HUDSON RESOURCES INC

HUDSON RESOURCES INC.

(An Exploration Stage Company)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2014 AND 2013

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hudson Resources Inc.

We have audited the accompanying financial statements of Hudson Resources Inc., which comprise the statements of financial position as at March 31, 2014 and March 31, 2013, and the statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hudson Resources Inc. as at March 31, 2014 and March 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) “BDO Canada LLP”

Chartered Accountants

Vancouver, British Columbia
July 16, 2014

Hudson Resources Inc.
Statements of Financial Position
(Expressed in Canadian Dollars)

As at		March 31, 2014		March 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents (note 4)	$	**2,367,811**	$	6,476,099
Amounts receivable (note 11(a))		**163,101**		-
Harmonized sales tax receivable		**58,224**		181,607
Deposits		**8,344**		49,265
Prepaid expenses		**35,373**		45,889
		2,632,853		**6,752,860**
Non-current assets				
Equipment (note 5)		**625,459**		62,948
Resource properties (note 6)		**793,193**		743,780
		1,418,652		806,728
TOTAL ASSETS	**$**	**4,051,505**	**$**	**7,559,588**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (notes 8 & 11(a))	$	**361,803**	$	467,763
TOTAL LIABILITIES		**361,803**		**467,763**
EQUITY				
Share capital (note 9)	$	**43,145,903**	$	42,909,981
Additional paid-in capital (note 9(e))		**1,432,242**		1,224,291
Stock options reserve (note 9(e))		**2,928,136**		3,055,346
Deficit		**(43,816,579)**		(40,097,793)
TOTAL EQUITY		**3,689,702**		**7,091,825**
TOTAL EQUITY AND LIABILITIES	**$**	**4,051,505**	**$**	**7,559,588**

Subsequent event (notes 11(a) and 17)

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

APPROVED BY THE BOARD:

/s/ James Tuer Director   */s/ John Hick Director*

Hudson Resources Inc.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

		For the year ended March 31, 2014		March 31, 2013
EXPENSES				
Bank charges and interest	**$**	**4,070**	$	3,708
Depreciation		**58,528**		15,622
Evaluation and exploration costs (note 7)		**2,471,748**		4,693,659
Filing fees		**34,701**		33,859
Foreign exchange		**21,399**		12,076
Management fees		**640,000**		708,333
Office		**53,608**		66,219
Professional fees		**151,038**		169,901
Rent		**44,248**		43,715
Share-based payments (note 9(d))		**186,663**		688,833
Shareholder/corporate communications		**75,977**		63,732
Telephone		**5,850**		5,332
Transfer agent fees		**8,373**		8,136
Travel and accommodation		**20,533**		81,077
		3,776,736		6,594,202
OTHER INCOME				
Interest income		**(57,950)**		(126,435)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**$**	**3,718,786**	$	6,467,767
Basic and diluted loss per share for the year attributable to common shareholders	**$**	**0.05**	$	0.08
Weighted average number of common shares outstanding		**80,233,615**		80,186,766

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

Hudson Resources Inc.
Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital		Reserves			
	Number of shares	**Amount**	**Additional paid-in capital**	**Stock options reserve**	**Deficit**	**Total**
Balance at March 31, 2012	**80,186,766**	**$ 42,909,981**	**$ 661,646**	**$ 2,929,158**	**$ (33,630,026)**	**$ 12,870,759**
Reclassification of grant-date fair value on expired options	-	-	562,645	(562,645)		**-**
Share-based payments	-	-	-	688,833	-	**688,833**
Total comprehensive loss	-	-	-	-	(6,467,767)	**(6,467,767)**
Balance at March 31, 2013	**80,186,766**	**$ 42,909,981**	**$ 1,224,291**	**$ 3,055,346**	**$ (40,097,793)**	**$ 7,091,825**
Balance at March 31, 2013	**80,186,766**	**$ 42,909,981**	**$ 1,224,291**	**$ 3,055,346**	**$ (40,097,793)**	**$ 7,091,825**
Shares issued for cash - stock option exercise	1,300,000	130,000	-	-	-	**130,000**
Reclassification of grant-date fair value on exercise of stock options	-	105,922	-	(105,922)	-	**-**
Reclassification of grant-date fair value on expired options	-	-	207,951	(207,951)	-	**-**
Share-based payments	-	-	-	186,663	-	**186,663**
Total comprehensive loss	-	-	-	-	(3,718,786)	**(3,718,786)**
Balance at March 31, 2014	**81,486,766**	**$ 43,145,903**	**$ 1,432,242**	**$ 2,928,136**	**$ (43,816,579)**	**$ 3,689,702**

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

Hudson Resources Inc.
Statements of Cash Flows
(Expressed in Canadian Dollars)

		For the year ended March 31, 2014		March 31, 2013
Cash flows provided from (used by):				
OPERATING ACTIVITIES				
Net loss for the year	$	**(3,718,786)**	$	**(6,467,767)**
Adjustments for items not affecting cash:				
Depreciation		58,528		15,622
Share-based payments		186,663		688,833
		(3,473,595)		**(5,763,312)**
Net changes in non-cash working capital items:				
Amounts receivable		(48,101)		-
Harmonized sales tax receivable		123,383		(14,958)
Prepaid expenses		10,516		158,342
Deposits		40,921		(17,039)
Accounts payable and accrued liabilities		(105,960)		262,290
Net cash flows used in operating activities		**(3,452,836)**		**(5,374,677)**
FINANCING ACTIVITIES				
Proceeds from share issuance		15,000		-
Net cash flows from financing activities		**15,000**		**-**
INVESTING ACTIVITIES				
Equipment purchases		(621,039)		(52,976)
Mineral property acquisition costs		(49,413)		(38,559)
Net cash flows used in investing activities		**(670,452)**		**(91,535)**
Net increase decrease in cash and cash equivalents		**(4,108,288)**		**(5,466,212)**
Cash and cash equivalents, beginning of year		**6,476,099**		**11,942,311**
Cash and cash equivalents, end of year	$	**2,367,811**	$	**6,476,099**
Cash received during the year for interest	$	**57,950**	$	**126,435**
Cash paid during the year for interest	$	**-**	$	**-**
Cash paid during the year for income taxes	$	**-**	$	**-**

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

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Hudson Resources Inc. (the "Company") is a publicly listed company incorporated in British Columbia on March 7, 2000. The Company's shares are listed on the TSX Venture Exchange under the symbol "HUD". 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's head office and the registered records office are located at 1460 - 1066 West Hastings Street, Vancouver, BC, Canada, V6E 3X1.

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 March 31, 2014, the Company was in the exploration stage and had interests in properties located in Greenland.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at March 31, 2014, the Company had not advanced its property to commercial production and is not able to finance day to day activities through operations. However, the Company has sufficient funds to meet its obligations for at least twelve months from the end of the reporting year. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet future obligations.

The financial statements of the Company for the year ended March 31, 2014 were reviewed by the Audit Committee and approved and authorized by the Board of Directors on July 16, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

a) Statement of compliance to International Financial Reporting Standards

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

b) Basis of preparation

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

c) Resource properties

Resource properties include acquired mineral use rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) for mineral use rights is capitalized. The amounts shown for resource properties represent costs of acquisition incurred to date, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the resource properties are abandoned or sold. Included in the cost of resource properties is the cost of the estimated decommissioning liability. The Company has classified resource properties as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves. Proceeds received from the sale of any interest in a property are credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the deferred costs will be written off to operations.

Ownership in resource properties involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its resource properties have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write downs of resource properties carrying values.

The Company assesses resource property assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

When a project is deemed to no longer have commercially viable prospects to the Company, the carrying amount of the resource property, in excess of estimated recoveries, in respect of that project are deemed to be impaired and written off to the statement of comprehensive loss/income.

d) Exploration and evaluation costs

Evaluation and exploration costs, other than those acquisition costs described above, are expensed as incurred until such time as either mineral reserves are proven or probable, or permits to operate the mineral resource property are received and financing to complete development has been obtained. Following confirmation of mineral reserves or receipt of permits to commence mining operations and obtaining necessary financing, evaluation and exploration expenditures are capitalized as deferred development expenditures included within resource properties.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

e) Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognized immediately in profit or loss.

f) Equipment

Equipment is initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognized within provisions. All items of equipment are subsequently carried at depreciated cost less impairment losses, if any.

Gains and losses

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Depreciation is provided on all items of equipment to write off the carrying value of items over their expected useful economic lives. The Company provides for depreciation using the declining balance method at the rate of 30% per annum. Additions during the year are depreciated at one-half rates. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Material residual value estimates and estimates of useful life are reviewed at each financial year-end, and adjusted if appropriate.

g) Land improvements

Once the legal right to explore a property has been acquired, costs directly related to land improvements are recognized and capitalized. These direct expenditures include such costs as materials used, equipment rental and payments made to contractors.

Land improvements are stated at cost less any impairment losses.

Land improvements are not depreciated until commercial production is reached. If a property is sold or abandoned, the acquisition costs and deferred exploration expenditures would be derecognized.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

h) Taxation

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right to set off current tax assets and liabilities and the deferred income taxes related to the same taxable entity and the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

i) Currency translation

The presentation currency and functional currency of the Company is the Canadian dollar. The functional currency of the Company is measured using the currency of the primary economic environment in which that entity operates.

Transactions and balances:

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

j) Share-based payments

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity.

Where equity-settled share options are awarded to employees, the fair value of the options, which is measured using the Black-Scholes option pricing model at the date of grant, is charged to the statement of comprehensive loss/income over the vesting period on a graded-vesting basis. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in stock options reserve, until exercised or upon expiration. Upon exercise, shares are issued from treasury and the amount reflected in stock options reserve is credited to share capital, adjusted for any consideration paid. The fair value of the expired options will be transferred to additional paid-in capital.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into a known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a term to maturity of three months or less from the date of acquisition.

l) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

When applicable, the Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment of inventories, are recognized in profit and loss, except to the extent they reverse gains previously recognized in other comprehensive loss/income, in those expense categories consistent with the function of the impaired asset.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

m) Financial instruments

Financial assets

Financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its cash and cash equivalents, deposits and other receivables as loans and receivables.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings.

Financial assets classified as held-to-maturity are measured at amortized cost. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has no financial assets classified as available-for-sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

Financial liabilities are initially recorded at fair value and designated upon inception as either FVTPL or classified as other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities and compensation liabilities as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income or loss. The Company has no financial liabilities classified as FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

m) Financial instruments (continued)

De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

n) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

o) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

o) Critical accounting estimates and judgments (continued)

Judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimates of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances (see note 16). Management believes that, at March 31, 2014, it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

Impairment

If information becomes available suggesting that the carrying amount of equipment and resource properties may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating unit level. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year (see note 5 and 6). Management has determined that there are currently no indicators of impairment.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Rehabilitation provisions and site restoration costs

Provision is made for environmental remediation costs when the related environmental disturbance occurs, based on the net present value of estimated future costs.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

o) Critical accounting estimates and judgments (continued)

The ultimate cost of environmental disturbance is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

The expected timing of expenditure can also change, for example, in response to changes in ore reserves or production rates or economic conditions. As a result there could be significant adjustments to the provision for decommissioning and site restoration, which would affect future financial results. Management had determined that there was no rehabilitation provision or site restoration to accrue.

The Company assesses its rehabilitation provisions and site restoration costs using the information available as at the year-end date, unless significant differences are identified in the interim period. Significant estimates and assumptions are made in determining the rehabilitation provisions and site restoration costs, as there are numerous factors that will affect the ultimate liability amount. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the statement of financial position date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expense. As at March 31, 2014 and 2013, the Company has no rehabilitation provisions.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company has not completed its evaluation of the effects of adopting these standards on its financial statements.

IAS 32 (Amendment) Financial Instruments: Presentation

IAS 32 was amended to clarify that an entity currently has a legally enforceable right to set-off financial assets and liabilities if that right is (1) not contingent on a future event; and (2) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments are effective for annual periods beginning on or after January 1, 2014 with early application permitted.

(Expressed in Canadian Dollars)

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments in three main phases. IFRS 9 will be the new standard for financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November, 2009 and October, 2010, phase one of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified and subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, principally on impairment and hedging, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after April 1, 2016. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents are broken down as follows:

		March 31, 2014		March 31, 2013
Cash	$	239,563	$	2,218,260
Term deposits		2,128,248		4,257,839
	$	**2,367,811**	**$**	**6,476,099**

(Expressed in Canadian Dollars)

5. EQUIPMENT

The Company's equipment is broken down as follows:

	Computer equipment	Field equipment	Land improvements	Total
Cost				
As at March 31, 2012	$ 11,454	$ 25,305	$ -	**$ 36,759**
Additions	5,068	47,908	-	**52,976**
Balance as at March 31, 2013	**$ 16,522**	**$ 73,213**	**$ -**	**$ 89,735**
Depreciation				
As at March 31, 2012	$ (7,369)	$ (3,796)	$ -	**$ (11,165)**
Charged for the year	(1,984)	(13,638)	-	**(15,622)**
Balance as at March 31, 2013	**$ (9,353)**	**$ (17,434)**	**$ -**	**$ (26,787)**
Net book value				
As at March 31, 2012	$ 4,085	$ 21,509	$ -	$ 25,594
As at March 31, 2013	**$ 7,169**	**$ 55,779**	**$ -**	**$ 62,948**

	Computer equipment	Field equipment	Land improvements	Total
Cost				
As at March 31, 2013	$ 16,522	$ 73,213	$ -	**$ 89,735**
Additions	-	264,297	356,742	**621,039**
Balance as at March 31, 2014	**$ 16,522**	**$ 337,510**	**$ 356,742**	**$ 710,774**
Depreciation				
As at March 31, 2013	$ (9,353)	$ (17,434)	$ -	**$ (26,787)**
Charged for the period	(2,150)	(56,378)	-	**(58,528)**
Balance as at March 31, 2014	**$ (11,503)**	**$ (73,812)**	**$ -**	**$ (85,315)**
Net book value				
As at March 31, 2013	$ 7,169	$ 55,779	$ -	$ 62,948
As at March 31, 2014	**$ 5,019**	**$ 263,698**	**$ 356,742**	**$ 625,459**

(Expressed in Canadian Dollars)

6. RESOURCE PROPERTIES

The Company's resource properties are broken down as follows:

	Balance as at March 31, 2012	Additions	Balance as at March 31, 2013	Additions	Balance as at March 31, 2014
Greenland					
Sarfartoq Exploration Licences					
Acquisition costs / license fees	**$ 705,221**	$ 26,559	**$ 731,780**	$ 21,745	**$ 753,525**
Naajat / White Mountain Exploration Licences					
Acquisition costs / license fees	**$ -**	$ 12,000	**$ 12,000**	$ 27,668	**$ 39,668**
	$ 705,221	$ 38,559	**$ 743,780**	$ 49,413	**$ 793,193**

The Company currently has three exploration licences in Greenland, the Naajat EL (2002/06), the Sarfartoq EL (2010/40) and the newly granted Pingasut EL (2013/01). In 2014, Hudson was granted licence renewals on the Naajat and Sarfartoq EL's. Prior to that, in 2012, Hudson was granted two licence renewals. The Sarfartoq EL was amended to include portions of the Nalussivik, Sarfartuup Qulaa, Sarfartoq Valley and Arnanganeq exploration licences as well as annex portions of the Sarfartoq EL and add additional ground that extends the licence area to the fjord. The total area was reduced from 1,351 sq. km. to approximately 687 sq. km. As a result of the application, five previous licences will be incorporated into one new Sarfartoq EL that is focused on the rare earth project. In 2013, the licence area was further reduced to 92 sq. km. This reduced the exploration burden on the area while still maintaining 100% interest in the Sarfartoq Carbonatite Complex. The Naajat EL was renewed for its industrial mineral potential for exploration years 11 and 12 and the licence area was reduced from 190 sq. km. to approximately 96 sq. km. In addition, Hudson applied for and was granted a non-exclusive prospecting licence for the west coast of Greenland. The Naajat EL includes the White Mountain Anorthosite Project ("White Mountain"). The licence allows the Company to prospect ground outside of its existing 3 licences. In the event that Hudson wishes to apply for a future exploration licence on additional areas, funds expended from the prospecting can be carried over to the new licence area.

<u>Current Resource Properties</u>

Naajat (White Mountain) Mineral Claim (2002/06), Greenland

The total work commitment for calendar 2013 was 3,000,000 DKK (approximately $600,000). The Company must submit an annual report by April 1 of each year detailing its' activities and expenditures for approval. These work commitments for calendar 2013 have now been approved by the Greenland government. The Company's licence has been renewed to December 31, 2014. Total work commitment for calendar 2014 is 4,259,720 DKK (approximately $850,000). Hudson has accrued sufficient credits from previous expenditures to carry the licence beyond December 31, 2014

Sarfartoq Mineral Claim (2010/40), Greenland

The total work commitment for calendar 2013 was 6,000,000 DKK (approximately $1,200,000). The Company must submit an annual report by April 1 of each year detailing its' activities and expenditures for approval. These work commitments for calendar 2013 have now been approved by the Greenland government. The Company's licence has been renewed to December 31, 2014. Total work commitment for calendar 2014 is 16,538,600 DKK (approximately $3,307,720). Hudson has accrued sufficient credits from previous expenditures to carry the licence beyond December 31, 2014.

6. RESOURCE PROPERTIES (continued)

Pingasut Mineral Claim (2013/01), Greenland

This licence was granted on August 9, 2013. The total work commitment for calendar 2013 and calendar 2014 is 360,000 DKK (approximately $72,000). The Company must submit an annual report by April 1 of each year detailing its' activities and expenditures for approval. Due to the timing of the licence grant, exploration commitments in calendar 2013 have been carried over to calendar 2014. The Company's license expires December 31, 2018.

Previous Resource Properties

Nalussivik Mineral Claim, Greenland

The Company held the Nalussivik mineral claim (EL 2003/04) comprising 121 square kilometres in Western Greenland a portion of which was subsequently incorporated into the Sarfartoq EL.

Sarfartuup Qulaa Mineral Claim, Greenland

The Company held the Sarfartuup Qulaa mineral claim (EL 2005/03), comprising 89 square kilometres in Western Greenland a portion of which was subsequently incorporated into the Sarfartoq EL.

Arnanganeq Mineral Claim, Greenland

The Company held the Arnanganeq mineral claim (EL 2007/28) comprising 236 square kilometres in Western Greenland a portion of which was subsequently incorporated into the Sarfartoq EL.

Sarfartoq Valley Claim, Greenland

The Company held the Sarfartoq Valley mineral claim (EL 2009/20) comprising 5 square kilometres in Western Greenland a portion of which was subsequently incorporated into the Sarfartoq EL.

(Expressed in Canadian Dollars)

7. EVALUATION AND EXPLORATION COSTS

The evaluation and exploration costs for the Company during the years ended March 31, 2014 and 2013 are broken down as follows:

	For the year ended March 31, 2014	For the year ended March 31, 2013	Cumulative evaluation and exploration costs, March 31, 2014
Evaluation and exploration costs:			
Sarfartoq			
Assay and analysis	$ 30,975	$ 260,558	$ 1,365,802
Camp and portable shelters	6,935	340,002	1,171,747
Consulting	35,689	112,661	2,884,601
Data processing	-	-	56,737
Diamond recovery plant and operations	-	-	1,672,479
Drilling	3,836	664,265	6,717,631
Equipment	-	6,430	656,141
Explosives	-	-	50,026
Fuel	1,142	13,117	323,730
Geophysical data	-	64,807	611,754
Helicopter	23,242	733,521	7,425,474
Insurance	-	-	47,166
Legal	-	-	14,348
Miscellaneous	-	85	85
Recoveries	(138,000)	(70,000)	(208,000)
Sample extraction and processing	-	-	1,599,963
Shipping	822	122,478	1,063,970
Supplies	496	2,978	200,448
Travel	2,094	113,595	1,709,054
Wages and benefits	-	78,131	223,876
Total	$ (32,769)	$ 2,442,628	$ 27,587,032

(Expressed in Canadian Dollars)

7. EVALUATION AND EXPLORATION COSTS (continued)

	For the year ended March 31, 2014	For the year ended March 31, 2013	Cumulative evaluation and exploration costs, March 31, 2014
Naajat / White Mountain			
Assay and analysis	$ 361,130	$ 560,067	$ 921,197
Camp and portable shelters	64,852	136,842	201,694
Consulting	682,677	64,366	747,043
Drilling	39,122	543,490	582,612
Equipment	193,035	7,115	200,150
Fuel	16,484	10,732	27,216
Geophysical data	14,922	27,705	42,627
Helicopter	656,713	600,154	1,256,867
Legal	4,361	-	4,361
Miscellaneous	4,997	870	5,867
Shipping	173,530	138,313	311,843
Supplies	104,948	2,437	107,385
Travel	165,807	95,015	260,822
Wages and benefits	3,865	63,925	67,790
Total	$ 2,486,443	$ 2,251,031	$ 4,737,474
Pingasut Mineral Claim			
Camp and portable shelters	$ 367	$ -	$ 367
Consulting	11,459	-	11,459
Fuel	1,142	-	1,142
Helicopter	4,468	-	4,468
Shipping	106	-	106
Supplies	189	-	189
Travel	343	-	343
Total	$ 18,074	$ -	$ 18,074
Total evaluation and exploration costs:	$ 2,471,748	$ 4,693,659	$ 32,342,580

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are broken down as follows:

		March 31, 2014		March 31, 2013
Trade payables	$	298,154	$	387,676
Accrued liabilities		63,649		80,087
	$	**361,803**	**$**	**467,763**

9. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

At March 31, 2014, the Company had 81,486,766 common shares issued and outstanding (March 31, 2013 – 80,186,766).

During the year ended March 31, 2014

- The Company received various option exercises during the year ended March 31, 2014 resulting in the issuance of 1,300,000 common shares for proceeds of $130,000. In addition, the Company has reclassified the grant date fair value of the exercised options of $105,922 from stock options reserve to share capital.

c) Share Purchase Warrants

The changes in warrants during the years ended March 31, 2014 and 2013 are as follows:

	March 31, 2014			March 31, 2013		
	Number outstanding		Weighted average exercise price	Number outstanding		Weighted average exercise price
Outstanding, beginning of year	-	$	-	3,102,500	$	1.20
Expired	-		-	(3,102,500)		1.20
Outstanding, end of year	-	$	-	-	$	-

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

d) Stock Options

The Company has a stock option plan whereby the maximum number of shares reserved for issue shall not exceed 10% of the issued and outstanding common shares of the Company as at the date of the grant. The maximum number of common shares reserved for issue to any one optionee under the plan cannot exceed 5% of the total issued and outstanding number of common shares on a non-diluted basis. The maximum number of common shares reserved for issue to any insiders as a group shall not exceed 10% of the total number of issued and outstanding shares on a non-diluted basis. The maximum number of common shares reserved for issue to any one consultant shall not exceed 2% of the total number of issued and outstanding shares on a non-diluted basis. The maximum number of common shares reserved for issue to all eligible persons who undertake investor relation activities shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on a nondiluted basis. 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, management has the option of determining vesting periods.

The changes in stock options during the years ended March 31, 2014 and 2013 are as follows:

	March 31, 2014		March 31, 2013	
	Number outstanding	**Weighted average exercise price**	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	**7,545,000**	**$ 0.51**	5,845,000	$ 0.63
Granted	**-**	**-**	2,350,000	0.36
Exercised	**(1,300,000)**	**0.10**	-	-
Expired / cancelled	**(445,000)**	**0.54**	(650,000)	1.01
Outstanding, end of year	**5,800,000**	**$ 0.59**	7,545,000	$ 0.51

<u>During the year ended March 31, 2014</u>

- 370,000 stock options granted to certain officers and directors expired unexercised.
- 75,000 stock options granted to an employee were cancelled.

<u>During the year ended March 31, 2013</u>

- The Company granted 2,350,000 five-year options with an exercise price of $0.36 to the Company's officers, directors and field staff.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

d) Stock Options (continued)

The estimated fair value of the options granted was calculated using the Black-Scholes Option Pricing Model with the following assumptions:

	For the year ended	
	March 31, 2014	**March 31, 2013**
Share price at the grant date	N/A	$0.36 - $0.39
Risk-free interest rate	N/A	1.17% - 1.45%
Expected annual volatility	N/A	101.63 % - 137.62%
Expected life	N/A	3.5 - 5 years
Expected dividend yield	N/A	0%
Grant date fair value per option	N/A	$0.24 - $0.35

The expected life of options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following summarizes information about stock options outstanding and exercisable at March 31, 2014:

Expiry date	Options outstanding	Options exercisable	Exercise price	Estimated grant date fair value	Weighted average remaining contractual life (in years)
January 25, 2015	100,000	100,000	$ 0.95	$ 84,505	0.82
April 30, 2015	2,200,000	2,200,000	$ 0.80	$ 1,581,475	1.08
September 28, 2016	1,150,000	1,150,000	$ 0.65	$ 536,461	2.50
October 12, 2017	2,225,000	1,946,875	$ 0.36	$ 692,198	3.54
November 5, 2017	125,000	109,375	$ 0.36	$ 35,334	3.60
	5,800,000	**5,506,250**		**$ 2,929,973**	**2.35**

The weighted average exercise price of the exercisable options was $0.61.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

d) Stock Options (continued)

During the year ended March 31, 2014, the Company recognized share-based payments expense of $186,663 (March 31, 2013 – $688,833). For the years ended March 31, 2014 and 2013, share-based payments expense consists of the following:

	For the year ended	
	March 31, 2014	**March 31, 2013**
For services in respect of:		
Accounting	**$ 5,964**	$ 26,218
Directors' fees	**49,520**	200,116
Evaluation and exploration costs	**3,975**	20,445
Investor relations	**-**	7,400
Management fees	**127,204**	434,654
	$ 186,663	$ 688,833

e) Reserves

Additional paid-in capital
Additional paid in capital records the fair value of the expired options and warrants initially recorded in stock options reserve.

Stock options reserve
The stock options reserve records items recognized as share-based payments expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to additional paid in capital.

10. LOSS PER SHARE

The calculation of basic and diluted loss per share for year ended March 31, 2014 is based on the net loss attributable to common shareholders of $3,718,786 (March 31, 2013 – $6,467,767) and a weighted average number of common shares outstanding during the period of 80,233,615 (March 31, 2013 – 80,186,766).

In computing the diluted loss per share, warrants and options are not included as the impact would be anti-dilutive.

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related party balances

The balances due from related parties included in amounts receivable were $115,000 as at March 31, 2014 (March 31, 2013 – $nil). These amounts were received subsequent to March 31, 2014.

The balances due to related parties included in trade payables and accrued liabilities were $39,347 as at March 31, 2014 (March 31, 2013 – $55,934). These amounts are unsecured and non-interest bearing.

b) Key management personnel compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation comprised of:

	For the year ended	
	March 31, 2014	**March 31, 2013**
Short-term employee benefits - management fees	**$ 643,636**	$ 720,720
Short-term employee benefits - directors' fees	**100,000**	88,333
Share-based payments - management fees	**133,168**	460,872
Share-based payments - directors' fees	**49,520**	200,116
	$ 926,324	$ 1,470,041

12. COMMITMENTS AND CONTINGENCIES

During the year ended March 31, 2014, the Company renewed the office lease for an additional two years ending September 30, 2015. Total minimum lease payments are as follows:

For the year ended	
March 31, 2015	26,862
March 31, 2016	13,431
	$ 40,293

(Expressed in Canadian Dollars)

13. SEGMENTED INFORMATION

The Company has two operating segments: the exploration and development of the Sarfartoq and Naajat exploration licenses in Greenland and corporate administrative functions in Canada. The Company's total assets and losses by one operating segment, 2 geographic locations are as follows:

		Canada		Greenland		Total
As at March 31, 2014						
Resource properties	$	-	$	793,193	**$**	**793,193**
Other assets		3,258,312		-		**3,258,312**
Liabilities		(361,803)		-		**(361,803)**
	$	**2,896,509**	**$**	**793,193**	**$**	**3,689,702**
As at March 31, 2013						
Resource properties	$	-	$	743,780	**$**	**743,780**
Other assets		6,815,808		-		**6,815,808**
Liabilities		(467,763)		-		**(467,763)**
	$	**6,348,045**	**$**	**743,780**	**$**	**7,091,825**

		Canada		Greenland		Total
Net loss:						
For the year ended March 31, 2014	$	1,247,038	$	2,471,748	**$**	**3,718,786**
For the year ended March 31, 2013		1,774,108		4,693,659		**6,467,767**

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its resource properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and short-term investments. In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company is not subject to any externally imposed capital requirements.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on its exploration activities, preparing cash flow analyses to ensure an adequate amount of liquidity and monthly review of financial results.

There were no changes in the Company's approach to capital management during the years ended March 31, 2014 and 2013.

15. FINANCIAL INSTRUMENTS

a) Fair value

The carrying values of cash and cash equivalents, amount receivables, deposits and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of those financial instruments.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3: Inputs that are not based on observable market data.

The financial instruments recorded at fair value on the statements of financial position are comprised of cash and cash equivalents which are measured using Level 1 of the fair value hierarchy. There were no significant transfers between Level 1 and Level 2 (March 31, 2013 – no significant transfers).

There were no financial assets which are measured at fair value that applied Level 2 or Level 3 fair value measurements (March 31, 2013 – no Level 2 or Level 3 fair value measurements).

b) Financial risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness. As at March 31, 2014 and 2013, the Company's exposure is the carrying value of the financial instruments.

The Company's maximum exposure to credit risk is the carrying value of its financial assets.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company maintained sufficient cash and cash equivalents at March 31, 2014 in the amount of $2,367,811 (March 31, 2013 – $6,476,099), in order to meet short-term business requirements. At March 31, 2014, the Company had accounts payable and accrued liabilities of $361,803 (March 31, 2013 – $467,763). All accounts payable and accrued liabilities are current.

15. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Market Risk

The significant market risks to which the Company is exposed are interest rate risk and currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the year in the financial statements is interest income on Canadian dollar cash and cash equivalents. As at March 31, 2014, the Company's cash is subject to or exposed to interest rate risk. A 10% increase/decrease in the interest rate received would have a $2,961 impact on profit or loss (March 31, 2013 – $6,191).

Currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company's cash and cash equivalents, amounts receivable, deposits and accounts payable and accrued liabilities are held in Canadian dollars ("CAD"), US dollars ("USD") and Danish kroners ("DKK"); therefore, USD and DKK accounts are subject to fluctuation against the Canadian dollar.

The Company had the following balances in Canadian and foreign currencies as at March 31, 2014 and 2013:

As at March 31, 2014:

	in CAD	in USD	in DKK
Cash and cash equivalents	$ 2,367,811	$ -	$ -
Accrued interest and amounts receivable	163,101	-	-
Deposits	7,431	-	4,480
Accounts payable and accrued liabilities	(267,736)	(1,257)	(454,967)
	2,270,607	**(1,257)**	**(450,487)**
Rate to convert to $1.00 CAD	1.000	0.9043	4.9092
Equivalent to Canadian dollars	**2,270,607**	**(1,390)**	**(91,764)**

Based on the above net exposures as at March 31, 2014, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD and DKK by 10% would increase/ decrease profit or loss by $9,315.

(Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Market Risk (continued)

Currency risk (continued)

As at March 31, 2013:

	in CAD	in USD	in DKK
Cash and cash equivalents	$ 6,476,099	$ -	$ -
Accrued interest and amounts receivable	-	-	-
Deposits	48,482	-	4,480
Accounts payable and accrued liabilities	(417,050)	(27,507)	(130,142)
	6,107,531	**(27,507)**	**(125,662)**
Rate to convert to $1.00 CAD	1.000	0.9832	5.7241
Equivalent to Canadian dollars	**6,107,531**	**(27,977)**	**(21,953)**

Based on the above net exposures as at March 31, 2013, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD and DKK by 10% would increase/ decrease profit or loss by $4,993.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk. The Company is not exposed to significant other price risk.

(Expressed in Canadian Dollars)

16. INCOME TAXES

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2014	2013
Statutory rate	**26.00%**	**25.00%**
Loss before income taxes	**$ (3,718,786)**	**$ (6,467,767)**
Expected income tax recovery	(967,000)	(1,617,000)
(Increase) decrease in income tax recovery resulting from:		
Non-deductible differences	49,000	173,000
Effect of reduction in statutory rates	-	(382,000)
Impact of under (over) provision in prior year	-	10,000
Change in unrecognized deferred tax assets	918,000	1,816,000
	$ -	$ -

Deferred Income Tax Assets and Liabilities

Significant components of the Company's deferred income tax assets, after applying enacted corporate income tax rates, are as follows:

	2014	2013
Non-capital losses carried forward	$ 2,192,000	$ 1,814,000
Equipment	23,000	37,000
Resource properties and deferred exploration	8,465,000	7,823,000
Undeducted share issuance costs	161,000	249,000
Unrecognized deferred tax asset	(10,841,000)	(9,923,000)
	$ -	$ -

The Company has not recorded any future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward to utilize these net future tax assets.

(Expressed in Canadian Dollars)

16. INCOME TAXES (continued)

At March 31, 2014, the Company has non-capital losses of approximately $8,430,000 that may be applied against future income tax for tax purposes. The non-capital losses expire as follows:

2026	$ 300,000
2027	559,000
2028	693,000
2029	711,000
2030	815,000
2031	1,013,000
2032	1,436,000
2033	1,449,000
2034	1,454,000
	$ 8,430,000

17. SUBSEQUENT EVENTS

On April 24, 2014, the Company granted 2,100,000 five-year options with an exercise price of $0.34 to the Company's officers, directors and employees.