

GLASS EARTH LIMITED

For the year ended May 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All amounts stated in Canadian dollars, unless otherwise indicated)

This annual report, including the consolidated financial statements and this MD&A contains certain "Forward-Looking Statements", which are prospective and reflect management's expectations regarding Glass Earth Limited's ("Glass Earth") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding potential mineralization and reserves, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, exploration results and future plans and objectives of Glass Earth are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Glass Earth's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Glass Earth undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

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INTRODUCTION

This discussion and analysis of the operating results and financial condition of Glass Earth Limited (formerly known as BC Report Magazine Ltd.) (“**Glass Earth**”, or the “**Company**”) for the year ended May 31, 2006 should be read in conjunction with the audited consolidated financial statements and related notes for the same period, and is intended to provide the reader with a review of the factors that affected the Company’s performance during the year ended May 31, 2006 and the factors reasonably expected to impact future operations and results.

The audited consolidated financial statements and related notes of Glass Earth have been prepared in accordance with accounting principles generally accepted in Canada (“**Canadian GAAP**”) and are expressed in Canadian dollars. All amounts in this report are in Canadian dollars, except where otherwise indicated.

The Glass Earth exploration programs are carried out under the supervision of Glass Earth's Vice President, Exploration and Chief Operating Officer, Mr. Simon Henderson, M.Sc, M.AUSIMM. Mr. Henderson meets the qualified person requirements (as defined by National Instrument 43-101) with more than 30 years of experience in the gold mining and exploration industry and is responsible for the geoscientific and technical disclosure contained in this document.

CORPORATE HISTORY AND NATURE OF THE BUSINESS

Glass Earth was incorporated under the *Business Corporations Act* (British Columbia) on March 23, 1989, under the name "362293 B.C. Ltd.". On August 30, 1989, the Company changed its name to BC Report Magazine Ltd., and on March 30, 2005 to Glass Earth Limited concurrently with the completion of a Reverse Takeover ("**RTO**") of the Company by Glass Earth (New Zealand) Limited ("**GENZL**").

On March 30, 2005, the Company completed the acquisition of all the outstanding common shares of Glass Earth (New Zealand) Limited (formerly Glass Earth Limited), 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 RTO of the Company by GENZL under the policies of the TSX Venture Exchange (the "Exchange"). 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 RTO 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. The 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 RTO and the consolidated assets, liabilities and results of operations of the Company and GENZL subsequent to the RTO. 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 purchase 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 had 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 Company's common shares were re-listed on the TSX Venture Exchange in early April 2005 under the symbol "**GEL**". The Company is classified as a mining exploration / development company by the TSX Venture Exchange. Glass Earth was registered in New Zealand as an overseas company under Part 18 of the Companies Act on June 7, 2006.

The principal activity of Glass Earth is exploration for gold and silver in New Zealand. As at May 31, 2006, Glass Earth held the largest portfolio of gold and silver focused prospecting and exploration permits in New Zealand (31,610 square kilometres), including the following key territorial assets:

Hauraki Region

Fifteen (15) advanced gold prospects, in a region that hosts the world class epithermal gold deposit at Martha gold mine.

Mamaku-Muir's Region

Seventeen (17) new gold targets, including the Muir's-reef prospect that has historically produced 43,000 oz of gold.

Central Volcanic Region

Seventy four (74) epithermal gold targets identified, including 6 advanced drill-ready prospects.

Otago Region

Application for a 20,550 square kilometer permit for the next Glass Earth regional data collation / geophysical intervention and targeting project. Three (3) near drill-ready mesothermal gold prospects.

BOARD OF DIRECTORS AND MANAGEMENT

Directors of the Company:

Glenn Laing – Chairman, President and Chief Executive Officer

Mr. Laing holds a BSc Eng (Mining Geology) degree from the University of Witwatersrand, Johannesburg and an MSc (Mining Engineering) degree from Colorado School of Mines, USA. Mr. Laing has been involved in the natural resources and financial sectors for over 30 years. He is currently President and Chief Executive Officer of St. Andrew Goldfields Ltd, Jumbo Petroleum Corporation, Sanatana Diamonds Inc.; President of Silverbridge Capital Inc. and Prime Capital Finance (Pty) Limited and a Director of Luiiri Gold Limited. He has extensive experience in the mining and exploration industry which began in 1973 with over 25 years of underground and surface mining and exploration experience in South Africa, Europe, Central Asia and Canada. In the 1990s his experience extended to investment banking and financing to the mining and oil and gas sectors. Mr. Laing resides in Toronto, Canada.

Simon Henderson – Director, Vice President, Exploration and Chief Operating Officer

Mr. Henderson is a founding shareholder of Glass Earth (New Zealand) Limited and holds an MSc from the University of Tasmania, a BSc (Hon) from Victoria University and is a member of the AusIMM. He is a geologist with over 30 years of experience in the gold mining and exploration industry, including 18 years working for Otter Gold Mines Ltd / Mineral Resources (NZ) Ltd; the

last 7 years as exploration manager in the Tanami Desert (Australia). He has extensive experience over the Hauraki and Central Volcanic regions as well as extensive skills in a wide range of exploration activities and different mineral styles (epithermal, mesothermal, Archaean-Proterozoic vein gold). Mr. Henderson has particular experience in the merging and interpretation of geophysical, geochemical, and geological data to build models of potential resources and to develop the process to outline economic resources. Mr Henderson resides in Wellington, New Zealand.

Peter Liddle – Director, Vice President, Finance and Chief Financial Officer

Mr. Liddle is a founding shareholder of Glass Earth (New Zealand) Limited and, holds a B Comm. from Auckland University and is a chartered accountant. He has more than 30 years experience in the financial services industry, particularly in the mineral and petroleum exploration sectors in Australia and New Zealand. Prior to Mr. Liddle’s involvement with Glass Earth he had acted as Issuer Secretary for publicly listed companies in Australasia for 16 years. Mr. Liddle has significant commercial and accounting experience, including expertise in the area of company structures, amalgamations, partnership and joint venture agreements, financial investigations, valuations, and economic loss assessing. Mr. Liddle resides in Auckland, New Zealand.

John Dow – non executive Director

Mr. Dow holds a BSc (Hon) in Geology from Canterbury University and has 38 years experience as a successful greenfields explorer, exploration manager, and mining executive. He has worked in New Zealand, Antarctica, Southeast Asia, USA, and Latin America. His most recent executive appointment was as Chairman and Managing Director of Newmont Australia Ltd until his retirement in 2005. Mr. Dow is a non-Executive Director of Troy Resources NL, Director of the Australasian Institute of Mining and Metallurgy (“AusIMM”), the 2006 President of the Society of Economic Geologists (“SEG”), and Chairman of the Vision Waihi Trust. Mr. Dow resides in Nelson, New Zealand.

Richard Billingsley – non executive Director

Mr. Billingsley is a mineral explorationist who acquired extensive experience in geochemical sampling and geophysical field work early in his career. During the late 1990s Mr. Billingsley specialised in restructuring failed mining companies, and developed a sophisticated land management system for the province of British Columbia. Mr. Billingsley’s directorships include those of Heritage Explorations Ltd, Bomax Resources Ltd and Dolly Varden Resources Ltd. Mr. Billingsley resides in Surrey, British Columbia, Canada.

The following individuals joined the Company during the year:

Mr. Stephen Woodhead, (as Vice President, Finance in Toronto), is a member of the South African Institute of Chartered Accountants and has 16 years experience in the natural resource and public finance sectors. Previously, Mr. Woodhead worked as financial manager for Trans Hex Group Limited, a South African listed diamond producer, and relocated from South Africa to Canada in 1997 to establish and manage the Canadian corporate headquarters of Trans Hex International Ltd. (Toronto Stock Exchange). In May 2003, he was appointed as Chief Financial Officer of Desert Sun Mining Corp., developer of the Jacobina gold mine in Brazil. Mr. Woodhead has also acted as Chief Financial Officer of Admiral Bay Resources Inc. (oil and gas),

Beartooth Platinum Corporation (platinum group metals), Longford Corporation (oil and gas) and Aberdeen International Inc. (royalty) and has served as a director of Apogee Minerals Ltd. (silver). Mr. Woodhead is presently Chief Financial Officer and VP Finance of Sanatana Diamonds Inc. (diamonds), and VP Finance of Luiiri Gold Limited (gold), whom he joined in May 2006.

Ms. Naomi Nemeth (as Vice-President, Investor Relations). Naomi is president of the Ontario Chapter of the Canadian Investor Relations Institute (CIRI) and has more than 20 years' experience in investor relations and corporate communications. Naomi was Vice President, Investor Relations for Desert Sun Mining until its takeover by Yamana Gold in April 2006. Prior to that, she held senior level investor relations positions in the mining, pharmaceutical and financial services sectors. Naomi began her career as a field exploration geologist with Inco in the Yukon and Northern Ontario. Currently, Naomi serves as VP Investor Relations for Sanatana Diamonds Inc. and Luiiri Gold Limited and is based in Toronto.

CAPITAL TRANSACTIONS and SIGNIFICANT EVENTS

The Company has undertaken several private placements at 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.

Placements took place as follows:

- On January 13, 2006, the Company issued 3,333,333 Units;
- On March 30, 2006, the Company issued 3,333,333 Units;
- On April 19, 2006, the Company issued 3,333,333 Units;
- On June 6, 2006, the Company issued 6,666,666 Units.

A further placement of 3,333,333 Units on the same terms took place on 8 June 2006 as described later under the heading of Subsequent Events.

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, as described more fully under the heading of Corporate History and Nature of the Business.

On April 5, 2006, the Company concluded a farm-out to Newmont Waihi Gold Ltd. of EP 40 767 (adjacent to the Martha Mine at Waihi, North Island, New Zealand). Newmont may earn up to an 80% interest in the permit, by undertaking exploration expenditures, including a feasibility study and, if required, arranging the Company's share of financing the development costs.

EXPLORATION UPDATE

Glass Earth has established a large portfolio of gold prospecting and exploration permits in New Zealand, including:

- Advanced gold prospects in the **Hauraki-Waihi** area;
- Advanced and greenfields gold prospects at the **Mamaku-Muir**s Reef area, between Rotorua and Tauranga;
- Greenfield gold prospects in the **Central Volcanic** Region, between Rotorua and Taupo; and
- Advanced and greenfields gold prospects in the **Otago** mesothermal gold fields, including priority over a 20,550 square kilometer prospecting permit area which it believes is prospective for Macraes style gold mineralization.

Glass Earth has built this portfolio using a “new generation” approach focused on identifying specific deposit criteria for “world class ore-bodies”. This approach uses international leading edge technology via Glass Earth’s alliance with Geoinformatics Exploration Inc., a Canadian listed technology orientated exploration group, whose process provides a structured and disciplined approach to scientific data capture, validation, compilation, integration, modeling and target generation for gold and other mineral deposits. Geoinformatics Exploration Inc. is entitled to a two percent Net Smelter Royalty on gold produced from targets initially identified in the Hauraki and Central Volcanic Regions (the Stage 2 Target Bank), that Glass Earth owns or acquires.

The Company’s exploration activities are carried out solely in New Zealand by its wholly owned subsidiaries, GENZL and HPD. GENZL has carried out prospecting and exploration for gold and silver in the Coromandel/Central Volcanic Region (“**CCVR**”) since its incorporation in September 2002. From incorporation to May 2004, GENZL sourced legacy data and created a multidimensional single database using the Geoinformatics Intervention Process. As a result of this advanced method of analysis, on GENZL’s permit areas only, an initial total of 29 gold exploration targets were identified.

As a follow-up to this analysis, 44,000 line kilometers of airborne (magnetic and gravity) geophysical surveys were carried out from March to July 2005, better defining existing targets and identifying additional targets. In December 2005, GENZL was granted six Exploration Permits over 21 of the more advanced targets identified. Exploration Permits allow for higher impact work programs and are granted for a duration of five years, with a right of renewal of a further five years for up to one half of the area covered by the original Exploration Permit. The Exploration Permits granted contain certain work obligations in relation to each of the individual areas covered by the permits. The work programs are minimum obligations in order to retain individual permits in good standing. The Company expects to progress exploration activities more rapidly depending on available financing. The term of the main Prospecting Permit 39-241 was extended to 21 October 2007 in order to protect the other 85 less advanced targets.

Hauraki Region

Following the successful compilation of legacy data and new airborne survey campaigns, numerous targets were identified and prioritized for more in-depth exploration, some of which were not in Glass Earth's permit holdings at the time. Glass Earth moved strategically to acquire these target areas. The acquisition of HPD New Zealand Limited added 15 of these targets to Glass Earth's permit holdings, including several advanced epithermal gold targets in the Hauraki region. Ground-based exploration activities are planned for 2006/2007.

Mamaku – Muirs Region

In the Mamaku-Muirs Region, Glass Earth considers it has identified, through its geophysical surveys, the extension of the Coromandel Volcanic Arc deep into the Mamaku-Muirs Region. The Coromandel Volcanic Arc hosts the currently producing Martha gold mine and Hauraki Goldfield, which is considered extremely prospective. This newly-identified extension is on 100% Glass Earth owned permits. Within the Mamaku-Muirs Region, Glass Earth has identified 14 new geophysical targets and has acquired the Muirs Reef prospect area via the HPD acquisition.

Glass Earth plans to carry out extensive surface resistivity surveys, complimented with geochemistry and drilling in the next two years to further test this known epithermal system, which is covered with up to 150 metres of volcanic ash.

Central Volcanic Region

The combined 2004/2005 legacy data and the 2005/2006 airborne surveys enabled Glass Earth to define 74 epithermal gold targets in the Central Volcanic Region.

Ground-based exploration activities, including resistivity surveys, have been carried out to better define drill targets, which led to the drilling of the first target in May 2006 (see below). This exploration phase involves land-based activities that requires reaching agreement with land owners and occupiers as to land access arrangements. This process is well underway and will be a continuing activity given the number of targets. Field reconnaissance mapping has commenced to further examine all anomalies using ground-based mapping of creeks, drainages and incised valleys and / or hill scarps. On each anomaly, drilling will be employed to penetrate the overburden and covering layers of rock to produce in situ rock samples for geochemical analysis. Using a suite of geochemical pathfinder minerals and judicious petrological sampling, these samples will assist in vectoring in on anomalous zones likely to represent mineralized structures. Drilling will be conducted in phases, with each phase investigating fewer anomalies.

Based on the new higher resolution datasets, 21 of the original 106 targets in the Stage 2 Target Bank were prioritized for pre-drilling resistivity and gold geochemical surveys. Completion of ground resistivity and soil gold geochemical surveying highlighted that 6 of the 14 targets tested to date have coincident magnetic lows, gravity highs, resistivity highs and traces of gold in soils (up to 30 ppb). Glass Earth completed its first exploratory drill hole into one of the 6 identified geophysical targets (Tahunaatara) in May 2006. The drill hole was planned to provide stratigraphic information of the resistive rocks prior to a more comprehensive drill program. The

drill hole intersected a significant (70 metre wide) zone of intense hydrothermal alteration and silicification with anomalous gold and silver mineralization. The hole ended at 357.2 metres in intense alteration. This is indicative of a large epithermal gold system and Glass Earth is planning an intensive program of more detailed resistivity surveys that will be followed by further drilling.

The anomalous gold intersection was: 174 – 225 metres; 51 metres 0.1 g/t Au, 1.7 g/t Ag.

Whilst no economic gold was intersected in this drill hole the discovery of anomalous gold in a major new epithermal system offers significant scope within the large Tahunaatara geophysical anomaly (approximately 2.2 kilometres x 0.7 kilometres). It also offers encouragement for the exploration process and for the other prioritized targets in the area.

Otago Region

Glass Earth has commenced its second Data Collation / Interrogation Project and applied for Prospecting Permit (“PP”) 39 322 in March 2006, substantially covering the whole of the Otago region not already subject to permits. Glass Earth proposes to carry out ultra-detailed regional scale airborne geophysics in Otago - the first time this has been done in this area.

Complementing Glass Earth’s Otago regional approach, the company has, through the acquisition of HPD, acquired near drill ready targets in Otago.

FINANCIAL COMMENTARY

At May 31, 2006, the Company had net working capital of \$1,127,000 (May 31, 2005: \$1,036,000). Further gross funds of \$500,000 were received on 8 June 2006 as a result of the capital issue described under the heading of Subsequent Events.

Exploration Expenditures

Mineral exploration costs, which form the bulk of the Company’s expenditures, increased as the balance of the airborne geophysical surveys were completed and Exploration Permits were lodged and granted. Subsequent resistivity surveys commenced in early February 2006 and drilling was undertaken towards the end of the fiscal year. Exploration expenditures have accumulated as set out in the Table below:

(In thousands of Canadian dollars.)

	2006	2005
Opening balance	1,743	686
Airborne surveys	700	914
Geological consulting, mapping and modeling	268	121
License rentals	41	22
Resistivity surveys	185	-
Drilling	72	-
Total exploration expenditure	1,266	1,057
Acquisition of HPD New Zealand Limited	2,039	-
Closing balance	5,048	1,743

Until the granting of the 6 Exploration Permits in December 2005, the Company allocated exploration expenditures to the principal exploration area of Prospecting Permit 39 241 (representing 96% of the then permit areas). As a result of the 21 most advanced targets being contained within the 6 Exploration Permits, the Company re-apportioned accumulated exploration costs amongst the newly granted Exploration Permits. A portion of accumulated expenditures was retained in PP 39 241 to represent the remaining 85 less developed targets. Since December 2005, exploration costs are allocated to the individual permit areas as they are incurred. Accumulated exploration expenditure by region is shown in the following table:

(In thousands of Canadian dollars.)

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

Significant Expenses

The net loss for the year ended May 31, 2006 was \$1,307,000, compared with \$591,000 in the year ended May 31, 2005.

The principal item included in the net loss for 2006 was \$464,000 of stock based compensation, being the calculated value of the stock options granted and / or vested during the period. The fair value of the stock options was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 4% per annum, expected volatility of 89%, an 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 in the year ended May 31, 2005 there was no stock based compensation expense for that year.

Other significant expense categories included: general and administration expenses of \$270,000 (2005: \$298,000), professional fees of \$200,000 (2005: \$170,000) and salaries of \$114,000 (2005: \$22,000). Significant activities undertaken during the year (apart from ongoing reporting obligations) involved the negotiation and acquisition of HPD, the negotiation and securing of the Waihi West Joint Venture and additional legal and auditing fees in relation to the proposed fundraising in New Zealand and the seeking of a secondary listing on the New Zealand Alternative Market board (“**NZAX**”) – see further under the heading of Subsequent Events.

From April 1, 2005, Mr. Simon Henderson (Vice President, Exploration and Chief Operating Officer) became an employee of GENZL and has directly assumed many of the management functions he had formerly carried out as an employee of Ian R Brown Associates Ltd. (a company owned by a former director of GENZL and provider of technical and other services to GENZL). From May 15, 2006, Mr. Peter Liddle (Chief Financial Officer) also became an employee of GENZL.

The Company now employs 8 staff in New Zealand and has exploration offices in Dunedin (Otago Region) and Rotorua (Central Volcanic Region).

Financial Statistics

On March 30, 2005, 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. The transaction constituted a Reverse Take-Over (the “RTO”) of the Company by GENZL under the policies of the TSX Venture Exchange (the “Exchange”) and 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, the 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).

GENZL did not prepare quarterly financial statements for the fiscal year 2004. In that period, total General and Administrative Expenditures was \$44,000 for the full 12 months. Scheduled

below are the quarterly and annual results for GENZL alone for the first three quarters of fiscal year 2005 and consolidated with the Company for the last quarter of 2005 and for fiscal 2006:

(In thousands of Canadian dollars, except per share amounts.)

Fiscal Period	Revenue	Net Loss	Earnings / (Loss) per Share (cents)		Total Assets	Total LT Liab.	Dividends
			Basic	Diluted			
2006 – Q4	-	503	(0.80)	(0.80)	6,656	-	-
2006 – Q3	-	569	(0.94)	(0.94)	3,069	-	-
2006 – Q2	-	174	(0.30)	(0.30)	2,722	-	-
2006 – Q1	-	61	(0.11)	(0.11)	3,105	-	-
Fiscal 2006	-	1,307	(2.12)	(2.12)	N/A	N/A	-
2005 – Q4	-	402	(0.65)	(0.65)	3,127	-	-
2005 – Q3	-	50	(0.14)	(0.14)	1,120	-	-
2005 – Q2	-	90	(0.25)	(0.25)	761	-	-
2005 – Q1	-	49	(0.14)	(0.14)	759	-	-
Fiscal 2005	-	591	(0.96)	(0.96)	N/A	N/A	-

The following table summarizes the Company's cash flows and cash on hand:

(In thousands of Canadian dollars.)

	May 31, 2006	May 31, 2005
Cash	1,403	1,359
Working capital	1,127	1,036
Cash used by operating activities	(882)	(332)
Cash used by investing activities	(1,521)	(1,057)
Cash provided by financing activities	2,447	2,724

During fiscal 2006, \$2.5 million gross cash was raised through the issuance of common shares.

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 significant 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 fees paid for services provided during the period, 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 significant shareholder of GENZL) became an employee of GENZL. Mr. Liddle received \$5,050 for the year (2005: Nil). Mr. Liddle did not directly provide accounting and secretarial services to GENZL in fiscal 2006 (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 significant shareholder of GENZL) became an employee of GENZL. Mr. Henderson 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).
- 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 assets or liabilities in these financial statements.

Other Matters

Use of Financial Instruments

In fiscal 2006, the Company did not enter into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The principal financial instruments affecting the Company's financial condition and results of operations are currently its cash, amounts receivable and prepayments, and accounts payable and accrued liabilities. Foreign currency exposure is minimized by retaining most cash in Canadian dollar denominated instruments.

Contractual Obligations and Commitments

- 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 (Canadian Dollars):

2006	\$35,383
2007	\$35,383
2008	<u>\$21,265</u>
	<u>\$92,031</u>

Off-Balance Sheet Arrangements and Contingent Liabilities

The Company has no off-balance sheet arrangements or contingent liabilities, not already discussed above.

Critical Accounting Policies and Estimates

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. These estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. The Company's critical accounting policies are those that affect the financial statements and are summarized in Note 4 of the audited consolidated financial statements for the year ended May 31, 2006. Critical accounting policies and estimates in the period included capitalization of the costs relating to the acquisition, exploration and development of non-producing resource properties and the recognition of impairment of those assets, and the choice of Generally Accepted Accounting Principles ("GAAP"). Actual results could differ from these estimates.

Mineral Properties

The decision to capitalize exploration expenditures, and the timing of the recognition that capitalized exploration is unlikely to have future economic benefits, can materially affect the reported earnings of the Company. Glass Earth follows Canadian GAAP. In line with accepted industry practice for exploration companies, the Company has adopted the policy of deferring property specific acquisition, exploration and development costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate, are

written off in the year such assessment is made. If Glass Earth adopted a policy of expensing all exploration costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different. These deferred costs will be amortized on the unit-of-production basis over the estimated useful lives of the properties following the commencement of production. The cost of mineral properties includes any cash consideration paid, and the fair market value of shares issued on the acquisition of property interests. The recorded amounts represent actual expenditures incurred and are not intended to reflect present or future values. The Company reviews capitalized costs on its property interests on a periodic, or at least annual, basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the 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.

Asset retirement obligations

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its exploration, development or mining properties. This amount is initially recorded at its discounted present value, with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to mineral properties and deferred exploration costs and amortized over the useful life of the properties. As the Company does not currently have any material legal obligations relating to the reclamation of its mineral properties, the adoption of this standard had no impact on the accounts of the Company.

SUBSEQUENT EVENTS

Private Share Placement

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 2 years).

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 5 years. All options vested immediately.

New Zealand Financing and Secondary Listing

On September 11, 2006, the Company issued a formal prospectus qualifying its NZ\$10 million (approximate C\$7 million) financing and confirmed its intention to seek a secondary listing of its common shares on the New Zealand Exchange's Alternative Exchange ("NZAX"). The prospectus is intended for use only in connection with the offer of Glass Earth's securities in New Zealand and is not to be construed as an offering in Canada or any other jurisdiction.

Financing

The proposed NZ\$10 million offering will consist of 40 million units, each unit comprising one common share and one half share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one additional common share at NZ\$0.35 until October 6, 2008. Each unit is priced at NZ\$0.25 per unit.

The NZ\$10 million financing is targeted primarily at providing New Zealand investors with an opportunity to invest in Glass Earth. The major shareholder of Glass Earth, St Andrew Goldfields Limited, has agreed to subscribe for a 48.3% interest in the financing in order to maintain its current level of ownership in Glass Earth.

The proceeds from the financing (less issue expenses) will be used to fund Glass Earth's ongoing exploration, appraisal and development program for gold and silver, in New Zealand and for general working capital

OUTLOOK

By unlocking the value in the data available and enabling objective targeting and ranking through the conversion of data into information and from there into knowledge, the Company is building a predictive framework for the discovery of new gold deposits. This approach ensures ongoing objectivity for individual prospects, discarding of potential failures, and an enhanced understanding of the multidimensional geology and mineral deposit process. Glass Earth has already applied this process in the Hauraki / Central Volcanic Regions, where the Data Intervention project kick-started the generation of new gold targets augmented by the implementation of two major airborne geophysical surveys. Glass Earth has commenced ground verification of its portfolio of targets by drilling its first target, at Tahunaatara. Glass Earth plans further significant drilling of multiple targets. Glass Earth also plans to carry out its next Data Collation / Interrogation project in the Otago mesothermal gold region, with an integrated geological data base compilation and airborne geophysical survey program similar to the one completed in the Hauraki/Central Volcanic Regions.

Glass Earth's pipeline of prospects at different stages of development offers a well-balanced portfolio of quality exploration prospects. Endorsement of this approach was obtained by Glass Earth recently entering into a joint venture with Newmont Waihi Gold Ltd. on Glass Earth's new Waihi West exploration permit alongside the Martha mine. Newmont Mining, currently the second largest gold mining company in the world, may earn an initial 60% equity in the permit by expending \$1.5m on exploration activities. Glass Earth's medium term aim is to develop into a significant gold producer, but also sees earlier opportunities to create and capture value purely through successful exploration. The worldwide exploration industry has been severely diminished by acquisition and merger, which has dramatically reduced the commitment to greenfields exploration. Glass Earth intends to exploit a potential valuable gap by generating and managing the early stages of resource identification and development of world-class gold deposits. Delineation of such resources can generate significant premium and value-add at the exploration stage.

Recent financing activities in Canada and currently in New Zealand should provide Glass Earth with adequate exploration funding through calendar 2008.

For additional information, please refer to the Company's website at www.glassearthlimited.com and for regulatory filings, including news releases, please refer to www.SEDAR.com.

RISKS, UNCERTAINTIES and OTHER ISSUES

Glass Earth's business of exploring mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Glass Earth common shares should be considered speculative.

Nature of Mineral Exploration and Development Projects

The business of exploring for minerals involves a high degree of risk. Few properties that are explored are ultimately developed into mines. Glass Earth's properties are in the exploration stage and at present, none of the Company's properties have a known body of commercial ore. The proposed exploration programs are an exploratory search for such a deposit. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors, which are beyond the control of the Company.

The Company's operations are subject to all the hazards and risks normally associated with the exploration for gold and silver, any of which could result in damage to life, or property, or the environment. The Company's operations may be subject to disruptions caused by unusual or unexpected formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment, machinery, labour disputes or adverse weather conditions. Although the Company maintains insurance to cover normal business risks, the availability of insurance for many of the hazards and risks is extremely limited or uneconomical at this time. Through high standards and continuous improvement, Glass Earth works to reduce these risks.

In the event the Company is fortunate enough to discover a gold and / or silver deposit, the economics of commercial production depend on many factors, including the cost of operations, the grade of the deposit, proximity to infrastructure, metal prices, financing costs and Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting gold and silver and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial diamond production.

The profitability of the Company's operations will be dependent, inter alia, on the market prices of gold and silver, which are affected by numerous factors beyond the control of the Company, including international economic and political conditions, levels of supply and demand, and international currency exchange rates.

Success in establishing reserves is a result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration, the availability of suitable contractors, and other factors. If mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish reserves through drilling, to determine the optimal metallurgical process and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

Financing risk, until such time as the Company is cash flow positive

In the absence of cash flow from operations, Glass Earth relies on the capital markets to fund operations. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that additional funding will be available, or available under terms favourable to the Company. Failure to obtain such additional finance could result in delay or the indefinite postponement of further exploration and the development of the Company's properties.

Licenses and Permits, Laws and Regulations

Glass Earth's exploration activities require permits from various government authorities, and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. Glass Earth draws on the expertise and commitment of its management team, their advisors, its employees and contractors to ensure compliance with current laws and fosters a climate of open communication and co-operation with regulatory bodies.

Exploration, development and mining of the properties will be affected to varying degrees by:

- i. government regulations relating to such matters as environmental protection, health, safety and labour;
- ii. mining law;
- iii. restrictions on production; price controls; tax increases;
- iv. maintenance of claims;
- v. tenure; and
- vi. expropriation of property.

The Company believes that it holds all necessary licenses and permits under applicable laws and regulations and believes it is presently complying in all material respects with the terms of such licenses and permits. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Government approvals and permits are required in connection with the exploration activities proposed for the properties. To the extent such

approvals are required and not obtained, the Company's planned exploration, development and production activities may be delayed, curtailed, or cancelled entirely.

Failure to comply with applicable laws, regulations and requirements may result in enforcement action against the Company, including orders calling for the curtailment or termination of operations on the properties, or calling for corrective or remedial measures requiring considerable capital investment. Parties engaged in mineral exploration and mining activities may be subject to civil and criminal liability as a result of failure to comply with applicable laws and regulations.

Amendments to current laws, regulations and permitting requirements affecting mineral exploration and mining activities could have a material adverse impact on the Company's operations and prospects.

Environmental

Mining operations are subject to various environmental laws and regulations including, for example, those relating to waste treatment, emissions and disposal, and companies must generally comply with permits or standards governing, among other things, tailing dams and waste disposal areas, water consumption, air emissions and water discharges. Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the Company's activities, the extent of which cannot be predicted and which may well be beyond the capacity of the Company to fund. The Company's right to exploit any minerals it discovers is subject to various reporting requirements and to acquiring certain Government approvals and there is no assurance that such approvals, including environmental approvals, will be granted without inordinate delays or at all.

Claim Titles and Aboriginal Rights

Aboriginal rights in New Zealand reside in the indigenous population known as Maori. Maori, individually or collectively may advance claims on Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is not aware of any such land claims having been asserted or any legal actions relating to Maori issues having been instituted with respect to any of the Properties. The legal basis of a land claim is a matter of considerable legal complexity and the impact of a land claim settlement and self-government agreements cannot be predicted with certainty. In addition, no assurance can be given that a broad recognition of Maori rights by way of a negotiated settlement or judicial pronouncement would not have an adverse effect on the Company's activities. Such impact could be marked and in certain circumstances, could delay or even prevent the Company's exploration or mining activities. The Company is aware of the mutual benefits afforded by co-operative relationships with Maori, in conducting exploration activity and is supportive of measures established to achieve such cooperation.

Dependence on Key Personnel

The Company's performance is dependent upon the performance and continued services of its current key management. While it has entered into contracts and adopted a stock option plan with the aim of securing the services of the existing management, the retention of their services cannot

be guaranteed. Accordingly, the loss of any key management of the Company may have an adverse effect on the future of the Company's business. The Company competes with numerous other companies and individuals in the search for and acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and contractors.

Joint Ventures

The Company holds, and expects to hold in the future, interests in joint ventures. Joint ventures may involve special risks associated with the possibility that the joint venture partners may:

- have economic or business interests or targets that are inconsistent with those of the Company;
- be unwilling or unable to fulfill their obligations under the joint venture or other agreements;
- take action contrary to the Company's policies or objectives; or
- experience financial or other difficulties.

Any of the foregoing may have a material adverse effect on the results of operations or financial condition of the Company.

Conflicts of Interest

Certain of the Company's directors, officers and significant shareholders are or may become shareholders, directors and/or officers of other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, they may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which one or more directors or officers may have a conflict. From time to time, the Company, together with other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting the Company to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. The Company may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies. In accordance with the laws of the province of British Columbia, the directors are required to act honestly and in good faith with a view to furthering the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time. Other than as indicated, the Company has no procedures or mechanisms to deal with conflicts of interest.

Recent Canadian Accounting Pronouncements

Recently issued Canadian accounting pronouncements from the CICA are outlined below. Glass Earth does not believe that it will be significantly affected by these pronouncements.

In April 2005, the CICA issued Section 1530 of the CICA Handbook, regarding “Comprehensive Income”. This section applies to fiscal years beginning on or after October 1, 2006. It exposes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders’ equity that results from transactions and events from sources other than the Company’s shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in fair value of certain financial instruments. The adoption of this section on June 1, 2007 implies that the Company will present comprehensive income and its components in a separate financial statement.

In April 2005, the CICA issued Section 3855 of the CICA Handbook on “Financial Instruments – Recognition and Measurement Income”. This Section applies to fiscal years beginning on or after October 1, 2006. It exposes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. The Company does not believe that the adoption of this pronouncement on June 1, 2007 will have a material impact on its financial reporting and disclosures.

In April 2005, the CICA issued Section 3865 of the CICA Handbook regarding Hedges. This section applies to fiscal years beginning on or after October 1, 2006. The recommendations expand the guidelines exposed in Accounting Guideline 13 (AcG-13), Hedging Relationships. This section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Company does not believe that the adoption of this pronouncement on June 1, 2007 will have a material impact on its financial reporting and disclosures.

Multilateral Instrument 52-109: Evaluation of disclosure controls and procedures

Public companies are required to perform an evaluation of disclosure controls and procedures annually and to disclose management’s conclusions about the effectiveness of these disclosure controls and procedures in its annual MD&A. The Company has established, and is maintaining, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is disclosed in annual filings, interim filings or other reports and recorded, processed, summarized and reported within the time periods specified as required by securities regulations.

Management has evaluated the effectiveness of the Company’s disclosure controls and procedures as at May 31, 2006 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company’s disclosures are compliant with securities regulations.

SUPPLEMENTAL TO THE FINANCIAL STATEMENTS

Outstanding Share and Option Data

Glass Earth's shares trade on the TSX Venture Exchange under the symbol "GEL". The Company is authorized to issue common shares without par value. As at September 25, 2006, the following items were issued and outstanding:

- 89,902,633 common shares;
- 8,990,000 common share purchase options with an average exercise price of \$0.152 per share and expiry dates of between February 22, 2011 and June 8, 2011; and
- 23,375,998 common share purchase warrants with an average exercise price of \$0.28 per share and expiry dates of between March 31, 2007 and June 6, 2008.

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.

September 27, 2006