

HUDSON RESOURCES INC.

REPORT AND FINANCIAL STATEMENTS

March 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders,
Hudson Resources Inc.

We have audited the balance sheets of Hudson Resources Inc. as at March 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
June 23, 2005

“AMISANO HANSON”
Chartered Accountants

HUDSON RESOURCES INC.
BALANCE SHEETS
March 31, 2005 and 2004

	<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current			
Cash and term deposits		\$ 1,797,104	\$ 577,480
Accrued interest and amounts receivable – Note 6		14,069	6,723
Goods and services tax receivable		38,534	11,453
Prepaid expenses		<u>17,854</u>	<u>2,936</u>
		1,867,561	598,592
Resource properties – Note 4 and Schedule 1		<u>1,261,659</u>	<u>220,596</u>
		<u>\$ 3,129,220</u>	<u>\$ 819,188</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities – Note 6		<u>\$ 271,863</u>	<u>\$ 26,156</u>

SHAREHOLDERS' EQUITY

Share capital – Note 5		3,410,430	1,109,331
Contributed surplus – Note 2		172,066	15,437
Deficit		<u>(725,139)</u>	<u>(331,736)</u>
		<u>2,857,357</u>	<u>793,032</u>
		<u>\$ 3,129,220</u>	<u>\$ 819,188</u>

Commitments – Notes 4 and 5

APPROVED BY THE DIRECTORS:

“James Tuer” Director “Robert Chase” Director

SEE ACCOMPANYING NOTES

HUDSON RESOURCES INC.
STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Administrative Expenses		
Audit and legal fees	\$ 27,439	\$ 17,004
Bank charges and interest	669	288
Filing fees	8,141	7,248
Management fees – Note 6	92,000	60,000
Office	14,045	12,451
Rent	10,440	13,414
Shareholder communication	71,621	25,762
Stock-based compensation – Note 2	115,379	15,437
Telephone	5,310	3,529
Transfer agent fees	6,563	4,614
Travel and promotion	<u>19,804</u>	<u>2,150</u>
Loss before other items	(371,411)	(161,897)
Other items:		
Interest income	19,258	5,691
Write-off of resource properties	<u>-</u>	<u>(30,502)</u>
Net loss for the year	(352,153)	(186,708)
Deficit, beginning of the year	(331,736)	(145,028)
Change in accounting policy for stock-based compensation – Note 2	<u>(41,250)</u>	<u>-</u>
Deficit, end of the year	<u>\$ (725,139)</u>	<u>\$ (331,736)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding	<u>9,802,038</u>	<u>5,588,324</u>

SEE ACCOMPANYING NOTES

HUDSON RESOURCES INC.
STATEMENTS OF CASH FLOWS
for the years ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Activities		
Net loss for the year	\$ (352,153)	\$ (186,708)
Items not involving cash:		
Write-off of resource properties	-	30,502
Stock-based compensation	<u>115,379</u>	<u>15,437</u>
	(236,774)	(140,769)
Changes in non-cash working capital items related to operations:		
Accrued interest and amounts receivable	(7,346)	2,033
Goods and services tax receivable	(27,081)	(1,620)
Prepaid expenses	(14,918)	(1,077)
Accounts payable and accrued liabilities	<u>245,707</u>	<u>7,704</u>
	<u>(40,412)</u>	<u>(133,729)</u>
Investing Activity		
Resource properties expenditures	<u>(1,041,063)</u>	<u>(179,234)</u>
Financing Activity		
Issuance of common shares	<u>2,301,099</u>	<u>498,642</u>
Increase in cash during the year	1,219,624	185,679
Cash and term deposits, beginning of the year	<u>577,480</u>	<u>391,801</u>
Cash and term deposits, end of the year	<u>\$ 1,797,104</u>	<u>\$ 577,480</u>
Cash and term deposits consists of:		
Cash	\$ 308,497	\$ 428,774
Term deposits	<u>1,488,607</u>	<u>148,706</u>
	<u>\$ 1,797,104</u>	<u>\$ 577,480</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

HUDSON RESOURCES INC.
SCHEDULE OF RESOURCE PROPERTIES
for the years ended March 31, 2005 and 2004

Schedule 1

<u>Naajat, Nalussivik, Sarfartoq and Sarfartuup Qulaa Claims, Greenland</u>	Balance March 31, <u>2003</u>	<u>Additions</u>	<u>Write-offs</u>	Balance March 31, <u>2004</u>	<u>Additions</u>	Balance March 31, <u>2005</u>
Acquisition Costs						
Cash	\$ 6,298	\$ 6,983	\$ -	\$ 13,281	\$ 29,668	\$ 42,949
Deferred Exploration Costs						
Assay & Analysis	-	44,916	-	44,916	58,108	103,024
Consulting	7,300	17,730	-	25,030	126,447	151,477
Data processing	8,500	24,422	-	32,922	8,200	41,122
Drilling	-	-	-	-	155,646	155,646
Equipment	-	-	-	-	26,885	26,885
Fuel	-	-	-	-	8,550	8,550
Geophysical data	21,648	573	-	22,221	165,986	188,207
Helicopter	-	52,462	-	52,462	367,374	419,836
Legal	-	-	-	-	6,018	6,018
Shipping	-	-	-	-	4,566	4,566
Software	-	2,526	-	2,526	-	2,526
Supplies & Sundry	-	1,128	-	1,128	8,902	10,030
Travel	-	26,110	-	26,110	74,713	100,823
	<u>37,448</u>	<u>169,867</u>	<u>-</u>	<u>207,315</u>	<u>1,011,395</u>	<u>1,218,710</u>
	<u>43,746</u>	<u>176,850</u>	<u>-</u>	<u>220,596</u>	<u>1,041,063</u>	<u>1,261,659</u>
<u>Herbert Vale Claims, Australia</u>						
Acquisition Costs						
Cash	28,118	-	(28,118)	-	-	-
Deferred Exploration Costs						
Consulting	-	2,384	(2,384)	-	-	-
	<u>28,118</u>	<u>2,384</u>	<u>(30,502)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 71,864</u>	<u>\$ 179,234</u>	<u>\$ (30,502)</u>	<u>\$ 220,596</u>	<u>\$ 1,041,063</u>	<u>\$ 1,261,659</u>

HUDSON RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005 and 2004

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 mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At March 31, 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 Change in Accounting Policy

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options to be 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 the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Previously only share purchase options granted to non-employees followed this method and options granted to employees were not expensed.

The Company has adopted the new policy on a retroactive basis with no restatement of prior periods. Accordingly on April 1, 2004, deficit and contributed surplus were each increased by \$41,250 to account for share purchase option expense that would have been charged to operations in 2003 and 2004. 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.

For the year ended March 31, 2004, there was no pro-forma disclosure as no share purchase options were granted to employees.

During the year ended March 31, 2005, the fair value of share purchase options expensed was \$115,379.

Note 2 Change in Accounting Policy – (cont'd)

The fair value of share options was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2005</u>
Risk-free interest rate	2.93% - 3.13%
Dividend yield	0.0%
Expected stock price volatility	78.8% - 81.9%
Expected term in years	5

Note 3 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.

Note 3 Significant Accounting Policies – (cont'd)

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 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. In December, 2003, the Company reduced the area to 325 square kilometres, based on the results of the 2003 exploration program and reduced exploration commitments for 2003. The Company has met the exploration expenditures for 2003. Work expenditures are approved each April by the Bureau of Minerals and Petroleum ("BMP") for Greenland based on Company submissions due April 1 of each year. In December, 2004, the Company reduced the area to 243 square kilometres. Work commitments for calendar 2004 totalling approximately \$270,000 have been submitted to the BMP for approval. Work commitments for 2005 are also expected to be approximately \$270,000. Expenditures in excess of this amount can be carried forward to future years. This amount can be reduced or eliminated by reducing or dropping the licence by December 31, 2005.

Nalussivik Mineral Claim, Greenland

On May 1, 2003, the Company's application for the Nalussivik mineral claim (EL 2003/04) comprising 208 square kilometres in Western Greenland was approved by the Greenland mining authorities. The Company was required to incur net exploration expenses of \$55,350 (260,157 DKK) in 2003 (incurred) in order to maintain ownership of the Nalussivik claim. The Company, which defers some of the expenditures and expenses others, has met this requirement. In 2004, the Company applied for and was granted an additional 193 square kilometres under the Nalussivik EL bringing the total to 401 square kilometres. Work commitments for calendar 2004 are approximately \$100,000. Work commitments for 2004 totalling approximately \$200,000 were submitted on April 1, 2005. Work commitments for 2005 are expected to be approximately \$420,000. Expenditures in excess of this amount can be carried forward to future years. This amount can be reduced or eliminated by reducing or dropping the licence by December 31, 2005.

Sarfartuup Qulaa Mineral Claim, Greenland

On January 31, 2005, the Company's application for the Sarfartuup Qulaa mineral claim (EL 2005/03) comprising 89 square kilometres in Western Greenland was approved by the Greenland mining authorities. The Company is required to incur net exploration expenses of approximately \$35,000 in 2005 in order to maintain ownership of the Sarfartuup Qulaa claim.

Note 4 Resource Properties – (cont'd)

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.

Herbert Vale, Australia

On December 17, 2002, the Company entered into an agreement with Tracker Resources NL, a wholly-owned subsidiary of McArthur Diamonds Inc., a company with a director in common. Costs incurred totalling \$30,502 were written off during the year ended March 31, 2004.

Note 5 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>

c) Escrow Shares:

At March 31, 2005, the Company has 400,000 (2004: 800,000) common shares held in escrow by the Company's transfer agent. The remaining escrow shares will be released in amounts of 200,000 common shares semi-annually on June 6 and December 6 of next year.

Note 5 Share Capital – (cont'd)

d) Commitments:

Stock-based Compensation Plan

The Company has granted directors, officers and consultants' common share purchase options. These options are granted with an exercise price equal to the market price of the Company's stock on the date of the grant. Under the stock option plan, 25% of the options vest when granted and 12-1/2% vest every three months thereafter. The maximum number of shares that may be issued under the plan is 1,545,866.

A summary of the status of the stock option plan as at March 31, 2005 and March 31, 2004 and the changes during the periods ending on those dates is presented below:

	Years ended March 31,		2004	
	<u>2005</u>			<u>2004</u>
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, beginning of year	696,833	\$0.15	646,833	\$0.15
Cancelled	(80,000)	(\$0.60)	(100,000)	(\$0.20)
Granted	<u>848,167</u>	\$0.56	<u>150,000</u>	\$0.20
Options outstanding, end of year	<u>1,465,000</u>	<u>\$0.36</u>	<u>696,833</u>	<u>\$0.15</u>
Options exercisable, end of year	<u>1,016,146</u>	<u>\$0.27</u>	<u>665,583</u>	<u>\$0.15</u>

As at March 31, 2005, there are 1,465,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Price</u>	<u>Expiry</u>
271,833	\$0.15	February 7, 2006
375,000	\$0.15	January 8, 2008
50,000	\$0.20	December 5, 2008
100,000	\$0.35	May 12, 2009
50,000	\$0.35	May 25, 2009
<u>618,167</u>	\$0.60	December 1, 2009
<u>1,465,000</u>		

Note 5 Share Capital – (cont'd)

d) Commitments: - (cont'd)

Share Purchase Warrants

As at March 31, 2005, there were 2,460,343 share purchase warrants outstanding, including 270,000 Agent's Warrants exercisable at \$0.55 per share. The warrants have acceleration provisions that allow the Company to call for the early conversion of the warrants if the shares trade above the Early Conversion Price for a set number of trading days.

<u>Number</u>	<u>Price</u>	<u>Expiry</u>	<u>Early Conversion Price</u>
700,000	\$0.40	August 16, 2005	\$0.80
270,000	\$0.55	November 15, 2005	N/A
1,250,343	\$0.85	November 15, 2006	\$1.40
<u>240,000</u>	\$0.85	November 24, 2006	\$1.40
<u>2,460,343</u>			

Note 6 Related Party Transactions

During the years ended March 31, 2005 and 2004, the Company incurred the following transaction with a director/officer and an officer of the Company:

	<u>2005</u>	<u>2004</u>
Management fees	<u>\$ 92,000</u>	<u>\$ 60,000</u>

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

Amounts receivable includes \$593 (2004: \$650) due from a company with a common officer.

Accounts payable and accrued liabilities include \$6,449 (2004: \$Nil) due to an officer and a company with a common officer.

Note 7 Corporation Income Taxes

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

	<u>2005</u>	<u>2004</u>
Future income tax assets		
Net tax losses carried forward	\$ 15,543	\$ 15,543
Exploration and development expenses	225,180	119,812
Unused share issue costs	<u>57,497</u>	<u>15,549</u>
	298,220	150,904
Less: valuation allowance	<u>(298,220)</u>	<u>(150,904)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company recorded a valuation allowance against its future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will be realized during the carry-forward periods to utilize all the future tax assets.

At March 31, 2005, the Company has accumulated non-capital losses of \$43,636 and Foreign Exploration and Development Expenses of \$1,893,831 which may be applied against future years taxable income. The non-capital losses expire as follows:

2008	\$ 15,771
2009	<u>27,865</u>
	<u>\$ 43,636</u>

Note 8 Comparative Figures

Certain of the comparative figures for the year ended March 31, 2004 have been reclassified to conform with the presentation adopted for the current year.