

ANNUAL REPORT



2 0 0 8



TABLE OF CONTENTS

| SECTION | PAGE NO. |
|------------------------------------|----------|
| Letter to Shareholders | 1 |
| Independent Auditors' Report | 3 |
| Financial Statements | 4 |
| Notes to the Financial Statements | 7 |
| Management's Discussion & Analysis | 20 |
| Corporate Information | 33 |

Quartz Processing Equipment



LETTER TO SHAREHOLDERS

January 26, 2009

2008 was a challenging year for Black Bull Resources Inc. as the Board and management team dealt with a variety of issues beyond the control of this business. Early during this fiscal year, it became apparent that one of the weakest North American housing markets in decades was driving our building products quartz sales below our monthly budgeted levels. We were gaining solid acceptance in the market and proving the unique quality of our pool plaster, flooring and countertop quartz aggregates but the customer sales did not grow enough to generate the tons required to bring Black Bull Resources Inc. to a cash flow positive position.

As the year progressed, the economic environment deteriorated such that our customers were buying less than half of the quartz they had purchased a year earlier. As the building products market continued to sink, the North American economy continued to falter. Some of our building products customers have gone out of business; many others have slashed their payrolls and are looking to enter new businesses just to survive. There is no question that Black Bull Resources Inc., like many other businesses today, has been hurt by the serious economic recession of the past several months. It was imperative that the Company react to this circumstance. Black Bull Resources Inc. needed to adapt.

In this difficult economic environment, Black Bull Resources Inc. recognized that change had to happen in order to bring this company to positive cash flow. During the past twelve months, the management team has worked hard to develop new market opportunities. There were three business models developed that would reposition this Company in 2009: a) Quartz Stone for the Ferro Silicon Industry, b) Low Iron Glass Sand for the Solar Panel Glass Industry and c) Kaolin Clay for the Paper Industry.

The Ferro silicon industry needs a quartz with the right chemistry, including a high SiO₂ (silicon) content, for use in various applications including strengthening metal alloys and solar cells for green energy. We have successfully completed full scale production trials which prove that our quartz is acceptable. The weak economy has drawn out the timing for us to enter this market. The Company does not have adequate cash resources to await purchase orders from the Ferro-silicon marketplace, so we are moving to a care and maintenance status.

We have also worked on another facet of the high growth solar panel industry by developing a low iron glass sand for flat glass used to cover the photo cells. Many glass producers are scrambling to increase capacity to meet the expected 20%-30% annual growth over the next three to five years. Black Bull Resources Inc. has demonstrated that we have the potential to become a low iron sand supplier to this market. Due to significant competition and higher transportation costs than our competitors it is unlikely we will be able to enter this market in the foreseeable future.

Our third business model is the commercial development of our kaolin clay resource. We have done work using a processing technology that is more environmentally sound and more economical than other traditional kaolin clay processes. This has opened a door for us to look seriously at becoming a commercial supplier of kaolin clay to the paper mills in this region. Testing and trials are ongoing at this time with our lab processed kaolin clay. However; before any commercialization could be initiated several technical and specification requirements must be met.

In response to the current depressed economic conditions the Company continues to reduce costs. We have implemented workforce reductions, continued a temporary plant closure while working off existing inventories, and initiated salary cuts for the entire management team. All of these actions however are not going to be enough to continue operating this business in any normal format. We have limited remaining cash at this stage, no meaningful new orders in hand, and our efforts to find additional financing options have not been successful.

While we continue to believe that Black Bull Resources Inc. has the potential to be an eventual success, it does not seem that we can survive without moving quickly into a “care and maintenance” mode. By taking steps to reduce our monthly expenses to an absolute minimum, while we generate additional cash to remain a going concern by selling surplus assets and product from inventory, we plan to position Black Bull Resources Inc. to continue in a minimal role until the economy rebounds and we can prove out our strategic initiatives. We expect to generate enough cash from these actions to exist, without any meaningful revenue, for the next 12-18 months at least. We have hope that this approach will allow us to weather this economic storm.

This interim period “care and maintenance” business structure will allow the Company to preserve its valuable mineral rights and position itself to pursue our strategic initiative programs in an improved economic time. This has been a difficult decision but it has been a necessary strategy to allow Black Bull Resources Inc. every possible chance to survive and, in time, prosper as a new industrial mineral business.

There can be no assurances that our “care and maintenance” format, in the near term, nor our new strategic initiative programs to be further pursued, longer term, will succeed. This is a challenging period for sure.

Black Bull will continue to work hard, to adapt and to strive to achieve success, if at all possible, under these difficult circumstances.

Sincerely,

“Richard J. Shearer”

Richard J. Shearer,
President & CEO

AUDITORS' REPORT



Deloitte & Touche LLP
1969 Upper Water Street
Suite 1500
Purdy's Wharf Tower II
Halifax NS B3J 3R7
Canada

Tel: (902) 422-8541
Fax: (902) 423-5820
www.deloitte.ca

Auditors' Report

The Shareholders,
Black Bull Resources Inc.

We have audited the balance sheets of Black Bull Resources Inc. as at September 30, 2008 and 2007 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, 2008 and 2007 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
Halifax, Nova Scotia
January 26, 2009

FINANCIAL STATEMENTS

BLACK BULL RESOURCES INC.

BALANCE SHEETS AS AT SEPTEMBER 30

| | 2008 | 2007 |
|--|--------------|---------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 796,856 | \$ 5,042,378 |
| Receivables (Note 3) | 50,590 | 147,462 |
| Inventory (Note 4) | 437,842 | 589,005 |
| Prepaid expenses | 51,772 | 110,785 |
| Capital tax receivable | 12,129 | - |
| | 1,349,189 | 5,889,630 |
| Capital assets (Note 5) | 3,963,487 | 3,629,361 |
| Mineral claims (Note 6) | 961,484 | 876,235 |
| Deferred costs (Note 7) | 2,903,901 | 2,902,232 |
| Other assets (Note 8) | 538,657 | 520,004 |
| | \$ 9,716,718 | \$ 13,817,462 |
| LIABILITIES | | |
| Current | | |
| Payables and accruals (Note 9) | \$ 184,095 | \$ 741,739 |
| Convertible debentures, net of deferred financing costs (Note 10) | - | 326,628 |
| Capital tax payable | - | 10,976 |
| | 184,095 | 1,079,343 |
| Asset retirement obligation (Note 11) | 359,982 | 250,588 |
| | 544,077 | 1,329,931 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (Note 12) | 23,538,215 | 23,538,215 |
| Contributed surplus (Note 12) | 1,982,235 | 1,815,165 |
| Deficit | (16,347,809) | (12,865,849) |
| | 9,172,641 | 12,487,531 |
| | \$ 9,716,718 | \$ 13,817,462 |
| Approved on behalf of the Board | | |
| <u><i>"James W. Gogan"</i></u> | Director | |
| <u><i>"Richard J. Shearer"</i></u> | Director | |

BLACK BULL RESOURCES INC.

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, AND DEFICIT YEARS ENDED SEPTEMBER 30

| | 2008 | 2007 |
|---|-----------------|-----------------|
| MINERAL REVENUE | \$ 257,125 | \$ 169,874 |
| COSTS AND EXPENSES | | |
| Operations and overhead | 1,124,620 | 959,627 |
| Depletion | 15,102 | 15,102 |
| Amortization | 642,203 | 380,183 |
| Sales and marketing | 264,700 | 431,618 |
| General and administration | 1,124,424 | 988,887 |
| Arbitration (Note 16) | 423,987 | 21,920 |
| | 3,595,036 | 2,797,337 |
| LOSS BEFORE OTHER ITEMS | (3,337,911) | (2,627,463) |
| OTHER ITEMS | | |
| Interest expense | (41,592) | (101,704) |
| Interest income | 131,890 | 106,189 |
| Writedown of inventory | (214,573) | (196,583) |
| LOSS BEFORE TAXES | (3,462,186) | (2,819,561) |
| Provision for capital tax (Note 14) | (19,774) | (31,866) |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | (3,481,960) | (2,851,427) |
| DEFICIT AT BEGINNING OF YEAR | (12,865,849) | (10,014,422) |
| DEFICIT AT END OF YEAR | \$ (16,347,809) | \$ (12,865,849) |
| Basic and diluted loss per share | \$ (0.038) | \$ (0.045) |
| Weighted average number of shares | 90,853,271 | 64,008,339 |

BLACK BULL RESOURCES INC.

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30

| | 2008 | 2007 |
|---|----------------|----------------|
| OPERATING ACTIVITIES | | |
| Net loss for the year | \$ (3,481,960) | \$ (2,851,427) |
| Non-cash items included in net loss | | |
| Amortization | 642,203 | 380,183 |
| Depletion | 15,102 | 15,102 |
| Accretion on asset retirement obligation | 20,525 | 16,393 |
| Accretion on convertible debentures | 23,372 | 57,405 |
| Stock-based compensation | 167,070 | 141,423 |
| | (2,613,688) | (2,240,921) |
| Change in non-cash working capital accounts | | |
| Receivables | 96,872 | (25,977) |
| Inventory | 151,163 | (135,283) |
| Prepaid expenses | 59,013 | (48,330) |
| Payables and accruals | (557,644) | 58,418 |
| Capital tax payable | (23,105) | 24,419 |
| | (2,887,389) | (2,367,674) |
| FINANCING ACTIVITIES | | |
| (Repayment of) proceeds from sale of convertible debentures | (350,000) | 787,835 |
| Proceeds from sale of capital stock | - | 6,025,781 |
| | (350,000) | 6,813,616 |
| INVESTING ACTIVITIES | | |
| Acquisition of capital assets | (976,329) | (464,581) |
| Development costs | (13,151) | - |
| Reclamation deposits | (18,653) | (20,524) |
| | (1,008,133) | (485,105) |
| Change in cash and cash equivalents during the year | (4,245,522) | 3,960,837 |
| Cash and cash equivalents at beginning of the year | \$ 5,042,378 | \$ 1,081,541 |
| Cash and cash equivalents at end of year | \$ 796,856 | \$ 5,042,378 |

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND CONTINUATION OF BUSINESS

The Company was incorporated under the Business Corporations Act (Alberta) on July 18, 1997, and began commercial production of quartz effective April 1, 2004. On June 12, 2008 the Company continued under the Canada Business Corporations Act.

The Company is in the business of mining, processing, and marketing quartz from its White Rock claim in Nova Scotia, Canada. The Company is also investigating the commercialization of its kaolin resource. 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.

At September 30, 2008, the Company had not yet achieved profitable operations and continues to incur significant operating losses including \$3,481,960 in the current fiscal year. If the trend continues, the current working capital is not sufficient to sustain the Company for the next 12 months. In order to conserve cash resources management suspended operations and implemented a care and maintenance plan.

The company's continued existence is dependent upon maintaining control of its mineral resources through the sale of surplus assets and inventory until such time as the market improves or a purchase order for its mineral resource is received. However, there can be no assurances that the steps management is taking will be successful

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, drying, screening, packaging, and freight, 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% of the given rate 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 \$556,057 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. The weighted average is calculated on number of days outstanding for the twelve-month period ended September 30, 2008.

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 5,736,756 and warrants to purchase 2,400,000 common shares were outstanding at September 30, 2008, but neither the options, warrants, 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

Classification

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. The Company has classified payables and accruals and convertible debentures as other financial liabilities and receivables as loans and receivables. The Company has classified cash and cash equivalents as held for trading, the carrying value of which approximates fair value. Loans and receivables and other financial liabilities are recorded at amortized cost using the effective interest method.

Transaction costs

Transaction costs related to loans and receivables and other financial liabilities are netted against the carrying value and are then recognized over the expected life using the effective interest method.

o) Change in accounting policies

Effective October 1, 2007, the Company adopted CICA Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. Section 3862 and 3863 replaced Section 3861, *Financial Instruments – Disclosure and Presentation*.

Section 1535, establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies, and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and if it has not complied, the consequences of such non-compliance.

Section 3862, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, establishes standards for presentation of financial instruments and non-financial derivatives.

The additional disclosures, required as a result of the adoption of these standards, have been included in Note 15, Financial Instruments.

p) Future accounting changes

Inventories: In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning October 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The Company is currently evaluating the impact of the adoption of this new section on its financial statements.

q) Comparative figures

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

3. RECEIVABLES

| | September 30 2008 | | September 30 2007 |
|------------------|------------------------------|-----------|----------------------|
| Trade | \$ 40,758 | \$ | 90,091 |
| Government (HST) | 9,832 | | 60,415 |
| | 50,590 | | 150,506 |
| Doubtful Account | - | | (3,044) |
| | \$ 50,590 | \$ | 147,462 |

4. INVENTORY

| | September 30 2008 | | September 30 2007 |
|-----------------|------------------------------|-----------|----------------------|
| Semi-processed | \$ 208,578 | \$ | 384,089 |
| Processed goods | 179,787 | | 148,132 |
| Consumables | 49,477 | | 56,784 |
| | \$ 437,842 | \$ | 589,005 |

During fiscal 2008, older raw material valuation has been adjusted by \$214,573 (\$196,583 at September 30, 2007) to reflect changes in net realizable value.

5. CAPITAL ASSETS

| | | | September 30 2008 | |
|------------------------------|---------------------|-----------|-------------------------------------|---------------------------|
| | Cost | | Accumulated Amortization | Net Book Value |
| Office furniture & equipment | \$ 37,065 | \$ | 19,006 | \$ 18,059 |
| Computer equipment | 42,627 | | 27,623 | 15,004 |
| Software | 32,089 | | 32,089 | - |
| Vehicle | 68,468 | | 32,579 | 35,889 |
| Equipment | 3,225,491 | | 980,010 | 2,245,481 |
| Buildings | 1,854,385 | | 335,773 | 1,518,612 |
| Leasehold improvements | 17,115 | | 17,115 | - |
| Site improvements | 216,210 | | 94,716 | 121,494 |
| Trademark | 12,783 | | 3,835 | 8,948 |
| | \$ 5,506,233 | \$ | 1,542,746 | \$ 3,963,487 |

| | | | September 30 2007 | |
|------------------------------|---------------------|-----------|-------------------------------------|---------------------------|
| | Cost | | Accumulated Amortization | Net Book Value |
| Office furniture & equipment | \$ 37,065 | \$ | 14,492 | \$ 22,573 |
| Computer equipment | 38,426 | | 22,096 | 16,333 |
| Software | 32,089 | | 32,089 | - |
| Vehicle | 47,968 | | 21,590 | 26,378 |
| Equipment | 2,655,603 | | 542,004 | 2,113,599 |
| Buildings | 1,477,145 | | 197,129 | 1,280,016 |
| Leasehold improvements | 17,115 | | 17,115 | - |
| Site improvements | 211,710 | | 54,474 | 160,236 |
| Trademark | 12,783 | | 2,557 | 10,226 |
| | \$ 4,529,904 | \$ | 900,543 | \$ 3,629,361 |

6. MINERAL CLAIMS

| | September 30 2008 | September 30 2007 |
|-----------------------------|------------------------------|----------------------|
| Cost, beginning of year | \$ 883,314 | \$ 883,314 |
| Asset retirement obligation | 88,869 | - |
| Cost, end of year | 972,183 | 883,314 |
| Accumulated depletion | 10,699 | 7,079 |
| Net book value | \$ 961,484 | \$ 876,235 |

7. DEFERRED COSTS

| Deferred Exploration and Development Costs | September 30 2008 | September 30 2007 |
|---|------------------------------|----------------------|
| Cost, beginning of year | \$ 2,925,631 | \$ 2,925,631 |
| Development | 13,151 | - |
| Cost, end of year | 2,938,782 | 2,925,631 |
| Accumulated depletion | 34,881 | 23,399 |
| Net book value | \$ 2,903,901 | \$ 2,902,232 |

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 \$443,144 (\$427,268 at September 30, 2007). In addition, an Irrevocable Standby Letter of Credit of \$17,400 has been issued to the Province of Nova Scotia. The Environmental Reclamation Fund contains \$95,513 (\$92,736 at September 30, 2007). The funds bear interest at the provincially designated rate of 2.5% to 3.1%.

9. PAYABLES AND ACCRUED LIABILITIES

| | September 30 2008 | September 30 2007 |
|----------------------------|------------------------------|----------------------|
| Trade—operational | \$ 179,893 | \$ 449,028 |
| Trade—capital equipment | - | 271,258 |
| Government (payroll & WCB) | 4,202 | 21,453 |
| | \$ 184,095 | \$ 741,739 |

10. CONVERTIBLE DEBENTURES

| | September 30 2008 | September 30 2007 |
|------------------------------|------------------------------|----------------------|
| Balance, beginning of period | \$ 326,628 | \$ - |
| Total gross proceeds | - | 850,000 |
| Converted to common shares | - | (469,856) |
| Equity component | - | (51,245) |
| Deferred financing costs | - | (59,676) |
| Repayment of debentures | (350,000) | - |
| | (23,372) | 269,223 |
| Accretion | 23,372 | 57,405 |
| Balance, end of period | \$ - | \$ 326,628 |

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 was paid quarterly on June 30, 2007, September 30, 2007, December 31, 2007, and February 15, 2008. The debentures were convertible at the debenture holder's option into common shares at a conversion rate of \$0.15 per share. The debentures held an automatic conversion option if the market value of the shares exceeds \$0.25 per share for 20 consecutive days. The Company had pledged all assets to secure the debentures; although the Company had 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 could 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 original principal amount of the debentures and the amount recorded as a liability, representing the value of the conversion option, \$51,245 was recorded as capital stock. On June 6 and June 11, 2007, a total of \$500,000 of debentures was converted to 3,333,333 common shares resulting in a reduction of the conversion option value of \$30,144.

On February 15, 2008, the remaining \$350,000 of debentures were repaid.

11. ASSET RETIREMENT OBLIGATION

| | Sept 30 2008 | September 30 2007 |
|------------------------------|-------------------------|----------------------|
| Balance, beginning of period | \$ 250,588 | \$ 234,195 |
| NPV of cash flows | 88,869 | - |
| Accretion | 20,525 | 16,393 |
| Balance, end of period | \$ 359,982 | \$ 250,588 |

The gross undiscounted amount of future reclamation plans is \$535,895 (\$402,390 at September 30, 2007). During fiscal 2008, there was an increase in NPV of \$88,869 for new obligations.

12. SHAREHOLDERS' EQUITY

a) Authorized

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

b) Issued, common shares

| | September 30 2008 | | September 30 2007 | |
|--|----------------------|----------------------|----------------------|---------------|
| | # | \$ | # | \$ |
| Issued | 90,853,271 | \$ 23,538,215 | 44,186,605 | \$ 17,268,842 |
| Shares issued for cash | - | - | 43,333,333 | 5,750,761 |
| Shares issued for debentures | - | - | 3,333,333 | 497,511 |
| Common share conversion option (Note 10) | - | - | - | 21,101 |
| Total issued common shares and conversion option | 90,853,271 | \$ 23,538,215 | 90,853,271 | \$ 23,538,215 |

On June 6, 2007, the Company completed a private placement for gross proceeds of \$6,500,000. As part of this transaction, a total of 43,333,333 shares were issued at \$0.15 per share.

c) Contributed surplus

| | Stock Options | | Warrants | |
|------------------------------|------------------|---------------------|------------------|-------------------|
| | # | Fair Value | # | Fair Value |
| Balance, beginning of period | 6,513,964 | \$ 981,829 | 4,608,000 | \$ 833,336 |
| Stock compensation expense | 2,199,106 | 167,070 | - | - |
| Balance, end of period | 8,713,070 | \$ 1,148,899 | 4,608,000 | \$ 833,336 |

The contributed surplus of \$1,982,235 (\$1,815,165 at September 30, 2007) 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. As part of the private placement on June 6, 2007, 2,400,000 broker warrants were issued. Each warrant is exercisable for one common share at an exercise price of \$0.15 per share at any time within the two-year term.

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 4.1%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 51% to 69%; and a weighted average, expected life of 5 years for options and 2 years for warrants.

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, 2006 | 2,925,007 | \$ 0.45 | - | \$ - |
| Granted/issued | 2,404,200 | 0.11 | 2,400,000 | 0.15 |
| Cancelled/expired | (1,011,000) | 0.39 | - | - |
| Outstanding as at | | | | |
| September 30, 2007 | 4,318,207 | \$ 0.28 | 2,400,000 | 0.15 |
| Granted/issued | 2,219,106 | 0.10 | - | - |
| Cancelled/expired | (800,557) | 0.17 | - | - |
| Outstanding as at | | | | |
| September 30, 2008 | 5,736,756 | \$ 0.22 | 2,400,000 | \$ 0.15 |

The following table summarizes information about stock options and warrants outstanding at September 30, 2008:

| Range of exercise prices | Number of Options | Weighted average Remaining contractual life | Weighted average exercise price |
|--------------------------|-------------------|---|---------------------------------|
| \$0.10 - 0.42 | 5,156,756 | 3.5 years | \$ 0.16 |
| \$0.53 - 0.95 | 580,000 | 0.4 years | \$ 0.75 |
| | 5,736,756 | 3.4 years | \$ 0.22 |

| Range of exercise prices | Number of Warrants | Weighted average remaining contractual life | Weighted average exercise price |
|--------------------------|--------------------|---|---------------------------------|
| \$0.15 | 2,400,000 | 2.0 years | \$ 0.15 |

On May 22, 2008, the Company amended the Stock Option Plan whereby up to 9,000,000 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

The Company did not enter into any transactions with any directors or officers and companies under their control or control of their spouses during the year ending September 30, 2008.

For the year ending September 30, 2007, the Company incurred fees for marketing consulting and performing President & CEO duties with Joseph MacDonald (J&E Consultants), Director, totaling \$85,800.

For the year ending September 30, 2007, the Company incurred fees for marketing consulting with Richard Shearer, Director, totaling \$56,871. Mr. Shearer was appointed President & CEO effective March 1, 2007.

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.

14. CAPITAL 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 for fiscal 2008 is \$19,774 (\$31,866 in 2007).

b) Income Tax

The income tax recovery and change in valuation allowance differs from the amounts computed by applying Canadian statutory rates of 36.16% (2007 - 38.12%) to the loss before income taxes as follows:

| | 2008 | 2007 |
|---------------------------------------|------------------|----------------|
| Income tax recovery at statutory rate | \$ (1,252,000) | \$ (1,061,000) |
| Expiry of loss carry forwards | 257,000 | (168,000) |
| Employee stock options | 60,000 | 54,000 |
| Share issue costs | - | (173,000) |
| Impact of income tax rate change | 1,049,000 | - |
| Increase in valuation allowance | (114,000) | 1,348,000 |
| 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 31% (2007 - 38.12%) are as follows:

| | 2008 | 2007 |
|---|--------------------|--------------|
| Future income tax assets (liabilities) | | |
| Capital assets | \$ (320,000) | \$ (325,000) |
| Mineral claims | (57,000) | (43,000) |
| | (377,000) | (368,000) |
| Share issue costs | 140,000 | 296,000 |
| Net future income tax asset (liability) | (237,000) | (72,000) |
| Tax loss carry forwards | 4,878,000 | 4,794,000 |
| Future income tax asset | 4,641,000 | 4,722,000 |
| Valuation allowance | (4,641,000) | (4,722,000) |
| Future income tax asset | \$ - | \$ - |

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

| <u>Expiry date</u> | <u>Amount</u> |
|--------------------|---------------------|
| 2009 | 491,000 |
| 2010 | 639,000 |
| 2014 | 2,378,000 |
| 2015 | 1,559,000 |
| 2026 | 3,299,000 |
| 2027 | 3,496,000 |
| 2028 | 3,875,000 |
| | <u>\$15,737,000</u> |

15. FINANCIAL INSTRUMENTS

Fair value: The carrying values of cash and cash equivalents, receivables and payables and accruals 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.

Interest rate risk: The Company holds cash and cash equivalents which include highly liquid investments with maturities of less than three months. Interest rate exposure is limited due to the short-term nature of the instruments.

Credit risk: The Company is exposed to credit risk from receivables, which is the risk that they will not be paid in full when due. Allowances are provided for potential losses that have been incurred at the balance sheet date; however, these allowances are not significant.

Capital risk management: The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of the debt and equity balance. The capital structure of the Company consists of cash and cash equivalents, and shareholders' equity comprising of capital stock and deficit. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in the business environment.

16. COMMITMENTS

On January 29, 2007, Black Bull terminated the U.S. Silica sales agreement in accordance with its rights. The Company had instructed its attorneys to proceed with the damages claim against U.S. Silica, and U.S. Silica counter claimed.

On March 18, 2008, the Company resolved its dispute with U.S. Silica Company. Accordingly, the arbitration proceedings have been terminated on terms whereby each party has granted the other a full release of all matters in dispute and each bears its own expenses. Black Bull's total expense related to the arbitration was \$445,906, of which \$423,987 as incurred in 2008, (\$21,920 in 2007).

17. SUBSEQUENT EVENTS

On January 5, 2009 the Company announced that due to the current severe economic downturn which has hurt revenue generation, the Company will be investigating strategic options, including cessation of most or all operational activities until markets strengthen.

On January 26, 2009, the Board of Directors approved a Reduced Operations Business Plan, which includes reducing operations to a "care and maintenance" status until markets improve. The care and maintenance operation will be financed through a combination of cash holdings of the company, the sale of inventory, collection of accounts receivable and, the sale of surplus assets.

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) 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 ("Black Bull" or the "Company") audited financial statements for the years ended September 30, 2008 and 2007, together with the accompanying notes. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

This MD&A is prepared as of January 28, 2009.

Forward Looking Statements

Certain statements contained in the report constitute forward-looking statements. When used in this document the words "anticipate", "believe", "estimate", "expect", "plan", "future", "intend", "may", "will", "should", "predicts", "potential", "continue", and similar expressions, as they relate to Black Bull or its management, are intended to identify forward-looking statements. Such statements reflect current views of Black Bull with respect to future events and are subject to certain known and unknown risks, uncertainties and assumptions. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in mineral prices, fluctuations in currency exchange rates, uncertainties relating to the availability and costs of financing needed in the future, the capital and operating costs varying significantly from estimates, delays in the development of projects, as well as those risk factors discussed or referred to herein, including those set forth under the heading "Risks and Uncertainties". Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Unless required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

Overall Performance

2008 Fiscal Year In Review

The 2008 fiscal year was a year of many challenges and changes for Black Bull. As the year began, the Company continued to focus on developing its building products market, particularly pool quartz, as well as completing the planned Capital Expenditure Program ("CapEx"). As the year progressed, it became clear, that the American housing market was facing one of its biggest slow downs in decades.

The business development efforts included many sales calls with existing and new customers, and trade shows such as attendance at the Atlantic City Pool and Spa Show in January, and exhibiting at the National Plasterers Council Conference in Florida in February. These efforts resulted in sending numerous *Scotia White*[™] samples and 4,428 tons of dried and damp sand sales compared to 1,479 tons in 2007. However; several external events adversely affected increasing sales to budgeted levels, including: (i) the significant downturn in the American housing market; (ii) the volatility of the Canadian dollar; and (iii) increasing freight costs.

In Q2 2008, the Company continued to pursue new markets. In April, Rick Shearer, President & CEO, traveled to China to explore marketing opportunities, including meetings with companies in the pool market, engineered stone, flooring, as well as solar manufacturing. Although China has an abundance of quartz, it has high iron content and other quality problems, such as impurities. Black Bull will continue to explore these opportunities as circumstances permit.

The Company also hosted visitors from Europe and China, representing large multinational companies that are seeking new suppliers of quartz. The European company is a major engineered stone company and is considered a worldwide leader in the production of quartz surfaces with subsidiaries in Europe, United States, and South America.

The capital expenditure of \$1.5 million previously announced was divided into two parts. The first part included expenditures of approximately \$700,000, which included improving the bagging line and expanding the warehouse facilities. The timing of the second part is on hold in light of the care and maintenance plan.

After completing the reduced CAPEX Program in late April the Company restarted dried sand production, but due to high inventory levels, in late July, the implemented a suspension of dry sand production. This decision allowed the Company to preserve cash in order to explore its new business programs. Sales orders made during the year were not interrupted, as inventory levels were sufficient to meet demand. If prices in the future permit product to be profitably processed, we will initiate production to meet this demand.

New Programs

In response to the continued downturn, in early calendar year 2008, management developed new programs for our quartz, which includes Ferro silicon and low iron sand as well as exploring the development of kaolin clay. Processing low iron sand and development of kaolin clay require a cash infusion to bring to fruition.

Ferro silicon is used in steelmaking and foundries as a source of silicon in production of carbon steels, solar cells, stainless steels, and other ferrous alloys. Recent demand for Ferro silicon has increased due to demand for solar cells.

As quoted in a recent report, “In 2007, the markets for silicon and Ferro silicon were enjoying an unprecedented rate of growth, due mainly to increased demand for silicones and solar cells in the case of silicon, and to rapid expansion in global steel making in the case of Ferro silicon.”¹

In April, 2008 the Company shipped 1,000 tons of quartz to the United States to trial *Scotia White*[™] material for the production of Ferro silicon with a potential customer. Black Bull management anticipates exporting significant amounts of quartz for this purpose. No capital costs are required for this project,

¹ <http://www.roskill.com/reports/silicon>

although some working capital may be required, depending upon the volume and timing of shipments. At the date of this MD&A, no purchase orders have been received, but the potential customer has expressed an interest to buy quartz aggregate from Black Bull as soon as their business begins to rebound.

The second program is low iron sand. The increased demand for low iron sand is being driven by solar energy. Low iron sand is used to manufacture low iron flat glass that is used to overlay solar panels. Furthermore, like Ferro silicon, demand is forecasted to increase substantially over the next three to five years.

Management has had discussions with several low iron glass producers to determine if our low iron quartz can meet this demand. The Company has demonstrated that we have the product to become a low iron sand supplier to this market. However, it is unlikely we will be able to enter this market in the foreseeable future due principally to higher transportation costs than our competitors.

In addition to selling in North America, the Company also investigated sales of low iron glass sand to China. In early July the Company hosted executives of a large Glass manufacturer specializing in solar products, glass products, pharmacy, and automotive coatings. They are a leading solar producer forming the only complete solar industrial chain in China and have expressed an interest in acquiring our low iron silica sand for its solar panels, but no commitments have been forthcoming.

A third program is the development of our kaolin clay. In August 2008, the Company shipped kaolin samples to the United States for testing using an air separation system which is more environmentally sound and economically viable than other kaolin clay processes. Several technical and specification requirements must be met before any commercialization could be initiated. Commercialization of kaolin clay will also require a substantial cash infusion.

Other Events

Black Bull had several other events occur during the past fiscal year. On March 18, 2008, the Company resolved its dispute with U.S. Silica Company. Accordingly, the arbitration proceedings have been terminated on terms whereby each party has granted the other a full release of all matters in dispute and each bears its own expenses. Black Bull's total expense related to the arbitration was \$445,906, of which \$423,987 as incurred in 2008, (\$21,920 in 2007).

In February 2008, Black Bull Resources repaid its outstanding secured convertible debentures. The repayment totaled \$350,000.

Over the past year, three managerial employees who helped build Black Bull Resources, Bob Cudmore, Scott Hoeg and Sheila Acker left the company to pursue other opportunities. They were instrumental in helping build the Company and we wish them all the very best. Martin MacKinnon assumed the position of Chief Financial Officer, Scott Walker assumed the duties of site supervisor, while Susan Pierce assumed the duties of Office Administrator.

During Q2, the Company received funding from Atlantic Canada Opportunities Agency ("ACOA") to explore marketing opportunities in Europe. Funding was also received from Nova Scotia Business Inc. to offset the travel costs for Grace Chum who recently represented the Company in China.

At year end the Company revalued its inventory. This write down was done to better reflect the net realizable value of the processed and unprocessed material.

Outlook

The focus of Black Bull for fiscal 2009 is reducing its cash burn. In the fall of 2009, the Company implemented workforce reductions, continued a temporary plant closure while working off existing inventories, and initiated salary cuts for the entire management team, and any line item costs are minimized wherever possible.

In January 2009, the Board approved a Reduced Operations Business Plan, (“ROBP”), whereby the Company will move to reduce operations to a “care and maintenance” status operation, until markets improve or a purchase order is received. During this time the Company will meet all requirements to maintain its control of its mineral resource, with minimal expenditures. The care and maintenance operation will be financed through the collection of accounts receivable, selling remaining warehoused inventory and the sale of surplus assets.

The Company’s long term future is dependent upon maintaining control of its mineral resources through the sale of surplus assets and inventory until such time as the mineral markets improve or significant purchase order(s) are received that justify re-commencing processing operations. However, there can be no assurances that the steps management are taking will be successful.

Selected Annual Information and Results of Operations

| | Year ended September 30, 2008 | Year ended September 30, 2007 | Year ended September 30, 2006 | Year ended September 30, 2005 | Year ended September 30, 2004 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Net Mineral Sales | 257,125 | 169,874 | 130,558 | 38,714 | 2,363 |
| Net Loss and Comprehensive Loss | (3,481,960) | (2,851,427) | (3,001,754) | (1,402,998) | (2,318,238) |
| Net Loss per Share (Basic and Diluted) | (0.038) | (0.045) | (0.068) | (0.032) | (0.075) |
| Total Assets | 9,716,718 | 13,817,462 | 9,312,818 | 12,263,352 | 13,328,840 |
| Total Long-Term Financial Liabilities | - | - | - | - | - |

The Company reported a net loss for the year of \$3,481,960 (\$2,851,427 in 2007) or \$0.038 per share (\$0.045 in 2007). Net sales for the year of \$257,125 (\$169,874 in 2007) were primarily of *Scotia White*TM quartz to the southern U.S.A.

During fiscal 2008, total expenses increased by \$797,699 over fiscal 2007. This increase was primarily due to the US Silica Arbitration (\$423,987), increased amortization expense resulting from capital expenditures in 2007 and 2008 (\$262,020), as well operations and overhead increased by \$164,993 as the plant operated for eight months in 2008, versus five months in 2007.

| General & Administrative Costs | Year ended September 30, 2008 | Year ended September 30, 2007 | Year ended September 30, 2006 | Year ended September 30, 2005 |
|---|--|--|--|--|
| | \$ | | | |
| Accounting & Legal Fees | 89,903 | 105,147 | 108,034 | 77,515 |
| Advertising & Promotion | 990 | 3,331 | 12,207 | 14,567 |
| Consulting Fees | 44,953 | 21,159 | 25,287 | 69,809 |
| Insurance | 61,010 | 62,458 | 55,256 | 46,807 |
| Investor Relations | 36,705 | 40,457 | 134,460 | 111,550 |
| Office, Rent & Telephone | 49,227 | 53,029 | 64,967 | 45,283 |
| Travel | 84,392 | 61,563 | 123,979 | 123,376 |
| Wages & Benefits | 757,618 | 638,699 | 770,739 | 655,384 |
| Other | (374) | 3,044 | 6,126 | 16,360 |
| | \$1,124,424 | \$988,887 | \$1,301,055 | \$1,160,651 |

General and administration costs in 2008 increased by \$135,537 over 2007 mainly due to increased wage cost (\$118,919), because in 2007 there was decreased activity during a temporary shutdown. Consulting fees increased over 2007 by \$23,794 as the former CFO was retained on a consulting agreement until May 2008. Travel increased by \$22,829 due to increased activity for managerial personal in 2008. These increases were partially offset with reduced legal and accounting costs of \$15,244.

Interest expense of \$41,592 was less than 2007 by \$60,112 as the secured convertible debentures issued in 2007, were repaid in full February 2008. Interest income was up by \$25,701 as the cash balances in 2008 were higher as a result of cash received via the secured convertible debentures and the Brokered Private Placement in June 2007.

In September 2008, the Company reduced the multiplier used to determine the tonnage of raw material in inventory, using more conservative multipliers. As a result the value of inventory was reduced by \$114,371. In addition older inventory was written down (\$100,202) as it was found to be contaminated. There were a few pools found to be contaminated, the costs associated with repairing these pools are covered by our insurance policy.

Summary of Quarterly Results and Results of Operations

| Quarterly Results | 2008 | | | | 2007 | | | |
|---|------------------|------------------|--------------------|------------------|------------------|------------------|------------------|------------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Income: | | | | | | | | |
| Mineral revenue | 21,176 | 122,220 | 83,462 | 30,268 | 61,990 | 79,806 | - | 28,078 |
| Interest income | 15,542 | 23,866 | 37,335 | 55,146 | 60,606 | 22,920 | 8,687 | 13,976 |
| | 36,718 | 146,086 | 120,797 | 85,414 | 122,596 | 102,726 | 8,687 | 42,054 |
| Costs: | | | | | | | | |
| Operations | 239,095 | 384,884 | 275,735 | 224,907 | 237,289 | 288,624 | 235,434 | 198,280 |
| Sales & Marketing | 40,321 | 73,264 | 70,024 | 81,091 | 74,070 | 96,331 | 142,665 | 118,552 |
| General & admin | 239,858 | 282,803 | 299,417 | 302,348 | 278,417 | 312,323 | 194,900 | 213,247 |
| Arbitration | - | 3,765 | 343,019 | 77,202 | 1,795 | 11,552 | 7,203 | 1,370 |
| Amort./depletion | 188,467 | 161,078 | 154,843 | 152,918 | 185,504 | 104,052 | 9,918 | 95,811 |
| Interest expense | - | - | 13,857 | 27,734 | 24,978 | 51,151 | 25,575 | - |
| Other | 210,407 | 7,967 | 7,968 | 8,005 | 212,770 | 5,214 | 6,465 | 4,000 |
| | 918,148 | 913,760 | 1,164,863 | 874,205 | 1,014,823 | 864,898 | 616,509 | 631,260 |
| Net loss | (881,430) | (767,674) | (1,044,066) | (788,791) | (892,227) | (762,172) | (607,822) | (589,206) |
| Net loss per share (basic & diluted) | (0.008) | (0.008) | (0.011) | (0.009) | (0.014) | (0.016) | (0.014) | (0.013) |

| Operating Cash | 2008 | | | | 2007 | | | |
|----------------------------------|------------------|------------------|--------------------|------------------|------------------|------------------|------------------|------------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Net loss | (881,430) | (767,674) | (1,044,066) | (788,791) | (892,227) | (762,172) | (607,822) | (589,206) |
| Non-cash operating items | 227,257 | 210,829 | 210,899 | 207,162 | 236,866 | 173,785 | 70,776 | 129,079 |
| Net cash loss from operations | (654,174) | (556,845) | (833,167) | (581,629) | (655,361) | (588,387) | (537,046) | (460,127) |

During the fourth quarter, the Company reported a net loss of \$881,430 (\$892,227 in 2007) or \$0.09 per share (\$0.014 in 2007). Net sales for this quarter were \$21,176 (\$61,990 in 2007). The Company recorded \$227,227 (\$236,866 in 2007) in non-cash operating items in the fourth quarter, resulting in a net cash loss from operations of \$654,174 (\$655,361 in 2007) or \$0.07 per share (\$0.010 in 2007).

During the fourth quarter, revenue decreased by \$101,044 over the third quarter of 2008 and \$40,814 less than Q4 2007. The decrease was a direct result of a significant downturn in the pool market in the United States. This was anticipated by management, which precipitated our new programs detailed earlier. Mineral revenue was enhanced in Q4 2008 as transportation costs contributed to mineral revenue (\$3,203), whereas in previous quarters when losses were incurred. Interest income continued to decline due to a reducing cash position.

Operations were less than Q3 2008 by \$145,789 as dried sand production was suspended in late July 2008. This reduction was primarily from, inventory adjustment \$88,145, reduced packaging costs of \$28,547, reduced fuel and propane cost of \$24,902 and reduced wages of \$12,145. The reduced operation costs compared to Q3 2008 was offset by an increase in purchase returns of \$45,277 resulting from replacing contaminated pool plaster material.

Marketing costs in Q4 2008 were \$40,321, a reduction of \$32,943 from Q3 2008 due to reduced product samples and testing (\$9,850) reduced marketing wages (\$8,395), reduced travel (\$8,108), and reduced marketing consulting of \$3,500.

| General & Administrative Costs | Q4 2008 | Q3 2008 | Q4 2007 |
|---|----------------|----------------|----------------|
| | \$ | \$ | \$ |
| Accounting & Legal Fees | 19,431 | 18,093 | 32,156 |
| Advertising & Promotion | - | - | 753 |
| Consulting Fees | 7,258 | 13,729 | 4,850 |
| Insurance | 15,355 | 15,143 | 15,372 |
| Investor Relations | 7,304 | 14,716 | 7,331 |
| Office, Rent & Telephone | 10,170 | 9,980 | 14,280 |
| Travel | 20,934 | 31,076 | 22,022 |
| Wages & Benefits | 159,406 | 180,439 | 183,448 |
| Other | - | (374) | - |
| | 239,858 | 282,803 | 280,212 |

The Company's Q4 2008 general and administration (G&A) costs decreased by \$42,566 from the Q3 2008 costs. Wages and benefits decreased by \$21,032 due to decreased number of office employees during the quarter, reduced travel of \$10,142, and reduced investor relations of \$6,471, as the Q3 2008 included costs associated with the Annual General Meeting. Consulting fees in Q4 2008 were costs associated with year end surveying as well as surveying costs associated with a planned blast and crush.

Accounting and Legal, Insurance and Office costs in Q4 2008 were similar to Q3 2008, as management continues to control costs to limit the cash burn.

Liquidity

At September 30, 2008, Black Bull had \$1,152,965 in working capital. The Company continues to incur significant operating losses. In response the Company implemented a Reduced Operations Business Plan. This plan will significantly reduce the Company's cash burn to minimal operational obligations, often referred to a "care and maintenance" status.

During fiscal 2009, as per the ROBP, the Company intends to generate the necessary cash resources to finance these minimal operations, by selling inventory, collecting accounts receivable, and through sale of surplus assets.

Capital Resources

During the year, the Company purchased \$976,329 of capital equipment consisting mainly of a warehouse and a new magnetic separator, bagging equipment to enhance production efficiency. During 2009, the Company expects to continue to reduce its cash burn through the implementation of a care and

maintenance operation which will be implemented as part of the approved Reduced Operations Business Plan, which includes the sale surplus assets, until one of the new programs comes to fruition.

Transactions with Related Parties

The Company did not enter into any transactions with any directors or officers and companies under their control or control of their spouses during the year ending September 30, 2008.

For the year ending September 30, 2007, the Company incurred fees for marketing consulting and performing President & CEO duties with Joseph MacDonald (J&E Consultants), Director, totaling \$85,800.

For the year ending September 30, 2007, the Company incurred fees for marketing consulting with Richard Shearer, Director, totaling \$56,871. Mr. Shearer was appointed President & CEO effective March 1, 2007.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

Inventory

Raw materials are valued at the lower of cost and replacement cost, with cost determined on a weighted average basis. The Company's policy for the valuation of raw materials and processed inventory includes a determination of obsolete inventory. If management believes that demand no longer allows the Company to sell inventories above cost or at all, it provides a reserve against this inventory for all or a portion of the carrying value of the inventory, based on specific knowledge related to specific inventory items.

Mineral properties and deferred exploration costs

The Company records its interest in mineral properties at cost. Resource exploration and development costs are capitalized on an individual area of interest basis until such time as an economic resource body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the reserves, while costs for the prospects abandoned are written off.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. When it is determined that a mineral property is impaired, it is written down to its estimated fair value.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of deferred mineral

property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows expected to be generated from its properties.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to continue operations and to complete the development and upon future profitable production or proceeds from the disposition thereof.

Property Plant and Equipment

Plant and equipment represent significant assets of the company. Depreciation and amortization are recorded on either a declining-balance (db) or straight-line (sl) basis. Management of the company reviews and evaluates the carrying value of major assets for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may no longer represent their economic value. When it is determined that an asset is impaired, it is written down to its estimated fair value.

Other estimates

The Company also makes estimates for doubtful accounts, income taxes, stock-based compensation and asset retirement obligations.

Management estimates the collectability of the Company's receivables based on historical experience, age of the receivables, the specific customers' indebted to the Company and general market conditions. Based on these factors, management determines an appropriate amount to be provided as an allowance for doubtful accounts.

In the calculation of income taxes, management will recognize a future income tax asset for all deductible temporary differences, unused tax losses and income tax reductions, and then review the asset to estimate whether a portion or all of it will be realized. The future income tax valuation allowance is estimated so as to be sufficient to reduce the asset to the amount that is more likely than not to be realized.

The Company records compensation expense for stock options using the fair value method. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. To apply this application assumptions are made regarding the following factors; risk free interest rate, stock volatility, expected life and expected dividend yield. Management determines these factors based on current market conditions and other information available on the date of the grant.

The Company also uses estimates in recognizing the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

Changes in Accounting Policies

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

Effective October 1, 2007, the Company adopted CICA Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. Section 3862 and 3863 replaced Section 3861, *Financial Instruments – Disclosure and Presentation*. The adoption of these standards had no impact on the financial statements of the Company on initial implementation other than enhanced disclosures.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures ('DC&P') are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ('ICFR') are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

TSX Venture listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR under Multinational Instrument ("MI") 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings.

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited annual consolidated financial statements and respective accompanying Management's Discussion and Analysis. In contrast to the certificate under MI 52-109, the Venture Issuer Basic Certification includes a 'Note to Reader' stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of DC&P and ICFR.

International Financial Reporting Standards ("IFRS")

Canadian GAAP for publicly listed entities will convert to International Financial Reporting Standards (IFRS) in 2011. The Canadian Performance Reporting Board (CPRB) believes the conversion presents an opportunity to enhance financial reporting and stakeholder relationships. The Canadian Securities Administrators (CSA) set their expectations of disclosure about the changeover that applies to all publicly listed entities.

Conversion to IFRS represents a one-time implementation of multiple accounting standards, several of which differ significantly from Canadian GAAP. The extent of the disclosure about the conversion to IFRS will depend on the nature and complexity of the entity and the needs of its investors

Investors need to be able to differentiate reported performance changes caused by the adoption of different accounting standards from those caused by business activities. The inability to do so will cause uncertainty about an entity's financial performance. Investors respond to uncertainty by increasing the risk premium in valuing an investment. To diminish uncertainty, investors will want to know whether entities have an appropriate plan in place to deal with the conversion and what to expect from the conversion before it takes place.

The Canadian Securities Administrators (CSA) published Staff Notice 52-320 in May 2008. It provides guidance to an issuer on disclosure of expected changes in accounting policies relating to an issuer's conversion to IFRS. At a high level, it addresses the key elements of the changeover plan and disclosures that should be expected in the MD&A in each reporting period up to the date of the conversion.

As a result, management at Black Bull has begun to better understand the issues related to this conversion and how this relates to the company. Further information in regard to this conversion will be forthcoming.

Subsequent Events

On January 5, 2009 the Company announced that due to the current severe economic downturn which has hurt revenue generation, the Company will be investigating strategic options, including cessation of most or all operational activities until markets strengthen.

On January 26, 2009, the Board of Directors approved a Reduced Operations Business Plan, which includes reducing operations to a "care and maintenance" status until markets improve. The care and maintenance operation will be financed through a combination of cash holdings of the company, the sale of inventory, collection of accounts receivable and, the sale of surplus assets.

Other MD&A Disclosures

During fiscal 2008, Directors and Officers were granted 2,199,106 options and 800,557 options were canceled or expired.

| Outstanding Securities | Year Ended September 30, 2008 | MD&A Dated January 26, 2009 |
|---|--|--|
| Common Shares | 90,853,271 | 90,853,271 |
| Options (Exercisable to one Common Share) | 5,736,756 | 4,900,556 |
| Warrants (Exercisable to one Common Share) | 2,400,000 | 2,400,000 |
| Total Outstanding Securities | 98,970,027 | 98,153,827 |

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 beyond the Company's control. Some of these factors are attributable to commodity or product pricing and demand, competitive products, 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.

Like many Canadian companies doing business in the USA, Black Bull is affected by fluctuations in currency exchange rates. Most of the Company's sales including freight charges will be denominated in US dollars. The Company has some natural hedges with US dollar-based expenses; however, there will be instances when there is exposure to exchange risks. These risks are considered when management sets product pricing and makes hedging decisions.

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.

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.

Black Bull's ability to continue as a going concern, and the recoverability of its mineral properties, is dependent on improvement in mineral prices, its ability to fund future development programs and to manage and generate positive cash flows from operations in the future. The Company's financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate, and these adjustments could be material.

The Company has assessed whether the amounts recorded for mineral claims and deferred costs have suffered any impairment by considering resource estimates, future processing capacity, anticipated sales, and the longer term price estimates for minerals. Management's estimates of these factors are subject to risk and uncertainties, affecting the recoverability of the recorded amounts for mineral claims and deferred costs. Any changes to these estimates may result in the recognition of an impairment charge with a corresponding reduction in the carrying value of such assets

Additional Information

Additional information about the Company is available on SEDAR at www.sedar.com and at the Company's website at www.blackbullresources.com.

| |
|--------------|
| NOTES |
|--------------|

CORPORATE INFORMATION

BLACK BULL RESOURCES INC.

PO Box 698
157 Water Street
Shelburne, NS B0T 1W0
Canada
Tel: 902-875-1510
Fax: 902-875-1617
www.blackbullresources.com

CONTACT

Martin MacKinnon
Chief Financial Officer
cfo@blackbullresources.com

GENERAL INFORMATION

Trading Symbol: BBS
(TSXV Exchange)

Registered Office:
McInnes Cooper
Purdy's Wharf Tower II
1300-1969 Upper Water
Street
PO Box 730
Halifax, NS B3J 2V1
Canada

Transfer Agent:
CIBC Mellon Trust Company
Suite 600
333 — 7th Avenue SW
Calgary, AB T2P 2Z1

Auditors:
Deloitte & Touche
Suite 1500
1969 Upper Water Street
Halifax, NS B3J 3R7

Investor Relations:
Richard J. Shearer
President & CEO

DIRECTORS:

J. Wayne Mailloux
Director &
Chairman of the Board
Scottsdale, AZ
USA

George T.H. Cooper
Director
Halifax, NS

James W. Gogan
Director
New Glasgow, NS

Joseph MacDonald
Director
Judique, NS

Richard J. Shearer
Director
Seabrook Island, SC
USA

David L. Wood
Director
White Rock, BC

Donald A. Wright
Director
Toronto, ON

OFFICERS:

Richard J. Shearer
President & CEO
Berkeley Springs, WV
USA

Martin C. MacKinnon
Chief Financial Officer
Halifax, NS

Joseph MacDonald
Vice President,
Sales & Marketing
Judique, NS

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

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.

Black Bull Resources Inc.
157 Water Street
PO Box 698
Shelburne, NS, B0T 1W0
Canada

Phone: 1-902-875-1510
Fax: 1-902-875-1617
Toll Free: 1-877-878-2789



www.blackbullresources.com
admin@blackbullresources.com