



## GRANDE CACHE COAL CORPORATION

### NEWS RELEASE

#### GRANDE CACHE COAL CORPORATION ANNOUNCES FOURTH QUARTER 2006 FINANCIAL RESULTS

**Calgary, Alberta, May 29, 2006** – Grande Cache Coal Corporation (GCE-TSX) ("Grande Cache Coal" or the "Corporation") announced today its financial and operating results for the three and twelve months ended March 31, 2006.

- Fourth quarter sales revenue was \$27.0 million on volumes of 0.2 million tonnes for an average sales price of \$122 per tonne. Export sales during the quarter were slightly lower than expected due to customer shipments which were delayed until the first half of April 2006. Revenue was \$90.1 million in fiscal 2006 on volumes of 0.9 million tonnes for an average sales price of \$100 per tonne.
- The cost of coal produced during the fourth quarter was \$86 per tonne, a decline of \$13 per tonne compared to the previous quarter. The average cost of sales for the current quarter was \$121 per tonne which was a decrease of \$9 from the third quarter of 2006.
- The Corporation's net loss for the fourth quarter of 2006 declined to \$2.6 million, the lowest quarterly loss since sales began in the third quarter of 2005. For the year, the net loss was \$32.1 million.
- In the fourth quarter, Grande Cache Coal achieved its highest level of production since operations began due to depillaring activities in the underground mine, a lower strip ratio in the surface mine and increased throughput in the processing plant.
- The Corporation amended and extended its secured credit facility during the fourth quarter. 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 facility is secured by a general security agreement and has a maturity date of April 8, 2007, subject to a further one year extension option
- During the fourth quarter, Grande Cache Coal acquired additional coal leases from the Alberta Government covering over 3,000 hectares in the Smoky River Coalfield. Evaluation of the coal resources contained within these and other lease areas held by the Corporation is ongoing.

- Subsequent to the fourth quarter, 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 made some important accomplishments during the fourth quarter of our 2006 fiscal year," said Robert Stan, President and Chief Executive Officer. "The Corporation achieved its best operating results to date as production costs continued to decline, however our focus on cost reduction remains intense. As well, the extension received on our credit facility, the recent completion of an equity financing and the acquisition of additional coal leases will benefit Grande Cache Coal in the future."

The Corporation's production levels in fiscal 2007 will be managed to scheduled sales volumes. As the Corporation is continuing efforts to finalize contracts with new customers, sales volumes have not been finalized. It is anticipated that production and sales in 2007 will be in the range of 1.2 to 1.4 million tonnes.

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**

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 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, 2005. 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 May 26, 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 2005 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**

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**Financial Overview**

<i>(millions of dollars)</i>	<b>March 31 2006</b>	<b>March 31 2005</b>		
<b>Balance Sheet</b>				
Total assets	<b>90.7</b>	100.2		
Long-term liabilities	<b>13.5</b>	2.3		
Shareholders' equity	<b>50.1</b>	79.9		
	<b>Three months ended March 31</b>	<b>Three months ended March 31</b>	<b>Twelve months ended March 31</b>	<b>Twelve months ended March 31</b>
<i>(millions of dollars, except per share amounts)</i>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Income Statement</b>				
Revenue	<b>27.1</b>	12.1	<b>90.7</b>	17.6
Cost of sales	<b>26.7</b>	20.5	<b>112.3</b>	30.5
Net loss	<b>(2.6)</b>	(10.2)	<b>(32.1)</b>	(18.9)
Basic and diluted net loss per share	<b>(0.06)</b>	(0.27)	<b>(0.79)</b>	(0.56)
	<b>Three months ended March 31</b>	<b>Three months ended March 31</b>	<b>Twelve months ended March 31</b>	<b>Twelve months ended March 31</b>
<i>(millions, except per tonne amounts)</i>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Statistics</b>				
Clean coal production	<b>0.3</b>	0.2	<b>1.0</b>	0.4
Coal sales	<b>0.2</b>	0.2	<b>0.9</b>	0.3
Average sales price (\$/tonne)	<b>122</b>	65	<b>100</b>	63
Average cost of sales (\$/tonne)	<b>121</b>	111	<b>124</b>	115
Average cost of production (\$/tonne)	<b>86</b>	94	<b>98</b>	91

The year ended March 31, 2006, represents the Corporation's first full year of production and coal sales. For the Corporation's fiscal 2005 year, production did not begin until late in the second quarter and initial coal sales occurred in the third quarter.

## **Grande Cache Coal Corporation**

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

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#### **Revenue**

The Corporation earned revenue of \$27.0 million on 0.2 million tonnes of coal sales in the fourth quarter of 2006 compared with revenue of \$11.9 million on 0.2 million tonnes of coal sales in 2005. The average realized price was \$122 per tonne in the quarter, compared to \$65 per tonne in the prior year. The average realized sales price year to date of \$100 per tonne includes 2006 contracted metallurgical coal sales, trial cargos, carryover coal sales tonnage and some thermal coal sales. Year to date, revenue of \$90.1 million was earned on 0.9 million tonnes of coal sold compared to \$16.8 million on 0.3 million tonnes of coal sold in 2005.

Thermal coal sales were 1% of total sales volume in the fourth quarter of 2006, and 10% for the full year. In the fourth quarter of the prior year, thermal coal sales made up 27% of total sales volume.

The average sales price achieved in the fourth quarter on U.S. dollar denominated metallurgical coal sales was U.S.\$107 per tonne while the year to date average U.S. dollar sales price was U.S.\$91 per tonne. U.S. dollar denominated metallurgical coal sales during fiscal 2005, were at an average price of U.S.\$61 per tonne.

Interest and other revenue of \$0.1 million in the fourth quarter of 2006 consisted primarily of interest earned on short term investments and access fees for using roads that belong to the Corporation. Interest and other revenue in the same quarter last year was \$0.2 million. Year to date interest and other revenue was \$0.6 million compared to \$0.8 million in 2005.

#### **Production Costs and Cost of Sales**

The cost of clean coal produced at Grande Cache Coal's mining operations in the fourth quarter of fiscal 2006 was \$86 per tonne, down from \$99 per tonne in the third quarter, \$104 per tonne in the second quarter and \$110 per tonne in the first quarter. The average cost of coal produced year to date was \$98 per tonne. In fiscal 2005 as the Corporation transitioned from the development phase to the production phase, the average cost of coal produced was \$91 per tonne.

In the fourth quarter, the Corporation achieved its highest level of clean coal production since operations began in autumn 2004. The increased production levels and ongoing cost improvement measures had a positive impact on cost of production per clean tonne.

Increases in raw coal mined from both the surface mine and the underground mine were also achieved 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, bringing the year to date ratio down to 10:1.

The fourth quarter production levels along with some sales slipping into April 2006 led to an increase in coal inventory. As a result, the value of coal inventory increased \$9.1 million over the course of the fourth quarter.

Total cost of sales for the fourth quarter of fiscal 2006 was \$26.7 million or \$121 per tonne compared to \$20.5 million or \$111 per tonne in the comparable quarter of the prior year. The cost of sales consisted of cost of product sold of \$20.8 million (\$94 per tonne) and distribution costs of \$5.9 million (\$27 per tonne). The cost of product sold and distribution costs for the fourth quarter of fiscal 2005 were \$17.8 million (\$97 per tonne) and \$2.7 million (\$14 per tonne), respectively. The low distribution cost in the prior year was primarily due to the high proportion of thermal coal sales.

For the full year, cost of sales totaled \$112.3 million or \$124 per tonne, compared to \$30.5 million or \$115 per tonne last year when the Corporation was entering production with a strip ratio of 7:1 in the surface mine and selling significant quantities of thermal coal which carry lower distribution costs.

## **Grande Cache Coal Corporation**

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

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#### **Other Expenses**

The Corporation incurred general and administrative expenses of \$1.3 million during the fourth quarter compared to \$1.0 million for the comparable quarter last year. Year to date general and administrative expenses were \$5.3 million compared to \$4.9 million for fiscal 2005.

General and administrative expenses in the quarter included non-cash charges of \$0.2 million for stock-based compensation, compared to \$0.5 million last year. Year to date stock-based compensation totaled \$0.8 million compared to \$1.0 million last year. Also included in general and administrative expenses was a foreign exchange loss of \$0.2 million compared to \$0.1 million in the prior year.

Depreciation, depletion and accretion charges were \$1.1 million in the fourth quarter compared to \$0.7 million in the same quarter last year. Year to date charges were \$3.7 million compared to \$0.9 million for 2005, resulting from a full year of operations at increased production levels.

#### **Liquidity and Capital Resources**

Grande Cache Coal had cash and cash equivalents of \$1.0 million at March 31, 2006, a decrease of \$1.4 million from the December 31, 2005 balance of \$2.4 million. During the fourth quarter of the prior year, the Corporation's cash position increased \$14.4 million. The Corporation's cash position declined \$34.5 million over the twelve months to March 31, 2006, compared to a \$35.1 million cash increase during the prior year.

Cash used in operating activities during the fourth quarter was \$1.2 million, compared to a cash use of \$12.3 million in the same quarter of the prior year. The improvement was due to the current quarter's net loss of \$2.6 million contrasted with a net loss of \$10.2 million in the same period of 2005, as well as changes in non-cash working capital. For the year, operating activities resulted in a cash use of \$38.7 million compared to a cash use of \$20.6 million during the prior year.

Financing activities during the three months ended March 31, 2006, generated cash of \$1.4 million compared to a cash increase of \$37.1 million in the comparable period of 2005. The Corporation drew \$1.5 million against the revolving facility in the fourth quarter of 2006. Share capital issued during the fourth quarter of 2005 generated net proceeds of \$37.7 million.

Financing activities generated cash of \$19.3 million for the year to date compared to \$97.1 million last year. The current year included cash proceeds from revolving and term debt of \$21.5 million, proceeds on the issuance of share capital of \$1.5 million and repayments totaling \$3.8 million of notes payable.

During fiscal 2006, the Corporation entered into a \$25 million secured credit facility consisting of a \$10 million term facility and a \$15 million revolving facility. 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. Interest is payable monthly at a rate of prime plus 2% per annum. The credit facilities financed the retirement of a \$5 million short-term loan the Corporation received from a related party in October 2005 and are being used to finance the Corporation's working capital.

Cash provided by financing activities totaled \$97.1 million in the prior year due to issuance of share capital and notes payable.

The Corporation used \$1.6 million in cash for investing activities during the quarter compared to \$10.6 million in the same quarter last year. Investing activities accounted for cash use of \$14.9 million this year, compared to \$41.3 million in the prior year. Investing activities included capital asset additions of \$16.8 million in 2006, compared to \$33.1 million in 2005.

The Corporation 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

## **Grande Cache Coal Corporation**

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

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requirements, provided adequate rail service is available. At March 31, 2006, the Corporation had \$25.0 million in coal inventory, compared to \$10.5 million in the prior year.

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 will be used to finance the Corporation's capital expenditures and provide additional working capital.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 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.

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 during the last portion of the fourth quarter and the first several weeks of the first quarter of fiscal 2007 restricted the Corporation's sales. Grande Cache Coal requires improvement in rail service to meet customer shipments and has been in continual contact with the railway in attempts to secure adequate service levels.

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 the month of May. Both the underground and surface mines maintained normal production levels throughout April. It is anticipated that an annual maintenance and vacation shutdown will be taken during the Corporation's second quarter.

Production levels in fiscal 2007 will be managed to scheduled sales volumes. As the Corporation is continuing efforts to finalize contracts with new customers, total sales volumes have not been finalized. It is anticipated that production and sales in 2007 will be in the range of 1.2 to 1.4 million tonnes.

#### **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.

Contract negotiations for the upcoming coal year are ongoing. The Corporation will provide further information on coal sales for fiscal 2007 once substantially all contracts are settled and prices are established. The demand for metallurgical coking coal is expected to remain strong over the medium term as worldwide supply and demand remains balanced.

## Grande Cache Coal Corporation

### Management's Discussion & Analysis

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#### 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.

#### 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 May 26, 2006, there were 50,768,688 shares issued and outstanding, and the following share options were also outstanding:

<b>Share Options Outstanding</b>	<b>Number Granted</b>	<b>Number Vested</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	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, 2005, is available on the Corporation's SEDAR company profile at [www.sedar.com](http://www.sedar.com).

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

	March 31 2006 (Unaudited)	March 31 2005 (Audited)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 973	\$ 35,455
Restricted cash (note 2)	6,138	9,666
Accounts receivable	2,836	4,755
Inventory (note 3)	26,509	10,838
Prepaid expenses	1,490	199
	<u>37,946</u>	<u>60,913</u>
Deposit for future reclamation expenditures	82	82
Mineral properties and development	21,074	18,450
Buildings and equipment	31,646	20,775
	<u>\$ 90,748</u>	<u>\$ 100,220</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,653	\$ 14,302
Notes payable (note 4)	-	3,647
Revolving debt (note 5)	11,500	-
	<u>27,153</u>	<u>17,949</u>
Long term debt (note 5)	10,000	-
Asset retirement obligations (note 6)	3,470	2,338
	<u>40,623</u>	<u>20,287</u>
<b>Shareholders' Equity</b>		
Share capital (note 7)	101,715	99,751
Contributed surplus	1,621	1,275
Deficit	(53,211)	(21,093)
	<u>50,125</u>	<u>79,933</u>
	<u>\$ 90,748</u>	<u>\$ 100,220</u>

*See accompanying notes to the consolidated financial statements.*

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

	Three months ended March 31 2006 (Unaudited)	Three months ended March 31 2005 (Unaudited)	Twelve months ended March 31 2006 (Unaudited)	Twelve months ended March 31 2005 (Audited)
<b>Revenue</b>				
Sales	\$ 26,971	\$ 11,935	\$ 90,106	\$ 16,822
Interest and other	147	213	578	827
	<u>27,118</u>	<u>12,148</u>	<u>90,684</u>	<u>17,649</u>
<b>Expenses</b>				
Cost of product sold	20,753	17,766	91,385	26,222
Distribution	5,964	2,704	20,888	4,259
General and administrative	1,288	1,007	5,335	4,908
Interest and other	355	25	747	125
Depreciation, depletion and accretion	1,098	727	3,686	895
	<u>29,458</u>	<u>22,229</u>	<u>122,041</u>	<u>36,409</u>
	(2,340)	(10,081)	(31,357)	(18,760)
<b>Taxes</b>	<u>(280)</u>	<u>(146)</u>	<u>(761)</u>	<u>(179)</u>
<b>Net loss</b>	(2,620)	(10,227)	(32,118)	(18,939)
Deficit, beginning of period	<u>(50,591)</u>	<u>(10,866)</u>	<u>(21,093)</u>	<u>(2,154)</u>
<b>Deficit, end of period</b>	<u>\$ (53,211)</u>	<u>\$ (21,093)</u>	<u>\$ (53,211)</u>	<u>\$ (21,093)</u>
<b>Net loss per share</b> (note 8)				
Basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.27)</u>	<u>\$ (0.79)</u>	<u>\$ (0.56)</u>

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31 2006 (Unaudited)	Three months ended March 31 2005 (Unaudited)	Twelve months ended March 31 2006 (Unaudited)	Twelve months ended March 31 2005 (Audited)
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net loss	\$ (2,620)	\$ (10,227)	\$ (32,118)	\$ (18,939)
Items not affecting cash				
Stock-based compensation (note 9)	185	486	767	1,004
Unrealized foreign exchange loss (gain)	2	(168)	277	(253)
Depreciation, depletion and accretion	1,098	727	3,686	895
	<u>(1,335)</u>	<u>(9,182)</u>	<u>(27,388)</u>	<u>(17,293)</u>
Net change in non-cash working capital relating to operating activities	<u>111</u>	<u>(3,111)</u>	<u>(11,345)</u>	<u>(3,314)</u>
	<u>(1,224)</u>	<u>(12,293)</u>	<u>(38,733)</u>	<u>(20,607)</u>
<b>Financing activities</b>				
Proceeds on revolving and term debt (note 5)	1,500	-	21,500	-
Proceeds on issuance of share capital (note 7)	-	40,011	1,545	99,097
Proceeds on issuance of notes payable (note 4)	-	-	-	5,335
Repayment of notes payable (note 4)	-	(556)	(3,752)	(1,186)
Share issuance costs	-	(2,357)	(1)	(5,959)
Net change in non-cash working capital relating to financing activities	<u>(145)</u>	<u>-</u>	<u>-</u>	<u>(197)</u>
	<u>1,355</u>	<u>37,098</u>	<u>19,292</u>	<u>97,090</u>
<b>Investing activities</b>				
Additions to mineral properties and development	(254)	(3,510)	(4,456)	(12,535)
Additions to buildings and equipment	(1,173)	(6,572)	(12,350)	(20,527)
Restricted cash (note 2)	(107)	(11)	3,501	(9,872)
Net change in non-cash working capital relating to investing activities	<u>(69)</u>	<u>(489)</u>	<u>(1,592)</u>	<u>1,612</u>
	<u>(1,603)</u>	<u>(10,582)</u>	<u>(14,897)</u>	<u>(41,322)</u>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<u>(2)</u>	<u>179</u>	<u>(144)</u>	<u>(43)</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<u>(1,474)</u>	<u>14,402</u>	<u>(34,482)</u>	<u>35,118</u>
Cash and cash equivalents, beginning of period	<u>2,447</u>	<u>21,053</u>	<u>35,455</u>	<u>337</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 973</u>	<u>\$ 35,455</u>	<u>\$ 973</u>	<u>\$ 35,455</u>

See accompanying notes to the consolidated financial statements.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

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**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, 2005.

The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual report for the year ended March 31, 2005.

The year ended March 31, 2006, represents the Corporation's first full year of production and coal sales. For the Corporation's fiscal 2005 year, production did not begin until late in the second quarter and initial coal sales occurred in the third quarter.

**Reclassification**

Certain prior year's figures have been reclassified to conform to the presentation adopted in the current year.

**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, including \$119 provided in the fourth quarter. In addition, cash secured letters of credit of \$700 have been made available to service providers. The cash secured letter of credit outstanding as security for the notes payable was cancelled during the second quarter and restricted cash of \$2,875 was released, and a cash secured letter of credit for \$12 was cancelled in the fourth quarter.

**3. Inventory**

	<b>March 31 2006</b>	<b>March 31 2005</b>
Coal inventory	\$ 25,041	\$ 10,478
Materials inventory	1,468	360
Total	<u>\$ 26,509</u>	<u>\$ 10,838</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 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.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

The credit facilities are being used to finance the Corporation's working capital and allowed for the retirement of a \$5 million loan the Corporation received from a member of the Board of Directors in October 2005. 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.

**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 \$3,470 as at March 31, 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:

	<b>Twelve months ended March 31 2006</b>
Balance – March 31, 2005	\$ 2,338
Increase in liability	935
Accretion expense	<u>197</u>
Balance – March 31, 2006	<u>\$ 3,470</u>

**7. Share Capital**

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

<i>(thousands)</i>	<b>Number</b>	<b>Stated Value</b>
Common shares		
Balance – March 31, 2005	40,134	\$ 106,798
Shares issued on exercise of warrants	485	1,521
Shares issued on exercise of options	<u>150</u>	<u>444</u>
Balance – March 31, 2006	<u>40,769</u>	<u>108,763</u>
Less: Share issuance costs		<u>7,048</u>
		<u>\$ 101,715</u>

In the first quarter of 2006, 485 thousand agents' warrants were exercised for cash proceeds of \$1,260. On exercise of these warrants, \$261 was credited to share capital from contributed surplus.

During the second quarter of 2006, 133 thousand share options were exercised for cash proceeds of \$268. On exercise of these options, \$147 was credited to the share capital from contributed surplus.

During the third quarter of 2006, 16 thousand share options were exercised for cash proceeds of \$17. On exercise of these options, \$12 was credited to share capital from contributed surplus.

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**8. Net Loss per Share**

The following reconciles the denominators for basic and diluted net loss per share calculations. The treasury stock method is used to determine the dilutive effect of the share options. The effect of all option and warrant exercises would be anti-dilutive to the loss per share.

	Three months ended March 31 2006	Three months ended March 31 2005	Twelve months ended March 31 2006	Twelve months ended March 31 2005
Weighted average shares outstanding – basic and diluted	40,769	38,303	40,658	33,697
Net loss	\$ (2,620)	\$ (10,227)	\$ (32,118)	\$ (18,939)
Net loss per share:				
Basic and diluted	\$ (0.06)	\$ (0.27)	\$ (0.79)	\$ (0.56)

**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 \$185 and was a result of options granted pursuant to the Corporation's share option plan. The year to date stock-based compensation expense was \$767.

Share options to purchase 55 thousand common shares at an exercise price of \$9.08 were granted to employees of the Corporation under the Corporation's share option plan on June 10, 2005. The share options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Share options to purchase 30 thousand of the common shares vested immediately and options to purchase 25 thousand of the common shares are subject to a two year vesting period.

On September 30, 2005, 131 thousand options to purchase common shares were cancelled.

Options to purchase 125 thousand common shares at an exercise price of \$4.50 were granted to employees of the Corporation under the Corporation's share option plan on October 17, 2005. The options have a five year term and are subject to a two year vesting period.

On October 15, 2005, 108 thousand options to purchase common shares were cancelled, on December 2, 2005, 23 thousand options to purchase common shares were cancelled and on December 29, 2005, 10 thousand options to purchase common shares were cancelled.

On January 13, 2006, 10 thousand options to purchase common shares were cancelled.

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 61%, risk-free interest rates of approximately 3% and expected lives of five years.

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Details of the share options outstanding are as follows:

<i>(thousands of shares)</i>	<b>Common Shares</b>	
	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Outstanding – March 31, 2005	1,805	\$ 2.61
Granted	55	9.08
Cancelled	-	-
Exercised	-	-
Outstanding – June 30, 2005	1,860	\$ 2.80
Granted	-	-
Cancelled	(131)	4.08
Exercised	(133)	2.01
Outstanding – September 30, 2005	1,596	\$ 2.87
Granted	125	4.50
Cancelled	(141)	4.44
Exercised	(16)	1.00
Outstanding – December 31, 2005	1,564	\$ 2.77
Granted	-	-
Cancelled	(10)	9.08
Exercised	-	-
Outstanding – March 31, 2006	1,554	\$ 2.73

Details of the share options exercisable at March 31, 2006 are as follows:

<i>(thousands of shares)</i>	<b>Common Shares</b>	
	<b>Number</b>	<b>Weighted Average Exercise Price</b>
	700	\$ 1.00
	162	3.70
	105	11.56
	10	9.08
	977	\$ 2.67

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

**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 March 31, 2006, U.S.\$4.7 million in progress payments have been paid.

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**11. Subsequent Events**

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.

On April 7, 2006, the Corporation provided a cash secured letter of credit of \$300 to a service provider.

On April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation 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.

For further information, please contact:

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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 2005 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](http://www.gccoal.com)) or on the website maintained by the Canadian securities regulatory authorities ([www.sedar.com](http://www.sedar.com)).*

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