



GRANDE CACHE COAL CORPORATION

NEWS RELEASE

GRANDE CACHE COAL CORPORATION ANNOUNCES FIRST QUARTER 2007 FINANCIAL RESULTS

Calgary, Alberta, July 31, 2006 – Grande Cache Coal Corporation (GCE-TSX) ("Grande Cache Coal" or the "Corporation") announced today its financial and operating results for the three months ended June 30, 2006.

- Net income for the first quarter was \$1.7 million, or \$0.03 per share compared to a net loss of \$12.2 million, or \$0.30 per share in the same quarter last year.
- An average sales price of \$125 per tonne on sales volumes of 0.2 million tonnes led to revenue of \$29.0 million in the quarter. Metallurgical coal sales were lower than expected due to delays of customer shipments until the second quarter. Grande Cache Coal still anticipates sales for fiscal 2007 to be in the range of 1.0 to 1.4 million tonnes at an average price of U.S.\$90 to U.S.\$100 per tonne, combining contract prices for the current year, carryover pricing and trial cargos, including the Corporation's initial PCI shipments.
- The Corporation's cost of coal produced was \$60 per tonne in the quarter, a decline of \$50 per tonne compared to the first quarter of fiscal 2006. The average cost of sales for the current quarter decreased 41% to \$101 per tonne compared to last year's first quarter cost of sales of \$172 per tonne.
- Productivity improvements continued during the quarter in both the surface and underground mine. The first quarter strip ratio in the surface mine was 9:1, an 11% decrease from the same quarter last year. The strip ratio is expected to be at lower levels on average over the remaining life of the mine, although it can be expected to vary from quarter to quarter.
- On April 5, 2006, Grande Cache Coal completed a bought deal equity financing. At closing, a total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$3.40 per share until April 5, 2007.

"We are pleased to start the new fiscal year with first quarter earnings," said Robert Stan, President and Chief Executive Officer. "Despite having some sales slip into the next quarter, we were still able to achieve our best operating results to date. We continue to focus on cost reduction strategies and managing our coal production with our sales schedule. We are optimistic that sales volumes will improve throughout the year and are committed to the long term viability of Grande Cache Coal."

In response to delays in customer shipments and current high levels of inventory, Grande Cache Coal is aligning production with firm market commitments. The normal summer vacation and maintenance shut down period scheduled for the second quarter has been extended in order to reduce coal inventory levels. Production in the underground mine, the surface mine and the process plant will resume later in the second quarter.

Grande Cache Coal is an Alberta based metallurgical coal mining company whose experienced team of coal professionals have developed a sustainable, long-term mining operation to produce metallurgical coal for the export market from coal leases covering over 18,000 hectares in the Smoky River Coalfield located in west-central Alberta. Grande Cache Coal's common shares are listed on the Toronto Stock Exchange under the trading symbol "GCE".

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended June 30, 2006, and the audited consolidated financial statements, notes and related MD&A thereto of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the fiscal year ended March 31, 2006. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This discussion provides management's analysis of the Corporation's historical financial and operating results and provides estimates of the Corporation's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance.

This MD&A was prepared using information that is current as of July 28, 2006.

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements which are based on the Corporation's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Grande Cache Coal's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, changes in general economic, market and business conditions; uncertainties associated with estimating the quantity and quality of coal reserves and resources; commodity prices, currency exchange rates, capital expenditures and debt service requirements; dependence on a single rail system; changes to legislation; liabilities inherent in coal mine development and production; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, mining and processing technical problems; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in coal mine development and production. Many of these risks and uncertainties are described in Grande Cache Coal's 2006 Annual Information Form, Grande Cache Coal's Management's Discussion and Analysis and other documents Grande Cache Coal files with the Canadian securities authorities.

All references are to Canadian dollars unless otherwise indicated.

Grande Cache Coal Corporation
Management's Discussion & Analysis

Financial Overview

| <i>(millions of dollars)</i> | June 30 2006 | March 31 2006 |
|--|---|---|
| Balance Sheet | | |
| Total assets | 113.5 | 90.7 |
| Long-term liabilities | 13.5 | 13.5 |
| Shareholders' equity | 77.5 | 50.1 |
| | Three months ended June 30 | Three months ended June 30 |
| <i>(millions of dollars, except per share amounts)</i> | 2006 | 2005 |
| Income Statement | | |
| Revenue | 29.1 | 9.7 |
| Cost of sales | 23.4 | 20.0 |
| Net income (loss) | 1.7 | (12.2) |
| Basic and diluted net income (loss) per share | 0.03 | (0.30) |
| | Three months ended June 30 | Three months ended June 30 |
| <i>(millions, except per tonne amounts)</i> | 2006 | 2005 |
| Statistics | | |
| Clean coal production | 0.3 | 0.2 |
| Coal sales | 0.2 | 0.1 |
| Average sales price (\$/tonne) | 125 | 81 |
| Average cost of sales (\$/tonne) | 101 | 172 |
| Average cost of production (\$/tonne) | 60 | 110 |

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Revenue

First quarter revenue of \$29.0 million was earned on the sale of 0.2 million tonnes of coal compared with revenue of \$9.4 million on the sale of 0.1 million tonnes in the same quarter last year. Sales volumes were lower than expected due to the delay of certain customer shipments until the second quarter.

The average sales price achieved in the quarter on U.S. dollar denominated metallurgical coal sales was U.S.\$111 per tonne compared to U.S.\$64 per tonne in the first quarter last year. In Canadian dollar terms, the average realized price was \$125 per tonne, compared to \$81 per tonne for the comparable period. The strengthening of the Canadian dollar this year affected the U.S./Canadian price differential.

Interest and other revenue for the quarter was \$0.1 million compared to \$0.3 million last year and consisted primarily of interest earned on short term investments and access fees for using roads that belong to the Corporation.

Production Costs and Cost of Sales

The cost of clean coal produced in the first quarter of fiscal 2007 was \$60 per tonne, compared to \$110 in the same quarter last year. Production costs continue to decrease due to ongoing productivity and cost improvement measures. A significant amount of raw coal was released in the quarter due to the impact of depillaring operations in the underground mine and a declining strip ratio in the surface mine. The strip ratio was 9:1 in the quarter, compared to 10:1 in the same quarter last year.

During April 2006, the Corporation temporarily suspended clean coal production in the processing plant to undertake several capital improvement projects that are expected to increase its future operating efficiency. Grande Cache Coal held adequate clean coal inventory to meet shipment schedules through the month of April and normal operations resumed in May. Both the underground and surface mines maintained normal production levels throughout April.

Despite suspending clean coal production during the month of April, clean coal inventory volumes increased over the course of the quarter. As well, the volume of raw coal mined during the three months led to an increase in raw coal inventory volume. As a result, the total value of coal inventory increased \$13.6 million over the course of the first quarter.

Total cost of sales for the first quarter of fiscal 2007 was \$23.4 million or \$101 per tonne compared to \$20.0 million or \$172 per tonne in the comparable quarter of the prior year. The cost of sales consisted of cost of product sold of \$15.9 million (\$68 per tonne) and distribution costs of \$7.5 million (\$33 per tonne). The cost of product sold and distribution costs for the first quarter of fiscal 2006 were \$17.1 million (\$147 per tonne) and \$2.9 million (\$25 per tonne), respectively.

The decrease in the unit cost of product sold is largely a result of improved productivities, particularly in the underground mine, high levels of raw coal production and higher sales volume. The increase in distribution costs is mainly due to the proportion of shipments to Eastern North America which carry higher rail rates than shipments to port in Western Canada and the impact of fuel surcharges on rail costs.

Other Expenses

General and administrative expenses were \$2.0 million during the first quarter compared to \$1.3 million for the comparable quarter last year. Included in these costs were head office administrative and marketing charges of \$1.1 million this quarter compared to \$1.0 million in the prior period. General and administrative expenses also include non-cash charges of \$0.4 million and \$0.3 million, respectively, for stock-based compensation. Also included in

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general and administrative expenses this quarter was a foreign exchange loss of \$0.5 million, compared to a net foreign exchange gain of less than \$0.1 million in the first quarter of the prior year.

Interest and other expenses during the first quarter were \$0.4 million compared to a prior period expense of nil, and consist primarily of interest paid on the revolving and term debt.

Depreciation, depletion and accretion charges were \$1.4 million in the first quarter compared to \$0.4 million in the same period last year. The increase is largely a result of increased production as well as the addition and productive use of more capital assets.

Liquidity and Capital Resources

At the end of the first quarter Grande Cache Coal had cash and cash equivalents of \$11.1 million, an increase of \$10.2 million from the balance at March 31, 2006. During the quarter, the Corporation closed a bought deal equity financing for net proceeds of \$25.3 million, while operations resulted in a cash decrease of \$12.8 million, primarily due to a \$13.6 million increase in coal inventory.

Cash used in operating activities during the three months ended June 30, 2006 was \$12.8 million, compared to a cash use of \$18.9 million in the same quarter of the prior year. The improvement was largely due to the current quarter's net income of \$1.7 million contrasted with a net loss of \$12.2 million in the same quarter of 2006. The improvement was offset somewhat by a \$13.6 million increase in coal inventory which led to a change in non-cash working capital of \$16.3 million compared to \$7.7 million during the same period last year. Cash generated from operations before the net change in non-cash working capital was \$3.5 million, compared to a cash use of \$11.2 million last year.

Financing activities during the first quarter generated cash of \$24.6 million compared to a cash decrease of \$1.1 million in the comparable period. On April 5, 2006, Grande Cache Coal closed a bought deal equity financing. At closing, a total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$3.40 per share until April 5, 2007. The proceeds of the equity financing are being used to finance the Corporation's capital expenditures and provide additional working capital. Share issuance costs related to the bought deal equity financing were \$1.7 million. The Corporation has a \$15.0 million revolving credit facility used to fund working capital requirements. The net repayment on the revolving facility during the first quarter was \$0.7 million bringing the balance at June 30, 2006 to \$10.8 million.

The Corporation used \$1.7 million in cash for investing activities during the quarter compared to \$6.9 million in the same quarter last year. Capital asset additions account for the majority of spending in the first quarter of this year and last year at \$1.5 million and \$6.9 million, respectively.

Grande Cache Coal believes the current revolving facility is sufficient to fund its ongoing working capital requirements. The Corporation expects to maintain sufficient inventory levels at the port to meet customer requirements, provided adequate rail service remains available. At June 30, 2006, the Corporation had \$38.7 million in coal inventory, compared to \$19.4 million at the end of the first quarter of the prior year.

The Corporation did not have any off-balance sheet financing structures in place at June 30, 2006. The only long term liabilities of the Corporation are asset retirement obligations with a present value of \$3.5 million and long term debt of \$10.0 million. Grande Cache Coal's asset retirement obligations are covered by a cash deposit of \$0.1 million and letters of credit totaling \$5.4 million provided to the Alberta Government, which are presently secured by cash.

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Management's Discussion & Analysis

The Corporation has commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment is U.S.\$16 million, with progress payments required over the course of the manufacturing process. This arrangement is currently under review.

Outlook

Operations

The Corporation relies on the railway to transport coal inventory to the ports. Rail service problems and delays that occurred during the first several weeks of the first quarter of fiscal 2007 have been rectified to a certain degree. Rail service has improved recently and due to decreased sales levels during the quarter, there is a high level of inventory at the port at Roberts Bank which has eased the demand on the railway. Grande Cache Coal will continue to require sufficient rail service to meet customer shipments and will be in continual contact with the railway in attempts to secure adequate service levels going forward.

In response to delays in customer shipments and current high levels of inventory, Grande Cache Coal is aligning production with firm market commitments. The normal summer vacation and maintenance shut down period scheduled for the second quarter has been extended in order to reduce inventory levels. Full production in the underground mine, the surface mine and the process plant will resume later in the second quarter. The Corporation will continue to rail coal to the ports throughout this period as required to meet customer shipments.

Over the second half of the fiscal year, the Corporation will continue to focus on ongoing cost control measures. The Corporation anticipates that production costs per tonne will increase during the second quarter as a result of the current maintenance and inventory control shutdown.

The surface mine strip ratio is expected to be at lower levels on average over the remaining life of the mine, although it can be expected to vary from quarter to quarter. As the Corporation does not capitalize stripping activities, mining costs are correlated to the rise and fall of strip ratios in the surface mine.

Production levels for the remainder of fiscal 2007 will continue to be managed according to scheduled sales volumes. Production volumes impact the unit cost of production due to the Corporation's level of fixed costs.

Metallurgical Coal Markets

Grande Cache Coal is maintaining a focus on expanding and diversifying its customer base geographically as well as within traditional markets to mitigate situations where shipment delays can occur. Negotiations of sales contracts and trial shipments with new customers are ongoing.

Grande Cache Coal still anticipates sales for fiscal 2007 to be in the range of 1.0 to 1.4 million tonnes at an average price in the range of U.S.\$90 to U.S.\$100 per tonne, combining contract prices for the current year, carryover pricing and trial cargos, including the Corporation's initial PCI shipments.

The demand for metallurgical coking coal is expected to remain strong over the medium term as worldwide supply and demand remains balanced.

Capital Expenditures

The Corporation anticipates spending approximately \$10 million on capital additions and a drilling program in fiscal 2007. Options available for financing capital expenditures expected to result in improvements to the Corporation's cost structure include debt financing, capital or operating lease arrangements or equipment manufacturer's financing.

Grande Cache Coal Corporation

Management's Discussion & Analysis

Other Information

The Corporation has not entered into any off-balance sheet arrangements at this time. Looking forward, export trade credit insurance may be used to provide security for non-payment on certain coal sale transactions.

As at July 28, 2006, there were 50,768,688 common shares issued and outstanding, and the following share options were also outstanding:

| <u>Share Options Outstanding</u> | <u>Number Granted</u> | <u>Number Vested</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|----------------------------------|---------------------------|--------------------------|---------------------------|--------------------|
| | 1,058,334 | 700,000 | \$1.00 | March 21, 2009 |
| | 162,500 | 137,500 | \$3.70 | July 21, 2009 |
| | 37,500 | 25,000 | \$3.70 | August 8, 2009 |
| | 135,000 | 105,000 | \$11.56 | March 15, 2010 |
| | 35,000 | 10,000 | \$9.08 | June 9, 2010 |
| | 125,000 | - | \$4.50 | October 18, 2010 |
| | 900,000 | - | \$2.44 | April 11, 2011 |
| Total | <u>2,453,334</u> | <u>977,500</u> | | |

There are also 5,500,000 warrants outstanding, exercisable at a price of \$3.40 per share on or before April 5, 2007.

Additional Information

Additional information regarding the Corporation and its business operations, including the Corporation's annual information form for the fiscal year ended March 31, 2006, is available on the Corporation's SEDAR company profile at www.sedar.com.

Grande Cache Coal Corporation
Consolidated Balance Sheets
(thousands of Canadian dollars)

| (unaudited) | June 30 | March 31 |
|---|-------------------|------------------|
| | 2006 | 2006 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 11,146 | \$ 973 |
| Restricted cash (note 2) | 6,438 | 6,138 |
| Accounts receivable | 1,067 | 2,836 |
| Inventory (note 3) | 40,858 | 26,509 |
| Prepaid expenses | 901 | 1,490 |
| | <u>60,410</u> | <u>37,946</u> |
| Deposit for future reclamation expenditures | 82 | 82 |
| Mineral properties and development | 20,923 | 21,074 |
| Buildings and equipment | 32,058 | 31,646 |
| | <u>\$ 113,473</u> | <u>\$ 90,748</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 11,603 | \$ 15,653 |
| Revolving debt (note 5) | 10,830 | 11,500 |
| | <u>22,433</u> | <u>27,153</u> |
| Long term debt (note 5) | 10,000 | 10,000 |
| Asset retirement obligations (note 6) | 3,530 | 3,470 |
| | <u>35,963</u> | <u>40,623</u> |
| Shareholders' Equity | | |
| Share capital (note 7) | 126,979 | 101,715 |
| Contributed surplus | 2,027 | 1,621 |
| Deficit | (51,496) | (53,211) |
| | <u>77,510</u> | <u>50,125</u> |
| | <u>\$ 113,473</u> | <u>\$ 90,748</u> |

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Income (Loss) and Deficit
(thousands of Canadian dollars, except per share amounts)

| (unaudited) | Three months ended June 30 2006 | Three months ended June 30 2005 |
|---|---|---|
| Revenue | | |
| Sales | \$ 28,996 | \$ 9,401 |
| Interest and other | <u>129</u> | <u>256</u> |
| | <u>29,125</u> | <u>9,657</u> |
| Expenses | | |
| Cost of product sold | 15,867 | 17,082 |
| Distribution | 7,536 | 2,903 |
| General and administrative | 2,000 | 1,338 |
| Interest and other | 357 | - |
| Depreciation, depletion and accretion | <u>1,436</u> | <u>430</u> |
| | <u>27,196</u> | <u>21,753</u> |
| | 1,929 | (12,096) |
| Taxes | <u>(214)</u> | <u>(65)</u> |
| Net income (loss) | 1,715 | (12,161) |
| Deficit, beginning of period | <u>(53,211)</u> | <u>(21,093)</u> |
| Deficit, end of period | <u>\$ (51,496)</u> | <u>\$ (33,254)</u> |
| Net income (loss) per share (note 8) | | |
| Basic and diluted | <u>\$ 0.03</u> | <u>\$ (0.30)</u> |

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

| (unaudited) | Three months ended June 30 2006 | Three months ended June 30 2005 |
|--|---|---|
| Cash provided by (used for) | | |
| Operating activities | | |
| Net income (loss) | \$ 1,715 | \$ (12,161) |
| Items not affecting cash | | |
| Stock-based compensation (note 9) | 406 | 318 |
| Unrealized foreign exchange loss (gain) | (64) | 204 |
| Depreciation, depletion and accretion | 1,436 | 430 |
| | <u>3,493</u> | <u>(11,209)</u> |
| Net change in non-cash working capital relating to operating activities | <u>(16,271)</u> | <u>(7,658)</u> |
| | <u>(12,778)</u> | <u>(18,867)</u> |
| Financing activities | | |
| Repayment of revolving and term debt (note 5) | (670) | - |
| Proceeds on issuance of share capital (note 7) | 27,000 | 1,260 |
| Repayment of notes payable (note 4) | - | (2,329) |
| Share issuance costs (note 7) | (1,736) | - |
| | <u>24,594</u> | <u>(1,069)</u> |
| Investing activities | | |
| Additions to mineral properties and development | (690) | (1,245) |
| Additions to buildings and equipment | (843) | (5,688) |
| Restricted cash (note 2) | (300) | 933 |
| Net change in non-cash working capital relating to investing activities | <u>126</u> | <u>(912)</u> |
| | <u>(1,707)</u> | <u>(6,912)</u> |
| Effect of foreign exchange on cash and cash equivalents | <u>64</u> | <u>(71)</u> |
| Increase (decrease) in cash and cash equivalents | <u>10,173</u> | <u>(26,919)</u> |
| Cash and cash equivalents, beginning of period | <u>973</u> | <u>35,455</u> |
| Cash and cash equivalents, end of period | <u>\$ 11,146</u> | <u>\$ 8,536</u> |

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2006

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

1. Basis of Presentation

The interim consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared using the same accounting policies as the consolidated financial statements for the year ended March 31, 2006.

The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual financial statements for the year ended March 31, 2006.

2. Restricted Cash

Cash secured letters of credit in the amount of \$5,438 have been provided to the Alberta Minister of Finance for abandonment security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit of \$1,000 have been made available to service providers, including \$300 provided in the first quarter of this year.

3. Inventory

| | June 30 2006 | March 31 2006 |
|---------------------|-------------------------|--------------------------|
| Coal inventory | \$ 38,688 | \$ 25,041 |
| Materials inventory | <u>2,170</u> | <u>1,468</u> |
| Total | <u>\$ 40,858</u> | <u>\$ 26,509</u> |

4. Notes Payable

The Corporation entered into a coal sale agreement dated April 13, 2004, with a Japanese trading company (the "Trading Co.") for the sale of approximately 250,000 tonnes of metallurgical coal to the Trading Co. by September 30, 2005. In conjunction with the coal sale agreement, the parties entered into an advance payment agreement pursuant to which the Trading Co. agreed to advance U.S.\$4,000 to the Corporation. As the advance was denominated in U.S. dollars, changes in the U.S./Canadian dollar exchange rate impacted the carrying value of the note.

Repayment of the advance occurred through a reduction in the price per tonne otherwise payable by the Trading Co. for coal delivered under the coal sale agreement. During the second quarter of 2006, the remainder of the coal under the agreement was shipped and the balance owing was repaid.

5. Revolving and term debt

During the third quarter of fiscal 2006, the Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term facility and a \$10 million revolving facility. Interest was payable monthly at a rate of prime plus 2% per annum.

The Corporation amended and extended its secured credit facility on March 28, 2006. The restated credit facility consists of a \$10 million term facility and a \$15 million revolving facility. Interest is payable monthly at a rate of prime plus 2% per annum. The facilities are secured by a general security agreement and have a maturity date of April 8, 2007, subject to a one year extension option.

The credit facilities are being used to finance the Corporation's working capital and also allowed for the retirement of a \$5 million loan the Corporation received from a member of the Board of Directors in the third quarter of fiscal 2006. The loan was secured by coal inventory at port, was interest bearing at 8% per annum and repayable 2 months from the date of receipt.

The net repayment on the revolving facility during the first quarter was \$670, bringing the balance at June 30, 2006, to \$10,830.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2006

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

6. Asset Retirement Obligations

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. The Corporation has estimated the net present value of its asset retirement obligations to be \$3,530 as at June 30, 2006, based on a total future liability of \$7,123. The Corporation's credit adjusted risk free rates range from 5.5% to 7.6% depending on the term of estimated years to reclamation.

The following table reconciles the Corporation's asset retirement obligations:

| | Three months ended June 30 2006 |
|--------------------------|--|
| Balance – March 31, 2006 | \$ 3,470 |
| Increase in liability | - |
| Accretion expense | <u>60</u> |
| Balance – June 30, 2006 | <u>\$ 3,530</u> |

7. Share Capital

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

| <i>(thousands)</i> | Number | Stated Value |
|---|---------------|-------------------------|
| Common shares | | |
| Balance – March 31, 2006 | 40,769 | \$ 108,763 |
| Shares issued on bought deal equity financing | <u>10,000</u> | <u>27,000</u> |
| Balance – June 30, 2006 | <u>50,769</u> | <u>135,763</u> |
| Less: Share issuance costs | | <u>8,784</u> |
| | | <u>\$ 126,979</u> |

On April 5, 2006, the Corporation closed a bought deal equity financing. At closing, a total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$3.40 per share until April 5, 2007.

Share issuance costs related to the bought deal equity financing were \$1,763 in the first quarter of 2007.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2006
(Unaudited)

(thousands of Canadian dollars, except per share amounts)

8. Net Income (Loss) per Share

The following table reconciles the denominators for basic and diluted net income (loss) per share calculations. The treasury stock method is used to determine the dilutive effect of the share options. There was no dilutive effect for the Corporation's outstanding share options and warrants as they were not in-the-money during the quarter, and the effect of all option and warrant exercises would be anti-dilutive to the loss per share in the prior year.

| | Three months ended June 30 2006 | Three months ended June 30 2005 |
|---|--|--|
| Weighted average shares outstanding – basic and diluted | <u>50,219</u> | <u>40,432</u> |
| Net income (loss) | \$ <u>1,715</u> | \$ <u>(12,161)</u> |
| Net income (loss) per share: | | |
| Basic and diluted | \$ <u>0.03</u> | \$ <u>(0.30)</u> |

9. Stock-Based Compensation

The Corporation has a share option plan, pursuant to which the Board of Directors or a committee thereof may from time to time grant options to purchase common shares. Total stock-based compensation expense included in general and administrative expenses for the quarter was \$406 compared to \$318 in the same quarter last year and was a result of options granted pursuant to the Corporation's share option plan.

On April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation under the Corporation's share option plan at an exercise price of \$2.44 per share. The options have a five year term and are subject to an 18 month vesting period.

The fair value of each share option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 86%, risk-free interest rates of 3% to 4% and expected lives of five years.

Details of the share options outstanding are as follows:

| <i>(thousands of shares)</i> | Common Shares Number | Weighted Average Exercise Price |
|------------------------------|---------------------------------|--|
| Outstanding – March 31, 2006 | 1,554 | \$ 2.73 |
| Granted | 900 | 2.44 |
| Cancelled | - | - |
| Exercised | - | - |
| Outstanding – June 30, 2006 | <u>2,454</u> | <u>\$ 2.62</u> |

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2006

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

Details of the share options exercisable at June 30, 2006 are as follows:

| <i>(thousands of shares)</i> | Common Shares | |
|------------------------------|----------------------|--|
| | Number | Weighted Average Exercise Price |
| | 700 | \$ 1.00 |
| | 162 | 3.70 |
| | 105 | 11.56 |
| | 23 | 9.08 |
| | <u>990</u> | <u>\$ 2.75</u> |

Of the share options outstanding, 1,259 thousand options expire in 2009, 295 thousand options expire in 2010, and 900 thousand options expire in 2011.

10. Commitments

The Corporation has made commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment is U.S.\$16 million, with progress payments required over the course of the manufacturing process. To June 30, 2006, U.S.\$4.7 million in progress payments have been paid.

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This news release contains certain forward-looking statements, which are based on Grande Cache Coal's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Grande Cache Coal's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, changes in general economic, market and business conditions; uncertainties associated with estimating the quantity and quality of coal reserves and resources; commodity prices, currency exchange rates, capital expenditures and debt service requirements; dependence on a single rail system; changes to legislation; liabilities inherent in coal mine development and production; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, mining and processing technical problems; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in coal mine development and production. Many of these risks and uncertainties are described in Grande Cache Coal's 2006 Annual Information Form, Grande Cache Coal's Management's Discussion and Analysis and other documents Grande Cache Coal files with the Canadian securities authorities. Copies of these documents are available without charge from Grande Cache Coal or may be accessed on Grande Cache Coal's website (www.gccoal.com) or on the website maintained by the Canadian securities regulatory authorities (www.sedar.com).

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.