

GLASS EARTH LIMITED
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2006 AND 2005

(Stated in Canadian Dollars)

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AUDITORS' REPORT

To the Shareholders of
Glass Earth Limited

We have audited the consolidated balance sheets of **Glass Earth Limited** as at May 31, 2006 and 2005 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at May 31, 2006 and 2005 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"SF Partnership, LLP"

Toronto, Canada
September 25, 2006

CHARTERED ACCOUNTANTS

GLASS EARTH LIMITED
(A Development Stage Company)
Consolidated Balance Sheets
(in thousands of Canadian Dollars)

As at	2006	2005
	\$	\$
ASSETS		
Current Assets		
Cash and equivalents	1,403	1,359
Amounts receivable	82	20
Advances and prepaid expenses	10	-
	<u>1,495</u>	<u>1,379</u>
Mineral Properties (Note 5)	5,048	1,743
Property and Equipment (Note 6)	113	5
	<u>5,161</u>	<u>1,748</u>
	<u><u>6,656</u></u>	<u><u>3,127</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	246	46
Accrued liabilities	122	297
	<u>368</u>	<u>343</u>
Commitments and Contingencies (Note 12)		
SHAREHOLDERS' EQUITY		
Common Shares (Note 7(a))	6,618	3,004
Share Purchase Warrants (Note 7(b))	1,156	423
Contributed Surplus (Note 7(c))	464	-
Deficit Accumulated through Development Stage	(1,950)	(643)
	<u>6,288</u>	<u>2,784</u>
	<u><u>6,656</u></u>	<u><u>3,127</u></u>

APPROVED ON BEHALF OF THE BOARD

"signed" Glenn Laing
Glenn Laing, Director

"signed" Peter Liddle
Peter Liddle, Director

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

GLASS EARTH LIMITED
(A Development Stage Company)
Consolidated Statements of Operations and Deficit
(in thousands of Canadian Dollars, except per share amounts)
For the years ended May 31

	2006 \$	2005 \$
Revenue	-	-
Expenses		
Amortization	8	2
Consultancy fees	42	8
Financing fees	44	21
General and administration	341	298
Professional fees	200	170
Registry and filing	25	47
Salaries	114	22
Stock-based compensation (Note 7(c))	464	-
Travel and accommodation	75	23
	<u>1,313</u>	<u>591</u>
Loss for the year before the undernoted	<u>(1,313)</u>	<u>(591)</u>
Interest Income	6	-
Loss before Income Taxes	<u>(1,307)</u>	<u>(591)</u>
Provision for income taxes	-	-
Net Loss for the year	<u>(1,307)</u>	<u>(591)</u>
Deficit - beginning of year	<u>(643)</u>	<u>(52)</u>
Deficit - end of year	<u>(1,950)</u>	<u>(643)</u>
Loss per Share - Basic and Fully Diluted	(0.02)	(0.01)
Weighted average number of basic and fully diluted common shares outstanding during the year	61,655,620	39,540,206

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

GLASS EARTH LIMITED
(A Development Stage Company)
Consolidated Statements of Cash Flows
(in thousands of Canadian Dollars)
For the years ended May 31

	2006	2005
	\$	\$
Cash Provided by (used in) :		
Operating Activities		
Net loss for the year	(1,307)	(591)
Adjustments for non-cash items:		
Amortization	8	2
Stock-based compensation (Note 7(c))	464	-
Changes in non-cash working capital items:		
Amounts receivable	(62)	(15)
Advances and prepaid expenses	(10)	-
Accounts payable	200	46
Accrued liabilities	(175)	226
Net cash used in Operating Activities	(882)	(332)
Financing Activities		
Issuance of common shares, for cash	2,500	2,788
Share issue costs	(53)	(64)
Net cash provided from Financing Activities	2,447	2,724
Investing Activities		
Expenditures on mineral properties	(1,405)	(1,057)
Acquisition of property and equipment	(116)	-
Net cash used in Investing Activities	(1,521)	(1,057)
Net increase in cash and equivalents	44	1,335
Cash and equivalents - beginning of year	1,359	24
Cash and equivalents - end of year	1,403	1,359

Supplemental information

Issuance of common shares in acquisition of HPD (Note 3) 1,900 -
On March 30, 2005, the Company issued 36,000,720 common shares for no cash consideration (Note 3).
During the year the Company had no cash flows arising from interest or income taxes paid.

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

GLASS EARTH LIMITED
(A Development Stage Company)
Notes to Consolidated Financial Statements
(Tabular amounts in thousands of Canadian dollars)
Years ended May 31, 2006 and 2005

1. Nature of Operations and Basis of Presentation

Glass Earth Limited (formerly known as BC Report Magazine Ltd.) (the "Company"), through its wholly owned legal subsidiary Glass Earth (New Zealand) Limited (formerly Glass Earth Limited) ("GENZL"), is engaged in the acquisition and exploration of mineral properties. To date, the Company has not earned revenues and is considered to be in the development stage.

The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the ability of the Company to raise additional financing, the preservation of its interest in the underlying properties, the discovery of commercially recoverable reserves, the achievement of profitable operations, and/or the Company's ability to dispose of its interest on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

2. Going Concern

These consolidated financial statements have been prepared in accordance with 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. 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.

As at May 31, 2006, the Company had a net loss of \$1,307,000 (2005: \$591,000) and accumulated deficit of \$1,950,000 (2005: \$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, the discovery, development or sale of mining reserves and achievement of profitable operations. The Company is planning to meet its future expenditures and obligations by raising funds through public offerings, private placements or by farm-outs of mineral properties. It is not possible to predict whether these efforts will be successful or whether the Company will attain profitable levels of operation.

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3. GENZL Reverse Takeover and Acquisition of HPD New Zealand Limited

On March 30, 2005, the Company completed the acquisition of all the outstanding common shares of 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.

The transaction constituted a Reverse Take-Over (the "RTO") of the Company by GENZL under the policies of the TSX Venture Exchange (the "Exchange"). 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.

Further to the RTO transaction described above, these consolidated financial statements for the years ended May 31, 2006 and 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).

On March 31, 2006, the Company completed the acquisition of all the outstanding common shares of HPD New Zealand Limited ("HPD"), in exchange for common shares of the Company. Pursuant to the terms of the Share Exchange Agreement entered into with HPD and its shareholders, the Company issued 12,665,000 common shares and 6,332,500 share warrants (with a strike price of 25 cents each for a period of 2 years) to acquire 100% of the outstanding common shares of HPD.

HPD has a total of 22 Exploration and Prospecting Permits covering over 4,724 square kilometres over both the North and South Islands of New Zealand (being epithermal and mesothermal gold targets in each respective island). The purchase price was allocated to the mineral properties (see Note 5 (c)).

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4. Significant Accounting Policies

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

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries GENZL and HPD, as described in Note 3. HPD is consolidated under the purchase method. All significant inter-company transactions and balances have been eliminated.

b) Mineral Properties

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. Costs include the cash consideration paid and the fair market value of the shares issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations. The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic, or at least annual, basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. 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.

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c) Cash and Equivalents

Cash and equivalents 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) Property and Equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is provided on a straight line basis over their estimated useful lives at the following rates:

Computer Equipment	36%
Motor Vehicles	18%
Office Furniture & Equipment	10%

e) Foreign Currency Translation

The Canadian dollar is the functional currency of the Company and its subsidiaries. The Company considers its New Zealand operations to be integrated operations. As such, monetary assets and liabilities of the Company's foreign operations denominated in a currency other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at the average exchange rates prevailing during the year, with the exception of depreciation and amortization which is translated at historical rates. Exchange gains and losses on translation are included in the Consolidated Statements of Operations.

f) Long-Lived Asset Impairment

The Company reviews its long-lived assets for impairment whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of along-lived asset compared to the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

g) 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 to incur expenses from time to time to discharge its obligations under these laws and regulations.

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Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory and operating license requirements and measured at fair value. Fair value is determined based on the net present value of future cash expenditures expected upon reclamation and closure and subsequent annual recognition of an accretion amount on the discounted liability. Reclamation and closure costs are capitalized as mine development costs and amortized over the life of the mine on a unit-of-production basis. The Company does not currently have any legal obligations relating to the reclamation of its mineral properties.

h) Income Taxes

The Company accounts for and measures the future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

i) Stock-based Compensation

The Company's shareholders have approved a stock option plan. Under the plan, stock based compensation awards will be available to officers, directors, employees and non-employees. All stock-based payments made to non-employees and employees have been accounted for using a fair value-based method of accounting. The fair value of each stock option is accounted for in operations, over the vesting period thereof, and the related credit is included in contributed surplus. If and when the stock options are ultimately exercised and are issued, the applicable units of additional paid-in capital and contributed surplus will be transferred to share capital. 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.

The Company's stock-based compensation plan is described in Note 7(c).

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j) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. Stock options and share purchase warrants outstanding were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

k) Use of Estimates

The preparation of consolidated 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, the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. The Company regularly reviews these estimates and assumptions that affect the consolidated financial statements and actual results could differ from those estimates.

Significant areas where management judgment is applied are asset valuations, the recoverability of exploration and development expenditures on mineral properties, asset retirement obligations, the valuation of warrants and tax accounts, stock-based compensation and contingent liabilities. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in the consolidated financial statements.

l) Common Shares

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares.

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5. Mineral Properties

	2006	2005
	\$	\$
Balance - beginning of year	1,743	686
Expenditure on Projects		
Airborne Surveys	700	914
Geological consulting, mapping and modeling	268	121
License rentals	41	22
Resistivity surveys	185	-
Drilling	<u>72</u>	<u>-</u>
Total Project Expenditure for the year	1,266	1,057
Acquisition of HPD New Zealand Limited	2,039	-
Balance - end of year	<u>5,048</u>	<u>1,743</u>

- a) The Company has carried out prospecting and exploration for gold and silver in the Coromandel/Central Volcanic Region ("CCVR") of the North Island of New Zealand since September 2002. As at May 31, 2005, the Company's permit portfolio consisted of 100% of Prospecting Permits ("PP") 39-241 and 39-282, covering approximately 9,000 square kilometers of the CCVR.

In December 2005, the Company was granted six Exploration Permits ("EP") excised from Prospecting Permit 39-241. Accumulated exploration expenditures to that date have been reallocated to the individual EPs on the basis of the number of anomalous targets in each EP. A portion of accumulated exploration costs remain in Prospecting Permits 39-241 and 39-282 representing the less advanced anomalous targets contained therein.

- b) On March 31, 2006 the Company acquired HPD New Zealand Limited. HPD had a total of 22 Exploration and Prospecting Permits covering over 4,724 square kilometers over both the North and South Islands of New Zealand (being epithermal and mesothermal gold targets in each respective island).

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Notes to Consolidated Financial Statements

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- c) The Company's exploration activities are carried out solely in New Zealand and have been divided into five projects. Expenditures made on account of mineral properties by the Company were as follows:-

Project	Opening Balance \$	Re-allocation as at December 31, 2005 \$	Expenditures to May 31, 2006 \$	Acquisition of HPD \$	Closing Balance \$
Central Volcanic Region	1,743	486	490	-	2,719
Mamaku-Muir's Region	-	184	6	204	394
Hauraki Region	-	-	-	1,631	1,631
Otago Region	-	-	-	204	204
Waihi West Joint Venture	-	93	7	-	100
	<u>1,743</u>	<u>763</u>	<u>503</u>	<u>2,039</u>	<u>5,048</u>

The New Zealand Crown Minerals Act 1991 provides for three types of permit: prospecting, exploration and mining.

PP's allow for less intensive work programmes and are granted for a period of up to two years with a right of renewal for up to an additional two years.

The holder of a PP may apply for an EP, which allows for higher impact work programmes. EPs are granted for a duration of five years with a right of renewal for another five years, for up to one half of the area covered by the original exploration permit.

The holder of an EP may apply for a mining permit ("MP"), which allows for mineral extraction. The duration of a MP may be as long as 40 years, but is typically less than 20 years.

Glass Earth currently holds 100% of each of its permits, which provide for exclusive rights to explore for gold and silver. From March 31, 2006, the Waihi West project (EP 40 767) is subject to a farm-in, whereby up to 80% may be earned by the incoming party upon expending NZ\$1.5 million (approximately \$1.1 million), preparation of a feasibility study and arranging of development finance.

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6. Property and Equipment

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Computer Equipment	65	12	53	7	4	3
Motor Vehicles	50	1	49	-	-	-
Office furniture and equipment	11	-	11	2	-	2
	<u>126</u>	<u>13</u>	<u>113</u>	<u>9</u>	<u>4</u>	<u>5</u>

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7. Shareholders' Equity

a) Common Shares

Authorized:

Unlimited number of common shares with no par value.

Issued and Outstanding:

	Number of Common Shares	Amount \$
Outstanding May 31, 2004	7,149,914	703
Issued pursuant to acquisition of GENZL in RTO (i)	36,000,720	(30)
Issued pursuant to private placement (ii)	14,087,000	2,817
Share Purchase Warrant Valuation	-	(423)
Share issue costs	-	(63)
Outstanding May 31, 2005	<u>57,237,634</u>	<u>3,004</u>
Issued pursuant to private placement (iii)	3,333,333	500
Issued pursuant to private placement (iv)	3,333,333	500
Issued pursuant to acquisition of HPD (v)	12,665,000	1,900
Issued pursuant to private placement (vi)	3,333,333	500
Issued pursuant to private placement (vii)	-	1,000
Share Purchase Warrant Valuation	-	(733)
Share issue costs	-	(53)
Outstanding May 31, 2006	<u><u>79,902,633</u></u>	<u><u>6,618</u></u>

GLASS EARTH LIMITED

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Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars)

Years ended May 31, 2006 and 2005

- (i) On March 30, 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).
- (ii) 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.
- (iii) On January 13, 2006, 3,333,333 common shares were issued for 15 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 25 cents per share for a period of two years following the date of issue of the Units.
- (iv) On March 30, 2006, 3,333,333 common shares were issued for 15 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 25 cents per share for a period of two years following the date of issue of the Units.
- (v) On March 31, 2006, the Company issued 12,665,000 common shares and 6,332,500 share purchase warrants in consideration for the acquisition of all the issued and outstanding shares in HPD (Note 3). Each whole warrant entitles the holder to purchase one additional common share at a price of 25 cents per share for a period of two years following the date of issue of the Units.
- (vi) On April 19, 2006, 3,333,333 common shares were issued for 15 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 25 cents per share for a period of two years following the date of issue of the Units.
- (vii) On May 26, 2006, funds were received for 6,666,666 units to be issued at 15 cents per Unit, each Unit to consist of one common share and one half of one share purchase warrant. Each whole warrant to entitle the holder to purchase one additional common share at a price of 25 cents per share for a period of two years following the date of issue of the Units. The common shares were issued on June 6, 2006.

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(viii) Common shares have been reserved for warrant options on the following basis:

- 7,043,500 exercisable at 35 cents up to March 31, 2007.
- 1,666,666 exercisable at 25 cents up to January 13, 2008.
- 1,666,667 exercisable at 25 cents up to March 30, 2008.
- 6,332,500 exercisable at 25 cents up to March 31, 2008.
- 1,666,666 exercisable at 25 cents up to April 19, 2008.
- 3,333,333 exercisable at 25 cents up to June 6, 2008.

(ix) As at the balance sheet date, and pursuant to escrow agreements, with the TSX Venture Exchange the following holdings are the subject of escrow provisions;

- the 36,000,720 common shares issued to purchase GENZL, on March 31, 2005, with an initial 10% released immediately subject to a hold provision of 4 months. A further 15% was released on October 6, 2005 and will be released every 6 months thereafter.
- 5,018,000 common shares held as of the date of the purchase of GENZL by a control party, with an initial 10% released immediately subject to a hold provision of 4 months. A further 15% was released on October 6, 2005 and will be released every 6 months thereafter.

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(Tabular amounts in thousands of Canadian dollars, except per share amounts)

Years ended May 31, 2006 and 2005

b) Share Purchase Warrants

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

	Number of Warrants #	Weighted Average Exercise Price \$ per share	Fair Value \$
Balance May 31, 2005	7,043,500	0.35	423
Granted January 13, 2006	1,666,666	0.25	83
Granted March 30, 2006	1,666,667	0.25	83
Granted March 31, 2006	6,332,500	0.25	317
Granted April 19, 2006	1,666,666	0.25	83
Granted May 26, 2006	3,333,333	0.25	167
Exercised	-	-	-
Cancelled/Expired	-	-	-
Balance May 31, 2006	21,709,332	0.28	1,156

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:

	<u>All 2006 grants</u>	<u>March 2005</u>
Risk-free interest rate	4.00%	2.70%
Expected life	2 years	2 years
Expected volatility	89%	80%
Expected dividends	-	-

Option pricing models require the input of highly subjective assumptions. 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.

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c) Stock-Based Compensation

The Company may grant incentive stock options to its officers, directors, employees and consultants, for the purchase of shares of the Company. Stock options are non-transferable. The Board of Directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of five years and terminate 90 days after the termination of employment or other contracting arrangement of the option holder. Vesting of options may be at the time of granting of the option or over a period as set out in each option agreement. Once approved and vested, options are exercisable at any time until expiry or termination as above.

For the year ended May 31, 2006, \$464,000 was recorded as compensation expense and added to Contributed Surplus in the Shareholders' Equity on the Balance Sheet for stock options granted during the period. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 4% per annum, expected volatility of 89%, expected dividend rate of nil and an expected life of 2.5 years. The exercise price of all share purchase options granted was greater than the market price at the grant date. As no options were granted or vested during the year to May 31, 2005 there was no stock-based compensation expense for the year ended May 31, 2005.

The following stock options were outstanding at May 31, 2006:

	Number of Stock Options #	Weighted Average Exercise Price \$ per share
Balance - May 31, 2005	-	-
Granted	6,000,000	0.15
Exercised	-	-
Cancelled/Expired	250,000	0.15
Outstanding - May 31, 2006	<u>5,750,000</u>	<u>0.15</u>
Exercisable - May 31, 2006	<u>5,750,000</u>	<u>0.15</u>

The weighted average remaining contractual life of the options is four years and nine months as of May 31, 2006.

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8. Related Party Transactions

Related party transactions are in the normal course of business and are measured at the exchange amount, which is the fair value as agreed between management and the related parties.

- 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 former director and former shareholder of GENZL). The agreement set out the terms for the provision of administrative, technical and other services to GENZL. On June 30, 2005, the Management Services Agreement was terminated and replaced with a consultant agreement. Total services provided during the year, under these contracts, amounted to \$23,845 (2005: \$217,010). The outstanding balance owing to IRBA at year end totaled \$977 (2005: \$7,368).
- b) On May 15 2006, Mr. P. Liddle (a director and former shareholder of GENZL) became an employee of GENZL and received \$5,050 for the year. (2005: Nil). Mr. Liddle did not directly provide accounting and secretarial services to GENZL during the year (2005: \$50,092). There was no outstanding amount at year end (2005: Nil). For the year, Hussey & Associates Limited (a chartered accounting firm in New Zealand with which Mr. Liddle had a consulting arrangement) charged total fees of \$131,752 (2005: \$26,014).
- c) On April 1, 2005, Mr. Henderson (a director and former shareholder of GENZL) became an employee of GENZL, and has received \$133,132 for the year (2005: \$18,558).
- d) During the year management fees of \$33,000 were paid to a company owned by the Hughnie Laing Trust, whose sole beneficiary is the wife of a director.
- e) During the year, \$9,000 was advanced to St George Minerals, a company (which has a common director of the Company) that provides office and related facilities in Toronto, and remains outstanding at the period end (2005: Nil). At May 31, 2006, \$7,000 was due to St George Minerals for rental and related facilities.
- f) At May 31, 2006, Misape Management Inc., a company which has a common director of the Company, was due \$27,000 as reimbursement for costs incurred on behalf of the Company.

All outstanding amounts are expected to be repaid within the next year and have been classified as current liabilities in these financial statements.

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9. Financial Instruments

a) Interest Rate and Currency Risk

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate or currency risks arising from the financial instruments.

b) Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist of cash and equivalents and amounts receivable.

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 realized is the carrying value of the financial instruments.

c) Fair Values

The carrying amount of the financial instruments approximates fair value due to the short maturity of these instruments. Adequate provision is held in respect of amounts receivable.

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10. Segmented Information

	2006	2005
	\$	\$
Operating (Loss) by segment:		
Glass Earth Limited	(915)	(320)
Glass Earth (New Zealand) Limited	(342)	(271)
HPD New Zealand Limited	(50)	-
Consolidated Operating Loss	(1,307)	(591)
Assets by Segment:		
Glass Earth Limited	1,113	243
Glass Earth (New Zealand) Limited	3,454	2,884
HPD New Zealand Limited	2,089	-
Consolidated Total Assets	6,656	3,127
Total Liabilities by Segment:		
Glass Earth Limited	146	99
Glass Earth (New Zealand) Limited	169	244
HPD New Zealand Limited	53	-
Consolidated Total Liabilities	368	343

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11. Income Taxes

The provision for income taxes has been computed as follows:

	2006 \$	2005 \$
Loss for the year	<u>(1,307)</u>	<u>(591)</u>
Expected income tax recovery at the statutory rate of 35.18% (Canada: 36.12%; New Zealand: 33%) (2005: 34.69%)	(460)	(205)
Stock-based compensation	168	-
Unrealized foreign exchange gain	(104)	-
Finance charges	(4)	(1)
Other	9	(8)
Unutilized loss carry forwards acquired by GENZL	-	(287)
Change in valuation allowance	391	501
Provision for income taxes	<u>-</u>	<u>-</u>

The significant components of future income taxes are as follows:

Net operating loss carried forward - Glass Earth Limited	515	347
Net operating loss carried forward - GENZL	420	213
Net operating loss carried forward - HPD	16	-
Valuation allowance	<u>(951)</u>	<u>(560)</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 not that the future tax asset resulting from the tax losses available for carry forward 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.

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12. Commitments and Contingencies

- a) The Company had no capital expenditure commitments as at May 31, 2006 (2005: \$854,932 of which \$192,370 had been included in accounts payable at that time).
- 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 Glass Earth Geothermal Limited (formerly named GEX Limited) 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. Glass Earth Geothermal Limited is a wholly owned subsidiary of the Company.
- d) Under the terms of non-cancelable operating leases, the Company is committed to rental payments as follows:

2007	\$35,383
2008	\$35,383
2009	<u>\$21,265</u>
	<u>\$92,031</u>

13. Subsequent Events

- a) Private Share Placements

In June 2006, the Company raised \$500,000 by issuing a further 3,333,333 common shares and 1,666,667 share purchase warrants exercisable at \$0.25 per share for up to two years.

- b) Stock Options

In June 2006, the board of directors of the Company granted a total of 3,240,000 stock options to directors, officers and employees. The options are exercisable at a price of \$0.155 per share for a period of five years. All options vested immediately.

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c) Financing and Secondary Listing on the New Zealand Stock Exchange

On August 29, 2006, the Company announced that it was planning a New Zealand Dollar 10 million (approximate \$7 million) financing and its intention to seek a secondary listing of its common shares as an Overseas Listed Issuer on the New Zealand Exchange's Alternative Exchange (NZAX). St Andrew Goldfields Limited, a major shareholder of Glass Earth, has agreed to subscribe for its (48.3%) pro-rata share of the financing.

The financing will consist of units, each unit comprising one common share and one half purchase warrant, each whole purchase warrant entitling the holder to subscribe for one common share. The proceeds from the financing will be used to fund the Company's ongoing exploration, appraisal and development programs for gold and silver, in New Zealand and for general working capital.

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.