



**BLUE PEARL MINING LTD.**  
**(Formerly Patent Enforcement and Royalties Ltd.)**

**Interim Report**

**Q1**

**March 31, 2006**

**Blue Pearl Mining Ltd. (formerly Patent Enforcement and Royalties Ltd.)  
Management's Discussion and Analysis  
For the three months ended March 31, 2006**

This Management Discussion and Analysis ("MD&A") of the financial condition and results of operations of Blue Pearl Mining Ltd. ("Blue Pearl" or "the Company") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the periods ended March 31, 2006 and 2005 along with the Company's MD&A and the audited consolidated financial statements for the year ended December 31, 2005. All amounts referred to are expressed in Canadian dollars unless otherwise indicated.

Additional information about Blue Pearl, including quarterly and annual reports and the Annual Information Form (AIF), is available on-line at [www.sedar.com](http://www.sedar.com).

**Auditor Involvement**

The auditor of Blue Pearl Mining Ltd. has not performed a review of the unaudited financial statements for the three months ended March 31, 2006 and 2005.

**Overview**

In April 2005, the shareholders of Patent Enforcement and Royalties Ltd. ("PEARL") approved the change of business of PEARL from patent enforcement to mining and the change of name from PEARL to Blue Pearl Mining Ltd. Blue Pearl will wind down the patent enforcement business as cases are settled or abandoned.

In April 2005 Blue Pearl also acquired its principal asset, the Davidson Property. The Davidson Property is a molybdenum deposit located near Smithers, British Columbia. The Company is advancing this project to the feasibility stage and subsequently into production. An industry-leading engineering firm has been engaged to complete the feasibility study. Other consultants with certain specific knowledge in mineral reserves, environmental studies and mine planning are also providing input to the study. As part of the feasibility study a program of underground infill drilling is underway on the Main Deposit. In addition, the Company is conducting exploration drilling to test a second mineralized zone beneath the existing workings. The feasibility study is expected to be completed in the third quarter of this year. The environmental permitting for the project is also in progress and is expected to be completed later in 2006.

**Results of Operations**

Expenses increased in the first quarter of 2006 by \$3,379,189 from the comparable 2005 quarter. In 2006 the Company continues to work towards its plan to bring the Davidson Property into production. Davidson Property exploration and development expense was \$2,623,377 in the first quarter of 2006 compared to nil in 2005. Project activities included rehabilitating the underground workings, constructing new drill stations, infill drilling on the Main Deposit and exploration drilling of a second mineralized zone beneath the existing workings, continuation of the feasibility study including a resource estimate and a mine plan, environmental baseline studies, community consultation and environmental assessment application.

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General and administrative expense also increased by \$171,448 in 2006 over 2005 as the Company became active, hired more staff and opened new offices. Included in these costs are office and administrative services costing \$75,000 (2005 - \$15,000) provided by Glencairn Gold Corporation that has certain common directors and officers with the Company. In 2005 the Company was winding down its patent enforcement activities and general and administrative costs were relatively small.

Stock option expense increased to \$577,966 in 2006 from nil in the previous period as new staff and directors were added and granted options in 2006.

**Liquidity and Capital Resources**

At March 31, 2006 the Company had cash and cash equivalents of \$5,923,523 and working capital of \$5,914,735.

In February 2006, the Company closed a private placement financing of 500,000 units at a price of \$0.80 per unit for gross proceeds of \$400,000. Each unit consisted of a common share, an "A" warrant and 0.4 of a "B" warrant. Each whole "A" warrant entitles the holder to purchase one common share at a price of \$1.00 and each whole "B" warrant entitles the holder to purchase one common share at a price of \$0.80 for two years from the closing of the private placement.

In April 2006, the Company closed another private placement of 1,085,000 flow-through common shares priced at \$2.85 per share for gross proceeds of \$3,092,250. Blue Pearl also issued compensation options entitling the agents to purchase 75,950 common shares at \$2.85 per share until April 5, 2008.

Cash at March 31, 2006 and from the subsequent financing in April 2006 is expected to be adequate to complete the Davidson Property feasibility study and fund the Company's working capital requirements to the end of 2006. Additional financings will be required to complete future production facilities.

**Outlook**

The Company is continuing the activities to bring the Davidson Property into production. The environmental permitting process, the reserve report and the mine plan are expected to be complete in 2006 and this will enable the feasibility study to also be completed in 2006. The feasibility study is focused on commencing mining with a high-grade portion of the Davidson Property's Main Deposit, shipping ore to an area processing facility and constructing a 2000-tonne-per-day milling circuit.

While the feasibility study has concentrated on the Main Deposit at the Davidson Property exploration drilling has also been taking place on the Lower Zone. The drill results received to date have confirmed the potential of this deposit.

In February 2006, the Company signed a non-binding Memorandum of Understanding ("MOU") with Endako Mines (a joint venture of Thompson Creek Mining Ltd. and Sojitz Moly Resources Inc.) for construction of a milling circuit to process ore from Blue Pearl's Davidson Property at Endako's mine site near Fraser Lake, British Columbia. Blue Pearl will build, at its expense, a milling circuit capable of processing 2,000 tonnes of ore per day and producing saleable molybdenum concentrate at the Endako Mine, approximately 200 km by road from the Davidson Project. Blue Pearl will benefit from Endako's existing infrastructure. Under the terms of the MOU, Endako will provide the management, supplies and personnel to operate the Blue Pearl circuit and will be responsible for its maintenance. Blue Pearl will pay Endako for the costs of operating the circuit.

**Blue Pearl Mining Ltd. (formerly Patent Enforcement and Royalties Ltd.)**  
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**For the three months ended March 31, 2006**

On signing of a definitive agreement, which is expected to take place before May 31, 2006, Blue Pearl will pay Endako US\$5 million, half of which may be paid, at Blue Pearl's discretion, in Blue Pearl shares. Blue Pearl will also pay to Endako a sliding-scale fee based on the market price of molybdenum, ranging from US\$0.80 to US\$2.00 per pound of molybdenum produced, subject to a minimum monthly fee.

The MOU allows for separate agreements to deal with the roasting and marketing of Blue Pearl's concentrate.

The Company expects to have the mine on the Davidson Property and the Endako milling circuit in production by late 2007.

**Summary of Quarterly Results**  
**(Canadian\$ in thousands, except per share amounts)**

	<b>Jun 30 2004</b>	<b>Sep 30 2004</b>	<b>Dec 31 2004</b>	<b>Mar 31 2004</b>	<b>Jun 30 2005</b>	<b>Sep 30 2005</b>	<b>Dec 31 2005</b>	<b>Mar 31 2006</b>
Revenue	-	-	651	-	33	64	60	60
Net earnings (loss)	(108)	(73)	408	(292)	(645)	(889)	(2,800)	(2,891)
Earnings (loss) per share								
- basic and diluted	(0.00)	(0.00)	0.02	(0.01)	(0.03)	(0.04)	(0.07)	(0.06)
Total assets	329	281	910	10,868	9,841	10,672	9,445	7,794

**Outstanding Share Data**

Common shares and convertible securities outstanding at May 11, 2006 were:

<b>Security</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Securities Outstanding</b>	<b>Common Shares on Exercise</b>
Common shares	n/a		48,133,428	48,133,428
Warrants	Feb.3, 2008	\$0.70 to \$1.00	7,751,325	7,751,325
Share options	Oct. 20, 2006 to Aug. 11, 2010	\$0.15 to \$0.70	3,743,500	3,743,500
				<u>59,628,253</u>

May 11, 2006

**Blue Pearl Mining Ltd.**  
**Consolidated Statements of Operations**  
**Three months ended March 31, 2006 and 2005**  
**(Canadian dollars - unaudited)**

	Note	2006	2005
Revenue			
Interest income		\$ 52,504	\$ -
Gain on sales of marketable securities		7,031	-
		<u>59,535</u>	<u>-</u>
Expenses			
Davidson project exploration and development		2,623,377	-
General and administrative		464,149	292,701
Depreciation		3,044	181
Accretion expense		3,535	-
Stock option expense	5	577,966	-
		<u>3,672,071</u>	<u>292,882</u>
Loss before income taxes		(3,612,536)	(292,882)
Future income tax recovery	6	(721,951)	-
Net loss		<u>\$ (2,890,585)</u>	<u>\$ (292,882)</u>
Loss per share – basic and diluted		<u>\$ (0.06)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding		<u>44,670,722</u>	<u>23,259,000</u>

**Blue Pearl Mining Ltd.**  
**Consolidated Statements of Deficit**  
**Three months ended March 31, 2006 and 2005**  
**(Canadian dollars - unaudited)**

	Note	2006	2005
Balance, beginning of period		\$ (8,893,296)	\$ (4,267,142)
Net loss		(2,890,585)	(292,882)
Balance, end of period		<u>\$ (11,783,881)</u>	<u>\$ (4,560,024)</u>

The accompanying notes form an integral part of these consolidated financial statements.

**Blue Pearl Mining Ltd.**  
**Consolidated Balance Sheets**  
**(Canadian dollars - unaudited)**

	Note	March 31 2006	December 31 2005
<b>Assets</b>			
Current			
Cash and cash equivalents		\$ 5,923,523	\$ 7,778,404
Marketable securities		-	22,178
Accounts receivable and prepaids		484,951	306,020
		<u>6,408,474</u>	<u>8,106,602</u>
Restricted cash		85,000	35,000
Property, plant and equipment		1,300,237	1,303,283
		<u>\$ 7,793,711</u>	<u>\$ 9,444,885</u>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		\$ 493,739	\$ 1,515,325
Asset retirement obligations		221,081	217,546
		<u>714,820</u>	<u>1,732,871</u>
<b>Shareholders' Equity</b>			
Warrants	3	447,656	783,066
Contributed surplus	3	1,045,256	516,139
Common shares	3	17,369,860	15,306,105
Deficit		(11,783,881)	(8,893,296)
		<u>7,078,891</u>	<u>7,712,014</u>
		<u>\$ 7,793,711</u>	<u>\$ 9,444,885</u>

**Blue Pearl Mining Ltd.**  
**Consolidated Statements of Cash Flows**  
**Three months ended March 31, 2006 and 2005**  
**(Canadian dollars - unaudited)**

	Note	2006	2005
<b>Operating activities</b>			
Net loss		\$ (2,890,585)	\$ (292,882)
Items not affecting cash:			
Depreciation		3,044	181
Accretion		3,535	-
Stock option expense	5	577,966	-
Gain on sale of marketable securities		(7,031)	-
Income tax recovery	6	(721,951)	-
Change in non-cash working capital	4	(1,200,515)	3,698
Cash used in operating activities		<u>(4,235,537)</u>	<u>(289,003)</u>
<b>Financing activities</b>			
Common shares and warrants issued, net	3	<u>2,401,447</u>	-
Cash generated by financing activities		<u>2,401,447</u>	-
<b>Investing activities</b>			
Proceeds from sale of marketable securities		29,209	-
Restricted cash		<u>(50,000)</u>	-
Cash used in investing activities		<u>(20,791)</u>	-
Decrease in cash and cash equivalents		(1,854,881)	(289,003)
Cash and cash equivalents, beginning of period		7,778,404	798,642
Cash and cash equivalents, end of period		<u>\$ 5,923,523</u>	<u>\$ 509,639</u>

**Blue Pearl Mining Ltd.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006 and 2005**  
**(Canadian Dollars)**

**1. Nature of business**

Blue Pearl is a Canadian mineral resource company developing the Davidson molybdenum deposit near Smithers, British Columbia. In 2005, the shareholders of Patent Enforcement and Royalties Ltd. (“PEARL”) approved the change of business of PEARL from patent enforcement to mining and the change of name from PEARL to Blue Pearl Mining Ltd. (“Blue Pearl” or “the Company”). The Company also changed its fiscal year end to December 31. The Company will wind down the patent enforcement business as cases are settled or abandoned.

In 2005 Blue Pearl acquired the Davidson molybdenum property near Smithers, British Columbia at an initial cost of \$1,059,447 and a 2.75% net smelter royalty with annual advance payments dependent on molybdenum prices of \$100,000 to \$500,000 per year. The Company is advancing this project to the feasibility stage and subsequently into production.

**2. Accounting policies**

These unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements.

These unaudited consolidated financial statements do not include all the information and footnotes required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2005.

The unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments and reclassifications necessary to present fairly the financial position at March 31, 2006 and 2005, results of operations and cash flows for the periods then ended.

**3. Shareholders’ Equity**

i) Warrants

A summary of the transactions in the warrants account in 2006 is as follows:

	<u>Number of Warrants</u>	<u>Amount</u>
At December 31, 2005	9,857,871	\$ 783,066
Private placement (a)	700,000	12,000
Exercise of warrants	<u>(3,146,996)</u>	<u>(347,410)</u>
At March 31, 2006	<u>7,410,875</u>	<u>\$ 447,656</u>

- a) The amount allocated to the warrants was determined by deducting the fair value of the common shares issued from the private placement proceeds.

**Blue Pearl Mining Ltd.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006 and 2005**  
**(Canadian Dollars)**

ii) Contributed surplus

A summary of the transactions in the contributed surplus account in 2006 is as follows:

	<u>Amount</u>
At December 31, 2005	\$ 516,139
Exercise of stock options	(48,849)
Grant of stock options	<u>577,966</u>
At March 31, 2006	<u>\$ 1,045,256</u>

iii) Common shares

Authorized capital stock of Blue Pearl is an unlimited number of common shares.

A summary of the transactions in the common shares account in 2006 is as follows:

	<u>Number of Common Shares</u>	<u>Amount</u>
At December 31, 2005	43,079,382	\$ 15,306,105
Share options exercised	622,500	337,399
Exercise of warrants	2,446,996	2,060,307
Private placement (a)	500,000	388,000
Less: share issue costs (note 6)	-	<u>(721,951)</u>
At March 31, 2006	<u>46,648,878</u>	<u>\$ 17,369,860</u>

In February 2006, the Company closed a private placement of 500,000 non-flow-through purchase receipts at a price of \$0.80 per unit. Each unit consists of one common share, one "A" warrant and 0.4 of one "B" warrant. Each whole "A" warrant entitles the holder to purchase one common share at a price of \$1.00 and each whole "B" warrant entitles the holder to purchase one common share at a price of \$.80 for two year from the closing of the private placement.

**Blue Pearl Mining Ltd.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006 and 2005**  
**(Canadian Dollars)**

**4. Supplemental Cash Flow Information**

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Change in non-cash working capital:		
Accounts receivable and prepaid expenses	(178,930)	(15,028)
Accounts payable and accrued liabilities	(1,021,585)	18,726
	<u>\$ (1,200,515)</u>	<u>\$ 3,698</u>

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Non-cash financing activities:		
Share issue costs	<u>\$ 721,951</u>	<u>\$ -</u>
Private placement:		
Escrowed cash	<u>\$ -</u>	<u>\$ 10,231,967</u>
Purchase receipts		
Gross proceeds	<u>\$ -</u>	<u>\$ 10,300,065</u>
Less:		
Agents' commission	-	721,005
Agents' warrants	-	299,895
Other	<u>-</u>	<u>68,098</u>
	<u>-</u>	<u>1,088,998</u>
	<u>\$ -</u>	<u>\$ 9,211,067</u>

**5. Stock Option Expense**

The Company used the fair value method of accounting and recognized stock option expense of \$577,966 (2005 - nil) in the three months ended March 31, 2006 for its stock-based compensation plan.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life in years: 2  
Risk free interest rate: 3.83%  
Expected volatility: 128%  
Dividend yield: 0%

**Blue Pearl Mining Ltd.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006 and 2005**  
**(Canadian Dollars)**

**6. Future Income Taxes**

In February 2006, the Company renounced, for income tax purposes, exploration expenses of \$1,999,865 to the purchasers of the Company's flow-through common shares. As a result of this renunciation, the Company recorded a future tax liability and corresponding share issue cost of \$721,951. The future tax liability was calculated by applying the statutory tax rate for the Company to the amount renounced. The Company also recognized a benefit from its income tax loss carry forwards equal to the future tax liability from the expenses renounced of \$721,951 and a corresponding future income tax recovery.

**7. Related party transactions and balances**

Office administration fees of \$75,000 (March 31, 2005 - \$15,000) were incurred from Glencairn Gold Corporation, a company related through common directors and management, for rent and various office services. Included in accounts payable at March 31, 2006 is \$50,000 (December 31, 2005 - \$25,000) owing to this company.

**8. Subsequent Events**

In April 2006, the Company closed a private placement of 1,085,000 flow-through common shares priced at \$2.85 per share for total gross proceeds of \$3,092,250. The financing was led by Canaccord Adams and included Orion Securities Inc. (the "Agents"). Blue Pearl also issued compensation options entitling the Agents to purchase 75,950 common shares at \$2.85 per share until April 5, 2008.

Funds raised from the issuance of the flow-through shares will be used for exploration expenditures at the Company's Davidson Project, an underground molybdenum deposit near Smithers in northern British Columbia, which will constitute Canadian exploration expenses (as defined in the Income Tax Act) and will be renounced for the 2006 taxation year. The flow-through shares will be subject to a four-month hold period from the closing date.

Engineering consultant, Hatch Inc., is in the midst of a study to determine the feasibility of mining a high-grade portion of the Davidson Deposit and shipping ore to Endako's Fraser Lake operations roughly 200 kilometres southeast of Smithers. As previously announced in late February, Blue Pearl has signed a Memorandum of Understanding with Endako Mines for construction of a 2,000-tonne-per-day milling circuit to process Davidson ore at Endako.



## BLUE PEARL MINING LTD.

### HEAD OFFICE

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Symbol: BLE

### CORPORATE INFORMATION

#### DIRECTORS

Ian J. McDonald  
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James W. Ashcroft, P. Eng  
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J. John Kalmet, P. Eng.  
Delta, British Columbia

Kerry J. Knoll  
Toronto, Ontario

Denis C. Arsenault, CA  
Toronto, Ontario

#### OFFICERS

Ian J. McDonald, Chairman and Chief Executive Officer

Kenneth W. Collison, President and Chief Operating Officer

Peter N. Tredger, Executive Vice-President

T. Derek Price, Vice-President, Finance and Chief Financial Officer

Olav Svela, Vice-President, Investor Relations

Lorna D. MacGillivray, Corporate Secretary and General Counsel

#### REGISTRAR AND TRANSFER AGENT

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