

Black Bull Resources Inc.

# INTERIM REPORT

# 2010

DECEMBER 31  
2009



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## LETTER TO SHAREHOLDERS

February 28, 2010

During this 1<sup>st</sup> quarter of our 2010 fiscal year, management efforts continued to focus on surviving the economic downturn. We continued to make progress in reducing our monthly cash burn, collecting receivables, selling inventoried quartz product and selling any redundant assets at the processing plant. In addition to the continued soft economy, the latter part of the first quarter means that we have entered our typical “down period” where most building products sales are minimal until the spring building season arrives.

Although we continue to look for further streamlining of the business, it appears that the major cost cutting opportunities have now been implemented. We essentially must plan to manage this business at about a \$38,000 per month cash burn rate. The management team has done a good job reducing our operating costs. We will continue to squeeze more dollars wherever possible.

Sales of redundant assets continue to move ahead. We have now sold \$522,150 in total of our redundant equipment from the shut down of our processing plant in the fall of 2008. We expect that about \$500,000 of cash from remaining redundant asset sales can potentially be further generated. We will sell some of this equipment in latter stages depending on our financial position and needs going forward.

Obviously, Black Bull Resources Inc. cannot continue indefinitely on the basis of extreme cost cutting and existing on our limited cash. Our long term existence continues to be a serious matter. We must realize significant new sales revenue if we are to survive as a company. We continue to work with several new customer prospects but time and the continued soft economy are major concerns. There is clearly an urgency to gain major new sales.

Further, we have on-going efforts to test our meta-kaolin clay for potential high strength concrete applications. The issue remains to be seen if we can provide suitable quality clay at competitive economics. Our quartz sales focus also continues but much of this possible success seems to depend on the timing of the economic rebound and the results of customer evaluations.

It is clear that much uncertainty remains regarding the future of Black Bull Resources Inc. The Board of Director's plan is being followed by our management team. We will do all we can to "hang on" until we can realize critical new sales. If these sales prospects do not happen in due course, other strategic options must be considered. The next few months will be telling as to the future of Black Bull Resources Inc.

Thank you for your continued interest and support.

Sincerely,

Richard J. Shearer  
President and CEO  
Black Bull Resources Inc.

# **FINANCIAL STATEMENTS**

## Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited interim financial statements of the Company for the period ending June 30, 2009, have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements.

# FINANCIAL STATEMENTS

## BLACK BULL RESOURCES INC.

### BALANCE SHEETS

	December 31 2009	September 30 2009
	<i>"Unaudited"</i>	<i>"Audited"</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 316,789	\$ 439,174
Receivables (Note 3)	126,839	145,388
Inventory (Note 4)	214,602	217,718
Prepaid expenses	41,422	59,149
	699,652	861,429
Capital assets (Note 5)	1,412,343	1,585,892
Mineral claims (Note 6)	959,890	959,890
Deferred costs (Note 7)	2,947,407	2,945,048
Other assets (Note 8)	548,674	545,945
	\$ 6,567,966	\$ 6,898,203
<b>LIABILITIES</b>		
<b>Current</b>		
Payables and accruals (Note 9)	\$ 105,194	\$ 156,948
Asset retirement obligation (Note 10)	391,893	385,375
	497,087	542,323
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 12)	23,538,215	23,538,215
Contributed surplus (Note 12)	2,054,268	2,049,302
Deficit	(19,521,604)	(19,231,637)
	6,070,879	6,355,880
	\$ 6,567,966	\$ 6,898,203
<b>Approved on behalf of the Board</b>		
<i>"James W. Gogan"</i>	Director	
<i>"David L. Wood"</i>	Director	

**BLACK BULL RESOURCES INC.**

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

	<b>2009</b>	<b>2008</b>
	<b>3 Months</b>	<b>3 Months</b>
	<b>"Unaudited"</b>	<b>"Unaudited"</b>
MINERAL REVENUE	\$ 14,658	\$ 25,970
<b>COSTS AND EXPENSES</b>		
Operations and overhead	52,576	183,102
Amortization	115,349	166,216
Sales and marketing	2,643	16,350
General and administration	133,137	177,596
	303,705	543,264
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(289,046)</b>	<b>(517,294)</b>
<b>OTHER ITEMS</b>		
Interest income	(921)	19,129
<b>LOSS BEFORE TAXES</b>	<b>(289,967)</b>	<b>(498,165)</b>
Provision for capital tax (Note 12)	-	(7,968)
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(289,967)</b>	<b>(506,133)</b>
<b>DEFICIT AT BEGINNING OF PERIOD</b>	<b>(19,231,637)</b>	<b>(16,347,809)</b>
<b>DEFICIT AT END OF PERIOD</b>	<b>\$ (19,521,604)</b>	<b>\$ (16,853,942)</b>
Basic and diluted loss per share	(\$0.003)	(\$0.006)
Weighted average number of shares	90,853,271	90,853,271

## BLACK BULL RESOURCES INC.

### INTERIM STATEMENTS OF CASH FLOWS PERIODS ENDED DECEMBER 31 (unaudited)

	2009	2008
	3 Months <i>"Unaudited"</i>	3 Months <i>"Unaudited"</i>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (289,967)	\$ (506,133)
Non-cash items included in net loss		
Amortization	115,349	166,216
Accretion on asset retirement obligation	6,518	6,092
Accretion on convertible debentures	-	-
Stock-based compensation	4,965	19,927
	(163,135)	(313,899)
Change in non-cash working capital accounts		
Receivables	18,549	9,116
Inventory	3,116	64,483
Prepaid expenses	17,727	28,589
Payables and accruals	(51,754)	(28,367)
Capital tax	-	-
	(175,497)	(240,078)
<b>INVESTING ACTIVITIES</b>		
Disposition/Acquisition of capital assets	58,200	
Development Costs	(2,359)	(34,726)
Reclamation deposits	(2,729)	(5,400)
	53,112	(40,126)
Change in cash and cash equivalents during the period	(122,385)	(280,204)
Cash and cash equivalents at beginning of the period	439,174	796,856
Cash and cash equivalents at end of period	\$ 316,789	\$ 516,653

# 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 has not yet achieved profitable operations and continues to incur significant operating losses including \$289,967, for the period ended December 31, 2009. 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 obtain cash flow from operations, conserve cash resources, or obtain additional financing to maintain sufficient working capital to reach profitable operations from the *Scotia White*<sup>TM</sup> quartz operations and other potential mineral developments.

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### a) Cash and cash equivalents

Cash and cash equivalents include highly-liquid investments with original 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 annual rates:

Buildings	10% DB
Equipment	20% DB
Office furniture and equipment	20% DB
Computer equipment	30% DB
Vehicles	30% DB
Software	100% 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 existence of persuasive evidence of arrangement, shipment of the product, when title has passed to the customer, the price is fixed or determinable, 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 \$548,674 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 basis 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.

**k) Loss per share**

Loss per share is calculated using the weighted-average number of common shares outstanding. The weighted average is calculated on the number of days outstanding for the twelve month period ended December 31, 2009.

Diluted loss per share is determined as net loss divided by the weighted average number of diluted common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury-stock method. Options to purchase totaling 8,267,406 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 projected cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

**m) Comprehensive income**

Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income in accordance with generally accepted accounting principles. The Company has no other comprehensive income components or accumulated other comprehensive income component and, accordingly, the Company's net income equals comprehensive income.

**n) Financial instruments**

*Classification*

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

*Transaction costs*

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

**o) Changes in accounting policies**

*Inventories*

Effective October 1, 2008, the Company adopted the recommendations of the CICA Handbook Section 3031, *Inventories*, which provides guidance on the measurement, presentation and disclosure of inventories. Section 3031 states that inventories be measured at the lower of cost and net realizable value and provides additional guidance on the determination of the cost of inventories. The adoption of the new standard did not have any impact on the Company's financial statements.

*Goodwill and Intangible Assets*

Effective October 1, 2008, the Company adopted the recommendations of the CICA Handbook Section 3064, *Goodwill and intangible assets*, which provides guidance on the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of the new standard did not have any impact on the Company's financial statements.

*General Standards of Financial Statement Presentation*

Effective October 1, 2008, the Company adopted the recommendations of the CICA Handbook Section 1400, *General standards of financial statement presentation*, which provides guidance on the requirement to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The adoption of the new standard did not have any impact on the Company's financial statements, other than the disclosure in Note 1 above.

**p) Mining Exploration Costs EIC-174**

In March 2008, the Emerging Issues Committee of there CICA issued EIC-174, Mining Exploration Costs. This abstract provides guidance on the accounting and impairment review of capitalized exploration costs. The application of this EIC does not have an impact on the financial statements of this Company as it was already in compliance.

**q) Future accounting changes**

*International Financial Reporting Standards*

In January 2006, the Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, Canadian public companies will be required to adopt International Financial Reporting Standards ("IFRS") for annual and interim financial statements for years beginning on or after January 1, 2011. The Company will adopt IFRS effective October 1, 2011 and will be required to restate, for comparative purposes, amounts reported by the Company for its year ended September 30, 2011. The Company is continuing to

assess the impact on the Company's financial statements and is developing an implementation plan.

### 3. RECEIVABLES

	<b>December 31 2009</b>	September 30 2009
Trade	\$ 130,079	\$ 139,942
Allowance for Doubtful Accounts	(8,208)	-
Government (HST)	4,968	5,446
	<b>\$ 126,839</b>	<b>\$ 145,388</b>

Total accounts receivable includes a reserve of \$8,208 for two potentially uncollectable accounts. In both cases the customers have provided assurance to pay the amounts outstanding but due to the time outstanding a reserve was set up.

### 4. INVENTORY

	<b>December 31 2009</b>	September 30 2009
Semi-processed	\$ 160,560	\$ 166,311
Processed goods	29,347	28,172
Consumables	24,695	23,245
	<b>\$ 214,602</b>	<b>\$ 217,718</b>

During fiscal 2008, older raw material valuation has been adjusted down by \$214,573 to reflect changes in net realizable value. In May 2009 an additional adjustment of \$25,911 was made to reflect a reduction of realizable value of material stored in Staley South Carolina.

### 5. CAPITAL ASSETS

	<b>December 31, 2009</b>				
	Cost	Accumulated Amortization	Disposal of Redundant Assets	Provision for Reduced Asset Value	Net Book Value
Office furniture & equipment	37,065	23,341			13,724
Computer equipment	42,627	32,912			9,715
Software	32,089	32,089			0
Vehicle	49,000	30,031			18,969
Equipment	2,048,532	777,177	58,200	750,000	463,156
Buildings	1,854,385	522,396		500,000	831,989
Leasehold improvements	17,115	17,115			0
Site improvements	216,210	148,769			67,441
Trademark	12,783	5,433			7,350
	<b>\$ 4,309,806</b>	<b>\$ 1,589,263</b>	<b>\$ 58,200</b>	<b>\$ 1,250,000</b>	<b>\$ 1,412,344</b>

	September 30, 2009				
	Cost	Accumulated Amortization	Disposal of Redundant Assets	Provision for Reduced Asset Value	Net Book Value
Office furniture & equipment	37,065	22,618			14,447
Computer equipment	42,627	32,124			10,503
Software	32,089	32,089			0
Vehicle	68,468	28,493	19,468		20,507
Equipment	3,225,491	710,264	1,176,959	750,000	588,268
Buildings	1,854,385	488,139		500,000	866,246
Leasehold improvements	17,115	17,115			0
Site improvements	216,210	137,958			78,252
Trademark	12,783	5,113			7,670
	\$ 5,506,233	\$ 1,473,914	\$ 1,196,427	\$ 1,250,000	\$ 1,585,892

During Q2 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.

#### 6. MINERAL CLAIMS

	December 31 2009	September 30 2009
Cost, beginning of period	\$ 959,890	\$ 972,183
Asset retirement obligation	-	-
Cost, end of period	959,890	972,183
Accumulated depletion		12,293
Net book value	\$ 959,890	\$ 959,890

#### 7. DEFERRED COSTS

Deferred Exploration and Development Costs	December 31 2009	September 30 2009
Cost, beginning of period	\$ 2,984,521	\$ 2,938,782
Development	2,359	45,739
Cost, end of period	2,986,880	2,984,521
Accumulated depletion	39,473	39,473
Net book value	\$ 2,947,407	\$ 2,945,048

#### 8. OTHER ASSETS

Other assets consist of two funds held for future reclamation costs by the Province of Nova Scotia. (a) The Natural Resources Reclamation Fund contains \$451,112 (\$449,863

at September 30, 2009), plus, an Irrevocable Standby Letter of Credit \$17,400 has been issued to the Province of Nova Scotia, for a total of \$468,512. (b) The Environmental Reclamation Fund contains \$96,562 (\$96,083 at September 30, 2009).

**9. PAYABLES AND ACCRUED LIABILITIES**

	<b>December 31 2009</b>		September 30 2009
Trade	\$ 103,457	\$	155,193
Government (payroll & WCB)	1,737		1,756
	<b>\$ 105,194</b>	<b>\$</b>	<b>156,949</b>

**10. ASSET RETIREMENT OBLIGATION**

	<b>December 31 2009</b>		September 30 2009
Balance, beginning of period	\$ 385,375	\$	359,982
NPV of cash flows	-		-
Accretion	6,518		25,393
Balance, end of period	<b>\$ 391,893</b>	<b>\$</b>	<b>385,375</b>

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

## 11. SHAREHOLDERS' EQUITY

### a) Authorized

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

### b) Issued, common shares

	December 31 2009		September 30 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	12,739,920	\$ 1,245,966	4,608,000	\$ 833,336
Stock compensation Expense	-	4,965	-	-
Balance, end of period	12,739,920	\$ 1,220,931	4,608,000	\$ 833,336

The contributed surplus of \$2,054,567 (\$2,049,302 at September 30, 2009) 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. On June 6, 2009, these warrants expired.

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 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	\$ 0.13	-	-
Granted/issued	-			
Cancelled/expired	-			
Outstanding as at December 31, 2009	8,607,406	\$ 0.13	-	-

The following table summarizes information about stock options and warrants outstanding at December 31, 2009:

Range of Exercise Prices	Number of Options	Weighted average Remaining contractual life	Weighted average exercise price
\$0.10 - 0.52	8,607,406	2.9 years	\$ 0.13
\$0.53 - 0.95		0 years	\$ n/a
	8,607,406	2.9 years	\$ 0.13

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.

## **12. 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 twelve-month period ending December 31, 2009 is nil (\$18,000 – September 2009).

## **13. FINANCIAL INSTRUMENTS**

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

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

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

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

# 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, 2009 and 2008, and the unaudited interim financial statements for the six month period ending December 31, 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 4, 2010.

### **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 2009, which continues into Q1 2010, is to maintain its cash reserves, collect accounts receivable, sell inventory, sell redundant assets as well as closely monitor and reduce costs where possible. This is in keeping with the Reduced Operations Business Plan ("ROBP"), approved by the Board of the Company in January 2009.

In Q1 2010, the Company focused on collecting accounts receivable, which declined by \$18,549 from \$145,388 to \$126,839. Accounts Receivable balances are primarily affected by collections and sales. During Q1 2010 collections were \$65,539, which reduced total accounts receivables, while the total accounts receivable increased through sales by \$55,677. These sales include mineral revenue of \$14,658 as well as freight costs that are paid by the Company which in turn is invoiced to the customer. The accounts receivable balance was further reduced by a reserve of \$8,208 which was set up because two accounts are seriously overdue. It is important to note that both of these customers have indicated that it is their plan to pay the amounts owed in full.

During Q1 2010 inventory sales were 570 tons from the sale of raw material and damp “unprocessed” stone. Although 414 tones of processed sand remain in inventory, no purchase orders for this inventory were received. Since the quarter end, the Company has received a purchase order for approximately 50% of the remaining processed sand inventory

In Q1 2010, the Company also sold redundant assets which are held for sale. The redundant assets sold included a coverall building to store processed sand, which is no longer needed, a second forklift and a dust collector system which had been used to manufacture processed sand. The sale of these assets totaled \$58,200.

During Q1 2010 the Company also reduced operation costs including office rent costs and travel. In addition 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.

As reported in the 2009 annual report an opportunity also exists with our meta-kaolin clay product for high strength concrete applications. Further testing is on-going. During Q1 2010 the Company invested \$2,360 in this testing

Black Bull continues to seek buyers for its unprocessed quartz beyond that of the pool market, particularly Ferro-silicon, although the Company has not yet received any purchase orders.

The long term future is dependent upon maintaining control of its mineral resources through the sale of surplus assets and inventory until such time as the mineral markets improve or significant purchase orders are received. However, there can be no assurances that the steps management is taking will be successful.

## Summary of Quarterly Results and Results of Operations

Quarterly Results	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Income:								
Mineral revenue	14,658	23,085	118,276	78,023	25,970	21,176	122,220	83,462
Int income & For. Ech.	-921	-28,840	1,110	10,040	19,129	15,542	23,866	37,335
<b>Total</b>	<b>13,737</b>	<b>-5,755</b>	<b>119,386</b>	<b>88,063</b>	<b>45,099</b>	<b>36,718</b>	<b>146,086</b>	<b>120,797</b>
Costs:								
Operations	52,576	62,533	125,615	91,858	183,102	239,095	384,884	275,735
Sales & Marketing	2,643	10,994	11,983	17,371	16,350	40,321	73,264	70,024
General & admin.	133,137	139,680	132,301	176,303	177,596	239,858	282,803	299,417
Arbitration	-	-	-	-	-	-	3,765	343,019
Amort./depletion	115,349	146,515	140,133	172,471	166,216	188,467	161,078	154,843
Interest expense	-	-	-	-	-	-	-	13,857
Other	0	59,508	27,975	1,263,968	7,968	210,407	7,967	7,968
	<b>303,704</b>	<b>419,229</b>	<b>438,006</b>	<b>1,721,971</b>	<b>551,232</b>	<b>918,148</b>	<b>913,760</b>	<b>1,164,863</b>
Net loss	<b>(289,967)</b>	<b>(424,985)</b>	<b>(318,620)</b>	<b>(1,633,908)</b>	<b>(506,133)</b>	<b>(881,430)</b>	<b>(767,674)</b>	<b>(1,044,066)</b>
Net loss per share (basic & diluted)	(0.0032)	(0.0047)	(0.0030)	(0.0180)	(0.0060)	(0.0080)	(0.0080)	(0.0110)

Operating Cash	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net loss	<b>(289,967)</b>	<b>(424,985)</b>	<b>(318,620)</b>	<b>(1,633,908)</b>	<b>(506,316)</b>	<b>(881,430)</b>	<b>(767,674)</b>	<b>(1,044,066)</b>
Non-cash operating items	163,135	220,135	164,487	1,456,445	192,235	227,257	210,829	210,899
Net cash loss								
From operations	<b>(126,832)</b>	<b>(204,850)</b>	<b>(154,133)</b>	<b>(177,463)</b>	<b>(314,081)</b>	<b>(654,174)</b>	<b>(556,845)</b>	<b>(833,167)</b>

During Q1 2010, mineral revenue was \$14,658, a decrease of \$8,427 from the previous quarter and a decrease of \$27,941 compared to Q1 2009. Interest and foreign exchange income of -\$921 was made up a loss of \$3,954 from changing foreign exchange rates on accounts receivable between the time the invoice is posted and when funds are received as well as \$3,033 in interest earned on the reclamation funds held with the Province of Nova Scotia.

Operation costs were \$52,576, a reduction of \$9,957 over Q4 2009 due to reduced costs primarily associated with lower packaging costs of \$5,811 and a lower inventory adjustment of \$3,968 due to lower sales. Compared to Q1 2009 (\$183,102) operations were reduced considerably as at that time the Company began to cease operating the processing plant, as well the Company was incurring warehouses costs which have since been eliminated.

Marketing costs were \$2,643 less than Q4 2009 (\$10,994) and Q1 2009 (\$16,350). The reduction was due to reduced travel costs of \$5,808 over Q1 2009 and lower costs associated with sending samples to potential customers. This reduced activity was in connection moving to minimizing all costs.

<b>General &amp; Administrative Costs</b>	<b>Q1 2010</b>	<b>Q4 2009</b>	<b>Q1 2009</b>
	\$	\$	\$
Accounting & Legal Fees	10,369	15,000	19,100
Bad Debts	8,208	-	-
Insurance	15,410	15,393	15,507
Investor Costs	4,997	5,064	5,830
Office, Rent & Telephone	6,374	9,880	9,031
Travel	4,396	4,709	7,895
Wages & Benefits	83,382	89,634	120,233
	133,137	139,680	177,596

In Q4 2009, general and administration costs of \$133,137, were similar to Q4 2009 (a decrease of \$6,543) and \$44,459 less than Q1 2009. Wages and benefits were less than Q4 2009 by \$6,250 due to wage reductions of \$2,672 and reduced cost associated with the stock option plan of \$2,963. Wages were significantly less than Q1 2009 by \$36,851 due to reduced personnel as well as moving some personnel to part time. Legal and accounting costs were less by \$4,631 compared to Q4 2008 related to reduced activity. Office costs were also reduced by \$2,956 due to less activity and a concerted effort to minimize costs, particularly office rent and travel. During Q1 2010 a bad debt reserve of \$8,208 was set up to reflect two accounts that may not be collectable, although efforts continue and both customers have said it is their intention to pay the amounts due.

Amortization for the quarter is less than the previous quarter by \$31,166 as a result of the sale of redundant assets which resulted in lower amortization costs. There were not other costs during the month.

During the fourth quarter, the Company reported a net loss of \$289,967 compared to \$424,985 in Q4 2009 or \$0.0032 per share versus \$0.0047 in Q4 2009. The Company recorded \$163,135 (\$220,135 in Q4 2009) in non-cash operating items in the fourth quarter, resulting in a net cash loss from operations of \$126,832 (\$204,850 in Q4 2008). This is an average monthly “cash burn” of \$42,277 compared to \$68,283 in Q4 2009 and \$104,693 in Q1 2009.

## **Liquidity**

At September 30, 2009, Black Bull had \$202,565 in working capital (current assets less current liabilities). This is a decrease over Q4 2009 (\$319,105) as the company cash position declines. The Company continues to incur significant operating losses. In response the Company implemented a plan to significantly reduced the Company’s cash burn.

For the balance of 2010, the Company intends to continue to generate the necessary cash resources to finance these minimal operations by selling inventory, collecting accounts receivable, and through the sale of surplus assets. Beyond 2010, the Company would move to “care and maintenance”, which would allow the company to operate into 2011 with minimal operational obligations.

## **Capital Resources**

During 2010, 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. This includes the sale of surplus assets, until one of the new programs comes to fruition, which would generate revenue.

## **Disclosure Relating to Off-Balance Sheet Arrangements**

The Company does not have any off Balance Sheet arrangements.

## **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 period ending December 31, 2009.

## **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 unit-of-production method based on the estimated life of the reserves, while costs for the prospects abandoned are written off.

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

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows expected to be generated from its properties.

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

#### *Property Plant and Equipment*

Plant and equipment represent significant assets of the Company. Depreciation and amortization are recorded on either a declining-balance (DB) or straight-line (SL) basis. Management of the Company reviews and evaluates the carrying value of major assets for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may no longer represent their economic value.

#### *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**

Effective October 1, 2008 the Company adopted CICA Handbook Section 3031, *Inventories* Section 3130.36 requires disclosure of “the amount of inventories recognized as an expense during the period” Paragraph 3031.38 indicated this requirement is often referred to as cost of sales. Paragraph 3031.39 describes some of the entities present an analysis of expenses using a classification based on the nature of expenses for example costs recognized as an expense for raw material and consumables, labour and other costs together with an amount of the net change in inventories for this period, and provides an alternative format for complying with the requirements of paragraph 3031.36 (d).

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

In March 2008, the Emerging Issues Committee of there CICA issued EIC-174, Mining Exploration Costs. This abstract provides guidance on the accounting and impairment review of capitalized exploration costs. The application of this EIC does not have an impact on the financial statements of this Company as it was already in compliance.

### **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.

#### **Other MD&A Disclosures**

During 2009, 4,006,850 options were granted and 1,136,200 options expired. Also 2,400,000 warrants expired.

	<b>Period Ending December 31, 2009</b>
<b>Outstanding Securities</b>	
Common Shares	90,853,271
Options (Exercisable to one Common Share)	8,607,406
Warrants (Exercisable to one Common Share)	-
<b>Total Outstanding Securities</b>	<b>99,460,677</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 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

## CORPORATE INFORMATION

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

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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