
| Total resource property costs | $ 6,360,236 | $ 1,949,252 | $ 8,309,488 | $ 3,760,808 |

**HUDSON RESOURCES INC.**
NOTES TO THE FINANCIAL STATEMENTS
Three months ended June 30, 2007

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, 2007, 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 cash equivalents, 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) Equipment and Amortization

Equipment is recorded at cost. The Company provides for amortization using the declining balance method at the rate of 30% per annum. Additions during the year are amortized at one-half rates.

f) 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.

g) 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.

h) 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, 2007, the fair value of the mineral properties site restoration costs are not significant.

i) Stock-based Compensation Plan

The Company has a stock-based compensation plan as disclosed in Note 5, 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.

j) Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash and have maturities of three months or less when purchased.

Note 3 Equipment

| | June 30, 2007 | | | March 31, 2007 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net | Net |
| Computers | $ 5,026 | $ 1,074 | $ 3,952 | $ 4,272 |

Note 4 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. Work expenditures are approved each April by the Bureau of Minerals and Petroleum ("BMP") for Greenland based on Company submissions due April 1$^{st}$ of each year. In December, 2003, the Company reduced the area to 325 square kilometres based on the results of the 2003 exploration program. In December, 2004, the Company reduced the area to 243 square kilometres. In December, 2006, the company applied to extend the licence for an additional five year period and the licence area was reduced to 190 square kilometres. Exploration commitments for 2007 are 3,095,840 DKK ($640,529), if the license area is maintained through to 2008.

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. 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. The exploration commitment for 2006 was 2,915,451 DKK ($553,644). In April, 2007, Hudson submitted to the BMP an expense report allocating 3,865,677 DKK ($736,474) to the Nalussivik EL. Exploration commitments for 2007 are 2,967,950 DKK ($614,069), if the entire licence area is maintained through to 2008.

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 exploration commitment for 2006 was 249,878 DKK ($47,452). In April, 2007, Hudson submitted to the BMP an expense report allocating 5,154,236 DKK ($981,965) to the Sarfartuup Qulaa EL. Exploration commitments for 2007 are 868,190 DKK ($179,628), if the entire licence area is maintained through to 2008.

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.

The Company acquired the remaining 20 percent interest in the Safartoq exploration licence in West Greenland from New Millennium for consideration of $89,000 (paid) and 600,000 common shares of the company (issued at the value of $450,000). 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 was required to make exploration commitments of 2,500,000 DKK ($474,750) in 2006 will be required to spend the same amount ($517,250) in 2007 and complete certain field work as submitted in the application. In April, 2007, Hudson submitted to the BMP an expense report allocating 11,597,031 DKK ($2,209,420) to the Sarfartuup Qulaa EL.

Sarfartoq Øst Mineral Claim, Greenland

In July 2006, 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 was required to incur net exploration expenses of 1,638,092 DKK ($338,921) for 2007 in order to maintain ownership of the Sarfartoq Øst claim. In April, 2007, Hudson submitted to the BMP an expense report allocating 2,577,118 DKK ($490,983) to the Sarfartoq Øst EL.

Note 5 Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

| | | Number | Amount |
|---|---|---|---|
| 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 $0.80 | 1,015,000 | 812,000 |
| - Pursuant to the exercise of share purchase options | | | |
| | - at $0.85 | 1,238,120 | 1,052,402 |
| - Pursuant to the exercise of agents' warrants | | | |
| | - at $0.60 | 486,323 | 291,794 |
| - Pursuant to the exercise of share purchase options | | | |
| | - at $0.35 | 50,000 | 17,500 |
| | - at $0.60 | 5,000 | 3,000 |
| Share issue costs | | - | (437,510) |
| - Pursuant to acquisition of exploration licences | | 600,000 | 450,000 |
| Transfer from contributed surplus on exercise of options and warrants | | - | 115,459 |
| Balance as at March 31, 2007 | | 23,573,799 | 9,285,015 |
| For cash: | | | |
| - Pursuant to a private placement | - at $1.00 | 6,080,290 | 6,000,000 |
| - Pursuant to the exercise of agents' warrants | | | |
| | - at $0.60 | 38,010 | 22,806 |
| - Pursuant to the exercise of share purchase warrants | | | |
| | - at $0.80 | 879,167 | 703,334 |
| Share issue costs | | - | (429,986) |
| Transfer from contributed surplus on exercise of options | | - | 7,982 |
| Balance as at June 30, 2007 | | 30,571,266 | $15,589,151 |

c) 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. On August 24, 2006, at the Annual General Meeting, the company adopted a 10% rolling stock option plan. As at June 30, 2007, 3,057,126 shares are available for issuance under the new plan.

A summary of the status of the stock option plan as at June 30, 2007 and March 31, 2007 and the changes during the periods ending on those dates is presented below:

| | Period ended June 30, 2007 | | Year ended March 31, 2007 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Options outstanding, beginning of period | 1,875,000 | $0.55 | 1,830,000 | $0.54 |
| Cancelled | - | - | - | - |
| Granted | 700,000 | $1.00 | 100,000 | $0.80 |
| Exercised | - | - | (55,000) | $0.37 |
| Options outstanding, end of period | 2,575,000 | $0.68 | 1,875,000 | $0.56 |
| Options exercisable, end of period | 1,866.021 | $0.60 | 1,559,545 | $0.54 |

As at June 30, 2007, there are 2,575,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 50,000 | $0.20 | December 5, 2008 |
| 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 |
| 100,000 | $0.80 | April 25, 2011 |
| 700,000 | $1.00 | June 15, 2012 |
| 2,575,000 | | |

During the period ended June 30, 2007, stock-based compensation expense of $165,494 (2006: $99,365) was recorded. The fair value of the compensation expense has been determined using the Black-Scholes option pricing model with the following assumptions:

| | Period ended June 30, 2007 | Year Ended March 31, 2007 |
|---|---|---|
| Weighted average fair value of options granted | $0.29 | $0.24 |
| Expected dividend yield | 0.0% | 0.0% |
| Expected volatility | 70% | 70% |
| Risk-free interest rate | 4.2% | 4.11%-4.19% |
| Expected term in years | 5 | 1 and 5 |

Share Purchase Warrants

As at June 30, 2007, there were 4,194,736 share purchase warrants outstanding. 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.

| Number | Exercise Price | Expiry Date | Early Conversion Price |
|---|---|---|---|
| 461,668 | $0.80 | April 20, 2008 | $1.50 |
| 333,333 | $1.00 | April 25, 2008 | $1.50 |
| 359,590 | $1.00 | June 14, 2008 | N/A |
| 3,040,145 | $1.30 | June 14, 2008 | N/A |
| 4,194,736 | | | |

Note 6 Related Party Transactions

During the three month periods ended June 30, 2007 and 2006, the Company incurred the following expenses with a company with a common director and with an officer of the Company.

| | 2007 | 2006 |
|---|---|---|
| Management fees | $ 68,751 | $ 40,000 |

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

Accounts payable and accrued liabilities include $16,896 (2006: $Nil) due to a company with a common director.

Note 7 Commitment

In December 2006, the Company entered into an office premise lease for sixteen months expiring May 31, 2008. $60,980 will be payable within the eleven months from June 30, 2007 until lease expiry.