

Black Bull Resources Inc.

# ANNUAL REPORT



Bright White Quartz



# TABLE OF CONTENTS

SECTION	PAGE NO.
Letter to Shareholders	1
Auditor's Report	4
Financial Statements	5
Notes to the Financial Statements	8
Management's Discussion & Analysis	18
Corporate Information	25



## LETTER TO SHAREHOLDERS

As the first phase of our Quartz Processing Plant nears completion, the Directors, Officers, and Staff are excited about the prospects for the future.

Looking back over the 2005 fiscal year Black Bull Resources Inc. (the Company) has seen a lot of change. Additional resources of quartz and kaolin have been identified, the *Scotia White™* branding program is well underway, and a new quartz processing plant is scheduled to be in production before the end of 2005. As well, we are currently reprocessing existing semi-processed inventories and plan to blast and crush additional quartz material once the reprocessing is complete. This will ensure adequate feed stock for the quartz processing plant throughout the winter months.



**Reprocessing in Progress**

The Company also added significant industrial minerals experience to the executive management team in 2005. Alan Davidson, VP Operations, Margaret Rhea, VP Marketing, and myself, President & CEO, joined Robert Cudmore, CFO, who has completed his first full year with Black Bull Resources Inc.

To expand communication channels, CHF Investor Relations were retained in November 2005 to provide investor relations services and get our story out to a broad base of investors.

The Company is aware that progress has been slower than desired over the last couple of years. However, in the past six months, we have taken the processing plant from planning and design to anticipate production in December 2005. Our marketing team has been working closely with U.S. Silica Company to identify key market opportunities that can be translated into firm orders once production starts to flow. As well, our marketing strategy defines five market segments to initially target. It will take time to develop a large customer base, but we are confident this can be accomplished over the next two years.



**Pool Plaster**



**Engineered Stone Countertops**

### ***Direction for the Future***

The Company assigns priority to growing shareholder value; customer focus; the development of positive cash flow; and building a performance-based business culture. Success in these areas will help to ensure sustainable growth. Investment in our people and production facilities, as well as a culture that supports continuous improvement, will build competitive advantage. Customer loyalty will be achieved through our focus on industrial mineral solutions for customer problems, the production of quality products, and exceptional customer service.

Our goal is to position the Company as a supplier of high quality, industrial quartz sand and aggregate that meets or exceeds industry standards for whiteness, brightness, and hardness. Initial feedback from potential customers who have received samples of **Scotia White™** is very positive and leads us to believe this goal is achievable.

We will develop and implement key performance indicators (KPI's) in our operations and sales to ensure we stay focused on our strategic plan and maximize profit.

It is our intention to consider international growth and development opportunities, including the marketing of **Scotia White™** products offshore. Transportation is a critical component of our go-to-market strategy. As a result, we are undertaking a logistics and transportation study in order to develop the most effective transportation strategy possible. The study is scheduled for completion in January 2006.

The Company will continue to focus on advancing the development of kaolin on the White Rock property. A strategic plan for kaolin development, defining allocation of resources and timelines, will be completed and forwarded for Board approval in the second quarter of fiscal 2006.

In closing, the Management and Board of Directors would like to thank our shareholders for their trust and patience, and our employees, customers, and suppliers for their support during 2005. We look forward to a successful 2006.

*(signed) "Barry F. Grundy"*

Barry F. Grundy, MBA  
President & CEO

*Auditor's Report,*  
*Financial Statements,*  
*Notes to*  
*Financial Statements,*  
  
*&*  
  
*Management's Discussion*  
*& Analysis*

# AUDITOR'S REPORT



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## Auditors' Report

The Shareholders,  
Black Bull Resources Inc.

We have audited the balance sheets of Black Bull Resources Inc. as at September 30, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP.*

Chartered Accountants  
November 14, 2005

Member of  
Deloitte Touche Tohmatsu

# FINANCIAL STATEMENTS

## BLACK BULL RESOURCES INC.

### BALANCE SHEETS AS AT SEPTEMBER 30

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 6,135,320	\$ 8,906,265
Receivables (Note 3)	145,230	236,087
Inventory (Note 4)	168,608	186,960
Prepaid expenses	75,586	36,341
	6,524,744	9,365,653
Capital assets and trademark (Note 5)	1,578,039	178,443
Mineral claims (Note 6)	853,119	782,038
Deferred costs (Note 7)	2,908,678	2,612,899
Other assets (Note 8)	398,772	389,807
	\$ 12,263,352	\$ 13,328,840
<b>LIABILITIES</b>		
<b>Current</b>		
Payables and accruals (Note 9)	\$ 579,493	\$ 492,117
Tax payable	9,459	35,943
	588,952	528,060
Asset retirement obligations (Note 10)	195,898	114,380
	784,850	642,440
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	17,268,842	17,268,842
Contributed surplus (Note 11)	1,222,328	1,027,228
Deficit	(7,012,668)	(5,609,670)
	11,478,502	12,686,400
	\$ 12,263,352	\$ 13,328,840
<b>Approved on behalf of the Board</b>		
<u>(signed) "James W. Gogan"</u>	Director	
<u>(signed) "David L. Wood"</u>	Director	

# BLACK BULL RESOURCES INC.

## STATEMENTS OF OPERATIONS AND DEFICIT YEARS ENDED SEPTEMBER 30

	2005	2004
MINERAL REVENUE	\$ 38,714	\$ 2,363
COSTS AND EXPENSES		
Operations	325,494	153,104
Depletion	0	11,778
Amortization	34,578	6,069
Sales and marketing	100,412	125,376
General and administration	1,160,651	1,551,152
	1,621,135	1,847,479
LOSS BEFORE OTHER ITEMS	(1,582,421)	(1,845,116)
OTHER ITEMS		
Interest income	202,229	96,696
Gain on sale of marketable securities	0	(3,835)
Writedown of inventory	0	(496,362)
Loss on sale of mineral claims	0	(33,678)
	202,229	(437,179)
LOSS BEFORE TAXES	(1,380,192)	(2,282,295)
Provision for capital taxes (Note 13)	(22,806)	(35,943)
NET LOSS FOR THE YEAR	(1,402,998)	(2,318,238)
DEFICIT AT BEGINNING OF YEAR	(5,609,670)	(3,291,432)
DEFECIT AT END OF YEAR	\$ (7,012,668)	\$ (5,609,670)
Basic and diluted loss per share	(\$0.032)	(\$0.075)
Weighted average number of shares (Note 11)	44,186,605	30,820,564

# BLACK BULL RESOURCES INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30

	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (1,402,998)	\$ (2,318,238)
Non-cash items included in net loss		
Amortization	34,578	6,069
Depletion	0	11,778
Asset retirement accretion	10,437	0
Loss on sale of capital assets	0	3,835
Loss on sale of mineral claims	0	33,678
Stock-based compensation	195,100	574,277
	(1,162,883)	(1,688,601)
Change in non-cash working capital accounts		
Receivables	90,857	(226,020)
Inventory	18,352	(186,960)
Prepaid expenses	(39,245)	(21,657)
Payables and accruals	87,376	350,406
Tax payable	(26,484)	35,943
	(1,032,027)	(1,736,889)
<b>FINANCING ACTIVITIES</b>		
Proceeds from sale of capital stock	0	10,410,379
<b>INVESTING ACTIVITIES</b>		
Trademark	(3,688)	(4,693)
Acquisition of capital assets	(1,430,486)	(179,454)
Sale of assets	0	1,168
Deferred costs	(295,779)	(727,147)
Reclamation deposits	(8,965)	(368,382)
	(1,738,918)	(1,278,508)
Change in cash and cash equivalents during the year	(2,770,945)	7,394,982
Cash and cash equivalents at beginning of the year	8,906,265	1,511,283
Cash and cash equivalents at end of year	\$ 6,135,320	\$ 8,906,265

# NOTES TO THE FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Company was incorporated under the Business Corporations Act (Alberta) on July 18, 1997, and is principally involved in mining effective April 1, 2004.

The Company is now in the business of mining production of its White Rock claim in Nova Scotia, Canada. The recoverability of the amounts shown for mineral claims and related deferred exploration costs is dependent upon the existence of economically recoverable reserves and upon future profitable production.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

### a) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of less than three months.

### b) Inventory

Product inventory is valued at the lower of production cost, consisting mainly of mining and crushing costs, and net realizable value.

### c) Capital assets and amortization

Capital assets are recorded at cost and amortization is recorded on a declining-balance basis using the following rates:

Equipment	20%
Office furniture and equipment	20%
Computer equipment	30%
Software	100%
Buildings	5%

Trademark represents costs incurred in the application process and upon approval will be amortized over the trademark period using the straight-line basis. Leasehold improvements are amortized over 2 years using the straight-line basis. Site improvements will be amortized over 10 years using the straight-line basis. Amortization of buildings and equipment commence when they are commercially utilized, other capital assets are amortized 50% in the first year.

### d) Mineral claims

Mineral claim expenses are capitalized and carried at cost until the claim to which they relate is placed in production or sold, or management has determined there to be a permanent impairment of value. If placed in production, the costs are depleted and amortized using the units-of-

production method over the estimated life of the measured and indicated resource. If the mineral claims are sold or abandoned, the related deferred amounts will be expensed.

**e) Deferred costs**

Exploration and mine development expenses are capitalized and carried at cost until the claim or project to which they relate is placed in production or sold, or management has determined there to be a permanent impairment of value. If placed in production, the costs are depleted and amortized using the units-of-production method over the estimated life of the measured and indicated resource. If the claim or project is sold or abandoned, the related deferred amounts will be expensed.

**f) Revenue recognition**

Revenue from mining operations is recognized upon shipment of the product, when title has passed to the customer and collection is reasonably assured.

**g) Asset retirement obligations**

Legal obligations associated with the retirement of tangible long-lived assets are recorded as estimated liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation using a discount rate of 7% over a 10 year term.

A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion, and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which are included in cost of sales and operating expenses.

It is possible that the Company's estimates of its asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Company currently has \$398,772 in Reclamation Funds on deposit with the Province of Nova Scotia.

**h) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant areas where management's judgement is applied are asset valuations, amortization and depletion, income taxes, stock-based compensation, and asset retirement obligations. Actual results could differ from those estimates.

**i) Stock-based compensation**

The Company has a stock-based compensation plan as described in Note 11. The Company accounts for stock options using the fair value method, whereby compensation expense for stock options is measured at the fair value at the grant date and is recognized over the vesting

period of the options granted. The Company uses the Black-Scholes model to estimate fair value.

**j) Income taxes**

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of tax loss carry forwards that are likely to be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates that are expected to be effective when recovered or settled.

The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

**k) Loss per share**

Loss per share is calculated using the weighted-average number of common shares outstanding.

Diluted loss per share is determined as net loss divided by the weighted average number of diluted common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury stock method.

Options to purchase 4,341,035 common shares and warrants to purchase 2,208,000 common shares were outstanding during fiscal 2005 but were not included in the computation of diluted loss per share because they were anti-dilutive.

**l) Impairment of long-lived assets**

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

**m) Comparative figures**

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

**3. RECEIVABLES**

	<b>September 30 2005</b>	September 30 2004
Trade	\$ 20,048	\$ 2,919
Government (HST)	125,182	233,168
	<b>\$ 145,230</b>	<b>\$ 236,087</b>

#### 4. INVENTORY

Inventory value was adjusted to the lower of cost or net realizable value at the end of fiscal 2004 to recognize estimated additional process and related costs which will be incurred to make the product marketable. No further adjustment was required in fiscal 2005.

#### 5. CAPITAL ASSETS AND TRADEMARK

	<b>September 30 2005</b>			September 30 2004	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	Net Book Value	
Office furniture & equipment	\$ 19,771	\$ 3,956	\$ 15,815	\$	11,267
Computer equipment	29,854	6,931	22,923		8,175
Software	6,355	5,760	595		2,583
Vehicle	19,468	243	19,225		
Equipment	787,860	11,237	776,623		90,024
Buildings	620,572	5,737	614,835		61,701
Leasehold Improvements	17,115	6,418	10,697		-
Site Improvements	108,945	-	108,945		-
Trademark	8,381	-	8,381		4,693
	<b>\$ 1,618,321</b>	<b>\$ 40,282</b>	<b>\$ 1,578,039</b>	<b>\$</b>	<b>178,443</b>

The following items are under development and therefore are not being amortized: Buildings (\$516,128), Equipment (\$679,989), and Site Improvements (\$108,945).

#### 6. MINERAL CLAIMS

<b>Mineral Claims</b>	<b>September 30 2005</b>		September 30 2004	
Cost, beginning of period	\$	784,655	\$	703,477
Asset retirement obligation		71,081		114,380
Expenses for the period		0		0
Costs expensed		0		(33,202)
Cost, end of period		855,736		784,655
Accumulated depletion		2,617		2,617
Net book value	\$	853,119	\$	782,038

On March 25, 2004, the Company agreed to transfer 100% ownership in the Burn, Car, and Horn, British Columbia, claims to Eagle Plains Resources Ltd. The Company received a Net Smelter Royalty on the claims to a maximum of 2%. Due to the contingent nature, no value has been

attributed to this royalty claim in these financial statements. The associated costs of these mineral claims were expensed in fiscal 2004.

## 7. DEFERRED COSTS

<b>Deferred Exploration and Development Costs</b>	<b>September 30 2005</b>	<b>September 30 2004</b>
Cost, beginning of period	\$ 2,622,060	\$ 1,895,389
Drilling/trenching	138,561	2,180
Geological consulting	0	45,436
Miscellaneous	0	1,827
Permitting	10,681	175,019
Report preparation	0	738
Sample processing	0	20,928
Research/Development	116,257	27,129
Mining Costs	30,280	453,890
Expenses for the period	0	727,147
Costs expensed	0	476
Cost, end of period	2,917,839	2,622,060
Accumulated Depletion	9,161	9,161
Net Book Value	\$ 2,908,678	\$ 2,612,899

The Company, on March 25, 2004, agreed to transfer 100% ownership in the Burn and Horn, British Columbia, claims to Eagle Plains Resources Ltd. The Company received a Net Smelter Royalty on the claims to a maximum of 2%. Due to the contingent nature, no value has been attributed to this royalty claim in these financial statements. The associated deferred costs were expensed in the fiscal 2004.

## 8. OTHER ASSETS

Other assets consist of funds held for future reclamation costs by the Province of Nova Scotia. The Natural Resources Reclamation Fund contains \$311,769 (\$304,274 in 2004) and the Environmental Reclamation Fund contains \$87,003 (\$85,533 in 2004). The funds bear interest at the provincially designated rate of 1.5% to 2.76%.

## 9. PAYABLES AND ACCRUED LIABILITIES

	<b>September 30 2005</b>	<b>September 30 2004</b>
Trade	\$ 561,281	\$ 481,861
Government (Payroll & WCB)	18,212	10,256
	\$ 579,493	\$ 492,117

**10. ASSET RETIREMENT OBLIGATION**

	<b>September 30 2005</b>	<b>September 30 2004</b>
Balance at beginning of the year	\$ 114,380	\$ -
NPV of cash flows	71,081	114,380
Accretion	10,437	-
Balance at end of the year	\$ 195,898	\$ 114,380

The \$71,081 increase in NPV of cash flows relates to \$34,808 adjustment in estimates regarding 2004 and \$36,273 for new obligations in 2005. The gross undiscounted amount of future reclamation plans is \$340,960.

**11. SHAREHOLDERS' EQUITY**

a) Authorized

Unlimited common shares without par value  
Unlimited preferred shares without par value

b) Issued, common shares

	<b>September 30 2005</b>		<b>September 30 2004</b>	
	#	\$	#	\$
Balance at beginning of the year	44,186,605	\$ 17,268,842	21,355,605	\$ 7,311,414
Shares issued for cash	-	-	22,831,000	11,506,600
	44,186,605	17,268,842	44,186,605	18,818,014
Less: share issue costs	-	-	-	(1,549,172)
Balance at end of the period/year	44,186,605	\$ 17,268,842	44,186,605	\$ 17,268,842

c) Contributed surplus

	<b>Stock Options</b>		<b>Warrants</b>	
	#	Fair Value	#	Fair Value
Balance at beginning of the year	1,960,000	\$ 468,912	2,208,000	\$ 558,316
Issued	753,301	195,100	-	-
Balance at end of the period	2,713,301	\$ 664,012	2,208,000	\$ 558,316

Contributed surplus consists of the fair value attributed to options and warrants issued since October 1, 2003. The fair value of options is recognized over the length of the vesting period. Warrants were issued for consulting and stock issue fees and options were issued to directors, officers, and consultants.

The fair value of the options and warrants were estimated at the date of grant using a Black-Scholes model with the following weighted average assumptions for 2005: risk free interest rate of 3.3 to 3.5%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 53 to 55%; and a weighted average expected life of the option of 5 years.

The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

d) Stock options and warrants

The following table summarizes the status and changes in stock options and warrants:

	Stock Options		Warrants	
	Number	Weighted average price	Number	Weighted average price
Outstanding as at				
September 30, 2003	2,233,199	\$ 0.83	4,887,160	\$ 0.71
Granted/issued	1,960,000	0.68	2,208,000	0.70
Exercised	-	0.00	(891,000)	0.60
Cancelled/expired	(75,000)	0.89	(269,300)	0.80
Outstanding as at				
September 30, 2004	4,118,199	0.76	5,934,860	0.72
Granted/issued	753,301	0.38	-	0.00
Exercised	-	0.00	-	0.00
Cancelled/expired	(530,465)	0.89	(3,726,860)	0.74
Outstanding as at				
September 30, 2005	<b>4,341,035</b>	<b>\$ 0.68</b>	<b>2,208,000</b>	<b>\$ 0.70</b>

The following table summarizes information about stock options and warrants outstanding at September 30, 2005:

<b>Range of exercise prices</b>	<b>Number of Options</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price</b>
\$0.32 - 0.50	1,476,635	3.0 years	\$ 0.41
\$0.53 - 0.96	2,626,400	1.2 years	\$ 0.76
\$1.44	238,000	0.2 years	\$ 1.44
	<b>4,341,035</b>	<b>1.8 years</b>	<b>\$ 0.68</b>

<b>Range of exercise prices</b>	<b>Number of Warrants</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price</b>
<b>\$0.70</b>	<b>2,208,000</b>	<b>0.3 years</b>	<b>\$ 0.70</b>

On March 14, 2003, the Company adopted a formal stock option plan whereby up to 20% of the issued and outstanding common shares are reserved for issuance under the Plan. The Plan provides for the granting of options which qualify for treatment as incentive stock options or non-statutory stock options and entitles directors, employees, and consultants to purchase common shares of the Company. Options granted are subject to approval by the Board of Directors. The exercise price of each option equals the average market price of the Company's stock on the date of grant and the maximum term of an option is 5 years. Options and warrants are exercisable to shares at a ratio of 1 to 1.

The options generally vest over a period of 18 months from the date of grant and immediately become exercisable once vested. The options generally have a term of 5 years.

## **12. RELATED PARTY TRANSACTIONS**

During the period the Company entered into the following transactions with certain directors and officers of Black Bull Resources Inc. and companies under their control or control of their spouses.

Joseph MacDonald, Director, was paid \$11,800 in 2005 (\$27,650 in 2004) for marketing consulting.

The Company paid 1582877 Ontario Inc./Don Hilton \$113,400 in consulting fees during 2005 (\$47,383 in 2004). The 2005 fees are compensation for performing the Interim President & CEO duties, assisting the new President & CEO during the transition and assisting with kaolin developments.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

### 13. CAPITAL AND INCOME TAX

#### (a) Capital Tax

The Province of Nova Scotia currently taxes corporations on the portion of their long-term financial capital used in the Province. The tax threshold is \$5,000,000 of capital. The Company has exceeded the threshold. The provision balance for fiscal 2005 is \$22,806 (\$35,943 in 2004). This is the net of the 2005 amount due and the difference between the actual payment regarding 2004 and the 2004 provision.

#### (b) Income Tax

The income tax recovery and change in valuation allowance differs from the amounts computed by applying Canadian statutory rates of 38.12% (2004 - 39.1%) to the loss before income taxes as follows:

	<b>2005</b>	2004
Income tax recovery at statutory rate	\$ (526,000)	\$ (892,000)
Amortization and other	(11,000)	(3,000)
Employee stock options	74,000	76,000
Share issue costs	(132,000)	(114,000)
Increase in valuation allowance	595,000	933,000
Income tax recovery	\$ -	-

The approximate tax effect of temporary differences and tax loss carry forwards that give rise to the Company's future income tax assets computed by applying Canadian statutory rates of 38.12% (2004 - 39.1%) are as follows:

	<b>2005</b>	2004
Future income tax assets (liabilities)		
Capital assets	\$ (514,000)	\$ (6,000)
Mineral claims	(122,000)	(104,000)
	(636,000)	(110,000)
Share issue costs	396,000	540,000
Net future income tax asset (liability)	(240,000)	430,000
Tax loss carry forwards	2,424,000	1,909,000
Future income tax asset	2,184,000	2,339,000
Valuation allowance	(2,184,000)	(2,339,000)
Future income tax asset	\$ -	\$ -

The Company has the following losses carried forward available for tax purposes:

<u>Expiry date</u>	<u>Amount</u>
2006	212,000
2007	368,000
2008	713,000
2009	491,000
2010	639,000
2011	2,378,000
2012	1,557,000
	<u>\$6,358,000</u>

#### **14. FINANCIAL INSTRUMENTS**

##### *Fair value*

The carrying values of accounts receivable and accounts payable approximate their fair values based on their liquidity and short-term nature. The fair value of the long-term liability is determined using the present value of cash flows method.

#### **15. COMMITMENTS**

On August 1, 2003, the Company entered into an agreement with U.S. Silica Company (USS) for the sale of silica product produced from the White Rock property. The five year agreement ending July 31, 2008, appoints USS as an exclusive agent for the United States and Canada, except for the Atlantic Provinces. Under the agreement, the Company has agreed to pay USS commissions.

# MANAGEMENT'S DISCUSSION & ANALYSIS

## OF FINANCIAL AND OPERATING RESULTS (in Canadian dollars)

The following discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of the disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee reviews this disclosure and recommends its approval by the Board of Directors. The MD&A dated November 17, 2005, is prepared in conformity with National Instrument 51-102F1 and has been approved by the Board of Directors. This management discussion and analysis should be read in conjunction with Black Bull Resources Inc.'s audited financial statements for the years ended September 30, 2004 and 2005, together with the accompanying notes.

### Overall Performance

During 2005, Black Bull Resources Inc. continued to develop as an industrial minerals company. In the first half of the fiscal year, the objectives were to fill all vacant executive positions, continue with the *Scotia White*<sup>TM</sup> marketing strategy, design an adequate processing facility, ensure environmental compliance, and expand resource determinations. In the last half of the year, the objectives were to purchase the proper processing equipment, construct a processing plant, complete further market research with a view to updating the marketing plan, and compile further information regarding the kaolin resource at the White Rock Property.

The Company had sales of quartz landscape stone during the fiscal year, which primarily occurred in the first and fourth quarters with customers in the Maritimes. The quartz product sold contained excess fine particulate and some staining, thereby reducing the selling price. The Company's market research indicates that this market is still an area where the Company anticipates significant sales in fiscal 2006, starting in the third quarter. To that end, Black Bull will commence a blast and crush program in December 2005 to ensure an adequate inventory of premium quartz sand and aggregate is available for feed to the drying and sizing plant.

Black Bull commenced site preparation for the processing plant and ancillary buildings in August 2005. The construction of the quartz processing building started in September and was completed in mid November. All major equipment was delivered and installation began in late October. The electrical and mechanical systems are currently being installed. In December 2005, the equipment is expected to be commissioned and the production of customer samples of the *Scotia White*<sup>TM</sup> quartz will begin. This revised completion date is the result of accumulated minor delays



**Completed Processing Building**

attributable to poor weather conditions, longer than estimated time to construct the steel building, and equipment delivery schedules. The Company expects commercial production to commence in January 2006 with sales contracts in the second quarter of fiscal 2006.

There was no blasting, crushing, or processing activity during fiscal 2005. In October, 2005, the Company started washing and crushing the existing quartz aggregate inventory to prepare it as feedstock for the processing plant. The Company's contract with Atcon Construction Limited has expired and the Company has engaged Aberdeen Paving Ltd. to perform the reprocessing. Aberdeen will also crush the new rock from the December 2005 blasting program. New quality controls will be implemented to insure a consistent quality of the quartz products.



**Reprocessing Aggregate Inventory**

During the year, the Company completed a drill program along strike on the White Rock Property. The resulting Resource Report outlined further inferred quartz and kaolin resources. The Company has also extracted larger kaolin samples for the purposes of continued research on resource grading and to establish the marketable uses of kaolin. Black Bull will finalize a kaolin development plan in the second quarter of fiscal 2006. The plan will outline the drilling strategy, potential markets, environmental implications, and capital requirements.

The Company continues its research to find new quartz markets to complement previously identified markets. Black Bull is also working closely with U.S. Silica Company to brand the *Scotia White*<sup>™</sup> quartz and has designed and implemented a new branding campaign that emphasizes the premium characteristics of the product. Representatives of both Black Bull and U.S. Silica have been promoting the *Scotia White*<sup>™</sup> products to potential customers and have received many requests for product samples. The Company has filled some of the requests for quartz samples; however, other requests will have to wait until the processing plant is commissioned and additional sample product is processed. It is anticipated that customer orders should be received in the second quarter of fiscal 2006.

During the course of this fiscal year, the Company had several significant changes in its executive management. In May 2005, Mr. Barry F. Grundy was appointed to the position of President & Chief Executive Officer replacing Interim President & Chief Executive Officer, Donald Hilton. Mr. Grundy is located in Halifax, Nova Scotia, and is responsible for continuing the progress and achieving growth for the Company by providing leadership in the planning and execution of all aspects of the business operations. In April 2005, Mr. Alan Davidson was appointed to the position of Vice President Operations, occupying a vacancy previously left by John Wonnacott. Mr. Davidson is located in Shelburne, Nova Scotia, and is responsible for all operational aspects related to the development of the Company's White Rock Mine in Yarmouth County, Nova Scotia. In June 2005, Ms. Margaret R. Rhea was appointed to the new position of Vice President Marketing. Ms. Rhea is located in Halifax, Nova Scotia, and is responsible for all marketing and sales support activities of the Company.



**Listera australis**

The Company completed its first Annual Monitoring Report detailing the impact of its operations on the environment (including water, plant and animal life). The Nova Scotia Government has reviewed the December 2004 Annual Monitoring Report as well as the required quarterly monitoring reports and has not identified any concerns or issues. The Company has continued to comply with all provincial government regulations prior to and during site development and construction.

### Financial Results Overview and Results of Operations

	2005	2004	2003
Net Mineral Sales	37,624	2,363	0
Net Loss	1,402,998	2,318,238	622,773
Net Loss per Share (Basic and Diluted)	(0.032)	(0.075)	(0.035)
Total Assets	12,263,352	13,328,840	4,161,693
Total Long-Term Financial Liabilities	0	0	0

During 2005 the Company’s revenue was earned from sales of quartz landscape stone. The sales were mostly to one customer in Nova Scotia and other smaller sales to various customers in the local area. The product was sold for a low gross margin. Subsequent to the year end, Black Bull began preparing the aggregate inventory for processing through its new drying and sizing plant, which will be commissioned in December. This, along with ability to package in 3000 lb bulk bags and 50 lb & 100 lb bags, will create value-added products to be sold at higher prices with better margins.

The 2005 operating costs include \$235,720 for the entire year’s environmental monitoring and reporting compared to \$124,030 for only six months last year. Trucking and scale rental costs were \$79,800 versus \$15,351 in 2004, due to the increase in sales during the year. The remaining expenses relate to land lease costs, cost of inventory, and direct costs of the operations. The sales and marketing decrease relates to a one time \$72,622 cost to transport, clean, process, and bag four sizes of fine sands in 2004, offset by an increase in salaries paid to \$51,492 in 2005 from \$10,438 in 2004.

General and administration costs decreased in 2005 by \$390,501. Consulting fees decreased significantly by \$500,935 as \$381,009 was included in 2004 for the fair value of stock-based compensation. The Company also had less need for outside consultants due to the hiring of staff and executives. The wages and benefits expense increase of \$136,035 was related to the hiring of additional staff and filling of vacant executive positions.

<b>General &amp; Administrative Costs</b>	<b>2005</b>	<b>2004</b>
Accounting & Legal Fees	77,515	77,340
Advertising & Promotion	14,567	23,038
Consulting Fees	69,809	570,744
Insurance	46,807	30,287
Investor Relations	90,454	60,541
Listing & Transfer Agent Fees	21,096	54,790
Office, Rent & Telephone	45,283	73,855
Travel & Entertainment	123,376	115,229
Wages & Benefits	655,384	519,244
Other	16,360	26,084
	<b>1,160,651</b>	<b>1,551,152</b>

The interest income increased by \$105,533 as a result of investing the cash generated from previous financings for the full year versus five months in 2004. There was also an increase in the average interest rate in 2005.

The Company recorded a \$496,362 write-down of inventory in 2004. The Company decided that the quartz aggregate inventory can be processed to make it suitable for feedstock for the processing plant. The extra processing expense will be reasonable, and therefore no further inventory adjustments are required for fiscal 2005.

### Summary of Quarterly Results

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income:								
Mineral Revenue	14,976	3,700	3,881	16,157	2,363	0	0	0
Interest income	48,433	48,814	49,709	55,273	45,324	31,615	18,514	1,243
	<b>63,409</b>	<b>52,514</b>	<b>53,590</b>	<b>71,430</b>	<b>47,687</b>	<b>31,615</b>	<b>18,514</b>	<b>1,243</b>
Costs:								
Operations	89,637	83,572	81,854	70,431	71,588	78,965	0	2,550
Sales & marketing	32,992	12,555	7,828	47,037	72,061	37,566	0	15,749
General & admin	304,597	349,729	256,323	250,002	551,440	496,340	170,521	332,851
Other	30,091	18,426	6,247	2,620	545,920	7,100	34,288	358
	<b>457,317</b>	<b>464,282</b>	<b>352,252</b>	<b>370,090</b>	<b>1,241,009</b>	<b>619,971</b>	<b>204,809</b>	<b>351,508</b>
Net Loss	<b>393,908</b>	<b>411,768</b>	<b>298,662</b>	<b>298,660</b>	<b>1,193,322</b>	<b>588,356</b>	<b>186,295</b>	<b>350,265</b>
Net Loss per Share (Basic and Diluted)	(0.009)	(0.009)	(0.007)	(0.007)	(0.024)	(0.022)	(0.010)	(0.019)

Net mineral sales increased because there were two larger orders of quartz landscape stone in Q4 2005 versus Q3 and Q4 2004 consisting of local smaller orders. Sales and marketing in Q4 2005 increased from Q3 2005 by \$20,437 relating to the salary of the new Vice President Marketing. It is reduced from Q4 2004 because last year contained the cost of the trucking and production of sample products. General and administration decreased in Q4 2005 from Q4 2004 because there was less stock-based compensation and less consulting fees for executive searches.

## **Liquidity**

The Company considers the available cash, obtained from previous financings in 2004, to be sufficient to complete the processing plant and sustain operations until the Company can create cash flow from operations. The Company expects to generate cash flow from operations in the third quarter of fiscal 2006.

## **Capital Resources**

In fiscal 2006, the Company intends to complete phase one of the quartz production facility with a remaining capital requirement of \$2.6 million to come from working capital. The Company also intends to use \$0.5 million of working capital to implement phase two of the quartz processing plant in the third quarter of fiscal 2006. Working capital will also be used to implement the kaolin development plan; the cost of this will depend on the approved plan by the Board of Directors.

## **Transactions with Related Parties**

During 2005 the Company paid Joseph MacDonald, Director, \$11,800 versus \$27,650 in 2004 for consulting with regards to marketing. With the hiring of the Vice President Marketing in June 2005 the need for this consulting has been eliminated.

The Company paid 1582877 Ontario Inc./Don Hilton \$113,400 in consulting fees during the year versus \$47,383 in 2004. The 2005 fees are compensation for performing the Interim President & CEO duties, assisting the new President & CEO with the transition, and for assisting with the kaolin development plan. The Company expects to retain Don Hilton to consult on kaolin development, institutional investor relations, and international marketing.

## **Changes in Accounting Policies**

The Company has not changed any accounting policies nor initiated any new accounting policies.

## **Conclusions about the Effectiveness of Disclosure Controls**

The CEO and the CFO have completed their evaluation of Black Bull's disclosure controls. They have concluded that the disclosure controls and procedures are effective.

## **Subsequent Events**

Following an application by the Company, on October 27, 2005, the Ontario Securities Commission issued an order deeming Black Bull Resources Inc. to be a reporting issuer for the purposes of Ontario securities law.

In November 2005, the Company engaged CHF Investor Relations (Cavalcanti Hume Funfer Inc.) as its new investor relations firm to provide investor relations services. The initial term of engagement is for a six month period ending April 30, 2006. CHF will be paid \$5,000 per month plus reimbursement for authorized disbursements. CHF was also granted 100,000 stock options to acquire common shares of the Company at \$0.28. A further 100,000 stock options will be granted to CHF priced in the context of the market on May 1, 2006. The Investor Relations Agreement may be terminated on 3 months notice by either party. CHF replaces the Company's previous investor relation consultant Coal Harbor Communications.

## Other MD&A Disclosures

During fiscal 2005, 753,301 new options were granted to Directors and Officers and 530,465 options expired during this period.

During fiscal 2005, no new warrants were granted; however, 3,726,860 warrants expired during this period.

<b>Outstanding Securities</b>	<b>Year Ended September 30, 2005</b>
Common Shares	44,186,605
Options (Exercisable to one Common Share)	4,341,035
Warrants (Exercisable to one Common Share)	2,208,000
<b>Total Outstanding Securities</b>	<b>50,735,640</b>

## Risks and Uncertainties

Mineral exploration and development involves a high degree of risk since few properties are developed into producing mines. There are no assurances that the Company's mineral exploration activities will result in the discovery of resources or further resources that would be economical for commercial production. The commercial viability of mineral deposits is dependent upon a number of factors, which are beyond the Company's control. Some of these factors are attributable to commodity or product prices, government policy and regulation, and environmental protection.

Resource estimates involves degrees of uncertainty in calculation of reserves and the corresponding grades. Resource estimates are dependent partially on statistical inferences drawn from drilling, sampling, and other data. The indicated and inferred resource figures set forth by the Company are estimates, and there is no certainty that the level of resources will be realized or the chemical composition or concentration of the resources will be maintained throughout the property. In addition, a decline in the market price of industrial minerals, or a substantial increase in production or shipping costs, may adversely affect the economics of a reserve and may require the Company to reduce its estimates.

## Forward-Looking Statements

Certain statements in this Management's Discussion & Analysis of Financial and Operating Results are forward-looking statements subject to risks and uncertainties. A number of factors could cause actual results to differ materially from those expressed in the forward-looking statements, including but not limited to: transportation availability and fluctuation in cost, completion of the processing facility, success level of the joint Black Bull and U.S. Silica marketing and branding of the *Scotia White*<sup>TM</sup> quartz products, energy costs, currency fluctuations, corporate compliance, and local political stability.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable law.

## Additional Information

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.blackbullresources.com](http://www.blackbullresources.com).

## Approved on behalf of the Board

*(signed) "Donald A. Wright"*, Director & Chairman

*(signed) "James W. Gogan"*, Director

**NOTES**

**BLACK BULL  
RESOURCES INC.**

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**GENERAL  
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Chairman of the Board  
Toronto, ON

George T.H. Cooper  
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Halifax, NS

James W. Gogan  
Director  
New Glasgow, NS

Joseph MacDonald  
Director  
Judique, NS

J. Wayne Mailloux  
Director  
Teton Village, WY  
USA

David L. Wood  
Director  
Vancouver, BC

**OFFICERS:**

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President & CEO  
Halifax, NS

Robert W. Cudmore  
Chief Financial Officer  
Yarmouth, NS

Alan W. Davidson  
VP Operations  
Shelburne, NS

Margaret R. Rhea  
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**SALES & MARKETING  
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25411-0187  
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Black Bull Resources Inc. is an integrated miner, processor, and marketer of silica-based industrial minerals under the trademark *Scotia White*<sup>™</sup>.

The Company's vision is to become a world leader in industrial minerals.

This will be accomplished by providing industrial mineral solutions; identifying and pursuing growth opportunities; maximizing shareholder value; creating a learning organization; and operating in an environmentally responsible manner.

**ANNUAL GENERAL  
MEETING:**

Shareholders and other interested parties are invited to Black Bull Resources Inc.'s AGM on January 19, 2006, at Casino Nova Scotia Hotel, Halifax, NS, at 2 pm.

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