

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MAY 31, 2005

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AUDITORS' REPORT

To the Shareholders of
Glass Earth Limited

We have audited the consolidated balance sheet of **Glass Earth Limited** as at May 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

"SF PARTNERSHIP, LLP"

Toronto, Canada
September 23, 2005

CHARTERED ACCOUNTANTS

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
 Consolidated Balance Sheet
 May 31, 2005
 (In Thousands of Canadian Dollars)

	2005	2004
ASSETS		
Current		
Cash and cash equivalents	\$ 1,359	\$ 24
Receivable and prepaid expenses	<u>20</u>	<u>5</u>
	1,379	29
Mineral Interests (note 5)	1,743	686
Property and Equipment (note 6)	<u>5</u>	<u>7</u>
	<u>\$ 3,127</u>	<u>\$ 722</u>

LIABILITIES

Current		
Accounts payable and accrued charges	<u>\$ 343</u>	<u>\$ 71</u>

Commitments and Contingencies (note 12)

SHAREHOLDERS' EQUITY

Share Capital (note 7)	3,005	703
Warrants (note 7)	422	-
Deficit Accumulated through the Development Stage	<u>(643)</u>	<u>(52)</u>
	<u>2,784</u>	<u>651</u>
	<u>\$ 3,127</u>	<u>\$ 722</u>

APPROVED ON BEHALF OF THE BOARD

"Glenn Laing"

 Director

"Peter Liddle"

 Director

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

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
 Consolidated Statement of Operations
 Year Ended May 31, 2005
 (In Thousands of Canadian Dollars)

	2005	2004
Revenue	<u>\$ -</u>	<u>\$ -</u>
Expenses		
General and administration	291	29
Professional fees	170	5
Registry and filing	47	-
Travel and accommodation	23	1
Salaries	22	-
Financing fees	21	-
Interest and sundry	11	(1)
Others	13	1
Consultancy fees	8	-
Foreign currency translation	(17)	9
Amortization	2	-
	<u>591</u>	<u>44</u>
Loss Before Income Taxes	(591)	(44)
Provision for income taxes	<u>-</u>	<u>-</u>
Net Loss	(591)	(44)
Deficit - beginning of year	<u>(52)</u>	<u>(8)</u>
Deficit - end of year	<u>\$ (643)</u>	<u>\$ (52)</u>
Loss per Share- Basic	<u>0.96 cents</u>	<u>0.12 cents</u>
Loss per Share- Fully Diluted	<u>0.93 cents</u>	<u>0.12 cents</u>
Weighted average number of basic common shares outstanding during the year	<u>39,540,206</u>	<u>16,667</u>
Weighted average number of fully diluted common shares outstanding during the year	<u>40,714,123</u>	<u>16,667</u>

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

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
 Consolidated Statement of Cash Flows
 Year Ended May 31, 2005
 (In Thousands of Canadian Dollars)

	2005	2004
Cash Flows from Operating Activities		
Net loss	\$ (591)	\$ (44)
Adjustments for:		
Amortization	<u>2</u>	<u>-</u>
	(589)	(44)
Changes in non-cash working capital		
Receivable and prepaid expenses	(15)	(4)
Accounts payable and accrued charges	<u>272</u>	<u>69</u>
Net Cash used from Operating Activities	<u>(332)</u>	<u>21</u>
Cash Flows from Investing Activities		
Mineral interests	(1,057)	(686)
Purchase of property and equipment	<u>-</u>	<u>(7)</u>
Net Cash used from Investing Activities	<u>(1,057)</u>	<u>(693)</u>
Cash Flows from Financing Activities		
Issuance of common shares for cash	2,788	695
Investment in Glass Earth Limited	<u>(64)</u>	<u>-</u>
Net Cash Provided from Financing Activities	<u>2,724</u>	<u>695</u>
Net Increase in Cash	1,335	23
Cash - beginning of year	<u>24</u>	<u>1</u>
Cash - end of year	<u>\$ 1,359</u>	<u>\$ 24</u>
Interest and Income Taxes Paid		
During the year, the Company had cash flows arising from interest and income taxes paid as follows:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

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

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
May 31, 2005

1. Nature of Operations

Glass Earth Limited (formerly known as BC Report Magazine Ltd.) (the "Company"), is engaged in the acquisition, exploration and development of mineral properties. To date, the Company has not earned revenues and is considered to be in the development stage. On March 31, 2005, the Company completed an acquisition as described in note 3.

2. Going Concern

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at May 31, 2005, the Company had a net loss of \$591,000 and accumulated deficit of \$643,000. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, achievement of profitable operations and the discovery, development and sale of mining reserves. The Company is planning to meet its future expenditures and obligations by raising funds through private placements or by farm-outs of mineral properties.

Accordingly, the consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

3. Basis of Presentation and Reverse Takeover

The Company completed the acquisition of all the outstanding common shares of Glass Earth (New Zealand) Limited (formerly Glass Earth Limited) ("GENZL"), in exchange for common shares of the Company. Pursuant to the terms of the Share Exchange Agreement entered into with GENZL and its shareholders, the Company issued 36,000,720 common shares to acquire the 16,667 outstanding common shares of GENZL.

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
May 31, 2005

3. Basis of Presentation and Reverse Takeover Accounting (cont'd)

The transaction constituted a Reverse Take-Over (the "RTO") of the Company by GENZL under the policies of the TSX Venture Exchange (the "Exchange"). Concurrently with and as a condition of the RTO, the Company completed private placement financing ("the financing"). Proceeds from the financing were used to fund further exploration of the Coromandel/Central Volcanic Region ("the CCVR") and for general working capital. The financing comprised an offering of 14,087,000 units of the Company (the "Units") at an estimated price of \$0.20 per Unit. Each Unit comprised of one common share and one half share purchase warrant, each full share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 per share for a period of two years following closing (note 7). On completion of the financing, the former shareholders of GENZL owned approximately 62.9% of the Company.

Upon completion of the transaction, the Company changed its name from BC Report Magazine Ltd. to Glass Earth Limited. Its newly acquired subsidiary changed its name from Glass Earth Limited to Glass Earth (New Zealand) Limited.

The acquisition of the shares of GENZL has been accounted for as a reverse takeover transaction in accordance with guidance provided in Emerging Issues Committee ("EIC") Abstract No. 10. The Company did not qualify as a business for accounting purposes, and accordingly the transaction has been accounted for as an issuance of shares and warrants by GENZL for the net monetary assets of the Company, accompanied by a recapitalization of the Company. Transaction costs have been charged to operations in the determination of net losses for the year.

Further to the RTO transaction described above, these consolidated financial statements for the year ended May 31, 2005 reflect the assets, liabilities and results of operations of GENZL, the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and GENZL subsequent to the reverse takeover. The consolidated financial statements are issued under the name of the legal parent (the Company) but are deemed to be a continuation of the legal subsidiary (GENZL).

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
May 31, 2005

4. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant:

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary GENZL, as described in notes 1 and 3. All significant inter-company transactions and balances have been eliminated.

b) Mineral Interests

Direct property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties are brought into production, at which time, they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

In March 2002, the EIC of the Canadian Institute of Chartered Accountants ("CICA") issued EIC-126 – "Accounting by Mining Enterprises for Exploration Costs" which interprets how Accounting Guideline No. 11 entitled Enterprises in the Development Stage - (AcG 11) affects mining companies with respect to the deferral of exploration costs. EIC-126 refers to CICA Handbook Section 3061 "Property, Plant and Equipment", paragraph 21, which states that for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. EIC-126 then states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC-126 also sets forth the Committee's consensus that a mining enterprise in the development stage is not required to consider the conditions in AcG-11 regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, EIC-126 sets forth the Committee's consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG-11 and CICA Handbook sections relating to long-lived assets in determining whether subsequent write-down of capitalized exploration costs related to mining properties is required. Any resulting write-downs are charged to the statement of operations.

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
 Notes to Financial Statements
 May 31, 2005

4. Summary of Significant Accounting Policies (cont'd)

b) Mineral Interests (cont'd)

The Company considers that exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-126, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11 exist.

AcG 11 also provides guidance on measuring impairment of when pre-operating costs have been deferred. While this guidance is applicable, its application did not result in impairment.

c) Cash and Cash Equivalents

Cash includes cash on account and highly liquid investments with a remaining term to maturity of three months or less at the date of purchase.

d) Capital Assets

Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight line basis. Principal depreciation rates are:

Computer Equipment	36%
Furniture & Fittings	10%

e) Foreign Currency Translation

The reporting currency of the Company and its subsidiaries is considered to be the Canadian Dollar. Foreign currency transactions entered into by the Company and financial statements of self-sustaining foreign operations are translated using the current rate method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenue and expense items (including depreciation and amortization) are translated at the average rate prevailing during the year. Exchange gains and losses on foreign currency transactions and foreign currency denominated balances are included in the statement of operations in the current year.

f) Asset Retirement Obligations

The Company's mineral exploration and development activities are subject to various New Zealand laws and regulations regarding protection of the environment. As a result of these, the Company is expected in the future to incur expenses from time to time to discharge its obligations under these laws and regulations. Certain of these expenses will meet the definition of an asset and other expenses will not meet this definition. The assets will be capitalized and the other costs will be expensed as incurred.

GLASS EARTH LIMITED
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Notes to Financial Statements
May 31, 2005

4. Summary of Significant Accounting Policies (cont'd)

f) Asset Retirement Obligations (cont'd)

When estimating the costs which are expected to be incurred there are many factors to be considered such as the extended period over which the costs are to be incurred, the discount factors and significant judgments and estimates. As such the fair value of the retirement obligations could change materially from year to year. In addition, changes in laws and regulations could cause significant changes in the expected costs and the related fair value.

The Company does not presently have any asset retirement obligations.

g) Income Taxes

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that the realization of such benefits is more likely than not.

h) Stock-based Compensation

During the year, the Company approved a stock option plan. Under the plan, stock based compensation awards will be available to management, directors, employees and non-employees. The Company applies the fair value method of accounting for stock based compensation. This method consists of recording expenses to earnings based on the vesting period of the options granted. The fair value is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any consideration paid is credited to capital stock.

The Company did not grant any stock options during the year.

i) Loss Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share.

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)

 Notes to Financial Statements
 May 31, 2005

4. Summary of Significant Accounting Policies (cont'd)

j) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates.

5. Mineral Interests

	2005	2004
Direct - Mineral Exploration Costs		
Balance - beginning of year	<u>\$ 686,000</u>	<u>\$ -</u>
Coromandel/Central Volcanic Region Project		
Airborne Surveys	914,000	-
Travel and transportation	-	27,000
Geological consulting, mapping and modelling	121,000	646,000
License rentals	<u>22,000</u>	<u>13,000</u>
Cost for the year	<u>1,057,000</u>	686,000
Balance - end of year	<u>\$ 1,743,000</u>	<u>\$ 686,000</u>

- a) The Company has carried out prospecting and exploration for gold and silver in the CCVR of the North Island of New Zealand, since its incorporation in September 2002. The Company owned 100% of Prospecting Permits 39-241 and 39-282 covering approximately 9,000 square kilometers of the CCVR.
- b) The Company has not incurred any acquisition costs in relation to exploration interests.
- c) The Company's exploration activities are carried out solely in New Zealand.

GLASS EARTH LIMITED
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 Notes to Financial Statements
 May 31, 2005

6. Property and Equipment

	2005		2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer	\$ 7,422	\$ 3,645	\$ 7,422	\$ -
Office furniture and equipment	1,680	26	-	-
	<u>\$ 9,102</u>	<u>\$ 3,671</u>	<u>\$ 7,422</u>	<u>\$ -</u>
Net carrying amount		<u>\$ 5,431</u>		<u>\$ 7,422</u>

7. Shareholders' Equity

a) Share Capital

Authorized:

Unlimited number of common shares with no par value

Issued and Outstanding

	Number of Common Shares	Amount
Outstanding, May 31, 2003	7,149,914	\$ 1,965,203
Share issue costs	-	<u>(628,454)</u>
Outstanding, May 31, 2004	7,149,914	1,336,749
Issued pursuant to acquisition of GENZL in RTO (b)	36,000,720	737,145
Adjustment to eliminate stated amount of share capital and accumulated deficit of GEL (legal parent) as a result of the RTO	-	(1,400,749)
Issued pursuant to private placement (c)	14,087,000	2,394,790
Share issue costs	-	<u>(63,000)</u>
Outstanding, May 31, 2005	<u>57,237,634</u>	<u>\$ 3,004,935</u>

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)

Notes to Financial Statements

May 31, 2005

7. Shareholders' Equity (cont'd)

- b) On March 31, 2005, the Company issued 36,000,720 common shares in consideration for the acquisition of all the issued and outstanding shares in GENZL (note 3).
- c) On March 31, 2005, 14,087,000 common shares were issued for 20 cents per Unit, each Unit consisting of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of 35 cents per share for a period of two years following the date of issue of the Units.
- d) Common shares have been reserved for warrant options on the following basis:
 7,043,500 exercisable at 35 cents up to March 31, 2007.
- e) As at the balance sheet date and pursuant to an escrow agreement, the following holdings and escrow provisions pertained to the common shares issued on March 31, 2005:
- i. Private placements of 14,087,000 shares having a 4 month hold provision expiring July 31, 2005
 - ii. 36,000,720 common shares issued to purchase GENZL, on March 31, 2005, with an initial 10% hold provision of 4 months.

Pursuant to the escrow agreements with the Toronto Venture Stock Exchange, a further 15% of escrowed shares is released every 6 months after October 6, 2005.

f) Warrants

The Company's movements in share purchase warrants is as follows:

	Numbers of Warrants	Weighted Average Exercise Price	Fair Value
Balance, May 31, 2004	-	\$ -	\$ -
Issued pursuant to private placement (c)	7,043,500	0.35	422,610
Balance, May 31, 2005	<u>7,043,500</u>	<u>\$ 0.35</u>	<u>\$ 422,610</u>

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
May 31, 2005

7. Shareholders' Equity (cont'd)

f) Warrants (cont'd)

The fair value of each warrant was determined on the date of grant using the Black-Scholes option pricing model, based on the following assumptions:

Risk-free interest rate	2.7%
Expected life	2 years
Expected volatility	80%
Expected dividends	-

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing model does not necessarily provide a reliable measure of the fair value of the Company's warrants at date of grant.

8. Related Party Transactions

- a) In November 2003, GENZL entered into a Management Services Agreement with Ian R Brown Associates Ltd ("IRBA") (a company owned by Mr. I. R. Brown, a director and former shareholder of GENZL).

The agreement set out the terms for the provision of technical and other services to GENZL.

Total services provided during the period, under this contract, amounted to \$192,910 (2004 : \$211,189).

On June 30, 2005, the Management Services Agreement was terminated and replaced with a consultant agreement.

The outstanding balance owing to IRBA at year end totalled \$7,368 (2004 : \$21,988).

- b) During the period Mr. I. R. Brown provided administrative and technical services to GENZL, for which he received \$24,100 (2004 : \$8,611). There was no outstanding amount at year end (2004 : \$8,611).

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
May 31, 2005

8. Related Party Transactions (cont'd)

- c) During the period to March 31, 2005, Mr. P. Liddle (a director and former shareholder of GENZL) provided accounting and secretarial services to GENZL, for which he charged \$50,092. (2004 : \$17,212) There was no outstanding amount at year end (2004 : \$8,611).

For the months of April and May 2005, Hussey & Associates Limited (a chartered accounting firm in New Zealand with which Mr. Liddle has a consulting arrangement) charged total fees of \$26,014.

- d) On April 1, 2005, Mr. Henderson (a director and former shareholder of GENZL) became an employee of GENZL. A formal employment contract has not been agreed as yet with Mr Henderson, although the key terms of his employment are expected to be a salary of \$130,000 per annum together with a termination/redundancy provision equivalent to 24 months salary. Mr. Henderson has received \$18,558 for the two months of April and May 2005.
- e) In February 2005, GENZL arranged bridging finance with RAB Special Situations LP (then a shareholder of GENZL) and Silverbridge Capital Inc. (a shareholder of BC Report Magazine Ltd.) to provide funding for deposits to secure the mobilisation of the airborne geophysics contractors. A Convertible Loan Agreement was executed to secure funding of up to AUD600,000, of which AUD200,000 and CAD90,000 were drawn down. Both amounts were repaid in April 2005, subsequent to the RTO of BC Report Magazine Ltd. Although the Convertible Loan Agreement provided for interest at the rate of 12% per annum for interest periods (of 30 days) commencing on or before March 31, 2005 and 24% per annum for interest periods thereafter, neither lending party charged interest (which would have aggregated to approximately \$5,000) and the Convertible Loan Agreement was terminated upon the repayment of the drawn down loans.
- f) In April 2005, the Company loaned \$2,224,896 to GENZL to fund its exploration activities. The loan is non-interest bearing and cannot be called prior to November 30, 2006.
- g) During the year management fees of \$5,500 were paid or accrued to a company controlled by a director. All outstanding amounts, except for item f) are expected to be repaid with the next year and have been classified as current liabilities in these financial statements.

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
 Notes to Financial Statements
 May 31, 2005

9. Financial Instruments

a) Credit Risk and Concentrations of Credit Risk

Financial Instruments which potentially subject the Company to credit risk consist of short term securities and cash deposits.

The Company has no reason to believe credit loss will arise from any of the above financial instruments. The maximum amount of loss which may possibly be realised is the carrying value of the financial instrument.

b) Fair Values

The carrying amount of short term securities, cash deposits, accounts receivable, loans and payable approximate fair value due to the short maturity of these instruments. Adequate provision is held in respect of accounts receivable.

10. Segmented Information

	2005	2004
Operating (Loss) by Segment:		
Glass Earth Limited	\$ (320)	\$ -
Glass Earth (New Zealand) Limited	<u>(271)</u>	<u>(44)</u>
Consolidated Operating Loss	<u>\$ (591)</u>	<u>\$ (44)</u>
Assets by Segment:		
Glass Earth Limited	\$ 243	\$ -
Glass Earth (New Zealand) Limited	<u>2,884</u>	<u>722</u>
Consolidated Gross Assets	<u>\$ 3,127</u>	<u>\$ 722</u>
Total Liabilities by Segment:		
Glass Earth Limited	\$ 99	\$ -
Glass Earth (New Zealand) Limited	<u>244</u>	<u>71</u>
Consolidated Total Liabilities	<u>\$ 343</u>	<u>\$ 71</u>

Geographical information is not presented as the operations of Glass Earth Limited occur in Canada and the operations of Glass Earth (New Zealand) Limited occur in New Zealand.

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)
 Notes to Financial Statements
 May 31, 2005

11. Income Taxes

The Company accounts for income taxes using the asset and liability method. Tax asset and liability account balances are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rate. The effects of future changes in tax losses are not anticipated.

The provision for income taxes has been computed as follows:

	2005	2004
Expected income tax recovery at the statutory rate of 34.56% (2004: 34.56%)	\$ (199)	\$ (15)
Valuation allowance	<u>199</u>	<u>15</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

The components of future income taxes are as follows:

	2005	2004
Future income tax assets		
Net operating loss carried forward - Glass Earth Limited	\$ 133	\$ -
Net operating loss carried forward - Glass Earth (New Zealand) Limited	399	59
Valuation allowance	<u>(532)</u>	<u>(59)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has tax losses available to be applied against future year's income. In order to record a future income tax benefit, it must be more likely than that the future tax asset resulting from the tax losses available for carryforward will be realized. Given the Company's classification as a development stage company and future uncertainty regarding profitability, it is appropriate to set up a 100% valuation allowance in respect of the future income tax asset.

GLASS EARTH LIMITED
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 Notes to Financial Statements
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12. Commitments and Contingencies

- a) The Company had capital expenditure commitments as at May 31, 2005 of \$854,932 (2004 : Nil) representing the balance of work to be undertaken in relation to two airborne geophysics contracts. As at May 31, 2005, \$192,370 of this commitment is included in accounts payable.
- b) GENZL has granted a 2% production royalty to Geoinformatics Exploration Ireland Ltd in respect of any production achieved from the Company's interests on targets identified and placed in the Target Bank, as a result of the Intervention Project over the CCVR.
- c) The contingent royalty obligations on geothermal energy production have been assumed by GEX Limited (a company associated with the former shareholders of GENZL) as a result of the sale of geothermal targets and potential to GEX Limited by GENZL, in return for an identical 0.5% geothermal production royalty. This transfer is subject to ratification by Geoinformatics Exploration Ireland Ltd.
- d) A Statement of Claim has been served on the Company by M Horn & Co. ("Horn") claiming a success fee of \$133,402 plus interest and legal costs in connection with some of the private placements of shares made contemporaneously with the RTO of the Company on March 31, 2005. The Company has filed a Statement of Defense in relation to this matter and it believes that the ultimate outcome of this action is indeterminable. A liability of \$28,402 is accrued as at May 31, 2005.
- e) Under the terms of non-cancellable operating leases, the Company is committed to rental payments as follows:

2006	\$	9,222
2007		9,222
2008		9,222
2009		<u>3,075</u>
	\$	<u>30,741</u>

13. Comparative Figures

Where necessary, certain comparative figures have been reclassified to conform to the presentation adopted in the current year.