

**HUDSON RESOURCES INC.**  
**REPORT AND FINANCIAL STATEMENTS**  
December 31, 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 and nine month period ended December 31, 2005. Accordingly, the interim financial statements for the three and nine month period ended December 31, 2005 have been prepared by management and have not been reviewed by an independent auditor.

**HUDSON RESOURCES INC.**  
**BALANCE SHEETS**

	December 31, <u>2005</u>	March 31, <u>2005</u>
<u>ASSETS</u>		
Current		
Cash and term deposits	\$ 792,302	\$ 1,797,104
Accrued interest and account receivable	11,732	14,069
Goods and services tax receivable	20,281	38,534
Prepaid Expenses	7,442	17,854
	831,757	1,867,561
Mineral Properties - Note 3	2,124,767	1,261,659
Total Assets	\$ 2,956,524	\$ 3,129,220
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 69,217	\$ 271,863
<u>SHAREHOLDERS' EQUITY</u>		
Share Capital - Note 4	3,615,096	3,410,430
Contributed surplus - Note 4	275,432	172,066
Deficit	( 1,003,221)	( 725,139)
	2,887,307	2,857,357
	\$ 2,956,524	\$ 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.

SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Administrative Expenses				
Accounting and legal fees	\$ - -	\$ - -	\$ 8,263	\$ 15,665
Bank	432	58	1,064	172
Filing Fees	-	1,401	2,524	8,123
Management Fees - Note 5	56,900	26,600	115,700	62,600
Non-cash compensation	32,296	46,813	103,366	61,188
Office	1,966	1,963	8,149	7,681
Rent	3,744	1,816	11,410	7,531
Shareholder communication	6,871	28,529	19,850	65,988
Telephone	882	1,773	3,419	4,170
Travel & accomodation	12,276	6,264	15,540	14,487
Trust Company	778	2,279	4,123	5,668
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Loss before other items	( 116,145)	( 117,496)	( 293,408)	( 253,273)
Other items:				
Interest income	4,890	6,375	15,326	10,228
	<hr/>	<hr/>	<hr/>	<hr/>
Net loss for the period	( 111,255)	( 111,121)	( 278,082)	( 243,045)
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Retained Earnings, beginning of the period	( 891,966)	( 463,660)	( 725,139)	( 331,736)
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Retained Earnings, end of the period	\$ (1,003,221)	\$ (574,781)	\$ (1,003,221)	\$ (574,781)
	<hr/>	<hr/>	<hr/>	<hr/>
Earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average number of shares outstanding	14,154,190	10,694,680	13,898,356	7,958,842
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SEE ACCOMPANYING NOTES

**HUDSON RESOURCES INC.**  
**STATEMENTS OF CASH FLOWS**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Operating Activities				
Net loss for the period	\$( 111,255)	\$( 111,121)	\$( 278,082)	\$( 243,045)
	<u>( 111,255)</u>	<u>( 111,121)</u>	<u>( 278,082)</u>	<u>( 243,045)</u>
Items not involving cash:				
Non-cash compensation	32,296	46,813	103,366	61,188
Changes in non-cash working capital items related to operations				
Accrued interest and account receivable	( 3,370)	( 4,841)	2,337	( 8,005)
Goods and services tax receivable	( 9,113)	( 14,467)	18,253	( 17,393)
Accounts payable and accrued liabilities	( 46,147)	( 5,038)	( 202,646)	4,274
Prepaid Expense	833	84,578	10,412	( 9,916)
	<u>( 136,756)</u>	<u>( 4,076)</u>	<u>( 346,360)</u>	<u>( 212,897)</u>
Investing Activities				
Deferred Exploration Expenses	( 19,661)	( 222,167)	( 863,108)	( 562,347)
Property acquisition costs	-	( 10,719)	-	( 16,464)
	<u>( 19,661)</u>	<u>( 232,886)</u>	<u>( 863,108)</u>	<u>( 578,811)</u>
Financing Activities				
Common shares - net	-	1,472,876	204,666	1,873,526
Increase (decrease) in cash during the period	( 156,417)	1,235,914	( 1,004,802)	1,081,818
Cash and term deposits, beginning of the period	948,719	423,384	1,797,104	577,480
Cash and term deposits, end of the period	<u>\$ 792,302</u>	<u>\$ 1,659,298</u>	<u>\$ 792,302</u>	<u>\$ 1,659,298</u>

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

Resource Properties	March 31, 2005 (Audited)	<u>Additions</u>	December 31, 2005 (Unaudited)	2004 (Unaudited)
Greenland				
Naajat & Nalussivik				
Acquisition costs	42,949	-	42,949	29,745
Deferred exploration expenditures				
Assay & analysis	103,024	79,440	182,464	103,025
Consulting	151,477	77,238	228,715	76,849
Data processing	41,122	8,290	49,412	40,772
Drilling costs	155,646	277,086	432,732	45,065
Equipment	26,885	6,698	33,583	3,638
Fuel	8,550	7,210	15,760	-
Geophysical data	188,207	-	188,207	188,207
Helicopter	419,836	292,377	712,213	236,629
Insurance	-	11,143	11,143	-
Legal	6,018	-	6,018	6,018
Shipping	4,566	35	4,601	-
Software	2,526	-	2,526	2,526
Supplies & sundry	10,030	2,849	12,879	2,410
Travel and accomodation	100,823	100,742	201,565	64,523
	<u>1,218,710</u>	<u>863,108</u>	<u>2,081,818</u>	<u>769,662</u>
Total resource property costs	<u>1,261,659</u>	<u>863,108</u>	<u>2,124,767</u>	<u>799,407</u>

**HUDSON RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Nine months ended December 31, 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 December 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. In 2005, the Naajat property had an exploration commitment of 1,832,425 DKK (not including a credit of 185,885 DKK from previous years work). After factoring in credits and overheads, the net exploration commitment for 2005 was approximately C\$220,000. Hudson believes that it has met this commitment for 2005. Unless ground is dropped in 2006, the exploration commitment for 2006 will be the same as 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 and have been approved by the BMP. In 2005, the Nalussivik property had an exploration commitment of 2,855,475 DKK (not including a credit of 1,112,742 DKK from previous years work). After factoring in credits and overheads, the net exploration commitment for 2005 was approximately C\$235,000. Hudson believes that it has met this commitment for 2005. Unless ground is dropped in 2006, the gross exploration commitment for 2006 will be the same as 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. Hudson believes that it has met this commitment for 2005. Unless ground is dropped in 2006, the exploration commitment for 2006 will be the same as 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. 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 9,388,750 DKK (not including a credit of 7,717,047 DKK from previous years work). After factoring in credits and overheads, the net exploration commitment for 2005 was approximately C\$225,000. Hudson 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. Hudson will be required to make exploration commitments of 2,500,000 DKK in 2006 and 2007 and complete certain field work as submitted in the application.

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	<u>-</u>	<u>(36,375)</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		<u>13,642,523</u>	<u>\$ 3,410,430</u>
For cash			
– pursuant to the exercise of share purchase warrants	– at \$0.40	511,667	204,666
Balance as at December 31, 2005		<u>14,154,190</u>	<u>\$ 3,615,096</u>

c) Escrow Shares:

At December 31, 2005, the Company had no common shares held in escrow by the Company's transfer agent. The last 200,000 remaining escrow shares were 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 2,728,505.

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

	Period ended December 31, 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>	\$0.56

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 December 31, 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
50,000	\$0.35	May 25, 2009
<u>618,167</u>	<u>\$0.60</u>	<u>December 1, 2009</u>
<u>1,365,000</u>		

Subsequent to the end of the period, all of the \$0.15 per share options, totalling 646,833 shares, were exercised. In January, a total of 1,011,833 options (953,333 at \$0.50 per share and 58,500 at \$0.60 per share) were granted to officers, directors and consultants of the Company. A further 100,000 options at \$0.80 per share were granted in February.

#### Share Purchase Warrants

As at December 31, 2005, 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>Price</u>	<u>Expiry</u>	<u>Early Conversion Price</u>
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>1,490,343</u>			

#### Note 5 Related Party Transactions

During the three month periods ended December 31, 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>\$56,900</u>	<u>\$26,600</u>