



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

**Interim Report**

**Q3**

**September 30, 2005**

**Blue Pearl Mining Ltd. (formerly Patent Enforcement and Royalties Ltd.)  
Management's Discussion and Analysis  
For the nine months ended September 30, 2005**

The following discussion and analysis should be read in conjunction with the Company's unaudited consolidated interim financial statements and related notes thereto for the nine months ended September 30, 2005 and 2004 which have been prepared in accordance with Canadian generally accepted accounting principles. The reader should also refer to the audited financial statements for the six months ended December 31, 2004 and the year ended June 30, 2004, and Management's Discussion and Analysis for those periods. All dollar amounts are Canadian dollars unless otherwise indicated. Additional information on the Company is available on SEDAR 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 nine months ended September 30, 2005 and 2004.

**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" or "the Company"). Blue Pearl will wind down the patent enforcement business as cases are settled or abandoned.

Blue Pearl is now a mining company that holds the Davidson Property, formerly known as the Yorke-Hardy 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. In order to complete the feasibility study, the following will be required:

- Geologic model built from geologic information in the drill logs to help constrain grades in the resource estimate
- Scoping study and mine plan to determine the quantity of blocks classed as inferred and determine if any infill drilling is required.
- Rehabilitation of the underground access and preparation of underground drill stations
- Sampling protocol to ensure the coarse grained mineralization is properly sampled in infill drill holes
- Baseline environmental study
- Community relations study

**Results of Operations**

In the third quarter of 2005, expenses increased by \$971,385 from the comparable 2004 quarter due to the change in the Company's business from patent enforcement to mining. In 2005, project development expense increased by \$251,230 as costs were incurred for consultants engaged to assist in the feasibility study and the rehabilitation of the underground access at the Davidson Property site. General and administrative increased by \$110,303 due to the opening of offices in

Vancouver and Smithers and an increase in the fee under a cost-sharing agreement for management and office services with Glencairn Gold Corporation. Salaries and benefits increased by \$64,060 as additional staff were hired. The stock option expense of \$333,137 is due to stock options issued to directors officers and new staff in the quarter. The intellectual property lawsuits expense increased by \$26,307 due to an appeal of a lawsuit.

In the first nine months of 2005 expenses increased \$1,607,558 from the comparable 2004 period. The increase was due to certain one-time costs, mainly legal fees, related to the change in the Company's business from patent enforcement to mining and the commencement of the feasibility study on the Davidson Property.

### **Liquidity and Capital Resources**

At September 30, 2005 the Company had cash and cash equivalents of \$9,462,297 and working capital of \$9,429,778.

In March 2005, the Company closed a private placement of 13,833,667 non-flow-through purchase receipts at a price of \$0.60 and 3,076,715 flow-through purchase receipts at \$0.65 for gross proceeds of \$10,300,065. Each non-flow-through purchase receipt was exchanged into one common share and one-half of one common share purchase warrant in July 2005. Each whole warrant has an exercise price of \$0.70 and expires on March 22, 2007. The flow-through purchase receipts were exchanged for one common share in July 2005.

In August 2005, the Company closed a non-brokered private placement of 2,500,000 Units with the Tell Fund at a price of \$0.60 per Unit to raise gross proceeds of \$1,500,000. Each unit is comprised of one common share and one half of a share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of \$0.70 until March 22, 2007. The common shares and the warrants acquired or any common shares acquired on the exercise of warrants will be restricted from trading until December 31, 2005.

The Company plans to use the net proceeds of these financings to advance development of its Davison molybdenum property and for general working capital.

Cash at September 30, 2005 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. Further financings will be required to construct the operating facilities determined by the feasibility study.

### **Summary of Quarterly Results**

**(Canadian\$ in thousands, except per share amounts)**

	<b>Dec 31 2003</b>	<b>Mar 31 2004</b>	<b>Jun 30 2004</b>	<b>Sep 30 2004</b>	<b>Dec 31 2004</b>	<b>Mar 31 2005</b>	<b>Jun 30 2005</b>	<b>Sep 30 2005</b>
Revenue	-	1	-	-	651	-	33	64
Net earnings (loss)	(116)	(143)	(108)	(73)	408	(292)	(645)	(889)
Earnings (loss) per share								
- basic and diluted	(0.01)	(0.01)	(0.00)	(0.00)	0.02	(0.01)	(0.03)	(0.04)
Total assets	396	442	329	281	910	10,868	9,841	10,672

## Outstanding Share Data

Common shares and convertible securities outstanding at November 22, 2005 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		43,079,382	43,079,382
Warrants	Mar. 22, 2007	\$0.70	9,858,033	9,858,033
Share options	Oct. 20, 2006 to Aug. 11, 2010	\$0.15 to \$0.70	4,046,000	4,046,000
				<u>56,983,415</u>

November 22, 2005

**BLUE PEARL MINING LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(Canadian Dollars - unaudited)**

	Note	Three months ended September 30		Nine months ended September 30	
		2005	2004	2005	2004
Revenue					
Interest income		\$ 63,557	\$ -	\$ 96,813	\$ 960
Expenses					
Project development		251,230	-	351,080	-
General and administrative		139,158	28,855	631,628	98,492
Salaries and benefits		98,492	34,432	233,351	111,075
Investor relations		100,642	1,500	197,682	4,180
Interest expense		-	5,052	-	15,052
Depreciation		755	180	1,116	696
Stock option expense	7	333,137	-	479,718	-
Intellectual property lawsuits		29,079	2,772	29,303	86,825
		<u>952,493</u>	<u>72,791</u>	<u>1,923,878</u>	<u>316,320</u>
Net loss		(888,936)	(72,791)	(1,827,065)	(315,360)
Deficit, beginning of period		<u>(5,205,271)</u>	<u>(4,602,616)</u>	<u>(4,267,142)</u>	<u>(4,360,047)</u>
Deficit, end of period		\$ <u>(6,094,207)</u>	\$ <u>(4,675,407)</u>	\$ <u>(6,094,207)</u>	\$ <u>(4,675,407)</u>
Loss per share - basic and diluted		\$ <u>(0.04)</u>	\$ <u>(0.00)</u>	\$ <u>(0.08)</u>	\$ <u>(0.02)</u>
Weighted average number of shares outstanding – basic and diluted		<u>37,395,160</u>	<u>19,259,000</u>	<u>28,106,021</u>	<u>19,259,000</u>

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

**BLUE PEARL MINING LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Canadian Dollars)**

	Note	September 30 2005 (unaudited)	December 31 2004 (audited)
<b>ASSETS</b>			
Current			
Cash and cash equivalents		\$ 9,462,297	\$ 798,642
Accounts receivable and prepaid expenses		<u>141,860</u>	<u>2,653</u>
		9,604,157	801,295
Restricted cash		35,000	-
Investment in Kinbauri Gold Corp.		32,000	32,000
Property, plant and equipment	3	<u>1,000,560</u>	<u>77,046</u>
		<u>\$ 10,671,717</u>	<u>\$ 910,341</u>
 <b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		<u>\$ 174,379</u>	<u>\$ 109,296</u>
 <b>SHAREHOLDERS' EQUITY</b>			
Warrants	4	783,066	-
Contributed surplus	4	507,325	27,607
Common shares	4	15,301,154	5,040,580
Deficit		<u>(6,094,207)</u>	<u>(4,267,142)</u>
		10,497,338	801,045
		<u>\$ 10,671,717</u>	<u>\$ 910,341</u>

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

**BLUE PEARL MINING LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Canadian Dollars - unaudited)**

	Note	Three months ended September 30		Nine months ended September 30	
		2005	2004	2005	2004
<b>OPERATING ACTIVITIES</b>					
Net loss		\$ (888,936)	\$ (72,791)	\$ (1,827,065)	\$ (315,360)
Items not requiring cash:					
Depreciation		755	180	1,116	696
Stock option expense	7	333,137	-	479,718	-
Change in non-cash working capital	6	(79,147)	21,291	(74,124)	18,027
Cash used by operating activities		<u>(634,191)</u>	<u>(51,320)</u>	<u>(1,420,355)</u>	<u>(296,637)</u>
<b>FINANCING ACTIVITIES</b>					
Common shares issued		<u>1,394,678</u>	<u>-</u>	<u>11,043,640</u>	<u>180,000</u>
Cash generated by financing activities		<u>1,394,678</u>	<u>-</u>	<u>11,043,640</u>	<u>180,000</u>
<b>INVESTING ACTIVITIES</b>					
Increase in restricted cash		(35,000)	-	(35,000)	-
Property, plant and equipment	3	<u>(45,261)</u>	<u>-</u>	<u>(924,630)</u>	<u>-</u>
Cash used by investing activities		<u>(80,261)</u>	<u>-</u>	<u>(959,630)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents		680,226	(51,320)	8,663,655	(116,637)
Cash and cash equivalents, beginning of period		<u>8,782,071</u>	<u>157,910</u>	<u>798,642</u>	<u>223,227</u>
Cash and cash equivalents, end of period		<u>\$ 9,462,297</u>	<u>\$ 106,590</u>	<u>\$ 9,462,297</u>	<u>\$ 106,590</u>

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

**BLUE PEARL MINING LTD**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005 AND 2004**

**1. NATURE OF BUSINESS**

The Company was in the business of acquiring interests in patents, copyrights or other intellectual properties which were being infringed for the purpose of litigating and participating in any successful judgments or settlement resulting from litigation and continuing royalties. On April 14, 2005 at its Annual General and Special Meeting of Shareholders, the shareholders of the Company approved the change of business of the Company to mining. In addition, shareholders approved the change of name of the Company to Blue Pearl Mining Ltd. The Company acquired a 100% interest in the Davidson Property, (formerly the Yorke-Hardy Property), a molybdenum deposit located near Smithers, British Columbia in April 2005. The Company is preparing a feasibility study on the project and intends to bring the property into production.

**2. BASIS OF PRESENTATION**

The unaudited interim consolidated financial statements of the Company, which are expressed in Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and follow the same accounting policies and methods of application as the audited consolidated financial statements for the six months ended December 31, 2004. These unaudited interim consolidated financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and notes thereto. In the opinion of management, all adjustments considered necessary for fair and consistent presentation of interim financial statements have been included.

**3. PROPERTY, PLANT AND EQUIPMENT**

In April 2005, the Company acquired 100% interest in the Davidson Property (formerly the Yorke-Hardy Property), a molybdenum deposit for \$950,000 in cash, advance royalty payments to the property owners commencing in 2006 that will range from \$100,000 to \$500,000 per year depending on the world price of molybdenum, and a 2.75% net smelter royalty on future production. Significant property acquisition costs are capitalized. Exploration and development expenditures are expensed until a feasibility study has been completed that indicates the property is economically feasible. Capitalized costs are written down to their estimated recoverable amount if properties are determined to be uneconomic or are placed for sale.

#### 4. CAPITAL STOCK

##### i) Warrants

Warrants were issued under the private placements described in note 4 (iii).

A summary of the transactions in the warrants account in 2005 is as follows:

	<u>Number of Warrants</u>	<u>Amount</u>
At December 31, 2004	-	\$ -
Private placement (a)	1,691,038	299,895
Private placement (b)	6,916,833	460,138
Private placement (c)	1,250,000	23,033
At September 30, 2005	<u>9,857,871</u>	<u>\$ 783,066</u>

a) The fair value of the warrants was estimated on the closing date using the Black-Scholes warrant pricing model with the following weighted average assumptions:

Expected life in years: 1.2  
Risk free interest rate: 3.05%  
Expected volatility: 40%  
Dividend yield: 0%

b) The fair value of the warrants was estimated on the closing date using the Black-Scholes warrant pricing model with the following weighted average assumptions:

Expected life in years: 1.0  
Risk free interest rate: 3.05%  
Expected volatility: 40%  
Dividend yield: 0%

c) The fair value of the warrants was estimated on the closing date using the Black-Scholes warrant pricing model with the following weighted average assumptions:

Expected life in years: 0.9  
Risk free interest rate: 3.05%  
Expected volatility: 40%  
Dividend yield: 0%

Warrants outstanding at September 30, 2005:

<u>Exercise Price</u>	<u>Warrants</u>	<u>Expiry Date</u>
\$0.70	9,857,871	March 22, 2007

#### 4. CAPITAL STOCK ( Continued)

##### ii) Contributed surplus

A summary of the transactions in the contributed surplus account in 2005 is as follows:

	<u>Amount</u>
At December 31, 2004	\$ 27,607
Grants of stock options	<u>479,718</u>
At September 30, 2005	<u><u>\$ 507,325</u></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 2005 is as follows:

	<u>Common Shares</u>	<u>Amount</u>
At December 31, 2004	23,269,000	\$ 5,040,580
Share options exercised	400,000	128,850
Private placement (a)		
- Non-flow-through purchase receipts	13,833,667	7,840,062
- Flow-through purchase	3,076,715	1,999,865
Private placement (b)	2,500,000	1,476,967
Share issue costs	-	<u>(1,099,080)</u>
At September 30, 2005	<u><u>43,079,382</u></u>	<u><u>\$ 15,387,244</u></u>

- a) In March 2005, the Company closed a private placement of 13,833,667 non-flow-through purchase receipts at a price of \$0.60 and 3,076,715 flow-through purchase receipts at \$0.65 for gross proceeds of \$10,300,065. Each non-flow-through purchase receipt was exchanged into one common share and one-half of one common share purchase warrant in July 2005. Each whole warrant has an exercise price of \$0.70 and expires on March 22, 2007. The flow-through purchase receipts were exchanged for one common share in July 2005. Warrants with a value of \$299,895 were issued to the agent in March 2005 and they were paid a commission of \$721,005 in April 2005.
- b) In August 2005, the Company closed a non-brokered private placement of 2,500,000 units at a price of \$0.60 per unit to raise gross proceeds of \$1,500,000. Each unit is comprised of one common share and one half of a share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of \$0.70 until March 22, 2007. The common shares and the warrants acquired or any common shares acquired on the exercise of warrants will be restricted from trading until December 31, 2005.

## 6. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital:

	<u>Three months ended</u> <u>September 30</u>		<u>Nine months ended</u> <u>September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Accounts receivable and prepaid expenses	\$ (70,687)	\$ (3,131)	\$ (139,206)	\$ (2,251)
Accounts payable and accrued liabilities	(8,460)	24,422	65,082	20,278
	<u>\$ (79,147)</u>	<u>\$ 21,291</u>	<u>\$ (74,124)</u>	<u>\$ 18,027</u>

Non-cash financing activities:

	<u>Three months ended</u> <u>September 30</u>		<u>Nine months ended</u> <u>September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Warrants issued to settle issue costs of Purchase receipts	\$ <u>-</u>	\$ <u>-</u>	\$ <u>299,895</u>	\$ <u>-</u>
Purchase receipts issue costs settled by by issue of warrants	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(299,895)</u>	\$ <u>-</u>

## 7. STOCK OPTION EXPENSE

The Company used the fair value method of accounting and recognized stock option expense of \$479,718 (2004 - \$8,600) in the nine months ended September 30, 2005 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: 3.0

Risk free interest rate: 3.05%

Expected volatility: 40%

Dividend yield: 0%



## BLUE PEARL MINING LTD.

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Symbol: BLE

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### **OFFICERS**

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Vice-President, Finance and Chief Financial Officer

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