

ANNUAL REPORT

2010

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## TABLE OF CONTENTS

<b>SECTION</b>	<b>PAGE NO.</b>
Letter to Shareholders	1
Auditors' Report	2
Financial Statements	3
Notes to the Financial Statements	6
Management's Discussion & Analysis	20
Corporate Information	33

## LETTER TO SHAREHOLDERS

February 2, 2011

During the fiscal year ending September 30, 2010, Black Bull Resources Inc. continued to deal with difficult issues such as weak market conditions, high freight costs and a strong Canadian dollar. The Company did not reach profitability and continued to incur operating losses as outlined in the financial statements.

Sales for the fiscal year totaled 3,116 tons of damp/unprocessed material compared to sales of 3,552 tons during the same period in the previous year.

On April 4, 2010, the Company announced that Richard J. Shearer, CEO and President was stepping down but was remaining as Chairman of the Board, effective April 30, 2010. On May 5, 2010, the Company announced that Joseph MacDonald had been appointed President and CEO.

On May 5, 2010, the Company held its Annual General Meeting. At that time Richard J. Shearer, James Gogan, Joseph MacDonald and David Wood were elected to the Board. The Board would like to thank George Cooper, Wayne Mailloux, and Donald Wright, who retired from the Board.

The focus has been to reserve cash by reducing overall expenses, selling redundant assets and existing inventory. In this regard, Black Bull Resources Inc. has placed the company in a hibernation mode going into the winter months. In recent weeks all redundant assets and existing inventory have been sold significantly improving the cash position.

While the Company's future is uncertain, these sales together with a reduced cash burn give the Company time to seek long term strategic options for its resource.

It is clear however that much uncertainty remains regarding the viability of Black Bull Resources Inc.

Sincerely,

Joseph MacDonald  
President and CEO  
Black Bull Resources Inc.

## Auditors' Report

To the Shareholders of

Black Bull Resources Inc.

We have audited the balance sheets of Black Bull Resources Inc. as at September 30, 2010 and 2009 and the statements of operations, comprehensive loss 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, 2010 and 2009 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  
February 2, 2011

# BLACK BULL RESOURCES INC.

## BALANCE SHEETS AS AT SEPTEMBER 30

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 103,720	\$ 439,174
Receivables (Note 3)	108,206	145,388
Capital tax receivable	11,220	-
Inventory (Note 4)	131,538	217,718
Prepaid expenses	53,982	59,149
Assets held for sale (Note 5)	242,519	1,376,627
	651,185	2,238,056
Property, plant and equipment (Note 5)	139,547	201,595
Intangible assets (Note 6)	6,391	7,670
Mineral claims (Note 7)	1	959,890
Deferred costs (Note 8)	1	2,945,048
Other assets (Note 9)	556,861	545,945
	\$ 1,353,986	\$ 6,898,204
<b>LIABILITIES</b>		
<b>Current</b>		
Payables and accrued liabilities (Note 10)	\$ 148,350	\$ 156,949
Asset retirement obligation (Note 11)	412,121	385,375
	560,471	542,324
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 12)	23,538,215	23,538,215
Contributed surplus (Note 12)	2,063,905	2,049,302
Deficit	(24,808,605)	(19,231,637)
	793,515	6,355,880
	\$ 1,353,986	\$ 6,898,204
Continuation of business (Note 1)		
<b>Approved on behalf of the Board</b>		
<u>"James W Gager"</u>	Director	
<u>"Joseph MacDonald"</u>	Director	

## BLACK BULL RESOURCES INC.

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

	2010	2009
MINERAL REVENUE	\$ 153,197	\$ 261,983
COSTS AND EXPENSES		
Operations and overhead	203,840	479,920
Depletion	11,274	6,186
Amortization	452,564	608,308
Sales and marketing	12,883	56,697
General and administration	442,928	625,880
(Recovery) provision for capital tax	(11,516)	18,000
	1,111,973	1,794,991
LOSS BEFORE OTHER ITEMS	(958,776)	(1,533,008)
OTHER ITEMS		
Interest income	11,625	20,057
Loss on foreign exchange	(17,477)	(18,618)
Gain (loss) on sale of property, plant and equipment	3,842	(76,348)
Write-down of inventory (Note 4)	(26,532)	(25,911)
Write-down of property, plant and equipment (Note 5)	(685,606)	(1,250,000)
Write-down of mineral claims and deferred costs (Notes 7 and 8)	(3,904,044)	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(5,576,968)	(2,883,828)
DEFICIT AT BEGINNING OF YEAR	(19,231,637)	(16,347,809)
DEFICIT AT END OF YEAR	\$ (24,808,605)	\$ (19,231,637)
Basic and diluted loss per share	\$ (0.06)	\$ (0.03)
Weighted average number of shares	90,853,271	90,853,271

## BLACK BULL RESOURCES INC.

### STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (5,576,968)	\$ (2,883,828)
Non-cash items included in net loss		
Amortization	452,564	608,308
Depletion	11,274	6,186
Accretion on asset retirement obligation	26,746	25,393
(Gain) loss on sale of property, plant and equipment	(3,842)	76,348
Write-down of inventory	26,532	25,911
Write-down of property, plant and equipment	685,606	1,250,000
Write-down of mineral claims and deferred costs	3,904,044	
Stock-based compensation	14,603	67,067
	(459,441)	(824,615)
Change in non-cash working capital accounts		
Receivables	37,182	(94,798)
Inventory	59,648	194,213
Prepaid expenses	5,167	(7,377)
Payables and accrued liabilities	(8,599)	(27,146)
Capital tax receivable/payable	(11,220)	12,129
	(377,263)	(747,594)
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	-	(10,473)
Proceeds of property, plant and equipment	63,107	453,412
Development costs	(10,382)	(45,739)
Reclamation deposits	(10,916)	(7,288)
	41,809	389,912
Change in cash and cash equivalents during the year	(335,454)	(357,682)
Cash and cash equivalents at beginning of the year	439,174	796,856
Cash and cash equivalents at end of year	\$ 103,720	\$ 439,174
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 11,220	\$ -
Interest received	\$ 11,625	\$ 20,057
Cash and cash equivalents are comprised of:		
Cash	\$ 65,670	\$ 186,786
Guaranteed investment certificates	38,050	252,388
	\$ 103,720	\$ 439,174

## Audited

### 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.

The Company had not yet achieved profitable operations and continues to incur significant operating losses including \$5,576,968 for the year ending September 30, 2010. If the trend continues the current working capital is not sufficient to sustain the Company for the next 12 months. Management's opinion is that the Company must conserve cash resources and seek strategic options.

The Company's continued existence is dependent upon maintaining control of its mineral resources until such time as the market improves. 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 amounts held on deposit and cashable guaranteed investment certificates with financial institutions.

**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. Cost is determined on a weighted average basis.

**c) Property, plant and equipment**

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

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

Amortization of buildings and equipment commence when they are commercially utilized; other property, plant and equipment are amortized 50% of the given rate in the first year.

**d) Intangible assets**

Intangible assets are accounted for at cost. Amortization is based on the asset's estimated useful life using either the declining-balance (DB) or straight-line (SL) method using the following rates:

Software	100% DB
Patents	10% SL

**e) Mineral claims**

Mineral claim costs 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 an 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.

**f) Deferred costs**

Exploration and mine development costs 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 an 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.

**g) Revenue recognition**

Revenue from mining operations is recognized upon existence of persuasive evidence of an arrangement, shipment of the product, when title has passed to the customer, the price is fixed or determinable, and collection is reasonably assured.

**h) 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 operations and overhead 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 \$556,861 in Reclamation Funds on deposit with the Province of Nova Scotia.

**i) 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.

**j) 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.

**k) 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 more likely than not 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. Future income tax assets are recognized to the extent that it is more likely than not they will be realized

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.

**l) 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, 2010.

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.

Stock options totaling 8,147,406 were excluded in the computation of diluted loss per share because they were anti-dilutive. Warrants to purchase 2,400,000 common shares expired on June 15, 2009.

**m) 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.

**n) Comprehensive income**

The Company has no other comprehensive income components and, accordingly, the Company's net loss equals comprehensive loss.

**o) 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 accrued liabilities as other financial liabilities and receivables as loans and receivables. Loans and receivables and other financial liabilities are recorded at amortized cost using the effective interest method. The Company has classified cash and cash equivalents as held for trading and are recorded at fair value.

*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.

**p) Foreign currency translation**

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization, which is translated at historical rates. Translation gains or losses are included in net loss.

**q) Change in accounting policies**

*EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract required that credit risk be taken into account in determining the fair value of financial instruments and financial liabilities, including derivative instruments. The adoption of this abstract did not have a significant impact on the Company's financial statements.

*EIC-174 Mining Exploration Costs*

In March 2009, the Emerging Issues Committee of the CICA issued EIC-174, Mining Exploration Costs. This abstract provides guidance on the accounting and the impairment review of capitalized exploration costs. The application of this EIC does not have an impact on the Company's financial statements.

**r) Future accounting changes**

*International financial reporting standards (IFRS)*

In 2006, the Canadian Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to adopt IFRS replacing the current Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Accordingly, the Company will be required to adopt IFRS on October 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ending September 30, 2011 and the balance sheet as at October 1, 2010.

**s) Comparative figures**

Certain comparative figures have been reclassified to conform to the current years' presentation.

### 3. RECEIVABLES

	<b>2010</b>		2009
Trade	\$ 131,790	\$	153,280
Government (HST)	<b>6,715</b>		5,446
	<b>138,505</b>		158,726
Less: Allowance for doubtful accounts	<b>30,299</b>		13,338
	<b>\$ 108,206</b>	\$	145,388

Total accounts receivable includes a reserve of \$30,299 for four potentially uncollectable accounts. An additional account totaling \$6,375 was written off in June 2010, as the customer filed for Chapter 7 Liquidation under the US Bankruptcy Code.

### 4. INVENTORY

	<b>2010</b>		2009
Semi-processed	\$ 125,207	\$	166,311
Processed goods	<b>6,729</b>		54,083
Consumables	<b>26,134</b>		23,245
Less: Write-down	<b>(26,532)</b>		(25,911)
	<b>\$ 131,538</b>	\$	217,718

In May 2009, an adjustment of \$25,911 was made to reflect a reduction of realizable value of material stored in Staley, South Carolina. In September 2010, an allowance of \$26,532 was made to inventory to reflect the realizable value of the inventory sold in December 2010.

## 5. PROPERTY, PLANT AND EQUIPMENT

				2010
	Cost	Accumulated Amortization	Net Book Value	
Computer equipment	\$ 42,627	\$ 35,275	\$	7,352
Equipment - Water Treatment	107,872	72,908		34,964
Building - Water Treatment	105,822	43,601		62,221
Leasehold improvements	17,115	17,115		-
Site improvements	216,210	181,200		35,010
	<b>\$ 489,646</b>	<b>\$ 350,099</b>	<b>\$</b>	<b>139,547</b>

				2009
	Cost	Accumulated Amortization	Net Book Value	
Computer equipment	\$ 42,627	\$ 32,124	\$	10,503
Equipment - Water Treatment	107,872	64,167		43,705
Building - Water Treatment	105,822	36,687		69,135
Leasehold improvements	17,115	17,115		-
Site improvements	216,210	137,958		78,252
	<b>\$ 489,646</b>	<b>\$ 288,051</b>	<b>\$</b>	<b>201,595</b>

During 2009, management categorized assets and prepared a catalogue of assets that were to be sold as part of the company's previously announced Reduced Operating Business Plan. An estimated sale price of the redundant assets which are being considered for sale results in a provision of \$500,000 for buildings and \$750,000 for equipment, for a total of \$1,250,000.

In 2010, redundant assets totaling \$33,408 were sold. In December 2010 all the remaining redundant assets and inventory were sold for \$367,750. Therefore, the inventory and assets were written down to reflect the net realizable value. The following assets were reclassified to assets held for sale at September 30, 2010:

						2010
	Cost	Accumulated Amortization	Disposal of Redundant assets	Provision for Reduced Asset Value	Net Book Value	
Office furniture and equipment	\$ 37,065	\$ 25,507	\$ 3,645	\$ 7,913	\$	-
Vehicle	49,000	9,407	28,500	11,093		-
Equipment	1,940,659	905,009	-	1,035,650		-
Buildings	1,748,564	511,492	113,603	880,950		242,519
	<b>\$ 3,575,288</b>	<b>\$ 1,415,415</b>	<b>\$ 145,748</b>	<b>\$ 1,935,605</b>	<b>\$</b>	<b>242,519</b>

2009

	Cost	Accumulated Amortization	Disposal of Redundant Assets	Provision for Reduced Asset Value	Net Book Value
Office furniture and equipment	\$ 37,065	\$ 22,618	\$ -	\$ -	\$ 14,447
Vehicle	68,468	28,493	19,468	-	20,507
Equipment	3,117,619	646,097	1,176,959	750,000	544,563
Buildings	1,748,562	451,452	-	500,000	797,110
	\$ 4,971,714	\$ 1,148,660	\$ 1,196,427	\$ 1,250,000	\$ 1,376,627

## 6. INTANGIBLE ASSETS

	2010		
	Cost	Accumulated Amortization	Net Book Value
Software	\$ 32,089	\$ 32,089	\$ -
Trademark	12,782	6,391	6,391
	\$ 44,871	\$ 38,480	\$ 6,391

	2009		
	Cost	Accumulated Amortization	Net Book Value
Software	\$ 32,089	\$ 32,089	\$ -
Trademark	12,782	5,112	7,670
	\$ 44,871	\$ 37,201	\$ 7,670

## 7. MINERAL CLAIMS

	2010		2009	
Cost, beginning of period	\$	972,183	\$	972,183
Cost, end of period		972,183		972,183
Accumulated depletion		14,381		12,293
Write-down		957,801		-
Net book value	\$	1	\$	959,890

On September 30, 2010 the Company wrote down the Mineral claims to reflect the absence of objective evidence of valuation in accordance with generally accepted accounting principles ("GAAP").

## 8. DEFERRED COSTS

<b>Deferred Exploration and Development Costs</b>	<b>2010</b>		<b>2009</b>	
Cost, beginning of period	\$	<b>2,984,521</b>	\$	<b>2,938,782</b>
Development		<b>10,382</b>		<b>45,739</b>
Cost, end of period		<b>2,994,903</b>		<b>2,984,521</b>
Accumulated depletion		<b>48,659</b>		<b>39,473</b>
Write-down		<b>2,946,243</b>		-
Net book value	\$	<b>1</b>	\$	<b>2,945,048</b>

On September 30, 2010 the Company wrote down the deferred costs to reflect the absence of objective evidence of valuation in accordance with Canadian GAAP.

## 9. OTHER ASSETS

Other assets consist of funds held for future reclamation costs by the Province of Nova Scotia. The Natural Resources Reclamation Fund contains \$458,859 (\$449,862 at September 30, 2009). In addition, an Irrevocable Standby Letter of Credit \$17,400 has been issued to the Province of Nova Scotia, for a total of \$476,259. The Environmental Reclamation Fund contains \$98,002 (\$96,083 at September 30, 2009).

## 10. PAYABLES AND ACCRUED LIABILITIES

	<b>2010</b>		<b>2009</b>	
Trade	\$	<b>146,017</b>	\$	155,193
Government (payroll & WCB)		<b>2,333</b>		1,756
	\$	<b>148,350</b>	\$	156,949

## 11. ASSET RETIREMENT OBLIGATION

	<b>2010</b>		<b>2009</b>	
Balance, beginning of period	\$	<b>385,375</b>	\$	359,982
NPV of cash flows		-		-
Accretion		<b>26,746</b>		25,393
Balance, end of period	\$	<b>412,121</b>	\$	385,375

The gross undiscounted amount of future reclamation plans is \$525,388 (\$535,895 as at September 30, 2009).

## 12. SHAREHOLDERS' EQUITY

### a) Authorized

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

### b) Issued, common shares

	2010		2009	
	#	\$	#	\$
Issued	90,853,271	\$ 23,538,215	90,853,271	\$ 23,538,215

### c) Contributed surplus

	Stock Options	Warrants
	Fair Value	Fair Value
Balance, beginning of period	\$ 1,215,966	\$ 833,336
Stock compensation expense	14,603	-
Balance, end of period	\$ 1,230,569	\$ 833,336

The contributed surplus of \$2,063,905 (\$2,049,302 at September 30, 2009) consists of the fair value attributed to options and warrants granted since October 1, 2003 and recognized to date. The fair value of options is recognized over the length of the vesting period (18 months).

### d) Stock options and warrants

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.

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.

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, 2008	5,736,756	\$ 0.22	2,400,000	\$ 0.15
Granted/issued	4,006,850	0.10		
Cancelled/expired	(1,136,200)	0.43	(2,400,000)	0.15
Outstanding as at September 30, 2009	8,607,406	\$ 0.14	-	\$ -
<b>Cancelled/expired</b>	<b>(460,000)</b>	<b>0.40</b>	-	-
<b>Outstanding as at September 30, 2010</b>	<b>8,147,406</b>	<b>\$ 0.12</b>	-	<b>\$ -</b>

The following table summarizes information about stock options and warrants outstanding at September 30, 2010:

Range of Exercise Prices	Number of Options Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$0.10 - 0.12	8,147,406	2.9 years	\$ 0.12
	<b>8,147,406</b>	<b>2.9 years</b>	<b>\$ 0.12</b>

### 13. INCOME TAX

The income tax recovery and change in valuation allowance differs from the amounts computed by applying Canadian statutory rates of 36.16% (2009 – 35.13%) to the loss before income taxes as follows:

	<b>2010</b>	2009
Income tax recovery at statutory rate	\$ (1,909,000)	\$ (1,007,000)
Amortization and other	<b>83,000</b>	218,000
Employee stock options	<b>5,000</b>	24,000
Impact of income tax rate change	<b>167,000</b>	65,000
Increase in valuation allowance	<b>(1,654,000)</b>	(700,000)
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% (2009 - 31%) are as follows:

	<b>2010</b>	2009
Future income tax assets (liabilities)		
Property, plant and equipment	\$ <b>887,000</b>	\$ 532,000
Mineral claims	<b>1,158,000</b>	(59,000)
	<b>2,045,000</b>	473,000
Share issue costs	<b>202,000</b>	103,000
Net future income tax asset	<b>2,247,000</b>	576,000
Tax loss carry forwards	<b>4,748,000</b>	4,765,000
Future income tax asset	<b>6,995,000</b>	5,341,000
Valuation allowance	<b>(6,995,000)</b>	(5,341,000)
Future income tax asset	\$ -	\$ -

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

<u>Expiry date</u>	<u>Amount</u>
2014	\$ 2,378,000
2015	1,559,000
2026	3,299,000
2027	3,496,000
2028	3,057,000
2029	950,000
2030	578,000
	<u>\$15,317,000</u>

## 14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

*Fair value:* The carrying values of cash and cash equivalents, receivables and payables and accrued liabilities 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 has cash balances invested in guaranteed investment certificates that are issued by a Canadian Chartered bank. The Company has no debt. The Company believes its interest rate risk is not significant.

*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. The carrying amount of receivables on the balance sheet represents the Company's maximum credit exposure at the balance sheet date.

The carrying amount of receivables on the balance sheet is net of allowance for doubtful accounts, estimated by the management of the Company based on previous experience and its assessment of the current economic environment.

As at September 30, the aging of receivables was:

	<b>2010</b>	2009
	\$	\$
Current	<b>81,251</b>	30,243
Aged between 46 - 59 days	<b>20,604</b>	-
Aged greater than 60 days	<b>29,935</b>	123,037
Total trade	<b>131,790</b>	153,280
Others	<b>6,715</b>	5,446
	<b>138,505</b>	158,726
Allowance for doubtful accounts	<b>(30,299)</b>	(13,338)
	<b>108,206</b>	145,388

Reconciliation of allowance for doubtful accounts:

	<b>2010</b>	2009
	\$	\$
Balance, beginning of year	<b>13,338</b>	-
Increase during the year	<b>23,460</b>	13,338
Bad debts recovery during the year	<b>(6,499)</b>	-
Balance, end of year	<b>30,299</b>	13,338

*Currency risk:* The Company realizes approximately 95% of its sales principally in US dollars and is thus exposed to foreign exchange fluctuations. The Company does not actively manage this risk.

The balance sheet includes the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in US dollars:

	<b>2010</b>	2009
	\$	\$
Cash and cash equivalents	<b>58,952</b>	41,719
Accounts receivable	<b>115,311</b>	129,570
Payables and accrued liabilities	<b>16,650</b>	15,206

*Capital 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, contributed surplus 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. The Company's capital management objectives are unchanged from the prior year.

Total managed capital was as follows at September 30:

	<b>2010</b>	2009
Capital stock	<b>\$ 23,538,215</b>	\$ 23,538,215
Contributed surplus	<b>2,063,905</b>	2,049,302
Deficit	<b>(20,915,781)</b>	(19,231,637)
Cash and cash equivalents	<b>(103,720)</b>	(439,174)
	<b>\$ 4,582,619</b>	\$ 5,916,706

## 15. SUBSEQUENT EVENTS

In January 2011, the Company announced that it had completed the sale of all remaining inventory and redundant assets for a sale price of \$367,750. The net book value of the property, plant and equipment was \$242,519 and the net book value of the inventory was \$125,000.

# 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, 2010 and 2009, 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 February 2, 2011.

### **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**

The focus of Black Bull for fiscal 2010 was to continue to reduce its cash burn. In January 2009, the board approved a Reduced Operations Business Plan ("ROBP"), whereby the Company moved to reduce operations and finance operations through the sale of inventory and redundant assets. By December 2010, the sale of all redundant assets and remaining inventory was achieved.

In fiscal 2010, the Company sold 3,116 tons of sand compared to 3,552 tons of sand in 2009. Sales consisted of 195 tons of processed sand versus 2,187 tons in 2009 as well as 2,921 tons of damp unprocessed sand versus 1,365 tons in 2009. Although some inventory of sand remained as at September

30, 2010 it was all sold as part of a purchase of the remaining redundant assets announced on January 5, 2011.

In 2009, Black Bull identified redundant assets that were held for sale. In 2009, the net sale of these redundant assets generated cash totaling \$453,412. In 2010, redundant assets were sold generating \$63,107. As at September 30 2010, the Company recorded a non-cash write-down of assets of \$685,606 to reflect the difference between the net realizable values of redundant assets that were subsequently sold. All redundant assets are now sold.

In addition, the Company has focused on collecting its receivables. During 2010, accounts receivable receipts were \$605,664 which reduced total receivables, while the total sales including freight was \$584,154. The accounts receivable balance as at September 30, 2010 reflects these changes. Sales include mineral revenue of \$153,197 as well as freight costs that are paid by the Company which in turn is invoiced to the customer. As at September 30 2010, the receivables balance was \$108,206. This balance consists of customer accounts totaling \$131,790 and HST due of \$6,715, less an allowance for doubtful accounts of \$30,299.

During 2010, the Company reduced operational costs including office, rent, and travel. In addition and as planned some employees have moved to part-time hours. These reductions reduced the cash burn to minimal levels, which allows the Company to maintain minimal operations until markets improve.

The long term future is dependent upon maintaining control of its mineral resources until such time as the mineral markets improve. However, there can be no assurances that the steps management is taking will be successful.

As announced on April 4, 2010, Richard J. Shearer CEO and President was stepping down but was remaining as Chairman of the Board, effective April 30, 2010. On May 5, 2010, the Company announced that Joseph MacDonald had been appointed President and CEO.

On May 5, 2010, the Company held its Annual General Meeting. At that time Richard J Shearer, James Gogan, Joseph MacDonald and David Wood were elected to the Board. The Board would like to thank George Cooper Wayne Mailloux, and Donald Wright, who retired from the Board.

On January 5, 2011, the Company announced that it had completed the sale of all remaining inventory and redundant assets for a sale price of \$367,750. The net book value of the property, plant and equipment was \$242,519 and the net book value of the inventory was \$125,000.

## Selected Annual Information and Results of Operations

	Year ended September 30, 2010	Year ended September 30, 2009	Year ended September 30, 2008	Year ended September 30, 2007	Year ended September 30, 2006	Year ended September 30, 2005
	\$	\$	\$	\$	\$	\$
Mineral Revenue	153,197	261,983	257,125	169,874	130,558	38,714
Net Loss and Comprehensive Loss	(5,576,968)	(2,883,828)	(3,481,960)	(2,851,427)	(3,001,754)	(1,402,998)
Net Loss per Share (Basic and Diluted)	(0.06)	(0.03)	(0.04)	(0.05)	(0.07)	(0.03)
Total Assets	1,353,986	6,898,204	9,716,718	13,817,462	9,312,818	12,263,352

In 2010, mineral revenues were \$153,197, a decrease from 2009 sales of \$261,983. The decrease was primarily due to reducing availability of inventory sales. During fiscal 2010, total operating expenses of \$1,111,973 decreased by 38% or \$683,018 over fiscal 2009. This decrease was primarily due to continued reduced operations. Operation costs were \$203,840, a decrease from 2009 (\$479,920) as the Company was no longer producing dried sand. Reduced operational costs of \$276,080 consisted of a reduction in the inventory adjustment (\$107,032), reduced wages (\$40,110), the elimination of warehousing costs (\$24,066), the elimination of packaging costs (\$14,292), reduced fuel costs (\$11,824) and environmental monitoring (\$55,045). In 2010, environmental monitoring costs were \$20,642 which was offset by an adjustment to the accrued environmental monitoring costs of \$36,727.

Amortization costs of \$452,564 declined over 2009 by \$155,744 due to the continued sale of redundant assets.

In 2010, sales and marketing costs were \$12,883, down from \$56,697 in 2009. This was due to the significantly reduced activity.

<b>General &amp; Administrative Costs</b>	<b>Year ended September 30, 2010</b>	<b>Year ended September 30, 2009</b>	<b>Year ended September 30, 2008</b>	<b>Year ended September 30, 2007</b>	<b>Year ended September 30, 2006</b>	<b>Year ended September 30, 2005</b>
	\$	\$	\$	\$	\$	\$
Accounting & Legal Fees	32,281	80,921	89,903	105,147	108,034	77,515
Advertising & Promotion	12	-	990	3,331	12,207	14,567
Insurance	61,481	62,465	61,010	62,458	55,256	46,807
Investor Relations	25,856	27,601	36,705	40,457	134,460	111,550
Office, Rent & Telephone	21,129	36,825	49,227	53,029	64,967	45,283
Travel	14,099	18,941	84,392	61,563	123,979	123,376
Consulting Fees	112,008	113,354	44,953	21,159	25,287	69,809
Wages & Benefits	152,602	285,773	757,618	638,699	770,739	655,384
Other	23,460	-	(374)	3,044	6,126	16,360
	\$442,928	\$625,880	\$1,124,424	\$988,887	\$1,301,055	\$1,160,651

In 2010, general and administration costs of \$442,928 declined by 29% or \$182,952 over 2009. This is mainly due to decreased wage cost of \$133,171 resulting from reduced employees, reduced legal and accounting fees of \$48,640 and office of \$15,696. Bad debt expense of \$23,460 related to a write-off of \$5,371 as well as a reserve to reflect receivables that may not be collected.

Interest income of \$11,625 was less than 2009 (\$20,057) due to reduced interest rates. Almost all interest earned is generated from the \$556,861 held in trust with the Province of Nova Scotia as a reclamation bond.

The foreign exchange loss of \$17,477 (\$18,618 in 2009), results from the fluctuation of the exchange rates between Canada and the United States from the date of the invoice, billed in US dollars, and the receipt of the funds.

On January 5, 2011, the Company announced the completion of the sale of all remaining inventory and redundant assets held for sale. As a result of this sale the Company recorded a write-down of inventory of \$26,532 and a write-down of property, plant and equipment of \$685,606 to reflect the value of the assets sold subsequent to year end.

For 2010, the Company reported a net loss for the year of \$5,576,968 (\$2,883,828 in 2009) or a loss of \$0.06 per share (\$0.03 in 2009).

## Summary of Quarterly Results and Results of Operations

Quarterly Results	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income:	\$	\$	\$	\$	\$	\$	\$	\$
Mineral revenue	9,920	100,069	28,550	14,658	23,085	118,276	78,023	42,599
Interest income	2,743	2,865	2,983	3,034	(8,630)	7,240	8,448	12,998
<b>Total</b>	<b>12,663</b>	<b>102,934</b>	<b>31,533</b>	<b>17,692</b>	<b>14,455</b>	<b>125,516</b>	<b>86,471</b>	<b>55,597</b>
Costs:								
Operations	28,051	93,593	29,617	52,576	62,533	125,615	91,858	199,914
Sales & Marketing	2,545	2,482	5,213	2,643	10,994	11,983	17,371	16,350
General & admin.	94,711	104,350	110,730	133,137	139,680	132,301	176,303	177,596
Amort./depletion	123,916	112,644	111,929	115,349	146,515	140,133	172,471	166,216
Foreign Exchange (gain)/loss	4,289	3,313	5,921	3,954	20,210	6,130	(1,592)	(6,131)
Other	4,605,897	(6,841)	1,768	-	59,508	27,975	1,263,968	7,968
	<b>4,859,409</b>	<b>309,541</b>	<b>265,178</b>	<b>307,659</b>	<b>439,440</b>	<b>444,137</b>	<b>1,720,379</b>	<b>561,913</b>
<b>Net loss</b>	<b>(4,846,746)</b>	<b>(206,608)</b>	<b>(233,645)</b>	<b>(289,967)</b>	<b>(424,985)</b>	<b>(318,621)</b>	<b>(1,633,908)</b>	<b>(506,316)</b>
Net loss per share (basic & diluted)	(0.05)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.01)

Operating Cash	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss	(4,846,746)	(206,608)	(233,645)	(289,967)	(424,985)	(318,621)	(1,633,908)	(506,316)
Non-cash								
operating items	4,720,544	117,642	118,271	163,135	220,135	164,487	1,456,445	192,235
Net cash loss								
from operations	(126,202)	(73,240)	(118,975)	(126,832)	(204,850)	(154,134)	(177,463)	(314,081)

During Q4 2010, mineral revenue was \$9,920, a decrease of \$90,149 from the previous quarter (\$100,069), and a decrease of \$13,165 compared to Q4 2009 (\$23,085). This decrease included an adjustment to prepaid transportation of \$29,299. Interest income of \$2,743 was similar to the previous quarter as interest income is primarily income earned on the reclamation bond held in trust with the Province of Nova Scotia (\$556,861). In Q4 2009, the adjustment of -\$8,630 was the result of an overestimate of the interest earned in the previous three quarters as interest rates declined.

Operation costs were \$28,051, which was reduction of \$65,542 over Q4 2009. The reduction was a result of reduced sales and included an inventory adjustment of \$12,485, reduced fuel costs of \$3,631, reduced wages of \$4,830 and an adjustment to accrued environmental costs of \$38,727.

Marketing costs were \$2,545 which was similar to Q4 2010. These costs are primarily related to minimal travel. Compared to Q4 2009 (\$10,994), the Company has reduced its marketing costs to a minimum.

<b>General &amp; Administrative Costs</b>	<b>Q4 2010</b>	<b>Q3 2010</b>	<b>Q4 2009</b>
	\$	\$	\$
Accounting & Legal Fees	7,154	7,354	15,000
Consulting Fees	469	-	-
Insurance	15,251	15,410	15,393
Investor Costs	5,007	10,914	5,064
Office, Rent & Telephone	5,134	4,673	9,880
Bad Debts	13,348	-	-
Travel	3,999	4,169	4,709
Wages & Benefits	44,349	61,830	89,634
	94,711	104,350	139,680

In Q4 2010, general and administration costs continued to decline to \$94,711, a small reduction over Q3 2010 of \$9,639. Compared to Q3 2010, there were reductions in investor costs of \$5,907 related to the annual general meeting in the spring of 2010 and reduced wages and benefits of \$17,481. Compared to Q4 2009, general and administration costs declined by \$44,969. This was primarily due to reduced wages and benefits over Q4 2009 of \$45,285. Other cost reductions include legal and accounting of \$7,846 and office of \$4,746. Bad debts expense of \$13,348 was set up to reserve receivables that are not certain of collection.

Other costs of \$4,605,897 reflect the write-down of mineral claims and deferred costs of \$3,904,044 due to the absence of objective evidence of valuation in accordance with generally accepted accounting principles. In addition other costs include a write-down of inventory, \$26,532 and a write-down of property, plant and equipment, \$685,006 to reflect the value of the assets which were sold and announced on January 5, 2011.

During the fourth quarter, the Company reported a net loss of \$4,846,746 compared to \$424,985 in Q4 2009 or \$0.05 per share versus \$0.00 in Q4 2009. The Company recorded \$4,720,544 (\$220,135 in Q4 2009) in non-cash operating items in the fourth quarter, resulting in a net cash loss from operations of \$126,202 (\$204,850 in Q4 2009)

## **Liquidity**

At September 30, 2010, Black Bull had \$502,835 in working capital (current assets less current liabilities). This is a decrease over September 30, 2009 (\$2,081,107) as the Company continues in a declining cash position. However, the cash position of the Company improved as a result of the sale of redundant assets announced on January 5, 2011.

The Company continues to incur significant operating losses. In response the Company implemented a plan to significantly reduce the Company's cash burn. For the balance of 2011, the Company intends to

move to “care and maintenance”, which would allow the Company to operate into 2011 with minimal operational obligations.

### **Capital Resources**

During 2011, the Company continues to reduce its cash burn through the implementation of a reduced operation which will be implemented as part of the approved Reduced Operations Business Plan.

### **Transactions with Related Parties**

The Company did not enter into any transactions with any directors or officers and companies under their control or the control of their spouses during the year ending September 30, 2010.

### **Critical Accounting Estimates**

The preparation of the Company’s 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 financial statements.

#### *Inventory*

Raw materials are valued at the lower of cost and net realizable value, 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 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 units-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*

Property, 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.

#### *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**

##### *EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract required that credit risk be taken into

account in determining the fair value of financial instruments and financial liabilities, including derivative instruments. The adoption of this abstract did not have a significant impact on the Company's financial statements.

#### *EIC-174, Mining Exploration Costs*

In March 2009, the Emerging Issues Committee of the CICA issued EIC-174, Mining Exploration Costs. This abstract provides guidance on the accounting and the impairment review of capitalized exploration costs. The application of this EIC does not have an impact on the Company's financial statements.

### **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, 2011, the Company announced the sale of all remaining inventory and redundant assets for a sale price of \$367,750. The net book value of the property, plant and equipment was \$242,519 and the net book value of the inventory was \$125,000. This sale provides the Company with the cash resources to seek long-term strategic options.

### Other MD&A Disclosures

During 2010, no options were granted and 460,000 options expired.

<b>Outstanding Securities</b>	<b>Period Ending September 30, 2010</b>
Common Shares	90,853,271
Options (Exercisable to one Common Share)	8,147,406
Total Outstanding Securities	99,000,677

### 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, improvement in sales volumes, and 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](http://www.sedar.com) and at the Company's website at [www.blackbullresources.com](http://www.blackbullresources.com).

## NOTES

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## CORPORATE INFORMATION

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# ANNUAL REPORT



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