

INTERIM  REPORT

2007

MARCH 31  
2007



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## LETTER TO SHAREHOLDERS

May 11, 2007

First, let me say how delighted I am to be the new President & CEO of Black Bull Resources Inc. This is an exciting company with solid potential.

Since assuming this office I've spoken with numerous investors and some have actually asked me why I accepted this position. I came here, initially as a Board member and now as the senior manager, for two reasons: the unique ore deposit and the quality of the Board of Directors. I've been in leadership positions in the industrial minerals business for more than 12 years; I've never seen quartz as white and as bright as our White Rock deposit. When I first joined Black Bull as a Director 16 months ago, I did not know what value this quartz might bring in the marketplace, but I knew this was a mineral with extraordinary qualities. The uniqueness of this quartz and the apparent potential of the kaolin clay and mica deposit meant opportunities to me.

Also, since it is the people that really make a business successful, I was really impressed with the Board of Directors. This company is fortunate to have such high quality leadership at the board level. Based on these two important "building blocks" at Black Bull, I come into the CEO position confident and optimistic that this company can succeed.

If you've followed the history of Black Bull, you know that we've had some struggles in launching this business over the past couple of years. Frankly, it isn't unusual for a start-up business to have a few misfires. By having dealt with our past difficulties, however, I believe this company stands stronger and better positioned for success. As examples, we now have direct relationships with many key customers in our target markets. We understand, first hand, our customers' needs and the value our unique white quartz brings to the marketplace. Since the start-up of our new quarry and processing plant, we know what improvements are needed to optimize our production of defined products and how to minimize our costs. Steps have already been taken in this regard.

To better understand the reasons for new-found optimism with this business, let me elaborate further on the business improvements that have happened since our last Letter to Shareholders.

**Strong Management Team Now in Place**—Effective April 1, 2007, we announced a strong team of key managers who have brought enthusiasm, experience, dedication, and continuity to our business. Bob Cudmore, CFO; Joe McDonald, VP of Sales & Marketing; Scott Hoeg, VP of Operations; Sheila Acker, Administration Manager; Trinda Goreham, Customer Service Manager; and Margaret Rhea, Marketing Consultant make up a management team that is working hard and is fully committed to our success. I have every confidence in this team.

**Solid Sales Volumes in Place and Ramping Up**—The results of our direct selling efforts these past few months are paying dividends. Our initial target market segments, pool plaster aggregates and engineered stone, have proven to provide exceptional pricing and quality profit margins. Due to customer enthusiasm for our *Scotia White*<sup>™</sup> products, we actually began shipping limited product orders in April, ahead of our original schedule.

In the month of May orders are showing an increase with sales to at least seven different customers to date. Forecasts show solid revenue growth into June and beyond. Our branding efforts and quality

reputation in the market are growing steadily, along with our orders. We are beginning to sell to a more diverse customer base as well. While we are selling *Scotia White*<sup>TM</sup> throughout a broad North American geography; at this point, we are building a major customer base in California and Florida. We're proud that our customers are the leading businesses in their respective market segments.

**Improved Operations and Planned Expansion**—As we prepared to re-start our White Rock processing plant, a concerted effort was made to improve our existing operation. An extensive maintenance program was completed as well as up-grades and improvements to the plant. These steps were taken to insure more reliable and more cost-effective production.

A focal point for improvement at the White Rock site was the more than \$500,000 investment in a new Barmac VSI crushing system. As of mid-May this crushing system is at our site, and successfully operating. The Barmac crusher will allow us to reduce our processing costs by making a finer, drier feed for the plant. It will improve our production efficiencies and allow us to enter new damp stone markets.

We are now set to ramp up production to better meet demand. In the 2008 fiscal year, we expect to sell over 30,000 Tons of product. From this start, we forecast increase sales to over 80,000 Tons in fiscal year 2009. In order to meet next year's forecast, we have undertaken an equity financing offering of up to \$6.5 million that will allow us to triple our production capacity. This plant expansion is currently being planned and will be implemented this winter. Given these sales projections and our expansion in place, we should achieve positive cash flow by mid-calendar year 2008.

**Sustainable Development**—Beyond Black Bull's efforts to launch a successful quartz business, this company is committed to "doing the right thing" at all times. We are committed to the safety of each of our employees, to being environmentally responsible, and to being a solid corporate citizen in Nova Scotia and local communities in Shelburne and Yarmouth counties. We will be a factor in the area's economic growth and prosperity. The recent hiring of eight more employees at the White Rock Property is just a small start to the positive impact we at Black Bull hope to provide. We are proud to be in southwestern Nova Scotia, and we will do our part to support the community.

In review, we have every reason to be optimistic and "Bullish" about our future. We have made significant strides in the past quarter, and we are excited about the future.

We now have a strong, capable management team in place. We are now a stronger, better-positioned company. Our newly developed sales strategy is being realized. Our improved plant operation has successfully re-started and is in full production. Financial requirements for future needs and expansion have been identified and are being secured. Major expansion of our plant facility is planned for implementation this winter. We are committed to being a proud, solid corporate citizen. We expect to be cash flow positive next year.

Good things are happening at Black Bull. You can sense the excitement and the optimism. I am pleased that you have chosen to be a part of our expected success. Be assured that, along with our Management Team and our Board of Directors, I am fully committed to the growth and success of this company. Thank you for your support. I look forward to reporting our progress on a regular basis.

*"Richard J. Shearer"*

Richard J. Shearer,  
President & CEO



***Black Bull***

***Resources Inc.***

***March 31, 2007***  
***Interim***  
***Financial Statements***

***Including:***  
***Financial Statements***  
***&***  
***Notes to***  
***Financial Statements***

# FINANCIAL STATEMENTS

## BLACK BULL RESOURCES INC.

### BALANCE SHEETS

	March 31 2007	September 30 2006
	<i>"Unaudited"</i>	<i>"Audited"</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 743,600	\$ 1,081,541
Receivables (Note 3)	35,958	121,485
Capital tax receivable	-	13,443
Inventory (Note 4)	391,168	453,722
Prepaid expenses	133,516	62,455
	1,304,242	1,732,646
Capital assets (Note 5)	3,186,672	3,287,123
Mineral claims (Note 6)	879,855	879,855
Deferred costs (Note 7)	2,913,714	2,913,714
Other assets (Note 8)	507,280	499,480
	\$ 8,791,763	\$ 9,312,818
<b>LIABILITIES</b>		
<b>Current</b>		
Payables and accruals (Note 9)	\$ 217,004	\$ 425,481
Convertible debentures, net of deferred financing costs (Note 10)	764,654	-
	981,658	425,481
Asset retirement obligation (Note 11)	242,253	234,195
	1,223,911	659,676
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 12)	17,320,087	17,268,842
Contributed surplus (Note 12)	1,459,215	1,398,722
Deficit	(11,211,450)	(10,014,422)
	7,567,852	8,653,142
	\$ 8,791,763	\$ 9,312,818
<b>Approved on behalf of the Board</b>		
<i>"Richard J. Shearer"</i>	Director	
<i>"James W. Gogan"</i>	Director	

**BLACK BULL RESOURCES INC.**

**INTERIM STATEMENTS OF OPERATIONS,  
COMPREHENSIVE LOSS, AND DEFICIT  
PERIODS ENDED MARCH 31  
(unaudited)**

	2007		2006	
	3 months	6 months	3 months	6 months
MINERAL REVENUE	\$ -	\$ 28,078	\$ -	\$ 3,298
<b>COSTS AND EXPENSES</b>				
Operations and overhead	235,434	433,714	217,509	344,344
Depletion	-	-	-	3,597
Amortization	9,918	105,729	143,667	159,950
Sales and marketing	142,665	261,217	56,475	113,733
General and administration	196,452	411,069	344,512	659,894
	584,469	1,211,729	762,163	1,281,518
LOSS BEFORE OTHER ITEMS	(584,469)	(1,183,651)	(762,163)	(1,278,220)
<b>OTHER ITEMS</b>				
Interest expense	(25,575)	(25,575)	-	-
Interest income	8,687	22,663	29,231	69,508
	(16,888)	(2,912)	29,231	69,508
LOSS BEFORE TAXES	(601,357)	(1,186,563)	(732,932)	(1,208,712)
Provision for capital tax (Note 14)	(6,465)	(10,465)	(8,574)	(17,329)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(607,822)	(1,197,028)	(741,506)	(1,226,041)
DEFICIT AT BEGINNING OF PERIOD	(10,603,628)	(10,014,422)	(7,497,203)	(7,012,668)
DEFICIT AT END OF PERIOD	\$ (11,211,450)	\$ (11,211,450)	\$ (8,238,709)	\$ (8,238,709)
Basic and diluted loss per share	(\$0.014)	(\$0.027)	(\$0.017)	(\$0.028)
Weighted average number of shares	44,186,605	44,186,605	44,186,605	44,186,605

**BLACK BULL RESOURCES INC.**

**INTERIM STATEMENTS OF CASH FLOWS**  
**PERIODS ENDED MARCH 31**  
**(unaudited)**

	2007		2006	
	3 months	6 months	3 months	6 months
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ -607,822	\$ -1,197,028	\$ -741,506	\$ -1,226,041
Non-cash items included in net loss				
Amortization	9,918	105,729	143,667	159,950
Depletion	-	-	-	3,597
Asset retirement accretion	4,063	8,058	2,238	3,238
Accretion on convertible debentures	25,575	25,575	-	-
Stock-based compensation	31,220	60,493	49,296	83,978
	-537,046	-997,173	-546,305	-975,278
Change in non-cash working capital accounts				
Receivables	-3,064	85,527	149,977	100,378
Inventory	53,109	62,554	-103,778	-365,968
Prepaid expenses	-84,930	-71,061	5,768	-6,354
Payables and accruals	36,248	-213,755	-823,320	-237,662
Capital tax	13,443	13,443	-	-9,459
	-522,240	-1,120,465	-1,317,658	-1,494,343
<b>FINANCING ACTIVITIES</b>				
Net proceeds from convertible debentures	790,324	790,324	-	-
<b>INVESTING ACTIVITIES</b>				
Trademark	-	-	-199	-2,181
Acquisition of capital assets	-	-	-195,981	-1,964,404
Deferred costs	-	-	-	-7,791
Reclamation deposits	-3,900	-7,800	-87,240	-89,480
	-3,900	-7,800	-283,420	-2,063,856
Change in cash and cash equivalents during the period	264,184	-337,941	-1,601,078	-3,558,199
Cash and cash equivalents at beginning of the period	\$ 479,416	\$ 1,081,541	\$ 4,178,199	\$ 6,135,320
Cash and cash equivalents at end of period	\$ 743,600	\$ 743,600	\$ 2,577,121	\$ 2,577,121

# NOTES TO THE FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND CONTINUATION OF THE BUSINESS

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 in the business of mining, processing, and marketing quartz from 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.

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption.

The Company has incurred significant operating losses over the past three fiscal years. In addition, the Company recently resumed operations after they were temporarily ceased in order to conserve cash resources and focus expenditures on developing a new sales strategy, securing financing, and adding new equipment to improve plant and feedstock utilization.

The Company must obtain financing for capital and working capital requirements. An \$850,000 convertible debenture offering has been completed; however, further financing will be required to expand capacity and add new products. There can be no assurance that such financing will be achieved. The Company's continued existence is dependent upon its ability to restructure its financing arrangements and to obtain and maintain profitable operations.

If the going-concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net losses, and the balance sheet classifications used.

## 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, crushing costs, screening, and washing, and net realizable value.

**c) Capital assets**

Capital assets are recorded at cost and amortization is recorded on either a declining-balance (DB) or straight-line (SL) basis using the following rates:

Equipment	20% DB
Office furniture and equipment	20% DB
Computer equipment	30% DB
Software	100% DB
Buildings	10% DB
Trademarks	10% SL
Leasehold improvements	50% SL
Site improvements	10% SL

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 obligation**

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 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 \$507,280 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 judgment 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 12. 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 during 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. The "if-converted" method is used to determine the dilutive effect of convertible debentures.

Options to purchase 3,832,991 common shares were outstanding at March 31, 2007, but neither the options nor convertible debenture were 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) Comprehensive income**

Effective October 1, 2006, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income in accordance with generally accepted accounting principles. The Company has no other comprehensive income components and, accordingly, the Company's net income equals comprehensive income.

**n) Financial instruments**

Effective October 1, 2006, the Company adopted CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

<b>Asset/Liability</b>	<b>Classification</b>	<b>Measurement</b>
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

The Company has adopted the policy of amortizing transaction costs to net income using the effective interest method.

Section 3861 establishes standards for presentation of financial instruments and identifies the information that should be disclosed about them.

Section 3865 describes how and when hedge accounting can be used and the required disclosures.

The initial adoption of these standards had no impact on the financial statements of the Company. During the three-month period ended March 31, 2007, the Company issued

convertible debentures (Note 10). The convertible debentures are classified as other financial liabilities, which are measured at cost using the effective interest-rate method.

**o) Comparative figures**

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

**3. RECEIVABLES**

	<b>March 31 2007</b>		September 30 2006
Trade	\$ 3,044	\$	80,033
Government (HST)	32,914		41,452
	<b>\$ 35,958</b>	<b>\$</b>	<b>121,485</b>

**4. INVENTORY**

	<b>March 31 2007</b>		September 30 2006
Semi-processed	\$ 334,119	\$	390,506
Processed goods	2,025		3,457
Consumables	55,024		59,759
	<b>\$ 391,168</b>	<b>\$</b>	<b>453,722</b>

During the second fiscal quarter of 2007, \$50,000 of the existing inventory was used for site infrastructure and other semi-processed materials were determined not to be of sufficient quality for infeed when processing resumes. During fiscal 2006, some of the existing inventory was used for site infrastructure and also resized for use in the processing plant.

**5. CAPITAL ASSETS**

	<b>March 31 2007</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Office furniture & equipment	\$ 37,065	\$ 11,670	\$ 25,395
Computer equipment	38,426	18,594	19,832
Software	32,089	25,656	6,433
Vehicle	47,968	15,938	32,030
Equipment	1,964,806	360,398	1,604,408
Buildings	1,475,708	140,554	1,335,154
Leasehold improvements	17,115	17,115	-
Site improvements	186,802	34,247	152,555
Trademark	12,783	1,918	10,865
	<b>\$ 3,812,762</b>	<b>\$ 626,090</b>	<b>\$ 3,186,672</b>

	September 30 2006		
	Cost	Accumulated Amortization	Net Book Value
Office furniture & equipment	\$ 37,065	\$ 8,849	\$ 28,216
Computer equipment	38,426	15,093	23,333
Software	32,089	19,222	12,867
Vehicle	47,968	10,286	37,682
Equipment	1,959,528	304,712	1,654,816
Buildings	1,475,708	117,925	1,357,783
Leasehold improvements	17,115	14,976	2,139
Site improvements	186,802	28,020	158,782
Trademark	12,783	1,278	11,505
	<b>\$ 3,807,484</b>	<b>\$ 520,361</b>	<b>\$ 3,287,123</b>

## 6. MINERAL CLAIMS

	<b>March 31 2007</b>	September 30 2006
Cost, beginning of period	\$ 883,314	\$ 855,736
Asset retirement obligation	-	27,578
Cost, end of period	<b>883,314</b>	883,314
Accumulated depletion	<b>3,459</b>	3,459
Net book value	<b>\$ 879,855</b>	\$ 879,855

## 7. DEFERRED COSTS

<b>Deferred Exploration and Development Costs</b>	<b>March 31 2007</b>	September 30 2006
Cost, beginning of period	\$ 2,925,631	\$ 2,917,839
Research/development	-	7,792
Cost, end of period	<b>2,925,631</b>	2,925,631
Accumulated depletion	<b>11,917</b>	11,917
Net book value	<b>\$ 2,913,714</b>	\$ 2,913,714

## 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 \$416,569 (\$409,969 at September 30, 2006) and the Environmental Reclamation Fund contains \$90,711 (\$89,511 at September 30, 2006). The funds bear interest at the provincially designated rate of 2.5% to 4.4%.

## 9. PAYABLES AND ACCRUED LIABILITIES

	<b>March 31</b>		September 30
	<b>2007</b>		2006
Trade—operational	\$ 202,184	\$	349,123
Trade—capital	6,017		53,311
Government (payroll & WCB)	8,803		23,047
	<b>\$ 217,004</b>	<b>\$</b>	<b>425,481</b>

## 10. CONVERTIBLE DEBENTURES

	<b>March 31</b>		September 30
	<b>2007</b>		2006
Balance, beginning of period	\$ -	\$	-
Total gross proceeds	850,000		-
Equity component	(51,245)		-
Deferred financing costs	(59,676)		-
	<b>739,279</b>		<b>-</b>
Accretion	25,575		-
Balance, end of period	\$ 764,654	\$	-

On February 15, 2007, the Company issued 12% secured convertible debentures for total gross proceeds of \$850,000. The convertible debentures mature on February 15, 2008, and interest is paid quarterly on June 30, 2007, September 30, 2007, December 31, 2007, and February 15, 2008. The debentures are convertible at the debenture holder's option into common shares at a conversion rate of \$0.15 per share. The debentures are not redeemable on or before June 15, 2007. The debentures hold an automatic conversion option if the market value of the shares exceeds \$0.25 per share for 20 consecutive days. The Company has pledged all assets to secure the debentures; although the Company has the right to provide security over its accounts receivables and inventory to secure qualifying bank debt up to a maximum of \$1.0 million.

As the holder can convert the debentures into a fixed number of common shares, the debenture obligations were classified partially as a liability and partially as shareholders' equity. The liability component was calculated as the present value of the required contractual payments of principal and interest discounted at an interest rate approximating that which would have been applicable to non-convertible subordinated debt at the time the debentures were issued. The difference between the principal amount of the debentures and the amount initially recorded as a liability, representing the value of the conversion option, \$51,245, was recorded as capital stock.

## 11. ASSET RETIREMENT OBLIGATION

	<b>March 31</b>		September 30
	<b>2007</b>		2006
Balance, beginning of period	\$ 234,195	\$	195,898
NPV of cash flows	-		27,578
Accretion	8,058		10,719
Balance, end of period	\$ 242,253	\$	234,195

The gross undiscounted amount of future reclamation plans is \$402,390 (\$402,390 at September 30, 2006). During fiscal 2006, there was an increase in NPV of \$27,578 for new obligations.

## 12. SHAREHOLDERS' EQUITY

### a) Authorized

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

### b) Issued, common shares

	March 31 2007		September 30 2006	
	#	\$	#	\$
Issued	44,186,605	\$ 17,268,842	44,186,605	\$ 17,268,842
Common share conversion option (Note 10)	-	51,245	-	-
Total issued common shares and conversion option	44,186,605	\$ 17,320,087	44,186,605	\$ 17,268,842

### c) Contributed surplus

	Stock Options		Warrants	
	#	Fair Value	#	Fair Value
Balance, beginning of period	4,109,764	\$ 840,406	2,208,000	\$ 558,316
Stock compensation expense	1,285,650	60,493	-	-
Balance, end of period	5,395,414	\$ 900,899	2,208,000	\$ 558,316

The contributed surplus of \$1,459,215 (\$1,398,722 at September 30, 2006) consists of the fair value attributed to options and warrants granted since October 1, 2003. The fair value of options is recognized over the length of the vesting period. Warrants were granted for consulting and stock issue fees; options were granted 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: risk-free interest rate of 3.31% to 4.1%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 51% to 65%; 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, 2005	4,341,035	0.68	2,208,000	0.70
Granted/issued	1,396,463	0.30	-	-
Cancelled/expired	(2,812,491)	0.67	(2,208,000)	0.70
Outstanding as at				
September 30, 2006	2,925,007	\$ 0.45	-	\$ -
Granted/issued	1,285,650	0.12	-	-
Cancelled/expired	(377,666)	0.25	-	-
Outstanding as at				
March 31, 2007	<b>3,832,991</b>	<b>\$ 0.35</b>	-	<b>\$ -</b>

The following table summarizes information about stock options and warrants outstanding at March 31, 2007:

Range of exercise prices	Number of Options	Weighted average remaining contractual life	Weighted average exercise price
\$0.10 - 0.42	3,086,591	3.5 years	\$ 0.27
\$0.53 - 0.96	746,400	1.6 years	\$ 0.71
	<b>3,832,991</b>	<b>3.2 years</b>	<b>\$ 0.35</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.

### **13. RELATED PARTY TRANSACTIONS**

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

The Company incurred fees for marketing consulting and performing President & CEO duties with Joseph MacDonald (J&E Consultants), Director, for the three and six months ended March 31, 2007, totaling \$43,300 and \$85,800, respectively (nil for the three and six months ended March 31, 2006, respectively).

The Company incurred fees for marketing consulting with Richard Shearer, Director, for the three and six months ended March 31, 2007, totaling \$28,971 and \$56,871, respectively (nil for the three and six months ended March 31, 2006, respectively). Mr. Shearer was appointed President & CEO effective March 1, 2007.

### **14. 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 million of capital. The Company expects to exceed the threshold. The provision for the six months ended March 31, 2007, is \$6,465 (\$8,574 for the six months ended March 31, 2006).

### **15. FINANCIAL INSTRUMENTS**

*Fair value:* The carrying values of cash and cash equivalents, receivables, payables and accruals, and convertible debentures approximate their fair values based on their liquidity and short-term nature. The fair value of the asset retirement obligation is determined using the present value of cash-flows method.

### **16. COMMITMENTS**

On August 1, 2003, the Company entered into an agreement with U.S. Silica Company (USS) for the sale of silica products produced from the White Rock Property. The five year agreement was for a term ending July 31, 2008, appointed USS as an exclusive agent for the United States and Canada, except for the Atlantic Provinces. During fiscal 2006, the Agreement has been revised to limit the market segments and geographic area where USS has exclusivity. Under the Agreement, the Company agreed to pay USS commissions.

On January 29, 2007, Black Bull terminated the U.S. Silica sales agreement in accordance with its rights to do so. Discussions are underway with U.S. Silica regarding resolution of the issues arising from the termination.

### **17. SUBSEQUENT EVENTS**

On May 9, 2007, the Company received a Barmac crushing system from Metso Minerals Canada Inc. The Company will pay for the system over the eight months subsequent to delivery.

On May 10, 2007, Black Bull announced a private placement of up to \$6.5 million with PowerOne Capital Markets Limited with an expected closing date of June 4, 2007.



***Black Bull***

***Resources Inc.***

***March 31, 2007***

***Interim***

***Management's Discussion  
& Analysis***

# 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 management's discussion and analysis (MD&A) dated May 11, 2007, is prepared to conform to National Instrument 51-102F1 and has been approved by the Board of Directors. This MD&A should be read in conjunction with Black Bull Resources Inc.'s audited financial statements for the year ended September 30, 2006, and unaudited interim financial statements for the three and six-month periods ending March 31, 2007, together with the accompanying notes. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

### Overall Performance

The resumption of operations at the White Rock Property was the main focus of Black Bull Resources Inc. during the second fiscal quarter of 2007.

The Sales Taskforce, formed in October 2006, had made over 120 direct sales calls on over 60 customers and confirmed strong customer interest in *Scotia White*<sup>TM</sup> quartz in the in-ground swimming pool and engineered stone industries. In December with the results from the Taskforce, the Board decided to resume operations.

The Company has completed a number of successful full-scale trials in the USA. Some of these trials have lead to immediate and repeat orders to California, and the Company has sold all of its limited April production. Sales are expected to increase through May and June and hit significant volumes in July and remain at similar levels for the remainder of 2007.



**Full-scale Trial Using *Scotia White*<sup>TM</sup> Quartz**

The Company plans an expansion of facilities at the end of 2007 to add processing capacity to continue to support sales growth.

Effective March 1, 2007, Richard J. Shearer was appointed president and CEO. In addition to retaining Mr. Cudmore as CFO and Sheila Acker as administration manager, Mr. Shearer has added to the management team.

Joseph MacDonald, a director and member of the Sales Taskforce, has accepted the role of vice president of sales and marketing. Initially, Mr. MacDonald will work closely with Mr. Shearer to continue to

develop customers in the swimming pool and engineered stone markets. Mr. MacDonald will also be responsible for introducing *Scotia White*<sup>™</sup> quartz into other markets.

Scott Hoeg, CET, has accepted the role of vice president of operations. Mr. Hoeg was part of the team who developed the plan to improve operations at the White Rock Property. He designed the crushing system and will be responsible for all processing operations including the Phase 2 expansion. He will ensure customers receive a quality product on a timely basis. To assist Mr. Hoeg, Trinda Goreham was hired as customer service manager.



**Components of the Barmac Vertical Shaft Impact (VSI) Crushing System**

From January to March, the Company completed a program to improve the efficiency of material throughput and extend the useful life of metal components of the processing plant. During April, testing trials were conducted, utilizing the improved plant, which also confirmed the ability to produce some new product lines required by potential customers. All ordered capital equipment has been received and commissioned.

In February, to bridge the cash requirements until an equity financing could be completed, the Company closed an offering of \$850,000 one-year, secured convertible debentures. The debentures bear a 12% annual interest rate with a \$0.15 per share conversion rate. The debentures hold an automatic conversion option if the market value of the shares exceeds \$0.25 per share for 20 consecutive days. Directors and Officers acquired more than 60% of the issue.

The Company has received a reduction in monitoring requirements during the closure of operations. The 2006 Annual Environmental Monitoring Report outlining the impact from operations on water along with plant and animal life has been submitted. The Company has continued to comply with all provincial government agencies during this period. Based on the projected level of production during the next three years, along with information gathered from the power statistical analyses completed at year-end, the Company has requested changes to the frequency of collecting certain water data and the reduction of specialized reports. Black Bull will continue to work with Nova Scotia government agencies to ensure appropriate levels of monitoring continue.

On January 29, 2007, the exclusive sales agency agreement with U.S. Silica Company was terminated. Discussions with U.S. Silica to resolve a damages claim by Black Bull Resources Inc. relating to the

agreement are underway. It is expected these will ultimately be resolved via binding arbitration in accordance with the former agreement.

The focus of management will continue to be on developing the *Scotia White*<sup>TM</sup> quartz business during this critical stage of the Company's re-launch. Black Bull continues to be encouraged by the positive reception for *Scotia White*<sup>TM</sup> quartz in the marketplace.

### Summary of Quarterly Results and Results of Operations

Quarterly Results	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Income:								
Mineral revenue	-	28,078	103,085	24,175	-	3,298	14,976	3,700
Interest income	8,687	13,976	22,412	25,035	29,231	40,277	48,433	48,814
	<b>8,687</b>	<b>42,054</b>	<b>125,497</b>	<b>49,210</b>	<b>29,231</b>	<b>43,575</b>	<b>63,409</b>	<b>52,514</b>
Costs:								
Operations	235,434	198,280	533,852	334,004	217,509	126,834	89,637	83,572
Sales & marketing	142,665	118,552	51,122	66,447	56,475	57,258	32,992	12,555
General & admin	196,452	214,617	280,856	360,304	344,512	315,383	304,597	349,729
Amort./depletion	9,918	95,811	156,149	163,981	143,667	19,880	14,470	12,264
Interest expense	25,575	-	-	-	-	-	-	-
Other	6,465	4,000	(4,869)	8,574	8,574	8,755	15,621	6,162
	<b>616,509</b>	<b>631,260</b>	<b>1,017,110</b>	<b>933,310</b>	<b>770,737</b>	<b>528,110</b>	<b>457,317</b>	<b>464,282</b>
Net loss	<b>(607,822)</b>	<b>(589,206)</b>	<b>(891,613)</b>	<b>(884,100)</b>	<b>(741,506)</b>	<b>(484,535)</b>	<b>(393,908)</b>	<b>(411,768)</b>
Net loss per share (basic and diluted)	(0.014)	(0.013)	(0.020)	(0.020)	(0.017)	(0.011)	(0.009)	(0.009)

Operating Cash	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net loss	<b>(607,822)</b>	<b>(589,206)</b>	<b>(891,613)</b>	<b>(884,100)</b>	<b>(741,506)</b>	<b>(484,535)</b>	<b>(393,908)</b>	<b>(411,768)</b>
Non-cash operating items	70,776	129,079	193,902	226,123	195,201	55,562	63,907	68,464
Net cash loss from operations	<b>(537,046)</b>	<b>(460,127)</b>	<b>(697,711)</b>	<b>(657,977)</b>	<b>(546,305)</b>	<b>(428,973)</b>	<b>(330,001)</b>	<b>(343,304)</b>

During the second quarter, Nil revenue was earned. The \$28,100 reduction of mineral revenue from Q1 2007 is due to the Company ceasing operations during the second quarter. Black Bull expects to ramp-up commercial production and have limited sales during the third quarter. Sales levels are projected to increase during the remainder of 2007. The Q2 interest income decreased as a result of cash used for operations.

The Q2 2007 operating costs include \$13,100 for propane and diesel fuel versus \$36,100 in Q1 2007, and \$50,300 in Q2 2006. The decrease during Q2 relates to the closure of operations during the quarter. The Company paid \$44,700 for production wages in Q2 2007, \$68,300 in Q1 2007, and \$78,300 in Q2 2006 mainly due to the reduction in employees. The wages were used to perform the plant maintenance program. Environmental costs decreased to \$23,200 in Q2 2007 from \$32,400 in Q1 due to the reduced plant and animal monitoring because of the season, along with reduced requirements during shutdown. The Q2 2007 environmental costs were lower than the \$42,600 in Q2 2006 because less sub-contracting was incurred for monitoring. Equipment rental costs decreased to \$600 in Q2 from \$22,100 during Q1

2007, and \$13,000 in Q2 2006; the decrease related to the closure of operations at the White Rock Property. The overall increase in operating expenses, during the second fiscal quarter, were mainly attributable to the Company completing maintenance and refurbishing programs at a cost of \$85,000; and a \$50,000 inventory adjustment. The remaining expenses relate to land lease costs, along with direct and indirect costs of the operations; many of these expenses were reduced because of the closure of operations.

The decisions to proceed with resuming operations and terminating the agreement with U.S. Silica has created the need for Black Bull to create its own sales team. The Company expected the intense market development program to increase the marketing spending during this quarter. The Q2 2007 sales and marketing costs of \$142,700 are increased from \$118,600 during Q1 2007 due to the concentrated effort by the Sales Taskforce to convert interest in *Scotia White*<sup>TM</sup> quartz to orders and agreements. These costs were an increase of \$86,200 from Q2 2006. There was \$8,800 more spent for samples and tradeshow versus Q1 2007 and \$6,800 less than Q2 2006. Travel costs increased by \$5,800 versus Q1 2007 and by \$14,600 versus Q2 2006. There was a \$9,500 increase in marketing wages, benefits, and consulting in Q2 2007 over Q1 2007 and a \$64,800 increase over Q2 2006. Marketing costs are expected to remain at these levels due to the termination of the agreement with U.S. Silica.

<b>General &amp; Administrative Costs</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>Q2 2006</b>
Accounting & Legal Fees	33,293	31,362	32,706
Advertising & Promotion	1,120	274	2,896
Consulting Fees	4,025	11,850	4,050
Insurance	15,699	15,750	12,846
Investor Relations	6,481	5,000	25,221
Listing & Transfer Agent Fees	8,246	4,309	6,014
Office, Rent & Telephone	11,765	10,865	15,447
Travel & Entertainment	6,132	14,164	24,664
Wages & Benefits	109,691	121,043	220,668
	196,452	214,617	344,512

The Company's Q2 2007 general and administration costs decreased by \$18,200 from the Q1 2007 costs. These decreases were attributable to an \$8,000 decrease in travel costs and an \$11,400 decrease in wages and benefits.

The Q2 2007 G&A expenses decreased by \$148,100 over the Q2 2006 costs. During the period, investor relations expenses decreased by \$18,700; this was due to the termination of the external consultants. The listing and transfer agent fees increased by \$2,200; due to the timing of the annual filings. Office expenses decreased by \$3,700; due to the closure of the Halifax office at the end October 2006. The wages and benefits decreased by \$111,000 due to a reduced CEO and VPO salary and a reduction in the charge for fair value of stock compensation. Travel costs reduced by \$18,500 due to the reduced management team during the quarter.

The Company did not utilize the processing plant for production during the quarter resulting in a reduction of \$85,900 from Q1 2007 when the plant was utilized for two months. The plant shutdown in Q2 2007 resulted in a \$133,700 decrease in amortization from Q2 2006 when the plant had begun production.

## **Liquidity**

At the end of this period, Black Bull had \$322,584 in working capital; however, \$850,000 is currently available because the debentures are not repayable until February 2008. The Company's current assessment is that these levels are sufficient to resume operations; however, further equity financing will be required to sustain operations until positive cash flow.

On May 10, 2007, Black Bull announced a private placement of up to \$6.5 million with PowerOne Capital Markets Limited with an expected closing date of June 4, 2007.

## **Capital Resources**

During the quarter, the Company completed an offering of \$850,000 secured convertible debentures, maturing February 15, 2008, with a 12% annual interest rate and a conversion rate of \$0.15/share. The debentures hold an automatic conversion option if the market value of the shares exceeds \$0.25 per share for 20 consecutive days. The Company intends to use these funds to purchase capital equipment and finance operations until the equity financing occurs during fiscal Q3 2007.

One of the intended uses of the equity financing is to implement Phase 2 which will triple the current production rate. The funds will also be used for general corporate purposes until the Company reaches positive cash flow, which is expected during 2008.

## **Transactions with Related Parties**

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. 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.

The Company incurred fees for marketing consulting and performing President & CEO duties with Joseph MacDonald (J&E Consultants), Director, for the three and six months ended March 31, 2007, totaling \$43,300 and \$85,800, respectively (nil for the three and six months ended March 31, 2006, respectively).

The Company incurred fees for marketing consulting with Richard Shearer, Director, for the three and six months ended March 31, 2007, totaling \$28,971 and \$56,871, respectively (nil for the three and six months ended March 31, 2006, respectively). Mr. Shearer was appointed President & CEO effective March 1, 2007.

## **Changes in Accounting Policies**

The Company has not changed any accounting policies during the period. However, it has initiated a new policy on financial instruments.

Effective October 1, 2006, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. The adoption of these standards had no impact on the financial statements of the Company on initial implementation.

## Internal Controls over Financial Reporting

No changes in the Company's internal controls and procedures have occurred during the Company's most recent interim period, which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. During the Company's initial evaluation of the design of internal controls, a weakness common to small companies was identified. The Company does not have a sufficient number of personnel to allow for proper segregation of duties. To compensate for this, all major commitments require two signatures, including either the CEO or CFO, and all payments require CEO and CFO approval.

## Subsequent Events

On May 9, 2007, the Company received a Barmac crushing system from Metso Minerals Canada Inc. The Company will pay for the system over the eight months subsequent to delivery.



**Barmac VSI Crushing System**

## Other MD&A Disclosures

During Q2 2007, 1,085,650 options were granted to Officers and Management and 98,111 options were canceled or expired. Subsequent to the end of the interim period, 1,118,550 additional options were granted to Directors and Officers.

<b>Outstanding Securities</b>	<b>Period Ended March 31, 2007</b>	<b>MD&amp;A Dated May 11, 2007</b>
Common Shares	44,186,605	44,186,605
Options (Exercisable to one Common Share)	3,832,991	4,951,541
Warrants (Exercisable to one Common Share)	-	-
<b>Total Outstanding Securities</b>	<b>48,019,596</b>	<b>49,138,146</b>

During Q2 2007, no warrants were granted; therefore, the balance remains at zero.

## **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 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 pricing and demand, currency fluctuations, government policy and regulation, transportation, and environmental protection.

Resource estimates involve 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.

Transportation is a critical part of the Company's success. It is imperative that Black Bull provide cost-effective transportation solutions to customers.

Maintaining sufficient cash resources to finance a start-up operation is difficult. Debt financing is usually based on positive cash flows and a significant customer base. Many junior resource companies experience difficulties obtaining debt financing and must rely on other sources such as market equity, mezzanine financing, and/or government programs. Black Bull is currently proceeding with various options to meet its requirements.

Liability insurance is an issue in the industrial minerals industry. There is growing concern over the number of silicosis-related claims that have been filed against silica processors in the USA. Black Bull has obtained international liability insurance with a silica dust exclusion endorsement. Company research indicates that Black Bull employees and employees of customers are covered for medical conditions by workers compensation. The Company has implemented procedures to ensure users of the materials are aware of available product information.

## **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, success level of the Company's marketing and branding of the *Scotia White*<sup>TM</sup> quartz products, liquidity, energy costs, currency fluctuations, corporate compliance, limitations in liability insurance coverage, 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).

## CORPORATE INFORMATION

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### **CONTACT**

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### **GENERAL INFORMATION**

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(TSXV Exchange)

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Richard J. Shearer  
President & CEO

### **DIRECTORS:**

J. Wayne Mailloux  
Director &  
Chairman of the Board  
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George T.H. Cooper  
Director  
Halifax, NS

James W. Gogan  
Director  
New Glasgow, NS

Joseph MacDonald  
Director  
Judique, NS

Richard J. Shearer  
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USA

David L. Wood  
Director  
Vancouver, BC

Donald A. Wright  
Director  
Toronto, ON

### **OFFICERS:**

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Chief Financial Officer  
Yarmouth, NS

Joseph MacDonald  
Vice President,  
Sales & Marketing  
Judique, NS

Scott Hoeg  
Vice President,  
Operations  
Truro, NS

Black Bull Resources Inc. is an integrated miner, processor, and marketer of silica-based industrial minerals under the trademark *Scotia White*<sup>TM</sup>.

Black Bull's vision is to become North America's leading supplier of bright white quartz to the pool-finish, engineered-stone, and other building products based industries.

This goal will be reached through successful branding and marketing techniques and the development of a world-class organization based on the values of serving customer needs, fulfilling safety, environmental, and social responsibilities, and delivering fair returns to our shareholders.

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