

Black Bull Resources Inc.

INTERIM REPORT

2006

JUNE 30
2006



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LETTER TO SHAREHOLDERS

July 28, 2006

Black Bull has completed its second quarter of operations since the plant was commissioned in January 2006. This quarter Black Bull has generated its first orders and revenue, operated the plant commercially for the first time, and identified some added challenges to overcome on the road to profitability. The challenges have included the resignation of Barry Grundy for personal reasons, slower-than-anticipated order development and lengthier-than-expected production to meet demand. These are not unusual developments for a start-up operation to overcome in its early stages, and we fully expect to meet these challenges and overcome them as we develop our business in North America and elsewhere.

I was asked by the Board of Directors to fulfill the tasks of the President & CEO on an interim basis following the resignation of Barry Grundy on June 30, 2006. I have been a director of the Company since October 2002 and was involved in the early development of the White Rock Property, including the initial marketing program for *Scotia White*TM quartz. I have been active since mid June, and this report is my first in this capacity.

One of our first tasks is to find a permanent President & CEO to lead the development of the Company. I can report that Black Bull has initiated the process of searching for a new President & CEO and have identified several potential candidates using a well respected search firm in the industry. We expect to complete the search in the fourth quarter and have our new President & CEO working with us as we enter the new fiscal year.

On the sales front, we have been very active with promotional work and customer development, and as a result, three new orders were received for dried and screened *Scotia White*TM quartz during the quarter. The third order was developed from an earlier request for a one-railcar trial shipment, for the swimming pool market segment. We expect to ship 1000 tons of quartz to this customer located in the southwest United States.

We are not satisfied with the speed of order development, so we have undertaken a number of initiatives to accelerate revenue generation. First, we are renegotiating the *Scotia White*TM quartz Distribution Agreement with U.S. Silica Company. The intent is to better balance their efforts in market segments where they have strength with our own efforts. We plan to launch our efforts via development of our own sales force to exploit the additional market segments. The proposed changes will enable Black Bull to sell direct to geographic areas, target markets, and specific accounts, and dedicate additional resources to this task.

We are also exploring a new Distributor Agreement with U.S. Silica Company giving Black Bull the right to sell U.S. Silica products in eastern Canada. These products would compliment the Company's *Scotia White*TM product mix and generate additional revenue and support development of a Canadian sales effort led by Black Bull.

Additionally, we are pursuing an agreement to sell filter sand to U.S. Silica. It would be resold principally in the New England area under U.S. Silica's well known trade name Mystic White. In Canada, we will sell a similar product under our own trade name *Scotia White*TM.

Finally, we are exploring independent relationships in other markets outside North America for *Scotia White*[™] branded products.

These changes, once finalized will require additional resources in our sales and marketing department. The Company has begun building this department by hiring a customer service/logistics coordinator. This will be extremely helpful in providing the most competitive rates, optimal modes of transportation, and better service to our customers. We plan to add additional sales people in the USA and Canada and have begun recruiting efforts in this regard.

Black Bull also plans to make improvements in its plant efficiency and capacity based on what we have learned in this last quarter of operations. Product yields and production capacity at the plant should improve by finding sales for a broader range of sizes. This will be further improved by the addition of crushing equipment to better control the plant feedstock. Finally, a silo storage system, to efficiently store and load bulk material, and increased covered storage space will significantly build our capacity to service orders.

The Company continues to be aware of the potential kaolin may hold for shareholder value creation. The Board, however, has decided that for the time being continued focus on the quartz business development and plant modifications will take precedence. Kaolin development will remain on hold pending positive cash flow from the quartz operation.

The Board of Directors and executive management team at Black Bull are working diligently for our investors. We have developed a better understanding of the challenges we must meet and overcome, and we are working towards viable solutions. Our efforts, as always, are to achieve profitability as soon as possible and maximum value for the shareholders.

The development of our business will require additional financing; in light of the realities of lead times and costs for sales development, plant capitalization requirements, and operating working capital. The Company is currently investigating all debt or equity options in the order of \$5 million to meet these needs. Black Bull will report its plan to shareholders in the next quarter.

The Board of Directors and I would like to thank our shareholders for their continued trust and patience, Barry Grundy for his contributions to our business, and all employees for their hard work and commitment to Black Bull. We strongly believe that our product and the efforts we have expended thus far will result in growth of our brand and success for our enterprise.

(signed) "Joseph MacDonald"

Joseph MacDonald,
Interim President & CEO

FINANCIAL STATEMENTS

BLACK BULL RESOURCES INC.

BALANCE SHEETS

	June 30	September 30
	2006	2005
	<i>"Unaudited"</i>	<i>"Audited"</i>
ASSETS		
Current		
Cash and cash equivalents	\$ 1,844,242	\$ 6,135,320
Receivables (Note 3)	51,272	145,230
Inventory (Note 4)	524,531	168,608
Prepaid expenses	99,397	75,586
	2,519,442	6,524,744
Capital assets and trademark (Note 5)	3,417,667	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)	491,827	398,772
	\$ 10,222,505	\$ 12,263,352
LIABILITIES		
Current		
Payables and accruals (Note 9)	\$ 481,310	\$ 579,493
Tax payable	-	9,459
	481,310	588,952
Asset retirement obligations (Note 10)	230,238	195,898
	711,548	784,850
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	17,268,842	17,268,842
Contributed surplus (Note 11)	1,364,924	1,222,328
Deficit	(9,122,809)	(7,012,668)
	9,510,957	11,478,502
	\$ 10,222,505	\$ 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 JUNE 30

	2006		2005	
	Year		Year	
	3 Months "Unaudited"	to Date "Unaudited"	3 Months "Unaudited"	to Date "Unaudited"
MINERAL REVENUE	\$ 24,175	\$ 27,473	\$ 4,450	\$ 45,398
COSTS and EXPENSES				
Operations and Overhead	334,004	678,348	88,265	266,155
Depletion	-	3,597	-	-
Amortization	163,981	323,931	12,264	20,108
Sales and marketing	66,447	180,180	12,555	67,420
General and administration	360,304	1,020,199	345,786	847,416
	924,736	2,206,255	458,870	1,201,099
LOSS BEFORE OTHER ITEMS	(900,561)	(2,178,782)	(454,420)	(1,155,701)
OTHER ITEMS				
Interest income	25,035	94,544	48,814	153,796
LOSS BEFORE TAXES	(875,526)	(2,084,238)	(405,606)	(1,001,905)
Provision for capital tax (Note 12)	(8,574)	(25,903)	(6,162)	(7,185)
NET LOSS FOR THE PERIOD	(884,100)	(2,110,141)	(411,768)	(1,009,090)
DEFICIT AT BEGINNING OF PERIOD	(8,238,709)	(7,012,668)	(6,206,992)	(5,609,670)
DEFICIT AT END OF PERIOD	\$ (9,122,809)	\$ (9,122,809)	\$ (6,618,760)	\$ (6,618,760)
Basic and diluted loss per share				
	(\$0.020)	(\$0.048)	(\$0.009)	(\$0.023)
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 JUNE 30

	2006		2005	
	3 Months	Year to Date	3 Months	Year to Date
	"Unaudited"	"Unaudited"	"Unaudited"	"Unaudited"
OPERATING ACTIVITIES				
Net Loss for the Period	\$ (884,100)	\$ (2,110,141)	\$ (411,768)	\$ (1,009,090)
Non-cash items included in net loss				
Amortization	163,981	323,931	12,264	20,108
Depletion	-	3,597	-	-
Asset retirement accretion	3,524	6,762	2,000	6,000
Stock-based compensation	58,618	142,596	54,200	150,100
	(657,977)	(1,633,255)	(343,304)	(832,882)
Change In non-cash working capital accounts				
Receivables	(6,420)	93,958	4,813	199,056
Inventory	10,045	(355,923)	2,030	10,584
Prepaid expenses	(17,457)	(23,811)	(18,854)	(6,686)
Payables and accruals	86,168	(98,183)	8,925	(213,243)
Tax payable	-	(9,459)	-	(35,943)
	(585,641)	(2,026,673)	(346,390)	(879,114)
INVESTING ACTIVITIES				
Trademark	(814)	(2,994)	(2,295)	(3,254)
Acquisition of capital assets	(142,849)	(2,160,565)	(283,655)	(456,353)
Deferred costs	-	(7,791)	(8,420)	(263,198)
Reclamation deposits	(3,575)	(93,055)	(1,568)	(4,705)
	(147,238)	(2,264,405)	(295,938)	(727,510)
Change in cash and cash equivalents during the period	(732,879)	(4,291,078)	(642,328)	(1,606,624)
Cash and cash equivalents at beginning of the period	2,577,121	\$ 6,135,320	\$ 7,941,969	\$ 8,906,265
Cash and cash equivalents at end of period	\$ 1,844,242	\$ 1,844,242	\$ 7,299,641	\$ 7,299,641

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 unaudited interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements and have been prepared in accordance with Canadian generally-accepted accounting principles applicable to a going concern. The going-concern basis of presentation assumes that a company will continue in operation for 12 months and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from carrying values as shown; and these interim financial statements do not reflect adjustments that would be necessary to the carrying values of assets and liabilities, the reported net earnings, and the balance sheet classifications used if the going concern assumption were not appropriate.

At June 30, 2006, the Company had not yet achieved profitable operations and has incurred significant operating losses over the past eight fiscal quarters including \$2,110,141 in the current fiscal year to date. If the trend continues, the current working capital is not sufficient to sustain the Company for the next 12 months. In addition, the Company requires a capital expansion to increase plant utilization and product quality to reach levels for profitable operations. Management's opinion is that the Company must obtain additional financing to complete the capital project and maintain sufficient working capital to reach profitable operations from the *Scotia White*TM quartz operations and other potential mineral developments.

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 \$491,827 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 3,419,498 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

	June 30 2006	September 30 2005
Trade	\$ 23,369	\$ 20,048
Government (HST)	27,903	125,182
	\$ 51,272	\$ 145,230

4. INVENTORY

	June 30 2006	September 30 2005
Semi-Processed	\$ 500,335	\$ 168,608
Processed Goods	9,996	-
Consumables	14,200	-
	\$ 524,531	\$ 168,608

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 Q3, some of the existing inventory was resized for use in the processing plant.

5. CAPITAL ASSETS AND TRADEMARK

			June 30 2006	September 30 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office furniture & equipment	\$ 37,065	\$ 7,626	\$ 29,439	\$ 15,815
Computer equipment	36,971	12,889	24,082	22,923
Software	32,089	15,857	16,232	595
Vehicle	47,968	7,775	40,193	19,225
Equipment	1,941,415	207,621	1,733,794	776,623
Buildings	1,471,080	80,929	1,390,151	614,835
Leasehold Improvements	17,115	12,836	4,279	10,697
Site Improvements	186,802	18,680	168,122	108,945
Trademark	11,375	-	11,375	8,381
	\$ 3,781,880	\$ 364,213	\$ 3,417,667	\$ 1,578,039

6. MINERAL CLAIMS

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

7. DEFERRED COSTS

Deferred Exploration and Development Costs	June 30 2006	September 30 2005
Cost, beginning of period	\$ 2,925,631	\$ 2,622,060
Drilling/trenching	-	138,561
Permitting	-	10,681
Research/Development	-	116,257
Mining Costs	-	30,280
Cost, end of period	2,925,631	2,917,839
Accumulated Depletion	11,917	9,161
Net Book Value	\$ 2,913,714	\$ 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 \$403,494 (\$311,769 September 30, 2005) and the Environmental Reclamation Fund contains \$88,333 (\$87,033 September 30, 2005). The funds bear interest at the provincially designated rate of 1.5% to 3.00%.

9. PAYABLES AND ACCRUED LIABILITIES

	June 30 2006	September 30 2005
Trade—Operational	\$ 386,750	\$ 275,917
Trade—Capital	64,098	285,364
Government (Payroll & WCB)	30,462	18,212
	\$ 481,310	\$ 579,493

10. ASSET RETIREMENT OBLIGATION

	June 30 2006	September 30 2005
Balance at beginning of period	\$ 226,714	\$ 114,380
NPV of cash flows	-	71,081
Accretion	3,525	10,437
Balance at end of period	\$ 230,238	\$ 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 \$402,390. During Q3 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

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

c) Contributed surplus

	Stock Options		Warrants	
	#	Fair Value	#	Fair Value
Balance at beginning of the period/year	4,009,724	\$ 747,990	2,208,000	\$ 558,316
Issued	100,000	58,618	-	-
Balance at end of the period	4,109,724	\$ 806,608	2,208,000	\$ 558,316

The contributed surplus of \$1,364,924 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:

	Stock Options		Warrants	
	Number	Weighted average price	Number	Weighted average price
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	1,396,463	0.30	-	-
Cancelled/expired	(2,318,000)	0.82	(2,208,000)	0.70
Outstanding as at June 30, 2006	3,419,498	\$ 0.43	-	\$ -

The following table summarizes information about stock options and warrants outstanding at June 30, 2006:

Range of exercise prices	Number of Options	Weighted average remaining contractual life	Weighted average exercise price
\$0.27 - 0.50	2,673,098	3.5 years	\$ 0.35
\$0.53 - 0.96	746,400	2.5 years	\$ 0.71
	3,419,498	3.3 years	\$ 0.43

Range of exercise prices	Number of Warrants	Weighted average remaining contractual life	Weighted average exercise price
-	-	-	\$ -

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 Q3 2006 the Company paid Joseph MacDonald, Director, \$20,000 for performing the Interim President & CEO duties versus \$640 in Q3 2005 for marketing consulting.

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 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 for Q3 2006 is \$8,574 (\$6,162 2005).

14. 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.

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. 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 August 4, 2006, 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, 2005, and unaudited financial statements for the three-month period ending June 30, 2006, together with the accompanying notes.

Overall Performance

The third quarter of fiscal 2006 is the first period of sales and processing for Black Bull Resources Inc. The Company processed and shipped *Scotia White*TM quartz to U.S. customers. The U.S. Silica-led effort to develop orders resulted in two customers taking initial orders ranging from 40 to 100 tons. Based on the success of the initial orders, one of these customers has placed a subsequent order for 1000 tons; 10 times their initial order.

Sales development was longer and more difficult than anticipated. Experience is showing that it takes from 6 to 12 weeks from the initial sample request to the serious review of the product. Black Bull has commenced an enhanced selling campaign to compliment the sales and marketing work U.S. Silica is currently performing.

Black Bull is currently in discussions with U.S. Silica Company to improve revenue generation. Under review is the increase of Black Bull's sales force allowing direct sales efforts to compliment the market segments and geographic areas where U.S. Silica is strong. Also being explored is Black Bull distributing U.S. Silica products in eastern Canada.

In July, as recommended in the transportation and logistics study, a customer service/logistics coordinator was hired to assist the selling campaign by determining cost-effective transportation routes for existing and potential customers. This individual will also be a contact for customers to deal with any outstanding issues. The Company expects to add direct sales and is looking at other alternatives to increase revenues in Canada and USA. During the third fiscal quarter of 2006, the Company did preliminary investigation into international markets; further investigation will continue in the fourth fiscal quarter.



First Railcar of a 1000 ton Order

Processing has begun on the 1000 ton order and will be completed during the fourth quarter. During the processing of the orders and many samples, the Company continues to investigate the flow and characteristics of the material to determine the optimal configuration for plant efficiency. The original quartz processing plant was designed to create sample orders and customer orders. The intent was to modify the plant in future phases to increase efficiency and capacity. The first phase had a budget of \$3.5 million and was completed under budget.



Crushing Equipment

The second phase is currently being reviewed and will address quality, efficiency, and quantity requirements for processing, storing, and transporting *Scotia White*TM quartz. The review will encompass equipment additions and adjustments required to the existing plant. The goal is to maximize the percentage of feedstock that can be converted to saleable material and to increase plant utilization.

The Company will address efficiency concerns by adding crushing equipment that will give Black Bull more control over the size and moisture content of the in-feed material. The Company will address storage, loading, and transportation issues by investing in a silo system.

The final area of review will be the quality and capacity of the high-frequency screening system. In some cases, product sizing has become an issue. The Company is working with different screening systems in an effort to determine proper configurations to produce quality samples that meet potential customer specifications. Black Bull expects to spend approximately \$2 million during fiscal 2007 to complete Phase 2 of the quartz processing plant. Additional capacity and efficiency expansion will occur as sales increase.

The Board continues to discuss the timing and cost considerations for implementing the preliminary kaolin development plan. Black Bull's first priority and focus is to establish positive cash flow from the quartz operation. Kaolin development will continue to be reviewed regularly but not implemented at this time.

The Company is actively pursuing a permanent replacement for the President & CEO position vacated June 30, 2006. A prominent search firm in the mining and minerals industry has been retained to assist and interviews of short-listed candidates are proceeding.

Black Bull continues to progress towards meeting the September 30, 2006, CEO/CFO Certification requirements. During the quarter, the Company documented entity level and process controls. The Company expects to complete documentation, test the controls, and remediate during 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 operating the quartz processing plant. Management and the Nova Scotia Department of Environment and Labour (NSDEL) continue to discuss modifications to ensure that the frequency of water collection and the number of well locations is sufficient to provide valuable information to serve public, regulatory, and/or corporate goals.

Summary of Quarterly Results and Results of Operations

Quarterly Results	2006			2005				2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Income:								
Mineral Revenue	24,175	-	3,298	14,976	3,700	3,881	16,157	2,363
Interest income	25,035	29,231	40,277	48,433	48,814	49,709	55,273	45,324
	49,210	29,231	43,575	63,409	52,514	53,590	71,430	47,687
Costs:								
Operations	334,004	217,509	126,834	89,637	83,572	81,854	72,288	71,588
Sales & marketing	66,447	56,475	57,258	32,992	12,555	7,828	47,037	72,061
General & admin	360,304	344,512	315,383	304,597	349,729	256,323	248,145	551,440
Amort./Depletion	163,981	143,667	19,880	14,470	12,264	5,224	2,620	17,847
Other	8,574	8,574	8,755	15,621	6,162	1,023	-	528,073
	933,310	770,737	528,110	457,317	464,282	352,252	370,090	1,241,009
Net Loss	(884,100)	(741,506)	(484,535)	(393,908)	(411,768)	(298,662)	(298,660)	(1,193,322)
Net Loss per Share (Basic and Diluted)	(0.020)	(0.017)	(0.011)	(0.009)	(0.009)	(0.007)	(0.007)	(0.024)

Operating Cash	2006			2005				2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net Loss	(884,100)	(741,506)	(484,535)	(393,908)	(411,768)	(298,662)	(298,660)	(1,193,322)
Non-Cash Operating Items	226,123	195,201	55,562	63,907	68,464	58,124	49,620	629,637
Net Cash Loss from Operations	(657,977)	(546,305)	(428,973)	(330,001)	(343,304)	(240,538)	(249,040)	(563,685)

During the third quarter, \$24,175 revenue was earned. The Company expects to continue to have sales from aggregate product along with the dried processed product, with significant sales starting in the fourth fiscal quarter. The Q3 interest income decrease relates to the reduction in the cash holdings used for operations and the capital expenditures.

The Q3 2006 operating costs include \$49,500 for propane and diesel fuel versus \$50,300 in Q2 2006, and nil last year. During Q3, the generator could be shutdown when the plant was not operating versus continuous operations of the generator during the winter period. The Company paid \$119,400 for production wages in Q3 2006, \$78,300 in Q2 2006, and nil last year. Environmental costs increased to \$59,100 in Q3 2006 from \$42,600 Q2 because plant and animal data were collected during this period. The Q3 2006 environmental costs were similar to the \$60,800 in Q3 2005. The Company incurred packaging costs of \$32,700 in Q3 for bags and pallets to ship and store processed quartz versus \$100 in Q2 and nil in Q3 2005. Equipment rental costs were \$32,200 during the quarter for a loader and Trommel screen versus \$13,000 in Q2 and nil in Q3 2005. The remaining expenses relate to land lease costs, property taxes, and consumables for the plant operation.

The Q3 2006 sales and marketing costs increased \$10,000 from Q2 2006 to complete the *Scotia White*TM branding program and send samples; these costs were an increase of \$53,900 from Q3 2005. There was a \$16,800 increase in wages and benefits; \$33,200 more was spent for samples, tradeshow, and for the branding program; and the remaining \$3,900 extra for travel cost.

General & Administrative (G&A) Costs	Q3 2006	Q2 2006	Q3 2005
Accounting & Legal Fees	17,960	32,706	12,905
Advertising & Promotion	4,270	2,896	2,859
Consulting Fees	12,000	4,050	30,297
Insurance	15,475	12,846	11,171
Investor Relations	24,549	25,221	19,578
Listing & Transfer Agent Fees	5,387	6,014	6,227
Office, Rent & Telephone	18,781	15,447	19,205
Travel & Entertainment	27,115	24,664	50,652
Wages & Benefits	234,767	220,668	191,410
Other	-	-	5,425
	360,304	344,512	349,729

The Company's Q3 2006 general and administration costs increased by \$15,800 over the Q2 2006 costs. Total accounting and legal fees were reduced in Q3 by \$15,000 because Q3 included an extra \$2,500 for work associated with planning and scoping ICFR compliance versus \$17,500 in Q2. During the period, the wages and benefits increase was due to \$9,200 extra for the fair value of stock-based compensation and an additional \$20,000 paid to the Interim President & CEO.

The Q3 2006 G&A expenses increased by \$10,600 over the Q3 2005 costs. To cope with a rapidly growing work load, more staff was hired during the second half of fiscal 2005. Consequently, wages and benefits increased by \$43,400. However, the Company was able to reduce consulting fees by \$18,300 and travel expenses by \$23,500 as a result of the work performed internally. The Company's investor relations costs increased \$5,000 versus Q3 2005 due to the addition of Cassis Capital Corp. to handle institutional investors.

The Company continued amortization of the new quartz processing plant. In Q3 2006 \$163,981 was amortized versus \$143,667 in Q2 2006 and \$12,264 in Q3 2005.

Liquidity

The Company's current assessment is that the cash levels are not sufficient to sustain operations until the Company can create positive cash flow from its quartz operations. 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. Based on current cash usage and the Company's evaluation of the market, there will be a requirement of new working capital; expected to be approximately \$2 million.

The Company does not consider the available cash, from previous financings in 2004, to be sufficient to pay the estimated \$2 million for capital investment required for Phase 2 of the quartz processing plant. The kaolin plan will be reviewed before proceeding to ensure there is no impact on the cash reserves.

Black Bull is currently investigating various financing opportunities. Depending on the mix of debt and equity financing, the Company will need to obtain \$4 to \$5 million for operations, plant expansion, and sales and marketing to ensure the growth of *Scotia White*TM quartz.

Capital Resources

The Company is commercially operating Phase 1 of the quartz production facility. This project used \$3.4 million from working capital. The Company intends to raise enough working capital, through debt or equity, to implement Phase 2 of the quartz processing plant through the first two quarters of fiscal 2007. The decision to move forward with Phase 2 will be dependent on the rate of sales growth 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 paid J & E Consulting, controlled by director Joseph MacDonald, \$20,000 to perform the President & CEO duties on an interim basis.

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

No subsequent events have occurred since fiscal quarter end to August 4, 2006, the date of approval of the interim MD&A.

Other MD&A Disclosures

During Q3 2006, 100,000 new options were granted to CHF Investor Relations as part of their Agreement; 640,000 options expired during this period.

During Q3 2006, no new warrants were granted, and all 1,068,000 remaining warrants expired.

Outstanding Securities	Quarter Ended June 30, 2006
Common Shares	44,186,605
Options (Exercisable to one Common Share)	3,419,498
Warrants (Exercisable to one Common Share)	-
Total Outstanding Securities	47,606,103

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.

Iron staining and colour consistency are issues in many quarry operations. Black Bull's experience to date shows that the colour variation of the processed *Scotia White*TM quartz is not substantial. The response regarding the colour consistency of the samples and sales shipments have been positive. The Company is working to maintain a high level of colour consistency to maximize contribution margins.

A number of challenges still exist for the Company. 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 February 2006 and has begun implementing a transportation plan based on results from this study. One identified item has been addressed with the hire of a customer service/logistics coordinator.

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 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*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.

Approved on behalf of the Board

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

(signed) "Donald A. Wright", Director

CORPORATE INFORMATION

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

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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