



BLUE PEARL MINING

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

Interim Report

Q2

June 30, 2005

**Blue Pearl Mining Ltd. (formerly Patent Enforcement and Royalties Ltd.)
Management's Discussion and Analysis
For the six months ended June 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 six months ended June 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.

Auditor Involvement

The auditor of Blue Pearl Mining Ltd. has not performed a review of the unaudited financial statements for the six months ended June 30, 2005 and 2004.

Overview

On April 14, 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, B.C. The Company intends to advance this project initially to a feasibility stage and then into production. In order to complete the feasibility study, the following steps will be required:

- Input geology from drill logs and build a geologic model to help constrain grades in the resource estimate
- Complete a scoping study. Take the block model results from this estimate and have a mining engineer design a mine plan. Within the mineral resource, determine the quantity of blocks classed as inferred and determine if any infill drilling is required and if so where
- Rehabilitate the underground access and prepare the underground drill stations
- For infill holes design a sampling protocol to ensure the coarse grained mineralization is properly sampled
- Start a baseline environmental study
- Complete a community relations study

Results of Operations

Expenses increased in the second quarter of 2005 by \$570,202 from the comparable 2004 quarter. The increase was due to the change in the Company's business from patent enforcement to mining. In 2005, expenses increased as the Company proceeded with the feasibility study on the Davidson Property. During the quarter, two full-time staff, including the Chief Operating Officer, were hired and the Company opened an office in Vancouver, British Columbia. The primary responsibility of the new staff is the completion of the feasibility study. General and administrative increased by \$182,431 due to expenses related to the feasibility study and the new office. Professional fees increased by \$129,277 as the Company engaged consultants to assist with the feasibility study. Wages and benefits increased by

\$73,590 as additional staff were hired. The stock option expense of \$137,981 is due to stock options issued to new staff in the quarter.

Expenses increased in the first half of 2005 by \$719,255 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 June 30, 2005 the Company had cash and cash equivalents of \$8,782,071 and working capital of \$8,670,405.

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. These funds are expected to be adequate to complete the Davidson Property feasibility study and fund the Company's working capital requirements over the next 18 months. Further financings will be required to construct the operating facilities to be determined by the feasibility study.

Summary of Quarterly Results

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

	Sep 30 2003	Dec 31 2003	Mar 31 2004	Jun 30 2004	Sep 30 2004	Dec 31 2004	Mar 31 2005	Jun 30 2005
Revenue	-	-	1	-	-	651	-	33
Net earnings (loss)	(121)	(116)	(143)	(108)	(73)	408	(292)	(645)
Earnings (loss) per share								
- basic and diluted	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	0.02	(0.01)	(0.03)
Total assets	306	396	442	329	281	910	10,868	9,841

Outstanding Share Data

Common shares and convertible securities outstanding at August 10, 2005 were:

Security	Expiry Date	Exercise Price	Securities Outstanding	Common Shares on Exercise
Common shares	n/a		40,569,382	40,569,382
Warrants	Mar. 22, 2007	\$0.70	8,608,033	8,608,033
Share options	Oct. 29, 2006 to May 2, 2010	\$0.15 - \$0.70	1,830,000	1,830,000
				<u>51,007,415</u>

August 10, 2005

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

	Note	Three months ended June 30		Six months ended June 30	
		2005	2004	2005	2004
Revenue					
Interest income		\$ 33,256	\$ 262	\$ 33,256	\$ 960
Expenses					
General and administrative		226,881	44,450	309,335	60,658
Professional fees		137,534	8,257	282,985	8,980
Wages and benefits		102,577	28,987	134,859	76,643
Investor relations		64,526	1,560	97,040	2,680
Interest expense		-	5,000	-	10,000
Depreciation		180	258	361	516
Stock option expense	7	146,581	8,600	146,581	8,600
Intellectual property lawsuits		224	11,189	224	84,053
		<u>678,503</u>	<u>108,301</u>	<u>971,385</u>	<u>252,130</u>
Net loss		(645,247)	(108,039)	(938,129)	(251,170)
Deficit, beginning of period		<u>(4,560,024)</u>	<u>(4,494,578)</u>	<u>(4,267,142)</u>	<u>(4,351,447)</u>
Deficit, end of period		<u>\$ (5,205,271)</u>	<u>\$ (4,602,617)</u>	<u>\$ (5,205,271)</u>	<u>\$ (4,602,617)</u>
Basic and diluted loss per share		<u>\$ (0.03)</u>	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding – basic and diluted		<u>23,508,560</u>	<u>19,259,000</u>	<u>23,384,470</u>	<u>19,173,285</u>

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

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

	Note	As at June 30, 2005 (unaudited)	As at December 31, 2004 (audited)
ASSETS			
Current			
Cash and cash equivalents		\$ 8,782,071	\$ 798,642
Accounts receivable and prepaid expenses		<u>71,172</u>	<u>2,653</u>
		8,853,243	801,295
Investment in Kinbauri Gold Corp.		32,000	32,000
Property, plant and equipment	3	<u>956,054</u>	<u>77,046</u>
		<u>\$ 9,841,297</u>	<u>\$ 910,341</u>
 LIABILITIES			
Current			
Accounts payable and accrued liabilities		<u>\$ 182,838</u>	<u>\$ 109,296</u>
 SHAREHOLDERS' EQUITY			
Purchase receipts	4	9,211,067	-
Warrants	4	299,895	-
Common shares		5,178,580	5,040,580
Contributed surplus		174,188	27,607
Deficit		<u>(5,205,271)</u>	<u>(4,267,142)</u>
		<u>9,658,459</u>	<u>801,045</u>
		<u>\$ 9,841,297</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		Six months ended	
		June 30		June 30	
		2005	2004	2005	2004
OPERATING ACTIVITIES					
Net loss		\$ (645,247)	\$ (108,039)	\$ (938,129)	\$ (251,170)
Items not requiring cash:					
Depreciation		180	258	361	516
Stock option expense		146,581	8,600	146,581	8,600
Change in non-cash working capital		1,325	(9,980)	5,023	(3,263)
Cash used in operating activities		<u>(497,161)</u>	<u>109,161</u>	<u>(786,164)</u>	<u>(245,317)</u>
FINANCING ACTIVITIES					
Purchase receipts issued	4	9,510,962	-	9,510,962	-
Common shares issued		<u>138,000</u>	<u>-</u>	<u>138,000</u>	<u>180,000</u>
Cash generated by financing Activities		<u>9,648,962</u>	<u>-</u>	<u>9,648,962</u>	<u>180,000</u>
INVESTING ACTIVITIES					
Property, plant and equipment		<u>(879,369)</u>	<u>-</u>	<u>(879,369)</u>	<u>-</u>
Cash used in investing activities		<u>(879,369)</u>	<u>-</u>	<u>(879,369)</u>	<u>-</u>
Change in cash and cash equivalents		8,272,432	(109,161)	7,983,429	(65,317)
Cash and cash equivalents, beginning of period		<u>509,639</u>	<u>267,071</u>	<u>798,642</u>	<u>223,227</u>
Cash and cash equivalents, end of Period		<u>\$ 8,782,071</u>	<u>\$ 157,910</u>	<u>\$ 8,782,071</u>	<u>\$ 157,910</u>

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

BLUE PEARL MINING LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 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 unanimously approved the change of business of the Company to mining. In addition, shareholders unanimously 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 completed the acquisition of a 100% interest in the Davidson Property (formerly the Yorke-Hardy Property), a molybdenum deposit located near Smithers B.C., with a portion the funds released from the financing. The total consideration for the 100% interest was \$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 for molybdenum, and a 2.75% net smelter royalty on future production.

4. PURCHASE RECEIPTS

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.

5. WARRANTS

The fair value of the warrants was estimated on the closing date in March 2005 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%

6. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital:

	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Accounts receivable and prepaid expenses	\$ (53,491)	\$ 3,010	\$ (68,519)	\$ 880
Accounts payable and accrued liabilities	54,816	(12,990)	73,542	(4,143)
	<u>\$ 1,325</u>	<u>\$ (9,980)</u>	<u>\$ 5,023</u>	<u>\$ (3,263)</u>

Non-cash financing activities:

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

7. STOCK OPTION EXPENSE

The Company use the fair value method of accounting and recognized stock option expense of \$146,581 (2004 - \$8,600) in the six months ended June 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%



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