

**Black Bull Resources Inc.**

**INTERIM REPORT**

**2006**

**MARCH 31  
2006**



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## LETTER TO SHAREHOLDERS

May 4, 2006

In the second quarter of fiscal 2006 Black Bull Resources Inc. continued to evolve. Our quartz processing plant was completed and commissioned, newly-hired plant operators gained valuable knowledge of our production processes, and many new potential customers have been introduced to *Scotia White*<sup>TM</sup> quartz.

We are very pleased to announce that marketing efforts with U.S. Silica Company have resulted in orders for *Scotia White*<sup>TM</sup> quartz. These orders represent products from multiple target markets. One order for 100 tons of dried and screened material for pool deck applications, in the southern USA, is in transit by rail to a U.S. customer with potential increasing need. Another customer has placed an order for two containers of quartz to be shipped by intermodal service. Other customers are in final evaluation stages of their samples and additional orders are expected.



**Initial *Scotia White*<sup>TM</sup> Order Leaves for Delivery**

Overall, feedback has been positive for the samples forwarded to potential customers. In particular, the whiteness of our fine quartz has received the most comments. We recognize that the sample-to-order process is taking longer than originally forecast; however, based on current feedback, our expectation is that orders should start to materialize in the near future. As well, we are receiving and shipping new sample orders almost daily, and this trend is expected to accelerate as we increase market exposure.

To take advantage of all sales and market opportunities, we continue to review and refine our marketing plan. The plan will ensure Black Bull has identified all the key markets and optimizes our marketing approach to provide us with immediate orders. We are also starting to expand our geographic scope by looking at international markets for some of our *Scotia White*<sup>TM</sup> products. However, slower than anticipated sales to this point, and for the balance of the year, means that the Company will not meet its sales targets for fiscal 2006. The Company has accordingly adopted revised sales targets; as a result positive cash flow will likely be pushed out into fiscal 2007.



**Feeding Scotia White™ Quartz to Dry Plant**

The quartz processing plant, equipment, and related infrastructure are operational. Pending final adjustments, Phase 1 of our capital project is anticipated to be completed under budget. We continue to review our processing flow and make adjustments to improve our production efficiency. The implementation of equipment for Phase 2 will depend on the size of initial order commitments. The companies we are dealing with may place order sizes and frequencies necessitating this expansion within the next two quarters.

Transportation continues to be a challenge for many industries. Equipment availability and the volatility created from rapidly rising fuel prices are significantly impacting our ability to be competitive in a number of our target markets. However, our knowledge of the transportation infrastructure is growing. This knowledge enables us to make more effective, efficient, and timely transportation and logistics decisions, which in turn will positively impact our competitiveness.

The preliminary kaolin resource development plan, completed in March, identifies a timeline and the costs to take us through the permitting stage for this project. Proving the kaolin resource estimates and conducting additional product characterization testing are required. Black Bull's first priority and focus, however, is still to establish positive cash flow from the quartz operation. Kaolin development will, therefore, continue to be reviewed regularly but not implemented at this time.

The Board of Directors and executive management team at Black Bull Resources take our responsibility to investors very seriously. In order to ensure transparency in our organization and retain the trust of our shareholders, we have implemented disclosure controls and processes and are scheduled to meet the evolving financial reporting control requirements of the Canadian Securities Administrators. This commitment to openness and accountability, along with other good corporate governance, will continue to build confidence in our organization over the long term.

In closing, I have recently announced my resignation from Black Bull Resources Inc. I am leaving for personal reasons and still believe in the viability of the Company. I would like to thank our shareholders for their trust and patience, the Board of Directors for their support, and our employees for their dedication to making Black Bull Resources a success.

(signed) "*Barry F. Grundy*"

Barry F. Grundy, MBA  
President & CEO

*Interim  
Financial Statements,*

*Notes to  
Financial Statements,*

*&*

*Management's Discussion  
& Analysis*

*March 31, 2006*

# FINANCIAL STATEMENTS

## BLACK BULL RESOURCES INC.

### BALANCE SHEETS

	<b>March 31</b>	<b>September 30</b>
	<b>2006</b>	<b>2005</b>
	<i>"Unaudited"</i>	<i>"Audited"</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,577,121	\$ 6,135,320
Receivables (Note 3)	44,852	145,230
Inventory (Note 4)	534,576	168,608
Prepaid expenses	81,940	75,586
	3,238,489	6,524,744
Capital assets and trademark (Note 5)	3,437,985	1,578,039
Mineral claims (Note 6)	879,855	853,119
Deferred costs (Note 7)	2,913,714	2,908,678
Other assets (Note 8)	488,252	398,772
	\$ 10,958,295	\$ 12,263,352
<b>LIABILITIES</b>		
<b>Current</b>		
Payables and accruals (Note 9)	\$ 395,142	\$ 579,493
Tax payable	-	9,459
	395,142	588,952
Asset retirement obligations (Note 10)	226,714	195,898
	621,856	784,850
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	17,268,842	17,268,842
Contributed surplus (Note 11)	1,306,306	1,222,328
Deficit	(8,238,709)	(7,012,668)
	10,336,439	11,478,502
	\$ 10,958,295	\$ 12,263,352

**Approved on behalf of the Board**

          (signed) "James W. Gogan"                     Director

          (signed) "David L. Wood"                     Director

## BLACK BULL RESOURCES INC.

### INTERIM STATEMENTS OF OPERATIONS AND DEFICIT PERIODS ENDED MARCH 31

	2006		2005	
	Year		Year	
	3 Months "Unaudited"	to Date "Unaudited"	3 Months "Unaudited"	to Date "Unaudited"
MINERAL REVENUE	\$ -	\$ 3,298	\$ 3,881	\$ 40,948
COSTS and EXPENSES				
Operations and overhead	217,509	344,344	84,691	177,889
Depletion	-	3,597	-	-
Amortization	143,667	159,950	5,224	7,844
Sales and marketing	56,475	113,733	7,828	54,865
General and administration	344,512	659,894	253,486	501,631
	762,163	1,281,518	351,229	742,229
LOSS BEFORE OTHER ITEMS	(762,163)	(1,278,220)	(347,348)	(701,281)
OTHER ITEMS				
Interest income	29,231	69,508	49,709	104,982
LOSS BEFORE TAXES	(732,932)	(1,208,712)	(297,639)	(596,299)
Provision for capital tax (Note 12)	(8,574)	(17,329)	(1,023)	(1,023)
NET LOSS FOR THE PERIOD	(741,506)	(1,226,041)	(298,662)	(597,322)
DEFICIT AT BEGINNING OF PERIOD	(7,497,203)	(7,012,668)	(5,908,330)	(5,609,670)
DEFICIT AT END OF PERIOD	\$ (8,238,709)	\$ (8,238,709)	\$ (6,206,992)	\$ (6,206,992)
Basic and diluted loss per share				
	(\$0.017)	(\$0.028)	(\$0.007)	(\$0.014)
Weighted average number of shares				
	44,186,605	44,186,605	44,186,605	44,186,605

# BLACK BULL RESOURCES INC.

## INTERIM STATEMENTS OF CASH FLOWS PERIODS ENDED MARCH 31

	2006		2005	
	3 Months	Year to Date	3 Months	Year to Date
	"Unaudited"	"Unaudited"	"Unaudited"	"Unaudited"
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (741,506)	\$ (1,226,041)	\$ (298,662)	\$ (597,322)
Non-cash items included in net loss				
Amortization	143,667	159,950	5,224	7,844
Depletion	-	3,597	-	-
Asset retirement accretion	2,238	3,238	2,000	4,000
Stock-based compensation	49,296	83,978	50,900	95,900
	(546,305)	(975,278)	(240,538)	(489,578)
Change in non-cash working capital accounts				
Receivables	149,977	100,378	84,929	194,243
Inventory	(103,778)	(365,968)	-	8,554
Prepaid expenses	5,768	(6,354)	2,218	12,169
Payables and accruals	(770,009)	(184,351)	(204,752)	(222,169)
Tax payable	0	(9,459)	(35,943)	(35,943)
	(1,264,347)	(1,441,032)	(394,086)	(532,724)
<b>INVESTING ACTIVITIES</b>				
Trademark	(199)	(2,181)	(607)	(959)
Acquisition of capital assets	(249,292)	(2,017,715)	(61,371)	(172,698)
Deferred costs	-	(7,791)	(29,540)	(254,778)
Reclamation deposits	(87,240)	(89,480)	(937)	(3,137)
	(336,731)	(2,117,167)	(92,455)	(431,572)
Change in cash and cash equivalents during the period	(1,601,078)	(3,558,199)	(486,541)	(964,296)
Cash and cash equivalents at beginning of the period	4,178,199	\$ 6,135,320	\$ 8,428,510	\$ 8,906,265
Cash and cash equivalents at end of period	\$ 2,577,121	\$ 2,577,121	\$ 7,941,969	\$ 7,941,969

# NOTES TO THE FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

The interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements. These interim financial statements conform in all respects to the requirements of Canadian generally-accepted accounting principles for annual financial statements with exception of certain note disclosures. As the result, these interim financial statements and notes should be read in conjunction with the Company's most recent annual financial statements for the year ended September 30, 2005.

## 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 and crushing costs, screening, washing, etc., and net realizable value.

### c) Capital assets and amortization

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	5% DB
Trademarks	2.5% SL (Upon Approval)
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 \$488,252 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 3,959,498 common shares and warrants to purchase 1,068,000 common shares were outstanding during the interim period 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) Comparative figures**

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

### 3. RECEIVABLES

	<b>March 31 2006</b>	September 30 2005
Trade	\$ -	\$ 20,048
Government (HST)	<b>44,852</b>	125,182
	<b>\$ 44,852</b>	<b>\$ 145,230</b>

### 4. INVENTORY

Inventory value was adjusted to the lower of cost or net realizable value at the end of fiscal 2004 to recognize estimated additional process and related costs which will be incurred to make the product marketable. No further adjustment was required in fiscal 2005. During Q2, some of the existing inventory was resized for use in the processing plant, and the new material was crushed for various uses.

### 5. CAPITAL ASSETS AND TRADEMARK

	<b>March 31 2006</b>		September 30 2005	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	Net Book Value
Office furniture & equipment	\$ 37,065	\$ 6,402	\$ 30,663	\$ 15,815
Computer equipment	35,721	10,809	24,912	22,923
Software	8,464	6,585	1,879	595
Vehicle	19,468	3,127	16,341	19,225
Equipment	1,852,734	108,227	1,744,507	776,623
Buildings	1,470,288	45,046	1,425,242	614,835
Leasehold Improvements	17,115	10,697	6,418	10,697
Site Improvements	186,802	9,340	177,462	108,945
Trademark	10,561	-	10,561	8,381
	<b>\$ 3,638,218</b>	<b>\$ 200,233</b>	<b>\$ 3,437,985</b>	<b>\$ 1,578,039</b>

**6. MINERAL CLAIMS**

<b>Mineral Claims</b>		<b>March 31 2006</b>		September 30 2005
Cost, beginning of period	\$	<b>855,736</b>	\$	784,655
Asset retirement obligation		<b>27,578</b>		71,081
Expenses for the period		-		-
Costs expensed		-		-
Cost, end of period		<b>883,314</b>		855,736
Accumulated depletion		<b>3,459</b>		2,617
Net book value	\$	<b>879,855</b>	\$	853,119

**7. DEFERRED COSTS**

<b>Deferred Exploration and Development Costs</b>		<b>March 31 2006</b>		September 30 2005
Cost, beginning of period	\$	<b>2,925,631</b>	\$	2,622,060
Drilling/trenching		-		138,561
Permitting		-		10,681
Research/Development		-		116,257
Mining Costs		-		30,280
Cost, end of period		<b>2,925,631</b>		2,917,839
Accumulated Depletion		<b>11,917</b>		9,161
Net Book Value	\$	<b>2,913,714</b>	\$	2,908,678

**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 \$400,519 (\$311,769 September 30, 2005) and the Environmental Reclamation Fund contains \$87,733 (\$87,033 September 30, 2005). The funds bear interest at the provincially designated rate of 1.5% to 2.76%.

**9. PAYABLES AND ACCRUED LIABILITIES**

		<b>March 31 2006</b>		September 30 2005
Trade—Operational	\$	<b>293,102</b>	\$	275,917
Trade—Capital		<b>72,256</b>		285,364
Government (Payroll & WCB)		<b>29,784</b>		18,212
	\$	<b>395,142</b>	\$	579,493

## 10. ASSET RETIREMENT OBLIGATION

	<b>March 31 2006</b>		September 30 2005	
Balance at beginning of period	\$	<b>196,898</b>	\$	114,380
NPV of cash flows		<b>27,578</b>		71,081
Accretion		<b>2,238</b>		10,437
Balance at end of period	\$	<b>226,714</b>	\$	195,898

The \$71,081 increase in NPV of cash flows during fiscal 2005, relates to \$34,808 adjustment in estimates regarding 2004 and \$36,273 for new obligations in 2005. The gross undiscounted amount of future reclamation plans is \$399,878. During Q2 2006, there was 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

	<b>March 31 2006</b>		September 30 2005	
	#	\$	#	\$
Balance at beginning of the period/year	<b>44,186,605</b>	\$ <b>17,268,842</b>	44,186,605	\$ 17,268,842
Shares issued for cash	-	-	-	-
	<b>44,186,605</b>	<b>17,268,842</b>	44,186,605	17,268,842
Less: share issue costs	-	-	-	-
Balance at end of the period/year	<b>44,186,605</b>	\$ <b>17,268,842</b>	44,186,605	\$ 17,268,842

c) **Contributed surplus**

	<b>Stock Options</b>		<b>Warrants</b>	
	<b>#</b>	<b>Fair Value</b>	<b>#</b>	<b>Fair Value</b>
Balance at beginning of the period/year	<b>3,439,724</b>	<b>\$ 698,694</b>	<b>2,208,000</b>	<b>\$ 558,316</b>
Issued	<b>570,000</b>	<b>49,296</b>	-	-
Balance at end of the period	<b>4,009,724</b>	<b>\$ 747,990</b>	<b>2,208,000</b>	<b>\$ 558,316</b>

The contributed surplus of \$1,306,306 consists of the fair value attributed to options and warrants issued since October 1, 2003. The fair value of options is recognized over the length of the vesting period. Warrants were issued for consulting and stock issue fees; options were issued 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 57%; 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:

	<b>Stock Options</b>		<b>Warrants</b>	
	<b>Number</b>	<b>Weighted average price</b>	<b>Number</b>	<b>Weighted average price</b>
Outstanding as at September 30, 2004	4,118,199	\$ 0.76	5,934,860	\$ 0.72
Granted/issued	753,301	0.38	-	-
Cancelled/expired	(530,465)	0.89	(3,726,860)	0.74
Outstanding as at September 30, 2005	4,341,035	0.68	2,208,000	0.70
Granted/issued	1,296,463	0.30	-	-
Cancelled/expired	(1,678,000)	0.83	(1,140,000)	0.70
Outstanding as at March 31, 2006	<b>3,959,498</b>	<b>\$ 0.49</b>	<b>1,068,000</b>	<b>\$ 0.70</b>

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

<b>Range of exercise prices</b>	<b>Number of Options</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price</b>
\$0.27 - 0.50	2,573,098	3.7 years	\$ 0.35
\$0.53 - 0.96	1,386,400	1.5 years	\$ 0.75
	<b>3,959,498</b>	<b>3.0 years</b>	<b>\$ 0.49</b>

<b>Range of exercise prices</b>	<b>Number of Warrants</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price</b>
<b>\$0.70</b>	<b>1,068,000</b>	<b>0.1 years</b>	<b>\$ 0.70</b>

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

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 AND INCOME 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 balance for Q2 2006 is \$8,574 (\$1,023 2005).

## 13. FINANCIAL INSTRUMENTS

### *Fair value:*

The carrying values of accounts receivable and accounts payable 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.

## 14. 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. Under the agreement, the Company has agreed to pay USS commissions.

# 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 May 4, 2006, is prepared in conformity with 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, 2005, and financial statements for the three-month period ending March 31, 2006, together with the accompanying notes.

### Overall Performance

During the second quarter of fiscal 2006, Black Bull Resources Inc. prepared and shipped production samples of *Scotia White*<sup>™</sup> quartz to customers in each of its market segments. The employees hired in December continued their training. They also continued investigating the flow and characteristics of the material to determine the optimal configuration for the plant. The property infrastructure was adjusted to handle the impact of the winter freeze and spring thaw. Some of the final capital requirements could not be ordered until substantial completion of the equipment commissioning. Most of these items have now been designed, quoted, and ordered. Company management confirms that the quartz processing plant will be completed under budget.



**Sizing Material Prior to Feeding Quartz Processing Plant**

Aberdeen Paving Ltd. completed the mucking and crushing of the 12,000 tonnes of quartz from the December blasting program. The crushing was designed to maximize product for use in the processing plant and to add some new semi-processed products for local markets.

The Company had no sales of the crushed and washed quartz during the quarter. Results from the marketing of *Scotia White*<sup>™</sup> quartz have begun to create sales opportunities. In the month of April, Black Bull has received, produced, and shipped its first order for a 100 ton railcar of dried and screened *Scotia White*<sup>™</sup> quartz. Along with this sale, quotes to customers in several other market segments have been issued and additional orders received. Black Bull continues to have a large demand for samples and expects many of them to materialize into further orders.



**Verifying Product Sizing in the Lab**

In some cases, product sizing has become an issue; the Company is working with a variety of screens in an effort to produce samples that meet customer specifications. Experience is showing that it takes from 6 to 12 weeks from the initial sample request to the serious review of quotes. During the second fiscal quarter of 2006 the Company did preliminary investigation into international markets; further investigation will continue in the third fiscal quarter.

Black Bull management completed a transportation and logistics study identifying the most efficient ways to ship quartz products to customers. The

strategy is to identify geographic areas where the Company can competitively market *Scotia White*<sup>™</sup> quartz. Company management continues to address transportation issues such as repairs to Highway 203 bisecting the White Rock Property. Management is still reviewing the logistics of water transportation and has made no exclusive commitment; the Company will use the most effective port based on customer needs, port infrastructure, and ship availability.

Black Bull management presented a preliminary kaolin development plan to the Board of Directors. The plan outlined the drilling strategy, potential markets, environmental implications, and capital requirements. The Board discussed the timing and cost considerations for implementing the plan, and resolved that Black Bull's first priority and focus, however, is still to establish positive cash flow from the quartz operation. Kaolin development will, therefore, continue to be reviewed regularly but not implemented at this time.

Black Bull is progressing towards meeting the September 30, 2006, CEO/CFO Certification requirements. During the quarter, the Company completed planning and scoping for complying with the Internal Controls over Financial Reporting (ICFR) regulations. The Company expects to document and test the controls during the third quarter with remediation occurring in the fourth quarter.

The Annual Monitoring Report for the Nova Scotia Government was filed in March detailing the impact of operations on the environment (including water, plant and animal life). The Company has continued efforts to comply with provincial government regulations while completing construction and commissioning the quartz processing plant. Management has requested discussions with the Nova Scotia Department of Environment and Labour to review the Overall Monitoring Program which is designed to optimize the gathering of data.

## Summary of Quarterly Results and Results of Operations

Quarterly Results	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Income:								
Mineral Revenue	-	3,298	14,976	3,700	3,881	16,157	2,363	-
Interest income	29,231	40,277	48,433	48,814	49,709	55,273	45,324	31,615
	<b>29,231</b>	<b>43,575</b>	<b>63,409</b>	<b>52,514</b>	<b>53,590</b>	<b>71,430</b>	<b>47,687</b>	<b>31,615</b>
Costs:								
Operations	217,509	126,834	89,637	83,572	81,854	72,288	71,588	78,965
Sales & marketing	56,475	57,258	32,992	12,555	7,828	47,037	72,061	37,566
General & admin	344,512	315,383	304,597	349,729	256,323	248,145	551,440	496,340
Amort./Depletion	143,667	19,880	14,470	12,264	5,224	2,620	17,847	7,100
Other	8,574	8,755	15,621	6,162	1,023	-	528,073	-
	<b>770,737</b>	<b>528,110</b>	<b>457,317</b>	<b>464,282</b>	<b>352,252</b>	<b>370,090</b>	<b>1,241,009</b>	<b>619,971</b>
Net Loss	<b>(741,506)</b>	<b>(484,535)</b>	<b>(393,908)</b>	<b>(411,768)</b>	<b>(298,662)</b>	<b>(298,660)</b>	<b>(1,193,322)</b>	<b>(588,356)</b>
Net Loss per Share (Basic and Diluted)	(0.017)	(0.011)	(0.009)	(0.009)	(0.007)	(0.007)	(0.024)	(0.022)

Operating Cash	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net Loss	<b>(741,506)</b>	<b>(484,535)</b>	<b>(393,908)</b>	<b>(411,768)</b>	<b>(298,662)</b>	<b>(298,660)</b>	<b>(1,193,322)</b>	<b>(588,356)</b>
Non-Cash Operating Items	195,201	55,562	63,907	68,464	58,124	49,620	629,637	240,908
Net Cash Loss from Operations	<b>(546,305)</b>	<b>(428,973)</b>	<b>(330,001)</b>	<b>(343,304)</b>	<b>(240,538)</b>	<b>(249,040)</b>	<b>(563,685)</b>	<b>(347,448)</b>

During the second quarter, no revenue was earned. Third quarter sales and interest indicate the processed product can be sold for targeted prices. The Company expects to continue to have sales from aggregate product along with the dried processed product, with significant sales starting in the third fiscal quarter. The Q2 interest income decrease relates to the reduction in the cash holdings used for operations and the capital expenditures.

The Q2 2006 operating costs include \$50,300 for propane and diesel fuel versus \$15,000 in Q1 2006, and nil last year. The Company paid \$78,300 for production wages in Q2 2006, \$12,200 in Q1 2006, and nil last year. Environmental costs decreased to \$42,600 in Q2 2006 from \$71,100 Q1 because no plant or animal data was collected during this period. The Q2 2006 environmental costs were also less than the \$65,300 in Q2 2005. The Company was granted approval to suspend data collection in Q2 2005 resulting in no costs for collecting data. No approval was received for 2006; the increased costs to collect data in Q2 2006 were offset by the lower costs during the quarter associated with preparing the annual report. The remaining expenses relate to land lease costs, property taxes, and consumables for the plant operation. The Q2 2006 sales and marketing remained consistent with Q1 2006 and increased \$48,600 from Q2 2005. There was a \$23,800 increase in wages and benefits; \$13,600 more was spent for samples, tradeshow, and to continue the new branding program; and the remaining \$12,000 extra for travel cost.

<b>General &amp; Administrative (G&amp;A) Costs</b>	<b>Q2 2006</b>	<b>Q1 2006</b>	<b>Q2 2005</b>
Accounting & Legal Fees	32,706	25,103	25,024
Advertising & Promotion	2,896	2,521	460
Consulting Fees	4,050	5,000	16,477
Insurance	12,846	10,500	12,553
Investor Relations	25,221	38,286	16,386
Listing & Transfer Agent Fees	6,014	9,519	7,582
Office, Rent & Telephone	15,447	17,575	8,760
Travel & Entertainment	24,664	16,682	22,422
Wages & Benefits	220,668	188,597	140,176
Other	-	1,600	3,646
	344,512	315,383	253,486

The Company's Q2 2006 general and administration costs increased by \$29,100 over the Q1 2006 costs. Total accounting and legal fees include an extra \$17,500 for work associated with planning and scoping ICFR compliance; offset by a \$10,000 decrease in legal and other accounting fees. During the period, the fair value of stock-based compensation increased by \$16,000. Due to new employees and a new collection year for payroll deductions, an extra \$16,000 was spent on WCB, CPP, EI, and Health Benefits. The Company countered these increases with a \$13,000 decrease in Investor Relation fees.

The Q2 2006 G&A expenses increased by \$91,000 over the Q2 2005 costs. To cope with a rapidly growing work load, more staff was hired during the second half of 2005. Consequently, wages and benefits increased by \$80,500 and office-related expenses increased by \$6,700. However, the Company was able to reduce consulting fees by \$12,400 as a result of the work performed internally. The Company's investor relations costs increased \$8,800 versus Q2 2005 due to the addition of Cassis Capital Corp. to handle institutional investors.

The Company considered the new quartz processing plant available for commercial utilization during the quarter; therefore commenced amortization. In Q2 2006 \$143,667 was amortized versus \$16,283 in Q1 2006 and \$5,224 in Q2 2005.

Black Bull Resources has crushed the December blasted material to inventory at an additional cost of \$103,800. The Company's payables balance has decreased due to the payment of capital project holdbacks. During the quarter, the Company revised the estimate for the reclamation costs of the White Rock Property and deposited \$85,000 to the Natural Resources Reclamation Fund.

## **Liquidity**

The Company considers the available cash, obtained from previous financings in 2004, to be sufficient to pay the final additions to the processing plant. The financing of the first phase of the kaolin plan will be reviewed before proceeding to ensure there is no impact on the cash reserves for operations. The Company's current assessment is that the cash levels are sufficient to sustain operations until the Company can create cash flow from its quartz operations. The delays in plant construction and commissioning, along with later-than-forecasted initial sales, have the Company currently expecting to generate positive cash flow in fiscal 2007.

## **Capital Resources**

The Company is commercially operating Phase 1 of the quartz production facility. This project used \$3.2 million from working capital to date; the remaining capital requirement of \$0.25 million for the quartz

production facility will also come from working capital. The Company intends to use \$0.6 million of working capital to implement Phase 2 of the quartz processing plant by the first quarter of fiscal 2007. The decision to move forward with Phase 2 will be dependent on the rate of sales growth. 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 did not enter into any transactions with any directors or officers of Black Bull Resources Inc. or companies under their control or control of their spouses.

### Changes in Accounting Policies

The Company has not changed any accounting policies nor initiated any new accounting policies in the three-month period.

### Subsequent Events

Subsequent to period end, Black Bull Resources Inc. received initial sales orders of *Scotia White*<sup>TM</sup> quartz. One order for 100 tons has been produced and is in transit by rail to a U.S. customer. Another customer has placed an order for two containers of product. Production is scheduled with intermodal shipping to follow.

As part of the initial investor relations contract, the Company granted 100,000 options to CHF Investor Relations on May 1, 2006.

On May 4, 2006, President and CEO, Barry F. Grundy, resigned his position for personal reasons. The Company has initiated efforts to replace Mr. Grundy.

### Other MD&A Disclosures

During Q2 2006, 570,000 new options were granted to Directors on the Board of Black Bull; 435,000 options expired during this period.

During Q2 2006, no new warrants were granted and none expired.

<b>Outstanding Securities</b>	<b>Quarter Ended March 31, 2006</b>
Common Shares	44,186,605
Options (Exercisable to one Common Share)	3,959,498
Warrants (Exercisable to one Common Share)	1,068,000
<b>Total Outstanding Securities</b>	<b>49,214,103</b>

### Risks and Uncertainties

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

A number of challenges still exist for the Company. Iron staining and color consistency are issues in many quarry operations. To address this, Black Bull is making every effort to segregate the quartz resource by color and building stockpiles of white and near white materials. This will enable the Company to limit contamination, and ensure the white quartz resource is managed effectively. The Company is working to develop markets for each of these materials to maximize contribution margins.

Transportation is a critical part of the Company's product mix. It is imperative that Black Bull provide cost-effective transportation solutions to customers. The Company completed a transportation and logistics study in January 2006 and is developing a transportation plan based on results from this study.

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 will implement 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 joint Black Bull and U.S. Silica marketing and branding of the *Scotia White*<sup>TM</sup> quartz products, energy costs, currency fluctuations, corporate compliance, limitations in liability insurance coverage, and local political stability.

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

### **Additional Information**

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.blackbullresources.com](http://www.blackbullresources.com).

### **Approved on behalf of the Board**

(signed) "J. Wayne Mailloux", Chairman & Director

(signed) "Donald A. Wright", Director

## CORPORATE INFORMATION

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James W. Gogan  
Director  
New Glasgow, NS

Barry F. Grundy  
Director,  
President & CEO  
Halifax, NS

Joseph MacDonald  
Director  
Judique, NS

Richard J. Shearer  
Director  
Berkeley Springs, WV  
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### **OFFICERS:**

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Yarmouth, NS

Alan W. Davidson  
VP Operations  
Shelburne, NS

Margaret R. Rhea  
VP Marketing  
Halifax, NS

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

The Company's vision is to become a world leader in industrial minerals.

This will be accomplished by providing industrial mineral solutions; identifying and pursuing growth opportunities; maximizing shareholder value; creating a learning organization; and operating in an environmentally-responsible manner.

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