

Black Bull Resources Inc.

# INTERIM REPORT

# 2008

DECEMBER 31  
2007



# TABLE OF CONTENTS

<b>SECTION</b>	<b>PAGE NO.</b>
LETTER TO SHAREHOLDERS	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Interim Statements of Operations, Comprehensive Loss, and Deficit	4
Interim Statements of Cash Flows	5
NOTES TO THE FINANCIAL STATEMENTS	
Nature of Operations and Basis Presentation	6
Significant Accounting Policies	6
Receivables	9
Inventory	10
Capital Assets	10
Mineral Claims	11
Deferred Costs	11
Other Assets	11
Payables and Accrued Liabilities	11
Convertible Debentures	12
Asset Retirement Obligation	12
Shareholders' Equity	13
Related Party Transactions	15
Capital Tax	15
Financial Instruments	15
Commitments	16
Subsequent Events	16
MANAGEMENT'S DISCUSSION & ANALYSIS	
Overall Performance	17
Summary of Quarterly Results and Results of Operations	20
Liquidity	21
Capital Resources	22
Transactions with Related Parties	22
Changes in Accounting Policies	22
Subsequent Events	22
Other MD&A Disclosures	22
Risks and Uncertainties	23
Forward Looking Statements	23
Additional Information	24
CORPORATE INFORMATION	25

## LETTER TO SHAREHOLDERS

February 15, 2008

Black Bull Resources Inc. has made substantial progress since we re-opened our quarry and processing plant just nine months ago. At the time, we had determined we would move forward to build this business in spite of an earlier failed sales agreement with U.S. Silica Company which cost us valuable time and money.

To re-launch Black Bull Resources Inc. meant we would commission our management team to “do it all ourselves.” This required managing all facets of the Company including selling and marketing directly into our target markets. Building new relationships and consummating new sales of our *Scotia White*<sup>TM</sup> quartz products is not easy and takes time. However, we believe that once the customer relationship is developed, significant long-term value is achieved for the business.

I'm pleased to report that the management team has performed well in moving this business forward. Sales are showing signs of improvement, and we see an increase in tons sold. Over the past year, we have significantly increased the number of customers who are now buying *Scotia White*<sup>TM</sup> quartz. These customers have largely come from the in-ground swimming pool plaster segment, our initial target market. The pool plaster business generally reflects the American housing market which is currently at a 35 year low. In spite of this fact and a strong Canadian dollar, Black Bull is penetrating the market and setting the stage for growth when the pool plaster industry returns to “normal” levels. Further, the pool business is very seasonal; thus, we anticipate improvement in *Scotia White*<sup>TM</sup> pool quartz sales in the spring.

Due to this fact and our sense of urgency to grow the business, management is determined to broaden our sales efforts and diversify into other markets. We have undertaken sales exploration into several other promising markets such as filtration sands, grouts, aquarium stones, specialty glass, ferro silicon, and flooring. Another exciting market that we are exploring for *Scotia White*<sup>TM</sup> is in the manufacturing of solar panels. At this point, we are uncertain if *Scotia White*<sup>TM</sup> will meet the technical requirements for this market; however, testing continues. We are also exploring sales potentials in Europe and Asia. It appears that some of these segments may offer solid growth prospects for the Company, and our hope is to gain additional sales during the coming year.

That being said, the first quarter results are disappointing. Therefore, we are “flexing” our business to respond to the economic realities.

**SALES:** In addition to the sales issues noted above, we are working to put a larger sales force in place. We have recently signed a sales distributor agreement with the Clifford W. Estes Co. Inc. Estes is a highly regarded company with over 100 years in the minerals processing and distributing business. They will be our pool market sales representative in the Mid-Atlantic and New England regions of the United States.

The Western United States are now converting from marble pool finishes to quartz. We have stepped up our sales focus in the west and have made several proposals to major pool plaster supply companies in this key region. It is expected to bring results in the spring.

New sales literature, *Scotia White*<sup>TM</sup> product samples, and increased tradeshow participation are all currently underway. The entire management team has directed its efforts to helping our sales effort. We fully realize that our highest priority is sales.



**Plant Expansion in Progress  
(December 7, 2007)**

**CAPEX:** Given the slower than expected sales revenues to date, we have determined that it is prudent to implement our \$1.5 million capital expansion in two parts. To conserve cash, we are now planning to spend approximately \$700,000 to expand the warehouse space at the processing plant and to add packaging capabilities. This will provide much needed storage space for inventory and improve our packaging capacities which have been a concern as sales increase for 50 and 100 pound bagged product. As part of a previously approved project, we will also be adding magnetic separation capability to improve our product quality as well as adding lab sampling equipment to reduce our costs.

**LOGISTICS:** The dramatic rise in fuel prices has not only increased our production costs, but also our shipping costs. Black Bull continues to find lower cost options to get our products to customers. As a result, we are now shipping more products by rail to various distribution centers in North America. While shipping by 100 ton rail cars is a way to keep our logistics costs in check; it has meant extra handling costs. We continue to seek the best methods of shipping our product.

**COST REDUCTIONS:** Management constantly pursues cost reductions within the business. In this regard, some of the cost reduction programs being undertaken are: (a) changing to a more cost effective internal software program; (b) rotating crews during the winter season to reduce labor costs; (c) using new stainless steel crusher screens to reduce moisture levels of feed material into the dryers; (d) negotiating significantly better prices for pallets and bags; (e) operating batch processing of specific products to improve production efficiencies; (f) improving inventory monitoring and control; and (g) continuing scrutiny of cashflow. We are very sensitive to our “cash burn.”

With all the hard work and activity of the management team, focused on the critical issues, we anticipate improved results in coming quarters. We are optimistic and confident that the challenges are being met.

Thank you for your support of this exciting and promising business.

*“Richard J. Shearer”*

Richard J. Shearer,  
President & CEO

# FINANCIAL STATEMENTS

## BLACK BULL RESOURCES INC.

### BALANCE SHEETS

	December 31 2007	September 30 2007
	<i>"Unaudited"</i>	<i>"Audited"</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 3,753,672	\$ 5,042,378
Receivables (Note 3)	140,108	147,462
Inventory (Note 4)	654,050	589,005
Prepaid expenses	330,084	110,785
	4,877,914	5,889,630
Capital assets (Note 5)	3,476,443	3,629,361
Mineral claims (Note 6)	876,235	876,235
Deferred costs (Note 7)	2,902,232	2,902,232
Other assets (Note 8)	526,407	520,004
	\$ 12,659,231	\$ 13,817,462
<b>LIABILITIES</b>		
<b>Current</b>		
Payables and accruals (Note 9)	\$ 329,031	\$ 741,739
Convertible debentures, net of deferred financing costs (Note 10)	343,862	326,628
Capital tax payable	-	10,976
	672,893	1,079,343
Asset retirement obligation (Note 11)	254,863	250,588
	927,756	1,329,931
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 12)	23,538,215	23,538,215
Contributed surplus (Note 12)	1,847,900	1,815,165
Deficit	(13,654,640)	(12,865,849)
	11,731,475	12,487,531
	\$ 12,659,231	\$ 13,817,462
<b>Approved on behalf of the Board</b>		
<i>"James W. Gogan"</i>	Director	
<i>"Richard J. Shearer"</i>	Director	

## BLACK BULL RESOURCES INC.

### INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, AND DEFICIT PERIODS ENDED DECEMBER 31

	2007	2006
	3 Months "Unaudited"	3 Months "Unaudited"
MINERAL REVENUE	\$ 30,268	\$ 28,078
COSTS AND EXPENSES		
Operations and overhead	224,907	198,280
Amortization	152,918	95,811
Sales and marketing	81,091	118,552
General and administration	379,550	214,617
	838,466	627,260
LOSS BEFORE OTHER ITEMS	(808,198)	(599,182)
OTHER ITEMS		
Interest expense	(27,734)	-
Interest income	55,146	13,976
LOSS BEFORE TAXES	(780,786)	(585,206)
Provision for capital tax (Note 14)	(8,005)	(4,000)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(788,791)	(589,206)
DEFICIT AT BEGINNING OF PERIOD	(12,865,849)	(10,014,422)
DEFICIT AT END OF PERIOD	\$ (13,654,640)	\$ (10,603,628)
Basic and diluted loss per share	(\$0.009)	(\$0.013)
Weighted average number of shares	90,853,271	44,186,605

## BLACK BULL RESOURCES INC.

### INTERIM STATEMENTS OF CASH FLOWS PERIODS ENDED DECEMBER 31

	2007	2006
	3 Months	3 Months
	<i>"Unaudited"</i>	<i>"Unaudited"</i>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (788,791)	\$ (589,206)
Non-cash items included in net loss		
Amortization	152,918	95,811
Accretion on asset retirement obligation	4,275	3,995
Accretion on convertible debentures	17,234	-
Stock-based compensation	32,735	29,273
	(581,629)	(460,127)
Change in non-cash working capital accounts		
Receivables	7,354	88,591
Inventory	(65,045)	9,445
Prepaid expenses	(219,299)	13,869
Payables and accruals	(412,708)	(250,003)
Capital tax	(10,976)	-
	(1,282,303)	(598,225)
<b>INVESTING ACTIVITIES</b>		
Reclamation deposits	(6,403)	(3,900)
	(6,403)	(3,900)
Change in cash and cash equivalents during the period	(1,288,706)	(602,125)
Cash and cash equivalents at beginning of the period	\$ 5,042,378	\$ 1,081,541
Cash and cash equivalents at end of period	\$ 3,753,672	\$ 479,416

# NOTES TO THE FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND BASIS PRESENTATION

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

The Company is 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.

## 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 \$526,407 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 three-month period ended December 31, 2007.

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 5,980,667 and warrants to purchase 2,400,000 common shares were outstanding at December 31, 2007, 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) 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.

**n) 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.

**o) 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.

**3. RECEIVABLES**

	<b>December 31 2007</b>		September 30 2007
Trade	\$ 81,619	\$	90,091
Government (HST)	61,533		60,415
	<b>143,152</b>		150,506
Doubtful Account	<b>(3,044)</b>		(3,044)
	<b>140,108</b>	\$	147,462

#### 4. INVENTORY

	<b>December 31 2007</b>	September 30 2007
Semi-processed	\$ 379,348	\$ 384,089
Processed goods	220,041	148,132
Consumables	54,661	56,784
	<b>\$ 654,050</b>	<b>\$ 589,005</b>

During fiscal 2007, older raw material valuation was adjusted by \$196,583 to reflect changes in net realizable value.

#### 5. CAPITAL ASSETS

	<b>December 31 2007</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Office furniture & equipment	\$ 37,065	\$ 15,620	\$ 21,445
Computer equipment	38,426	23,318	15,108
Software	32,089	32,089	-
Vehicle	47,968	23,569	24,399
Equipment	2,655,603	647,684	2,007,919
Buildings	1,477,145	229,130	1,248,015
Leasehold improvements	17,115	17,115	-
Site improvements	211,710	62,060	149,650
Trademark	12,783	2,876	9,907
	<b>\$ 4,529,904</b>	<b>\$ 1,053,461</b>	<b>\$ 3,476,443</b>

	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
	<b>\$ 4,529,904</b>	<b>\$ 900,543</b>	<b>\$ 3,629,361</b>

**6. MINERAL CLAIMS**

	<b>December 31 2007</b>	September 30 2007
Cost, beginning of period	\$ 883,314	\$ 883,314
Asset retirement obligation	-	-
Cost, end of period	883,314	883,314
Accumulated depletion	7,079	7,079
Net book value	\$ 876,235	\$ 876,235

**7. DEFERRED COSTS**

<b>Deferred Exploration and Development Costs</b>	<b>December 31 2007</b>	September 30 2007
Cost, beginning of period	\$ 2,925,631	\$ 2,925,631
Research/development	-	-
Cost, end of period	2,925,631	2,925,631
Accumulated depletion	23,399	23,399
Net book value	\$ 2,902,232	\$ 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 \$432,893 (\$427,268 at September 30, 2007) and the Environmental Reclamation Fund contains \$93,514 (\$92,736 at September 30, 2007). The funds bear interest at the provincially designated rate of 2.5% to 4.9%.

**9. PAYABLES AND ACCRUED LIABILITIES**

	<b>December 31 2007</b>	September 30 2007
Trade—operational	\$ 177,884	\$ 449,028
Trade—capital equipment	141,550	271,258
Government (payroll & WCB)	9,597	21,453
	\$ 329,031	\$ 741,739

## 10. CONVERTIBLE DEBENTURES

	<b>December 31 2007</b>	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)
	<b>326,628</b>	269,223
Accretion	<b>17,234</b>	57,405
Balance, end of period	\$ <b>343,862</b>	\$ 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 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 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 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.

## 11. ASSET RETIREMENT OBLIGATION

	<b>December 31 2007</b>	September 30 2007
Balance, beginning of period	\$ 250,588	\$ 234,195
Accretion	<b>4,275</b>	16,393
Balance, end of period	\$ <b>254,863</b>	\$ 250,588

The gross undiscounted amount of future reclamation plans is \$402,390 (\$402,390 at September 30, 2007). During the period ending December 31, 2007, there was no increase in NPV for new obligations.

## 12. SHAREHOLDERS' EQUITY

### a) Authorized

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

### b) Issued, common shares

	December 31 2007		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	1,829,106	32,735	-	-
Balance, end of period	8,343,070	\$ 1,014,564	4,608,000	\$ 833,336

The contributed surplus of \$1,847,900 (\$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	1,829,106	0.10	-	-
Cancelled/expired	(166,646)	0.41	-	-
Outstanding as at December 31, 2007	<b>5,980,667</b>	<b>\$ 0.22</b>	<b>2,400,000</b>	<b>\$ 0.15</b>

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

Range of exercise prices	Number of Options	Weighted average remaining contractual life	Weighted average exercise price
\$0.10 - 0.42	5,400,667	4.1 years	\$ 0.16
\$0.53 - 0.95	580,000	1.2 years	\$ 0.75
	<b>5,980,667</b>	<b>3.9 years</b>	<b>\$ 0.22</b>

Range of exercise prices	Number of Warrants	Weighted average remaining contractual life	Weighted average exercise price
<b>\$0.15</b>	<b>2,400,000</b>	<b>1.4 years</b>	<b>\$ 0.15</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.

On November 7, 2007, the Board of Directors approved the grant of options to Officers of the Company on December 9, 2007, as part of their employment contracts. A total of 1,795,356 options were granted. The total included 481,546 which exceeded the maximum previously approved by shareholders. These options were granted subject to shareholder approval at the next Shareholders Meeting.

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 did not enter into any transactions with any directors or officers and companies under their control or control of their spouses.

During the three months ended December 31, 2006, the Company paid Joseph MacDonald (J&E Consultants), Director, \$8,000 for performing the Interim President & CEO duties until October 14, 2006, plus \$34,500 for marketing consulting from October 16 to December 31, 2006. The Company also paid Richard Shearer, Director, \$27,900 for marketing consulting.

### **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 \$5,000,000 of capital. The Company has exceeded the threshold. The provision for the period ending December 31, 2007, is \$8,005 (\$4,000 in 2007).

### **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.

*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 convertible debentures, 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 has instructed its attorneys to proceed with the damages claim against U.S. Silica, and U.S. Silica has counter claimed. Both sides have agreed to the arbitrator and are currently finalizing written statements of claims. Neither the possible outcome nor the amount of any possible settlement can be foreseen for the initial claim or the counterclaim. Therefore, no provision has been made in the financial statements.

## **17. SUBSEQUENT EVENTS**

On February 15, 2008, the remaining secured convertible debentures valued at \$350,000 were repaid.

# 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 February 15, 2008, 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, 2007 and unaudited interim financial statements for the three-month period ending December 31, 2007, together with the accompanying notes. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

### Overall Performance

The first quarter of fiscal 2008 continued to be dedicated to business development, as well as initiating the planned Capital Expenditure Program ("CapEx").

The business development efforts included many sales calls with existing and new customers, which resulted in sending numerous *ScotiaWhite*<sup>TM</sup> samples. This was followed up with several face-to-face meetings. The following table illustrates the number of customers, samples, and locations, as an indication of present marketing activity and possible future sales.

<i>ScotiaWhite</i> <sup>TM</sup> Sample Distribution (BBS Fiscal Quarter)					
	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
No. of Samples	127	55	57	67	64
No. of Customers	51	34	40	38	27
USA Locations	46	28	37	31	23
Canadian Locations	5	3	2	7	3
International Locations	-	3	1	-	1

During this quarter several external events adversely affected sales, including: (i) the significant downturn in the American housing market; (ii) the volatility and rising value of the Canadian dollar; and (iii) increasing freight costs. Notwithstanding, the Company continues to find new customers and new markets; however, these efforts are taking time. Quartz sales levels are expected to grow in the spring of 2008.

Black Bull continues to develop additional sales collateral materials, illustrating the excellent quality of its quartz. One way of demonstrating its superior chemical resistance is through an acid test. This test compares the reaction that marble and quartz have when exposed to acid, which is found in chemicals used to clean swimming pools.



***Marble***  
**Breaks down when  
exposed to the acid used  
in pool cleaning**



***Scotia White™***  
**DOES NOT react  
to acid**

Black Bull is also investigating new applications for *Scotia White™*. There are positive indications that the whiteness and purity of the product may open new markets such as solar panels, aquarium stones, specialty glass, and ferro silicon. The Company continues to investigate markets in Asia and Europe.

Also during this quarter, Black Bull finalized its plans for the upcoming CapEx. The capital expenditure of \$1.5 million previously announced will be completed in two parts. The first part includes expenditures of approximately \$700,000. This includes improving the bagging line and expanding the warehouse facilities to meet expected demand. The Company initiated the groundwork for the warehouse, with the major portion of the work being carried out during February 2008. The second part will include new silos and additional processing equipment improvements. The timing of this phase will be dependent on increased demand.

Production continued in Q1 until December 21, at which time we initiated a workflow reduction program. This will allow for sufficient inventory levels during the planned capital expansion program.



**Warehouse Expansion**

Black Bull was pleased to receive the Export Achievement Award as part of the 2007 Business Excellence Awards hosted by the Shelburne & Area Chamber of Commerce and Community Business Development Corporation of Shelburne. Scott Hoeg, Vice President Operations, and Trinda Goreham, Customer Service Manager, received the award on behalf of Black Bull Resources Inc.



**Black Bull Resources Inc. Receives  
Export Achievement Award**

On November 12, 2007, Martin MacKinnon assumed the position of Chief Financial Officer, formerly held by Robert (Bob) Cudmore. Bob had been with Black Bull for over three years and continues to provide consulting services to the Company.

On December 7, the Deputy Minister of Nova Scotia Department of Natural Resources visited the White Rock site. This allowed the Deputy and other officials to better understand Black Bull's operations and the importance of the Company to the Nova Scotia economy. The Company has also maintained a positive working relationship with the Nova Scotia Department of Environment and Labour and the Community Liaison Committee. The Company has met all its environmental requirements except weather station reporting which is now being completed.

Black Bull continues to proceed with the damages claim against U.S. Silica Company for lack of best commercial efforts relating to the terminated exclusive sales agency agreement. Both sides have agreed to the arbitrator and are currently finalizing written statements of claims. In the opinion of Management, Black Bull has a valid claim. During the course of this action, U.S. Silica has responded with a counterclaim for wrongful termination. At this time, neither the possible outcome nor the amount of any possible settlement can be foreseen.

The focus of Black Bull for the coming quarter will be to increase sales. This will be achieved by increasing *Scotia White*<sup>TM</sup> quartz markets and applications. The Company's efforts will be to continue to supply customers with a premium quality product at a reasonable price including cost-effective transportation. The Company has made progress in the international marketplace and will continue to pursue this potential growth opportunity.

## Summary of Quarterly Results and Results of Operations

Quarterly Results	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Income:								
Mineral revenue	30,268	61,990	79,806	-	28,078	103,085	24,175	-
Interest income	55,146	60,606	22,920	8,687	13,976	22,412	25,035	29,231
	<b>85,414</b>	<b>122,596</b>	<b>102,726</b>	<b>8,687</b>	<b>42,054</b>	<b>125,497</b>	<b>49,210</b>	<b>29,231</b>
Costs:								
Operations	224,907	237,289	288,624	235,434	198,280	533,852	334,004	217,509
Sales & marketing	81,091	74,070	96,331	142,665	118,552	51,122	66,447	56,475
General & admin	379,550	280,212	319,526	196,452	214,617	280,856	360,304	344,512
Amort./depletion	152,918	185,504	104,052	9,918	95,811	156,149	163,981	143,667
Interest expense	27,734	24,978	51,151	25,575	-	-	-	-
Other	8,005	212,770	5,214	6,465	4,000	(4,869)	8,574	8,574
	<b>874,204</b>	<b>1,014,823</b>	<b>864,898</b>	<b>616,509</b>	<b>631,260</b>	<b>1,017,110</b>	<b>933,310</b>	<b>770,737</b>
Net loss	<b>(788,791)</b>	<b>(892,227)</b>	<b>(762,172)</b>	<b>(607,822)</b>	<b>(589,206)</b>	<b>(891,613)</b>	<b>(884,100)</b>	<b>(741,506)</b>
Net loss per share (basic and diluted)	(0.009)	(0.014)	(0.016)	(0.014)	(0.013)	(0.020)	(0.020)	(0.017)

Operating Cash	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net loss	<b>(788,791)</b>	<b>(892,227)</b>	<b>(762,172)</b>	<b>(607,822)</b>	<b>(589,206)</b>	<b>(891,613)</b>	<b>(884,100)</b>	<b>(741,506)</b>
Non-cash operating items	207,162	236,866	173,785	70,776	129,079	193,902	226,123	195,201
Net cash loss from operations	<b>(581,629)</b>	<b>(655,361)</b>	<b>(588,387)</b>	<b>(537,046)</b>	<b>(460,127)</b>	<b>(697,711)</b>	<b>(657,977)</b>	<b>(546,305)</b>

During the quarter, revenue was \$85,414. The decrease of \$31,700 mineral revenue from Q4 2007 is due to seasonality of the pool industry, slower than expected ramp up, high freight costs, and a very volatile dollar during the quarter. The Q1 2008 revenue was slightly higher than Q1 2007, as there was a shutdown during Q1 2007. Q1 2008 revenue was also adversely affected by unrecoverable freight costs of \$15,600 which is included in mineral revenue.

Sales levels are projected to increase during the spring of 2008. The Company continues to receive a premium price for the *Scotia White*<sup>TM</sup> products. The recent significant strength of the Canadian currency has reduced revenue in the quarter because more than 90% of the sales were in US dollars. The impact of the US exchange rate will continue to be monitored as it relates to profit margins and freight costs. The Q1 2008 interest income decreased from Q4 2007 due to the cash burn; however, it increased significantly from Q1 2007, as a result of cash received from the equity financing in June 2007.

The overall \$12,400 decrease in operating expenses from Q1 2008 compared to Q4 2007 was mainly attributable to reduced environmental costs; Q1 2008 \$23,700 versus Q4 2007 \$35,300. Q1 2007 operating expenses were \$26,600 less due to the shutdown. Warehouse costs increased from \$4,000 Q4 2007 to \$14,100 Q1 2008 relating to increased inventory. The Q1 2008 operating costs include \$19,400 for propane and diesel fuel versus \$17,400 in Q4 2007, and \$17,700 in Q1 2007. The Company paid

\$37,200 for production wages in Q1 2008; \$37,800 in Q4 2007; and \$41,700 in Q1 2007. The remaining expenses relate to packaging, land lease costs, along with direct and indirect costs of the operations.

The Company continued its intense market development program. The Q1 2008 sales and marketing costs of \$81,091 increased from \$74,070 during Q4 2007 and decreased from \$118,552 in Q1 2007. In Q1 2007 sales and marketing expenditures included expenses for the Sales Taskforce, a team led by two directors to develop a new sales strategy. The Q1 2008 marketing administration costs were higher by \$10,000 compared to Q4 2007 due to courier costs associated with sending a larger number of product samples. These costs were \$48,800 less than Q1 2007 with the Sales Taskforce.

In Q1 2008 other expense of \$8,005 includes provision for capital tax compared to Q4 2007 of \$212,700 of which \$196,600 was a result of inventory write-down.

<b>General &amp; Administrative Costs</b>	<b>Q1 2008</b>	<b>Q4 2007</b>	<b>Q1 2007</b>
Accounting & Legal Fees	100,086	32,156	31,362
Advertising & Promotion	848	753	274
Consulting Fees	9,729	4,850	11,850
Insurance	15,403	15,372	15,750
Investor Relations	913	-	5,000
Listing & Transfer Agent Fees	6,265	7,331	4,309
Office, Rent & Telephone	15,335	14,280	10,865
Travel & Entertainment	18,773	22,022	14,164
Wages & Benefits	212,198	183,448	121,043
<b>Total</b>	<b>379,550</b>	<b>280,212</b>	<b>214,617</b>

The Company's Q1 2008 general and administration (G&A) costs increased by \$99,338 from the Q4 2007 costs. A major part of the increased costs was accounting and legal fees, \$67,900, which was associated with the claim against U.S. Silica.

Wages and benefits increased \$28,700 partially due to employee bonuses paid during Q1 2008 as well as the overlap costs associated with replacing the CFO (training, etc). Increased consulting fees of \$4,900 were associated with the former CFO providing support. The decreased travel costs of \$3,200 were due to less travel by the CEO to Nova Scotia. The remaining Q1 2008 G&A expenses were consistent with Q4 2007 costs.

In Q1 2007 wages and benefits of \$121,043 included one individual performing both the CFO and CEO positions; whereas in Q1 2008 these positions were held separately.

The total loss for Q1 2008 was \$788,791 compared to \$892,227 Q4 2007 and \$589,206 in Q1 2007. The loss per share in Q1 2008 was 0.009 compared to 0.014 in Q4 2007 and 0.013 in Q1 2007.

## **Liquidity**

As at the end of Q1 2008, Black Bull had \$4,205,021 in working capital. The Company's current assessment is that it has sufficient working capital to finance plant operations, finance the first part of the capital expenditure, and meet its obligations during the coming year.

## Capital Resources

The Company believes that it currently has sufficient capital to complete its planned capital expenditure in Q2 2008 and to finance operations during the coming year.

## Transactions with Related Parties

During the period, 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 three months ended December 31, 2006, the Company paid Joseph MacDonald (J&E Consultants), Director, \$8,000 for performing the Interim President & CEO duties until October 14, 2006, plus \$34,500 for marketing consulting from October 16 to December 31, 2006. The Company also paid Richard Shearer, Director, \$27,900 for marketing consulting.

## Changes 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*. These sections did not have any significant impact on the financial results.

## Subsequent Events

On February 15, 2008, the remaining secured convertible debentures valued at \$350,000 were repaid.

## Other MD&A Disclosures

During Q1 2008, Directors and Officers were granted 1,829,106 options and 166,646 options were canceled or expired. On November 7, 2007, the Board of Directors approved the grant of options to Officers of the Company on December 9, 2007, as part of their employment contracts. The total included 481,546 which exceeded the maximum previously approved by shareholders. These options were granted subject to shareholder approval at the next Shareholders Meeting. As of this MD&A, dated February 15, 2008, there were no changes to Outstanding Securities.

<b>Outstanding Securities</b>	<b>Period Ended December 31, 2007</b>
Common Shares	90,853,271
Options (Exercisable to one Common Share)	5,980,667
Warrants (Exercisable to one Common Share)	2,400,000
Debentures (Convertible to one Common Share)	2,333,333
<b>Total Outstanding Securities</b>	<b>101,567,271</b>

## **Risks and Uncertainties**

Mineral exploration and development involves a high degree of risk since few properties are developed into producing mines. There are no assurances that the Company's mineral exploration activities will result in 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, 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.

At the current time, the USA is Black Bull's major customer base. Therefore, the continued downturn in the American housing market has a significant impact on the Company. Like many Canadian companies doing business in the USA, Black Bull is also 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.

## **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).

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**NOTES**

## CORPORATE INFORMATION

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### **CONTACT**

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### **GENERAL INFORMATION**

**Trading Symbol:** BBS  
(TSXV Exchange)

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Richard J. Shearer  
President & CEO

### **DIRECTORS:**

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Chairman of the Board  
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USA

George T.H. Cooper  
Director  
Halifax, NS

James W. Gogan  
Director  
New Glasgow, NS

Joseph MacDonald  
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Judique, NS

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David L. Wood  
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White Rock, BC

Donald A. Wright  
Director  
Toronto, ON

### **OFFICERS:**

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Chief Financial Officer  
Halifax, 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>™</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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