



## GRANDE CACHE COAL CORPORATION

### NEWS RELEASE

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

**Calgary, Alberta, February 13, 2006** – Grande Cache Coal Corporation (GCE-TSX) ("Grande Cache Coal" or the "Corporation") announced today its financial and operating results for the three and nine months ended December 31, 2005.

- During the third quarter, sales volumes of 0.2 million tonnes resulted in revenue of \$19.2 million at an average sales price of \$106 per tonne. Metallurgical coal accounted for 74% of sales volume in the quarter at an average price of \$136 per tonne or U.S.\$116 per tonne. As anticipated, export sales during the quarter were low due to delayed customer shipments; however the Corporation remains on track to sell 1 million tonnes of coal this fiscal year.
- The cost of coal produced declined \$5 per tonne from the previous quarter to \$99 per tonne, despite rising natural gas and electricity costs and production levels that were controlled due to low sales volumes.
- As a result of continued improvements, the Corporation's net loss for the third quarter of 2006 was reduced to \$6.9 million. Year to date, the net loss was \$29.5 million.
- Grande Cache Coal is maintaining a focus on diversification of the Corporation's customer base and will continue to align production with customer shipments. These efforts are necessary to maximize the long-term profitability of the Corporation.

#### Productivity Update

- Grande Cache Coal is pleased to announce that depillaring operations have begun in the underground mine which are anticipated to result in substantial increases in productivity from the underground operation. The resulting increase in coal volume and related fall in production costs per tonne are expected to begin in the fourth quarter, with the greatest impact occurring in the next fiscal year.
- The Corporation continues to work closely with the surface mining contractor to achieve productivity improvements in the surface mining operation. 6.6 million bank cubic meters of waste material was moved during the first nine months of the fiscal year. As Grande Cache Coal progresses along its surface mining plan it is anticipated that the strip ratio will continue to decline allowing for increased coal production and a corresponding reduction in per tonne costs.

"We believe that fourth quarter shipments will continue at levels sufficient for us to sell 1 million tonnes of coal this fiscal year," said Robert Stan, President and Chief Executive Officer. "Ongoing productivity improvements are also positive signs. We are pleased to have commenced depillaring in our underground mine."

“Our market diversification efforts are continuing and we are encouraged about future prospects,” said Robert Stan. “Negotiations for next year’s contracts are underway and we are working diligently to secure tonnage and price commitments from existing and new customers.”

“As previously announced, Grande Cache Coal recently acquired an additional 3,216 hectares of coal leases in the Smoky River Coalfield from the Alberta Government. Evaluation of the coal resources contained within these and other lease areas held by the Corporation is ongoing.”

Grande Cache Coal is an Alberta based metallurgical coal mining company whose experienced team of coal professionals are developing a long-term mining operation to produce metallurgical coal for the export market from Grande Cache Coal's coal leases covering over 15,000 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 December 31, 2005, 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 February 10, 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>December 31</b>		<b>March 31</b>	
	<b>2005</b>		<b>2005</b>	
<b>Balance Sheet</b>				
Total assets	<b>87.7</b>		100.2	
Long-term liabilities	<b>3.3</b>		2.3	
Shareholders' equity	<b>52.6</b>		79.9	
	<b>Three</b>	<b>Three</b>	<b>Nine</b>	<b>Nine</b>
	<b>months ended</b>	<b>months ended</b>	<b>months ended</b>	<b>months ended</b>
	<b>December 31</b>	<b>December 31</b>	<b>December 31</b>	<b>December 31</b>
<i>(millions of dollars, except per share amounts)</i>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Income Statement</b>				
Revenue	<b>19.3</b>	5.1	<b>63.6</b>	5.5
Cost of sales	<b>23.6</b>	10.0	<b>85.6</b>	10.0
Net loss	<b>(6.9)</b>	(6.0)	<b>(29.5)</b>	(8.7)
Basic and diluted net loss per share	<b>(0.17)</b>	(0.16)	<b>(0.73)</b>	(0.27)
	<b>Three</b>	<b>Three</b>	<b>Nine</b>	<b>Nine</b>
	<b>months ended</b>	<b>months ended</b>	<b>months ended</b>	<b>months ended</b>
	<b>December 31</b>	<b>December 31</b>	<b>December 31</b>	<b>December 31</b>
<i>(millions, except per tonne amounts)</i>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Statistics</b>				
Clean coal production	<b>0.2</b>	0.2	<b>0.7</b>	0.2
Coal sales	<b>0.2</b>	0.1	<b>0.7</b>	0.1
Average sales price (\$/tonne)	<b>106</b>	59	<b>93</b>	59
Average cost of sales (\$/tonne)	<b>130</b>	121	<b>125</b>	121
Average cost of production (\$/tonne)	<b>99</b>	87	<b>104</b>	87

## **Grande Cache Coal Corporation**

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

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#### **Revenue**

Grande Cache Coal earned revenue of \$19.2 million on 0.2 million tonnes of coal sales in the third quarter of 2006 compared with revenue of \$4.9 million on 0.1 million tonnes of coal sales in 2005. The average realized price was \$106 per tonne in the quarter, compared to \$59 per tonne in the prior year. Year to date the average realized sales price of \$93 per tonne includes 2006 contracted metallurgical coal sales, trial cargos, carryover coal sales tonnage and some thermal coal sales. Year to date, revenue of \$63.1 million was earned on 0.7 million tonnes of coal sold compared to \$4.9 million on 0.1 million tonnes of coal sold in 2005.

The average sales price achieved in the third quarter on U.S. dollar denominated metallurgical coal sales was U.S.\$116 per tonne while the year to date average U.S. dollar sales price was U.S.\$85 per tonne. Coal shipments began during the comparable quarter of fiscal 2005, at an average price of U.S.\$67 per tonne.

Interest and other revenue of \$0.1 million in the third quarter of 2006 consisted primarily of interest earned on short term investments, compared to \$0.2 million in 2005. Year to date interest and other revenue was \$0.4 million compared to \$0.6 million in 2005.

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

The cost of clean coal produced at Grande Cache Coal's mining operations in the quarter was \$99 per tonne, down from \$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 \$104 per tonne.

Due to the sales delays experienced during the third quarter, the Corporation undertook inventory control measures including short-term vacation and maintenance shutdowns. These events had the impact of temporarily increasing production costs per tonne as coal production levels were reduced. Despite this effect, production costs for the quarter declined from prior periods in both the surface and underground mines, offset partially by increased processing plant charges due largely to increased electricity rates and natural gas costs. Over the course of the third quarter, coal inventory increased by \$5.8 million.

Strip ratios in the surface mine were just under 10:1 in the third quarter of 2006, with the temporary shutdowns slowing progress through the high strip ratio area of the mine. The strip ratio over the life of 12S B2 surface mine is anticipated to average 8:1, while year to date the strip ratio has averaged 11:1. As the Corporation does not capitalize stripping activities, mining costs are correlated to the rise and fall of strip ratios in the surface mine. As the strip ratio falls over the remaining life of the 12S B2 mine, production costs per tonne of coal are expected to also fall markedly.

The strip ratio in the third quarter of the previous fiscal year was 5:1 due to a volume of low quality coal that was readily available upon startup of the surface mine. The cost of production of \$87 per tonne during the startup in fiscal 2005 was due to this low strip ratio, offset by poor productivity as the operation realized its first coal production.

Production volumes in the Corporation's underground mine increased in the third quarter resulting in a decline in per tonne production costs.

The Corporation's cost of sales fluctuates significantly with quarterly sales volumes. The cost of production is more indicative of the Corporation's operations, although due to the volume based nature of mining it is also impacted by changes in clean coal production volumes due to the large proportion of fixed costs in mining operations.

## **Grande Cache Coal Corporation**

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

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Total cost of sales for the quarter was \$23.6 million or \$130 per tonne. The cost of sales consists of cost of product sold of \$20.4 million and distribution costs of \$3.2 million. Year to date cost of sales totals \$85.6 million or \$125 per tonne. The cost of sales per tonne was significantly impacted by sales volumes experienced in the quarter, which were low due to delays in customer vessel arrivals. However, as sales volumes continue to rise, cost of sales per tonne are expected to fall.

The higher than normal proportion of thermal coal sold during the quarter has a substantial impact on the distribution cost per tonne. As the proportion of thermal coal sales increases, the impact on distribution cost per tonne is favorable. The distribution cost of metallurgical coal was \$23 per tonne in the quarter.

The Corporation has maintained a focus on cost reduction opportunities across the entire operation.

#### **Other Expenses**

General and administrative expenses were \$1.1 million during the third quarter of 2006, compared to \$0.9 million for the same quarter last year. Year to date general and administrative expenses were \$4.0 million compared to \$3.9 million for the same period last year. General and administrative expenses incurred consisted of customary overhead charges, including non-cash charges of \$0.1 million in the quarter and \$0.6 million year to date for stock-based compensation. Foreign exchange losses totaled \$0.3 million year to date compared to \$0.1 million in the prior year.

Depreciation, depletion and accretion charges were \$1.1 million for the quarter compared to \$0.1 million in the previous year. Year to date charges were \$2.6 million compared to \$0.2 million for the same period in 2005, due to the increase in production in the current year.

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

As at December 31, 2005, the Corporation had cash and cash equivalents of \$2.4 million. During the third quarter, the Corporation's cash position declined \$2.6 million from \$5.0 million at September 30, 2005, compared to a cash use of \$19.6 million in the third quarter of the prior year. The Corporation's cash position declined \$33.0 million in the nine months to December 31, 2005, from \$35.5 million at March 31, 2005.

Investing activities accounted for a cash use of \$3.3 million in the quarter, compared to \$12.0 million in the prior year. Investing activities in the third quarter included asset additions of \$3.2 million and an addition to restricted cash of \$0.2 million. Year to date investing activities resulted in a cash use of \$13.3 million, compared to \$30.7 million in the same period of 2005.

Cash used in operating activities was \$19.2 million in the third quarter, while year to date operating activities resulted in a cash use of \$37.4 million. The most significant factor in the quarter was a \$13.5 million change in non-cash working capital due to a \$6.5 million increase in inventory, as well as an increase in accounts receivable and prepaid expenses of \$3.2 million and a \$3.8 million decrease in accounts payable. Operating activities resulted in a cash use of \$8.3 million in the nine months to December 31, 2004.

Financing activities generated cash of \$20.0 million in the quarter and \$17.9 million year to date. During the third quarter, the Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term facility and a \$10 million revolving facility. The facility is secured by a general security agreement and has a maturity date of April 8, 2006, subject to a two month extension option. Interest is payable monthly at a rate of prime plus 2% per annum. The credit facility financed the retirement of a \$5 million short-term loan the Corporation received from a related party in October 2005 and is being used to finance the Corporation's working capital.

Proceeds on issuance of share capital were \$1.5 million in the nine months to date. Repayment of notes payable during the year totaled \$3.8 million. Cash provided by financing activities totaled \$60.0 million in the prior year on the issuance of share capital and notes payable.

## **Grande Cache Coal Corporation**

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

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The Corporation believes the revolving facility is sufficient to fund short term working capital requirements. The Corporation expects to maintain sufficient inventory levels to meet customer requirements, provided rail service remains adequate.

The Corporation continues to work with independent financial advisors in order to obtain appropriate long term financing solutions which may include an asset-based revolving facility to finance working capital and traditional debt or equity financing for capital programs.

The Corporation does not hold any long term debt and there were no off-balance sheet financing structures in place at December 31, 2005. The only long term liabilities of the Corporation are asset retirement obligations with a present value of \$3.3 million. These amounts are covered by a cash deposit of \$0.1 million and letters of credit totaling \$5.3 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. Under the current agreement, no further payments are required this fiscal year.

### **Outlook**

#### **Operations**

In the first five weeks of the fourth quarter of 2006, the Corporation's metallurgical coal sales volumes have nearly matched metallurgical coal sales volumes for all of the third quarter. Based on the current vessel schedule, the Corporation continues to anticipate total sales volumes of 1 million tonnes in the current year.

As the strip ratio in the surface mine declines and continuing productivity improvements are achieved, underground coal production increases as a result of depillaring and more coal is cleaned through the processing facilities, the per tonne cost of coal produced will decline. The Corporation has already begun depillaring of the underground mine and continues to make progress through the high strip ratio period in the surface mine. A significant drop in the strip ratio of the surface mine is expected over the course of the next fiscal year.

The Corporation relies on the railway to transport inventory to the ports. To date, rail service has been adequate; however continuing increases in rail shipments are needed to meet customer requirements.

Grande Cache Coal anticipates the capacity to reach an annualized production rate of approximately 2.0 million tonnes during fiscal 2007. Actual production for next fiscal year will be matched to committed sales volumes.

During the fourth quarter, Grande Cache Coal has acquired coal leases from the Alberta Government covering an additional 3,216 hectares in the Smoky River Coalfield. Evaluation of the coal resources contained within these and other lease areas held by the Corporation is ongoing.

#### **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. Trial shipments with new customers are ongoing.

Contract negotiations for the upcoming coal year are currently underway. The Corporation will provide further information on coal sales for fiscal 2007 once a majority of 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

Sustaining and continued refurbishment capital expenditures continue to be estimated at \$10 million in the 2006 fiscal year. In addition, the Corporation anticipates spending approximately \$10 million on capital additions and a drilling program in the current fiscal year.

Grande Cache Coal has identified opportunities for capital spending that could result in improvements to the Corporation's cost structure and these are currently being assessed and prioritized. Options available for financing capital expenditures include traditional debt financing, capital or operating lease arrangements, equipment manufacturer's financing, customer financing or a transaction in the equity market.

#### 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 February 10, 2006, there were 40,768,688 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	341,669	\$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	75,000	\$11.56	March 15, 2010
	35,000	10,000	\$9.08	June 9, 2010
	125,000	-	\$4.50	October 18, 2010
Total	<u>1,553,334</u>	<u>589,169</u>	<u>\$2.73</u>	

There are also 1,471,000 warrants outstanding, exercisable at a price of \$16.25 per share on or before February 27, 2006.

#### 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)*

	December 31 2005 (Unaudited)	March 31 2005 (Audited)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,447	\$ 35,455
Restricted cash (note 2)	6,031	9,666
Accounts receivable and prepaid expenses	9,096	4,954
Inventory (note 3)	<u>17,486</u>	<u>10,838</u>
	<b>35,060</b>	60,913
Deposit for future reclamation expenditures	82	82
Mineral properties and development	21,670	18,450
Buildings and equipment	<u>30,876</u>	<u>20,775</u>
	<b>\$ 87,688</b>	<b>\$ 100,220</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,794	\$ 14,302
Notes payable (note 4)	-	3,647
Revolving and term debt (note 5)	<u>20,000</u>	<u>-</u>
	<b>31,794</b>	17,949
Asset retirement obligations (note 6)	<u>3,334</u>	<u>2,338</u>
	<b>35,128</b>	20,287
<b>Shareholders' Equity</b>		
Share capital (note 7)	101,715	99,751
Contributed surplus	1,436	1,275
Deficit	<u>(50,591)</u>	<u>(21,093)</u>
	<b>52,560</b>	79,933
	<b>\$ 87,688</b>	<b>\$ 100,220</b>

*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 December 31 2005 (Unaudited)	Three months ended December 31 2004 (Unaudited)	Nine months ended December 31 2005 (Unaudited)	Nine months ended December 31 2004 (Unaudited)
<b>Revenue</b>				
Sales	\$ 19,213	\$ 4,887	\$ 63,135	\$ 4,887
Interest and other	71	231	431	614
	<u>19,284</u>	<u>5,118</u>	<u>63,566</u>	<u>5,501</u>
<b>Expenses</b>				
Cost of product sold	20,358	8,456	70,632	8,456
Distribution	3,194	1,555	14,924	1,555
General and administrative	1,144	875	4,047	3,901
Interest and other	240	31	392	100
Depreciation, depletion and accretion	1,064	142	2,588	168
	<u>26,000</u>	<u>11,059</u>	<u>92,583</u>	<u>14,180</u>
	(6,716)	(5,941)	(29,017)	(8,679)
<b>Taxes</b>	<u>(159)</u>	<u>(33)</u>	<u>(481)</u>	<u>(33)</u>
<b>Net loss</b>	(6,875)	(5,974)	(29,498)	(8,712)
Deficit, beginning of period	<u>(43,716)</u>	<u>(4,892)</u>	<u>(21,093)</u>	<u>(2,154)</u>
<b>Deficit, end of period</b>	<u>\$ (50,591)</u>	<u>\$ (10,866)</u>	<u>\$ (50,591)</u>	<u>\$ (10,866)</u>
<b>Net loss per share</b> (note 8)				
Basic and diluted	<u>\$ (0.17)</u>	<u>\$ (0.16)</u>	<u>\$ (0.73)</u>	<u>\$ (0.27)</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 December 31 2005 (Unaudited)	Three months ended December 31 2004 (Unaudited)	Nine months ended December 31 2005 (Unaudited)	Nine months ended December 31 2004 (Unaudited)
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net loss	\$ (6,875)	\$ (5,974)	\$ (29,498)	\$ (8,712)
Items not affecting cash				
Stock-based compensation (note 9)	61	113	583	518
Unrealized foreign exchange loss	87	(46)	362	(85)
Depreciation, depletion and accretion	1,064	142	2,588	168
	<u>(5,663)</u>	<u>(5,765)</u>	<u>(25,965)</u>	<u>(8,111)</u>
Net change in non-cash working capital relating to operating activities	<u>(13,508)</u>	<u>(1,277)</u>	<u>(11,457)</u>	<u>(203)</u>
	<u>(19,171)</u>	<u>(7,042)</u>	<u>(37,422)</u>	<u>(8,314)</u>
<b>Financing activities</b>				
Proceeds on issuance of share capital (note 7)	17	134	1,545	59,085
Proceeds on revolving and term debt (note 5)	20,000	-	20,000	-
Proceeds on issuance of notes payable (note 4)	-	-	-	5,335
Repayment of notes payable (note 4)	-	(630)	(3,752)	(630)
Share issuance costs	-	-	(1)	(3,601)
Net change in non-cash working capital relating to financing activities	<u>-</u>	<u>-</u>	<u>145</u>	<u>(197)</u>
	<u>20,017</u>	<u>(496)</u>	<u>17,937</u>	<u>59,992</u>
<b>Investing activities</b>				
Additions to mineral properties and development	(936)	(6,573)	(4,202)	(9,025)
Additions to buildings and equipment	(2,262)	(5,825)	(11,177)	(13,955)
Restricted cash (note 2)	(200)	137	3,608	(9,861)
Net change in non-cash working capital relating to investing activities	<u>82</u>	<u>268</u>	<u>(1,523)</u>	<u>2,101</u>
	<u>(3,316)</u>	<u>(11,993)</u>	<u>(13,294)</u>	<u>(30,740)</u>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<u>(87)</u>	<u>(93)</u>	<u>(229)</u>	<u>(222)</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<u>(2,557)</u>	<u>(19,624)</u>	<u>(33,008)</u>	<u>20,716</u>
Cash and cash equivalents, beginning of period	<u>5,004</u>	<u>40,677</u>	<u>35,455</u>	<u>337</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 2,447</u>	<u>\$ 21,053</u>	<u>\$ 2,447</u>	<u>\$ 21,053</u>

See accompanying notes to the consolidated financial statements.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**  
**(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.

**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 \$5,319 were 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 \$712 were provided 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.

**3. Inventory**

	<b>December 31 2005</b>	<b>March 31 2005</b>
Coal inventory	\$ 15,958	\$ 10,478
Materials inventory	<u>1,528</u>	<u>360</u>
Total	<u>\$ 17,486</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**

The Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term facility and a \$10 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, 2006, subject to a two month extension option.

The credit facility has financed 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 and is being used to finance the Corporation's working capital.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**  
**(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 \$3,334 as at December 31, 2005, based on a total future liability of \$6,975. 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>Nine months ended December 31 2005</b>
Balance – March 31, 2005	\$ 2,338
Increase in liability	853
Accretion expense	<u>143</u>
Balance – December 31, 2005	<u>\$ 3,334</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	150	444
Balance – December 31, 2005	<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.

**Grande Cache Coal Corporation**  
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**(Unaudited)**

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

**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 December 31 2005	Three months ended December 31 2004	Nine months ended December 31 2005	Nine months ended December 31 2004
Weighted average shares outstanding – basic and diluted	40,767	37,161	40,626	32,189
Net loss	\$ (6,875)	\$ (5,974)	\$ (29,498)	\$ (8,712)
Net loss per share:				
Basic and diluted	\$ (0.17)	\$ (0.16)	\$ (0.73)	\$ (0.27)

**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 \$61 and was a result of the Corporation's share option plan. The year to date stock-based compensation expense was \$583.

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 share options 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.

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 3% and expected lives of five years.

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

Details of the share options outstanding are as follows:

<i>(thousands of shares)</i>	<b>Number</b>	<b>Common Shares 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	<u>1,564</u>	<u>\$ 2.77</u>

Details of the share options exercisable at December 31, 2005 are as follows:

<i>(thousands of shares)</i>	<b>Number</b>	<b>Common Shares Weighted Average Exercise Price</b>
	342	\$ 1.00
	162	3.70
	75	11.56
	20	9.08
	<u>599</u>	<u>\$ 3.32</u>

Of the share options outstanding, 1,259 thousand options expire in 2009 and the remaining 305 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 December 31, 2005, U.S.\$4.7 million in progress payments have been paid. Under the current agreement, no further payments are required this fiscal year.

**11. Subsequent Events**

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

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.*