

Black Bull Resources Inc.

INTERIM REPORT

2007

DECEMBER 31
2006



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LETTER TO SHAREHOLDERS

January 29, 2007

The 2006 annual and 2007 first quarter interim financial information releases were close together. Due to this timing and the nature of operations, this letter will be used to update shareholders for both the fourth quarter of 2006 and the first quarter of 2007.

The fourth quarter of 2006 saw Black Bull increase its revenues; however, this was principally due to an order from one customer and was not sustainable due to the high production costs associated for this product. Due to the disappointing rate of sales order generation by our exclusive sales agent in the US, Black Bull decided it needed to intensify its own efforts to generate orders and revenue. The Company therefore renegotiated the U.S. Silica Agreement to amend their exclusivity provisions in July 2006.

During this time, we continued the search for a permanent President & CEO to lead the development of the Company. The search located some interested potential candidates using a well respected search firm in the industry; however, the Company has not secured an agreement with any candidate to date.

Concurrently, we investigated hiring our own sales force to develop additional market segments for *Scotia White*TM quartz in Canada and the USA. This would have been feasible under the Agreement with U.S. Silica, finalized in July 2006. However, before a CEO and sales force could be recruited, it was apparent that the targets in the Agreement would not be met, nor were they likely to be met by U.S. Silica.

As we were unsuccessful obtaining debt financing alternatives due to the lack of orders and negative cash flow, it became apparent that there was insufficient cash to continue operating the plant to service the only large order on hand. Without the immediate prospect of any additional orders, the Directors decided that the only prudent course of action was to temporarily close operations and re-assess the entire strategy for the Company, including testing demand for *Scotia White*TM quartz by canvassing customers in the marketplace directly ourselves.

In October, Black Bull temporarily ceased operations and restructured its management organization. The Board asked two directors from its existing Strategy and Planning Committee to lead a Sales taskforce. The Sales Taskforce's mandate was to develop a new sales strategy, investigate the market interest level for *Scotia White*TM quartz, and report back to the Board within 60 days on the viability of quartz development. While assisting the Taskforce, the restructured management team focused on reducing expenditures and planning improved processing operations.

The Sales Taskforce identified the optimal product mix and visited many manufacturers, distributors and end-users of pool plaster aggregates in the in-ground swimming pool industry. The results of these visits were very encouraging and have led to letters of intent and verbal commitments for meaningful quantities of *Scotia White*TM quartz at attractive price levels. Consequently, the Board decided to resume operations at the White Rock Property.

Currently, the Sales Taskforce is focused on converting letters of intent and verbal commitments to purchase orders and contracts. They are also continuing to broaden our potential customer and product bases. The Company is also finalizing logistics and transportation support to ensure successful and cost-competitive servicing of our customers when operations resume.

Black Bull is implementing a plan to improve operations at the White Rock Property. The portable closed circuit Barmac crushing plant has been ordered to increase material throughput and plant efficiency. We have begun re-hiring workers to perform the plant maintenance and upgrade program. Management is currently determining staffing requirements, with operations expected to resume in mid to late April 2007.

The Company expects it will require additional equity financing for future expansion based on its growth projections; however, in order to finance re-staffing operations immediately and re-open this spring, the Board of Directors has approved an \$850,000 convertible debenture issue. The one-year, secured debenture will bear a 12% interest rate per annum with a \$0.15 per share conversion rate. Directors and Officers have committed to at least 50% of the issue with independent investors completing the balance. The Company has received conditional regulatory approval for the private placement. Final approval will be sought upon the closing of the convertible debenture on or about February 15, 2007.

In light of the discouraging sales results achieved by our exclusive US sales agent prior to direct intervention by the Sales Taskforce, Black Bull is proceeding to terminate the U.S. Silica sales agreement in accordance with its rights to do so. Discussions are underway with U.S. Silica regarding the resolution of issues arising from these activities.

The Company intends to hire a permanent CEO and sales staff. In the interim, the Sales Taskforce will continue to sell *Scotia White*TM quartz, while the Board develops and staffs a new organization plan for the business.

The Company continues to be aware of the potential kaolin may hold for shareholder value creation; however, in light of the developments referred to above, the Board believes continued focus on quartz business development and plant modifications will take precedence for the foreseeable future. Kaolin development will remain a future potential area of activity pending positive cash flow from the quartz operations.

The Board of Directors, the Sales Taskforce, and the executive management team at Black Bull are working diligently for our investors. We have developed a better understanding of our markets, and based on early commitments, we expect to produce and sell 20,000 to 30,000 tons of *Scotia White*TM quartz in the balance of calendar 2007. Indications are that we should double this level to 40,000 to 60,000 tons in 2008. If these sales levels are reached, the Company expects to achieve positive cash flow in the second quarter of calendar 2008. Our efforts, as always, are to achieve profitability and positive cash flow as soon as possible and maximize value creation for our shareholders.

The Board of Directors and Officers would like to thank our shareholders for their support through this time. We regretted the impact on our employees when we temporarily ceased operations and restructured management. We hope that we can rehire many of them to fill positions in the restructured operation.

We continue to believe that our product and the efforts we have expended thus far will result in growth of our *Scotia White*TM brand, success for our enterprise, and allow us to make a positive contribution to our local community and to all our stakeholders.

"Wayne Mailloux"

Wayne Mailloux,
Chairman of the Board

"Robert Cudmore"

Robert Cudmore, C.A.
Interim President and CEO/CFO



Black Bull

Resources Inc.

December 31, 2006
Interim
Financial Statements

Including:

Financial Statements,

&

Notes to
Financial Statements

FINANCIAL STATEMENTS

BLACK BULL RESOURCES INC.

BALANCE SHEETS

	December 31 2006	September 30 2006
	<i>"Unaudited"</i>	<i>"Audited"</i>
ASSETS		
Current		
Cash and cash equivalents	\$ 479,416	\$ 1,081,541
Receivables (Note 3)	32,894	121,485
Capital tax receivable	13,443	13,443
Inventory (Note 4)	444,277	453,722
Prepaid expenses	48,586	62,455
	1,018,616	1,732,646
Capital assets (Note 5)	3,191,312	3,287,123
Mineral claims (Note 6)	879,855	879,855
Deferred costs (Note 7)	2,913,714	2,913,714
Other assets (Note 8)	503,380	499,480
	\$ 8,506,877	\$ 9,312,818
LIABILITIES		
Current		
Payables and accruals (Note 9)	\$ 175,478	\$ 425,481
	175,478	425,481
Asset retirement obligation (Note 10)	238,190	234,195
	413,668	659,676
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	17,268,842	17,268,842
Contributed surplus (Note 11)	1,427,995	1,398,722
Deficit	(10,603,628)	(10,014,422)
	8,093,209	8,653,142
	\$ 8,506,877	\$ 9,312,818
Approved on behalf of the Board		
<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**

	2006	2005
	3 Months	3 Months
	"Unaudited"	"Unaudited"
MINERAL REVENUE	\$ 28,078	\$ 3,298
COSTS AND EXPENSES		
Operations and overhead	198,280	126,834
Depletion	-	3,597
Amortization	95,811	16,283
Sales and marketing	118,552	57,258
General and administration	214,617	315,383
	627,260	519,355
LOSS BEFORE OTHER ITEMS	(599,182)	(516,057)
OTHER ITEMS		
Interest income	13,976	40,277
LOSS BEFORE TAXES	(585,206)	(475,780)
Provision for capital tax (Note 13)	(4,000)	(8,755)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(589,206)	(484,535)
DEFICIT AT BEGINNING OF PERIOD	(10,014,422)	(7,012,668)
DEFICIT AT END OF PERIOD	\$ (10,603,628)	\$ (7,497,203)
Basic and diluted loss per share	(\$0.013)	(\$0.011)
Weighted average number of shares	44,186,605	44,186,605

BLACK BULL RESOURCES INC.

INTERIM STATEMENTS OF CASH FLOWS PERIODS ENDED DECEMBER 31

	2006	2005
	3 Months	3 Months
	<i>"Unaudited"</i>	<i>"Unaudited"</i>
OPERATING ACTIVITIES		
Net loss for the period	\$ (589,206)	\$ (484,535)
Non-cash items included in net loss		
Amortization	95,811	16,283
Depletion	-	3,597
Asset retirement accretion	3,995	1,000
Stock-based compensation	29,273	34,682
	(460,127)	(428,973)
Change in non-cash working capital accounts		
Receivables	88,591	(49,600)
Inventory	9,445	(262,189)
Prepaid expenses	13,869	(12,122)
Payables and accruals	(250,003)	(88,756)
Capital tax	-	(9,459)
	(598,225)	(851,099)
INVESTING ACTIVITIES		
Trademark	-	(1,982)
Acquisition of capital assets	-	(1,094,009)
Deferred costs	-	(7,791)
Reclamation deposits	(3,900)	(2,240)
	(3,900)	(1,106,022)
Change in cash and cash equivalents during the period	(602,125)	(1,957,121)
Cash and cash equivalents at beginning of the period	\$ 1,081,541	\$ 6,135,320
Cash and cash equivalents at end of period	\$ 479,416	\$ 4,178,199

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND CONTINUATION OF THE BUSINESS

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

The Company is in the business of mining, processing, and marketing quartz from its White Rock claim in Nova Scotia, Canada. The recoverability of the amounts shown for mineral claims and related, deferred exploration costs is dependent upon the existence of economically recoverable reserves and upon future profitable production.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of less than three months.

b) Inventory

Product inventory is valued at the lower of production cost, consisting mainly of mining, crushing costs, screening, and washing, and net realizable value.

c) Capital assets

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

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

Amortization of buildings and equipment commence when they are commercially utilized; other capital assets are amortized 50% in the first year.

d) Mineral claims

Mineral claim expenses are capitalized and carried at cost until the claim to which they relate is placed in production or sold, or management has determined there to be a permanent impairment of value. If placed in production, the costs are depleted and amortized using the units-of-production method over the estimated life of the measured and indicated resource. If the mineral claims are sold or abandoned, the related deferred amounts will be expensed.

e) Deferred costs

Exploration and mine development expenses are capitalized and carried at cost until the claim or project to which they relate is placed in production or sold, or management has determined there to be a permanent impairment of value. If placed in production, the costs are depleted and amortized using the units-of-production method over the estimated life of the measured and indicated resource. If the claim or project is sold or abandoned, the related deferred amounts will be expensed.

f) Revenue recognition

Revenue from mining operations is recognized upon shipment of the product, when title has passed to the customer and collection is reasonably assured.

g) Asset retirement obligations

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 depreciation, 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 \$503,380 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 judgement 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 11. The Company accounts for stock options using the fair value method, whereby compensation expense for stock options is measured at the fair value at the grant date and is recognized over the vesting period of the options granted. The Company uses the Black-Scholes model to estimate fair value.

j) Income taxes

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of tax loss carry forwards that are likely to be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates that are expected to be effective when recovered or settled.

The net change in recorded future income tax assets and liabilities is recognized in income during the period in which the change occurs including any change in applicable future tax rates.

k) Loss per share

Loss per share is calculated using the weighted-average number of common shares outstanding.

Diluted loss per share is determined as net loss divided by the weighted average number of diluted common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury stock method.

Options to purchase 2,845,452 common shares were outstanding at the end of the first fiscal quarter but were not included in the computation of diluted loss per share because they were anti-dilutive.

l) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

m) Financial instruments

Effective October 1, 2006, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*.

Section 1530 introduces a new concept referred to as comprehensive income and requires the presentation of comprehensive income and its components in the financial statements with equal prominence as other financial statements. Comprehensive income is the change in equity (net assets) of a company during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Consequently, Section 3250, "Surplus", has been revised as Section 3251, "Equity".

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount.

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

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

The adoption of these standards had no impact on the financial statements of the Company.

n) Comparative figures

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

3. RECEIVABLES

	December 31		September 30	
	2006		2006	
Trade	\$	14,891	\$	80,033
Government (HST)		18,003		41,452
	\$	32,894	\$	121,485

4. INVENTORY

	December 31		September 30	
	2006		2006	
Semi-processed	\$	384,119	\$	390,506
Processed goods		7,050		3,457
Consumables		53,108		59,759
	\$	444,277	\$	453,722

During fiscal 2006, some of the existing inventory was used for site infrastructure and also resized for use in the processing plant.

5. CAPITAL ASSETS

	December 31		
	2006		
	Cost	Accumulated Amortization	Net Book Value
Office furniture & equipment	\$ 37,065	\$ 10,260	\$ 26,805
Computer equipment	38,426	16,843	21,583
Software	32,089	22,439	9,650
Vehicle	47,968	13,112	34,856
Equipment	1,959,528	360,004	1,599,524
Buildings	1,475,708	140,554	1,335,154
Leasehold improvements	17,115	17,115	-
Site improvements	186,802	34,247	152,555
Trademark	12,783	1,598	11,185
	\$ 3,807,484	\$ 616,172	\$ 3,191,312

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

6. MINERAL CLAIMS

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

7. DEFERRED COSTS

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

8. OTHER ASSETS

Other assets consist of funds held for future reclamation costs by the Province of Nova Scotia. The Natural Resources Reclamation Fund contains \$413,269 (\$409,969 in September 30, 2005) and the Environmental Reclamation Fund contains \$90,111 (\$89,511 in September 30, 2005). The funds bear interest at the provincially designated rate of 2.5% to 4.4%.

9. PAYABLES AND ACCRUED LIABILITIES

	December 31 2006		September 30 2006	
Trade—operational	\$	167,082	\$	349,123
Trade—capital		-		53,311
Government (payroll & WCB)		8,396		23,047
	\$	175,478	\$	425,481

10. ASSET RETIREMENT OBLIGATION

	December 31 2006		September 30 2006	
Balance, beginning of period	\$	234,195	\$	195,898
NPV of cash flows		-		27,578
Accretion		3,995		10,719
Balance, end of period	\$	238,190	\$	234,195

The gross undiscounted amount of future reclamation plans is \$402,390 (\$402,390 in September 30, 2006). During fiscal 2006, there was an increase in NPV of \$27,578 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 2006		September 30 2006	
	#	\$	#	\$
Issued	44,186,605	\$ 17,268,842	44,186,605	\$ 17,268,842

c) **Contributed surplus**

	Stock Options		Warrants	
	#	Fair Value	#	Fair Value
Balance, beginning of period	4,109,764	\$ 840,406	2,208,000	\$ 558,316
Stock compensation expense	200,000	29,273	-	-
Balance, end of period	4,309,764	\$ 869,679	2,208,000	\$ 558,316

The contributed surplus of \$1,427,995 (\$1,398,722 in September 30, 2006) consists of the fair value attributed to options and warrants granted since October 1, 2003. The fair value of options is recognized over the length of the vesting period. Warrants were granted for consulting and stock issue fees; options were granted to directors, officers, and consultants.

The fair value of the options and warrants were estimated at the date of grant using a Black-Scholes model with the following weighted average assumptions: risk free interest rate of 3.31% to 4.1%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 51% to 63%; and a weighted average expected life of the option of 5 years.

The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

d) **Stock options and warrants**

The following table summarizes the status and changes in stock options and warrants:

	Stock Options		Warrants	
	Number	Weighted average price	Number	Weighted average price
Outstanding as at September 30, 2005	4,341,035	0.68	2,208,000	0.70
Granted/issued	1,396,463	0.30	-	-
Cancelled/expired	(2,812,491)	0.67	(2,208,000)	0.70
Outstanding as at September 30, 2006	2,925,007	\$ 0.45	-	\$ -
Granted/issued	200,000	0.10	-	-
Cancelled/expired	(279,555)	0.30	-	-
Outstanding as at December 31, 2006	2,845,452	\$ 0.44	-	\$ -

The following table summarizes information about stock options and warrants outstanding at December 31, 2006:

Range of exercise prices	Number of Options	Weighted average remaining contractual life	Weighted average exercise price
\$0.27 - 0.42	2,099,052	3.0 years	\$ 0.34
\$0.53 - 0.96	746,400	1.8 years	\$ 0.71
	2,845,452	2.8 years	\$ 0.44

On March 14, 2003, the Company adopted a formal Stock Option Plan whereby up to 20% of the issued and outstanding common shares are reserved for issuance under the Plan. The Plan provides for the granting of options which qualify for treatment as incentive stock options or non-statutory stock options and entitles directors, employees, and consultants to purchase common shares of the Company. Options granted are subject to approval by the Board of Directors. The exercise price of each option equals the average market price of the Company's stock on the date of grant and the maximum term of an option is 5 years. Options and warrants are exercisable to shares at a ratio of 1 to 1.

The options generally vest over a period of 18 months from the date of grant and immediately become exercisable once vested. The options generally have a term of 5 years.

12. RELATED PARTY TRANSACTIONS

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

During Q1 2007 the Company paid Joseph MacDonald (J&E Consultants), Director, \$8,000 for performing the Interim President & CEO duties until October 14, 2006, plus \$34,500 for marketing consulting, from October 16 to December 31, 2006, versus nil in Q1 2006.

The Company also paid Richard Shearer, Director, \$27,900 for marketing consulting versus nil in Q1 2006.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

13. 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 expects to exceed the threshold. The provision for Q1 is \$4,000 (\$8,755 in Q1 2006).

14. FINANCIAL INSTRUMENTS

Fair value:

The carrying values of cash and cash equivalents, receivables, 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.

15. COMMITMENTS

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

16. SUBSEQUENT EVENTS

On January 12, 2007, the Company entered into an Agreement with Metso Minerals Canada Inc., to purchase a portable closed circuit Barmac crushing plant for \$445,000.

On January 12, 2007, the Company notified U.S. Silica Company that USS was in default of the August 1, 2003 sales and marketing agreement. The Company provided up to January 27, 2007, for USS to cure the defaults. Black Bull is proceeding to terminate the U.S. Silica sales agreement in accordance with its rights to do so. Discussions are underway with U.S. Silica regarding resolution of the issues arising from these activities.



Black Bull

Resources Inc.

December 31, 2006

Interim

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

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL AND OPERATING RESULTS (in Canadian dollars)

The following discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of the disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee reviews this disclosure and recommends its approval by the Board of Directors. The management's discussion and analysis (MD&A) dated January 29, 2007, is prepared to conform to National Instrument 51-102F1 and has been approved by the Board of Directors. This MD&A should be read in conjunction with Black Bull Resources Inc.'s audited financial statements for the year ended September 30, 2006, and unaudited interim financial statements for the three-month period ending December 31, 2006, together with the accompanying notes. Such financial statements have been prepared in accordance with Canadian generally-accepted accounting principles.

Overall Performance

The first quarter of fiscal 2007 was dedicated to the Board of Directors' decision to temporarily cease operations at the White Rock Property and restructure management. As part of the restructuring, effective October 16, the current CFO, Robert Cudmore, was appointed Interim President & CEO to replace Joseph MacDonald, Director. The Board requested two directors from the existing Strategy and Planning Committee to lead a taskforce to develop a new sales strategy and investigate the market interest level for *Scotia White™* quartz. The management team focused on reducing expenditures and developing improved processing operations. Together, they were to report back to the Board within 60 days determining the future development of *Scotia White™* quartz.



Workers Return to White Rock Mine

The optimal product mix was identified and the Sales Taskforce visited a large number of manufacturers, distributors, and end-users of pool plaster aggregate in the in-ground swimming pool industry. The results of these visits were very encouraging and have led to letters of intent and verbal commitments for meaningful quantities of products at viable price levels.

Black Bull management developed a plan to improve operations at the White Rock Property. Areas requiring attention included infeed material and wear of metal components in the processing flow. A portable closed circuit Barmac crushing plant has been identified to increase throughput and efficiency. Along with this, many of the metal components will require repair or replacement and will be coated with ceramic to extend their useful life.

After receiving the reports, the Board of Directors decided to resume operations at the White Rock Property. To finance the re-opening, the Board has approved an \$850,000 one-year, secured debenture bearing a 12% annual interest rate with a \$0.15 per share conversion rate. Directors and Officers have committed to at least 50% of the issue. The Company has received conditional regulatory approval for the private placement expected to close on or about February 15, 2007. The Company expects to require further financing for future expansion which will be based on sales growth.

During the second fiscal quarter, the Company will order the portable crushing plant and perform the necessary maintenance to resume operations when the equipment is scheduled to arrive in April 2007. The Company expects low levels of sales during the second quarter; however, significant sales levels are projected to start during the third fiscal quarter. Currently, the Sales Taskforce's efforts are focused on converting letters of intent to purchase orders and contracts and on continuing to broaden our potential customer base. The Sales Taskforce and management are also finalizing logistics and transportation support to ensure successful and cost competitive services for our customers, when operations resume.



Barmac Crushing Plant

On January 12, 2007, the Company notified U.S. Silica Company that USS was in default of the August 1, 2003 sales and marketing agreement. The Company provided up to January 27, 2007, for USS to cure the defaults. Black Bull is proceeding to terminate the U.S. Silica sales agreement in accordance with its rights to do so. Discussions are underway with U.S. Silica regarding resolution of the issues arising from these activities.

The Company has received a reduction in monitoring requirements during the closure of operations. All monitoring of the impact from operations on water along with plant and animal life collection activities have been completed for 2006. Black Bull Resources Inc. is currently completing the third annual monitoring report. The Company has continued to comply with all provincial government agencies prior to and during the closure of the operations. The Company will continue to work with Nova Scotia government agencies to ensure appropriate levels of monitoring continue.

The Company continues to be aware of the potential kaolin may hold for shareholder value creation; however, in light of recent developments, the Board believes continued focus on quartz business development should take precedence. Kaolin development will remain a future potential area of activity pending positive cash flow from the quartz operations.

Summary of Quarterly Results and Results of Operations

Quarterly Results	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Income:								
Mineral Revenue	28,078	103,085	24,175	-	3,298	14,976	3,700	3,881
Interest income	13,976	22,412	25,035	29,231	40,277	48,433	48,814	49,709
	42,054	125,497	49,210	29,231	43,575	63,409	52,514	53,590
Costs:								
Operations	198,280	533,852	334,004	217,509	126,834	89,637	83,572	81,854
Sales & marketing	118,552	51,122	66,447	56,475	57,258	32,992	12,555	7,828
General & admin	214,617	280,856	360,304	344,512	315,383	304,597	349,729	256,323
Amort./Depletion	95,811	156,149	163,981	143,667	19,880	14,470	12,264	5,224
Other	4,000	(4,869)	8,574	8,574	8,755	15,621	6,162	1,023
	631,260	1,017,110	933,310	770,737	528,110	457,317	464,282	352,252
Net Loss	(589,206)	(891,613)	(884,100)	(741,506)	(484,535)	(393,908)	(411,768)	(298,662)
Net Loss per Share (Basic and Diluted)	(0.013)	(0.020)	(0.020)	(0.017)	(0.011)	(0.009)	(0.009)	(0.007)

Operating Cash	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net Loss	(589,206)	(891,613)	(884,100)	(741,506)	(484,535)	(393,908)	(411,768)	(298,662)
Non-Cash Operating Items	129,078	193,902	226,123	195,201	55,562	63,907	68,464	58,124
Net Cash Loss from Operations	(460,127)	(697,711)	(657,977)	(546,305)	(428,973)	(330,001)	(343,304)	(240,538)

During the first quarter, \$28,100 revenue was earned from the dried processed product along with the semi-processed aggregate product. The \$75,000 reduction of mineral revenue from Q4 2006 is due to the Company ceasing operations during the first quarter. Black Bull expects to resume limited commercial production and have small sales during the second quarter. Sales levels are projected to increase during the remainder of 2007. The Q1 interest income decreased as a result of cash used for operations.

The Q1 2007 operating costs include \$36,100 for propane and diesel fuel versus \$81,700 in Q4 2006, and \$15,000 in Q1 2006. The decrease during Q1 relates to the closure of operations during the quarter. The Company paid \$68,300 for production wages in Q1 2007, \$139,600 in Q4 2006, and \$10,000 in Q1 2006 mainly due to the reduction in employees. Environmental costs decreased to \$32,400 in Q1 2007 from \$41,900 in Q4 due to the reduced plant and animal monitoring because of the season. The Q1 2007 environmental costs were lower than the \$61,700 in Q1 2006 because less sub-contracting was incurred for monitoring. Equipment rental costs decreased to \$22,100 in Q1 from \$55,900 during Q4 2006, and nil in Q1 2006; the decrease related to the closure of operations at the White Rock Property. The remaining expenses relate to land lease costs, cost of inventory, along with direct and indirect costs of the operations; many of these expenses were reduced because of the closure of operations.

The Company expected the required 60 day intense market development program to increase the marketing spending during this quarter. The Q1 2007 sales and marketing costs increased \$67,400 from Q4 2006 due to the concentrated effort by the Sales Taskforce to identify interest in *Scotia White*TM quartz. These costs were an increase of \$61,300 from Q1 2006. There was \$7,300 less spent for samples, tradeshow, and for the branding program versus Q4 2006 and \$7,600 less than Q1 2006. Travel costs

increased \$10,800 versus Q4 2006 and \$13,400 versus Q1 2006. There was a \$64,000 increase in marketing wages, benefits, and consulting in Q1 2007 over Q4 2006 and a \$55,500 increase over Q1 2006. Marketing costs will remain high during the second quarter as the Sales Taskforce works to convert commitments to orders and agreements.

General & Administrative Costs	Q1 2007	Q4 2006	Q1 2006
Accounting & Legal Fees	31,362	32,265	25,103
Advertising & Promotion	274	2,045	2,521
Consulting Fees	11,850	4,237	5,000
Insurance	15,750	16,435	10,500
Investor Relations	5,000	21,065	38,286
Listing & Transfer Agent Fees	4,309	4,418	9,519
Office, Rent & Telephone	10,865	17,884	17,575
Travel & Entertainment	14,164	55,518	16,682
Wages & Benefits	121,043	126,709	188,597
Other	-	280	1,600
	214,617	280,856	315,383

The Company's Q1 2007 general and administration costs decreased by \$66,200 from the Q4 2006 costs. Investor relations costs were reduced by \$16,100 from Q4 2006 because of the termination of the Agreement with the external consultants. There was a \$41,400 decrease in travel-related costs related to the management restructuring reducing accommodation costs for the former Interim President & CEO as well as reduced activity related to management downsizing. This was offset by a \$7,600 increase in consulting fees for developing improved processing operations.

The Q1 2007 G&A expenses decreased by \$101,800 over the Q1 2006 costs. During the period, investor relations expenses decreased by \$33,300; this was due to the termination of the external consultants. Due to the timing of the annual filings, the listing and transfer agent fees decreased by \$5,200; the Company expects to pay these fees in the second fiscal quarter. Office expenses decreased by \$6,700; due to the closure of the Halifax office at the end October 2006. The wages and benefits decreased by \$67,600 due to a reduced CEO salary and a reduction in the charge for fair value of stock compensation. The decreases were offset by an increase in accounting and legal fees of \$6,300 for extra costs related to issues regarding the ceasing of operations. Insurance increased by \$5,300 for extra insurance for equipment and liability.

The Company only utilized the quartz processing plant for two months during the quarter; resulting in a \$60,300 reduced amortization charge from Q4 2006. In Q1 2006 the plant had not started being amortized resulting in a \$75,900 increase in Q1 2007.

Liquidity

At the end of this period, Black Bull had \$843,100 in working capital. The Company's current assessment is that these levels are not sufficient to resume operations. To finance the resumption of operations and associated capital requirements, the Board has approved an \$850,000 one-year, secured debenture bearing a 12% annual interest rate with a \$0.15 per share conversion rate. Directors and Officers have committed to at least 50% of the issue. The Company has received conditional regulatory approval for the private placement.

The slower-than-expected sales performance and development of sales prospects have lengthened the expected time for the Company to generate positive cash flow from the quartz operations. Within the

next 12 months, the Company expects to require further financing for future expansion which will be based on sales growth. The Company will determine the proper mix of debt and equity financing required for operations, plant expansion, and sales and marketing based on the results of the new strategy approved by the Board.

Capital Resources

The Company expects to have sufficient capital to complete plant maintenance and capital expenditures required to resume operations in the spring of 2007. To implement Phase 2, Black Bull intends to raise sufficient capital, through debt or equity. The decision to move forward with Phase 2 will be dependent on the results of the alternate strategy developments and successful financing. The Company will continue to review the financial implications of kaolin development; the cost of any plan is subject to approval by the Board of Directors.

Transactions with Related Parties

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

During Q1 2007, the Company paid Joseph MacDonald (J&E Consultants), Director, \$8,000 for performing the Interim President & CEO duties until October 14, 2006, plus \$34,500 for marketing consulting, from October 16 to December 31, 2006, versus nil in Q1 2006.

The Company also paid Richard Shearer, Director, \$27,900 for marketing consulting versus nil in Q1 2006.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Changes in Accounting Policies

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

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

Internal Controls over Financial Reporting

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

Subsequent Events

On January 12, 2007, the Company entered into an Agreement with Metso Minerals Canada Inc., to purchase a portable closed circuit Barmac crushing plant for \$445,000.

On January 12, 2007, the Company notified U.S. Silica Company that USS was in default of the August 1, 2003 sales and marketing agreement. The Company provided up to January 27, 2007, for USS to cure the defaults. Black Bull is proceeding to terminate the U.S. Silica sales agreement in accordance with its rights to do so. Discussions are underway with U.S. Silica regarding resolution of the issues arising from these activities.

Other MD&A Disclosures

During Q1 2007, 200,000 options were granted to Officers and Management and 279,555 options were canceled or expired. Subsequent to the end of the interim period, 98,111 options were canceled.

Outstanding Securities	Period Ended December 31, 2006	MD&A Dated January 29, 2007
Common Shares	44,186,605	44,186,605
Options (Exercisable to one Common Share)	2,845,452	2,747,341
Warrants (Exercisable to one Common Share)	-	-
Total Outstanding Securities	47,032,057	46,933,946

During Q1 2007, no warrants were granted; therefore, the balance remains at zero.

Risks and Uncertainties

Mineral exploration and development involves a high degree of risk since few properties are developed into producing mines. There are no assurances that the Company's mineral exploration activities will result in further resources that would be economical for commercial production. The commercial viability of mineral deposits is dependent upon a number of factors, which are beyond the Company's control. Some of these factors are attributable to commodity or product pricing and demand, currency fluctuations, government policy and regulation, transportation, and environmental protection.

Resource estimates involve degrees of uncertainty in calculation of reserves and the corresponding grades. Resource estimates are dependent partially on statistical inferences drawn from drilling, sampling, and other data. The indicated and inferred resource figures set forth by the Company are estimates, and there is no certainty that the level of resources will be realized or the chemical composition or concentration of the resources will be maintained throughout the property. In addition, a decline in the market price of industrial minerals, or a substantial increase in production or shipping costs, may adversely affect the economics of a reserve and may require the Company to reduce its estimates.

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

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

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

Forward-Looking Statements

Certain statements in this Management's Discussion & Analysis of Financial and Operating Results are forward-looking statements subject to risks and uncertainties. A number of factors could cause actual results to differ materially from those expressed in the forward-looking statements, including but not limited to: transportation availability and fluctuation in cost, success level of the Company's marketing and branding of the *Scotia White*TM quartz products, liquidity, energy costs, currency fluctuations, corporate compliance, limitations in liability insurance coverage, and local political stability.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable law.

Additional Information

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

CORPORATE INFORMATION

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OFFICERS:

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Interim President &
CEO/Chief Financial
Officer
Yarmouth, NS

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

Black Bull's vision is to become an Atlantic-based, leading processor and exporter to the USA, Europe, and Mexico of high quality industrial minerals by exploiting the unique characteristics of our quartz, kaolin, and mica resources.

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.

ANNUAL GENERAL MEETING:

Shareholders and other interested parties are invited to the AGM on April 11, 2007, at Delta Barrington Hotel, Halifax, NS, at 9:30 am

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