Grande Cache Coal Corporation

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the period ended September 30, 2010, 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, 2010. 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. All references are to Canadian dollars unless otherwise indicated.

This MD&A was prepared using information that is current as of November 8, 2010.

In the interest of providing Grande Cache Coal's shareholders and potential investors with information regarding Grande Cache Coal, including management's assessment of Grande Cache Coal's future plans and operations, certain statements in this MD&A are "forward-looking statements" within the meaning of applicable Canadian securities legislation. In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this MD&A speak only as of the date of this document and are expressly qualified by this cautionary statement.

Specifically, this MD&A contains forward-looking statements relating to: anticipated sales volumes of metallurgical coal in fiscal 2011; anticipated cost of coal sales in fiscal 2011; anticipated capital expenditures in fiscal 2011; anticipated development activities in No. 8 pit and anticipated timing of such activities.

These forward-looking statements are based on certain key assumptions regarding, among other things: no material change in the geological and operating conditions in No. 8 pit; no material disruption in production from the No. 8 pit or the No. 7 underground operation; no material variation in anticipated coal sales volumes; no material variations in markets and pricing of metallurgical coal other than anticipated variations; continued availability of and no material disruption in rail service and port facilities other than anticipated; no material delays in the current timing for completion of ongoing projects; financing will be available on terms favourable to the Corporation; no material variation in historical coal purchasing practices of customers; coal sales contracts will be entered into with new customers; parties execute and deliver contracts currently under negotiation; and no material variations in the current regulatory environment. The reader is cautioned that such assumptions, although considered reasonable by Grande Cache Coal at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: 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, the availability of credit facilities for capital expenditure requirements, 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; and other factors, many of which are beyond the control of Grande Cache Coal. Many of these risk factors and uncertainties are discussed in Grande Cache Coal's Annual Information Form, Grande Cache Coal's MD&A, and other documents Grande Cache Coal files with the Canadian securities regulatory authorities.

There is no representation by Grande Cache Coal that actual results achieved during the forecast period will be the same in whole or in part as those forecast and Grande Cache Coal does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Readers of this Management's Discussion and Analysis should refer to the section entitled "Risk Factors" in Grande Cache Coal's Management's Discussion and Analysis and Annual Information Form for the fiscal year ended March 31, 2010 for factors which could potentially impact the Corporation's financial performance and its ability to meet its targets.

Financial Overview

(millions of dollars)	**As at September 30 2010**	**As at March 31 2010**
Balance Sheet		
Cash and cash equivalents	**54.9**	87.4
Total assets	**379.5**	337.7
Long-term liabilities	**77.4**	54.4
Shareholders' equity	**270.7**	250.8

	Three months ended September 30		**Six months ended September 30**	
(millions of dollars, except per share amounts)	**2010**	**2009**	**2010**	**2009**
Statement of Net Income and Comprehensive Income				
Revenue	**81.2**	44.8	**150.2**	119.4
Cost of sales	**55.2**	30.2	**106.1**	86.8
Income from operations	**16.6**	9.5	**25.1**	20.2
Net income and comprehensive income	**14.1**	9.3	**18.1**	14.4
Basic net income per share	**0.15**	0.10	**0.19**	0.15
Diluted net income per share	**0.14**	0.09	**0.18**	0.15

	Three months ended September 30		**Six months ended September 30**	
(millions of tonnes, except per tonne amounts)	**2010**	**2009**	**2010**	**2009**
Statistics				
Clean coal production (tonnes)	**0.33**	0.43	**0.70**	0.77
Coal sales (tonnes)	**0.44**	0.36	**0.89**	0.87
Average sales price (US$/tonne)	**177**	120	**163**	126
Average sales price (CDN$/tonne)	**185**	124	**168**	138
Cost of product sold ($/tonne)	**98**	57	**92**	73
Distribution costs ($/tonne)	**27**	27	**27**	27
Cost of sales ($/tonne)	**125**	84	**119**	100

Revenue

Fiscal 2011 second quarter revenue was $81.2 million, representing an 81% increase over revenue of $44.8 million in the same period last fiscal year. Higher sales prices were the main contributor to the increase in revenue as the current quarters average selling price was $185 per tonne, up from $124 per tonne in the comparable period. The average selling price of metallurgical coal, which accounted for 92% of the total sales volume, was $193 per tonne (US$186 per tonne) and included 0.14 million tonnes of carryover tonnage at lower prices. Also contributing to the increase in revenue was a 22% increase in sales volumes as total coal sold was 0.44 million tonnes during the quarter, up from 0.36 million tonnes in the comparable period of fiscal 2010.

Revenue for the first six months of the fiscal year was $150.2 million on sales of 0.89 million tonnes compared to revenue of $119.4 million on sales of 0.87 million tonnes in the same period last year. The average sales price for the fiscal year to date was $168 per tonne, 22% higher than $138 per tonne in the first half of fiscal 2010. The higher price during the current fiscal year reflects an increase in contract price settlements, which are being negotiated on a quarterly basis, offset by a portion of lower priced thermal coal and lower priced carryover tonnage from fiscal 2010. The average Canadian dollar sales price on US dollar denominated sales is being hampered by a stronger Canadian dollar in relation to the US dollar as the average exchange rate was 1.03 during the first half of fiscal 2011, compared to 1.14 in the first half of fiscal 2010.

Cost of Sales

The cost of sales during the second quarter was $55.2 million, or $125 per tonne, compared to $30.2 million, or $84 per tonne in the same period last year. Cost of sales in the current quarter consisted of cost of product sold of $43.2 million ($98 per tonne) and distribution costs of $12.0 million ($27 per tonne). In the comparable quarter of fiscal 2010, the cost of product sold was $20.4 million ($57 per tonne) and distribution costs were $9.8 million ($27 per tonne).

The increase in the unit cost of product sold was largely a result of challenging operating and geological conditions in the first phase of mining in No. 8 pit, which resulted in lower than expected production. The initial coal being mined from No. 8 pit has thus far garnered a low plant yield due to the quality and characteristics of coal that is close to the surface. In addition, the second quarter strip ratio was higher in No. 8 pit than it was in No. 12B2 pit during the second quarter of fiscal 2010, resulting in higher costs for labour, due to an increase in the number of employees, diesel fuel and external contractor services.

Cost of sales for the fiscal year to date was $106.1 million, or $119 per tonne, compared to $86.8 million, or $100 per tonne in the first six months of last year. Included in the current year was cost of product sold of $82.2 million ($92 per tonne) and distribution costs of $24.0 million ($27 per tonne). In the comparable period of fiscal 2010, the cost of product sold was $63.2 million ($73 per tonne) and distribution costs were $23.6 million ($27 per tonne).

The unit cost of product sold increased during the first half of the fiscal year compared to fiscal 2010 primarily due to the transition in surface mining areas from No. 12B2 pit to No. 8 pit, as well as challenging operating conditions experienced in the first phase of operations in No. 8 pit. The strip ratio in No. 8 pit during the initial stages of production was higher than the strip ratio from No. 12B2 pit during the first six months of fiscal 2010. As a result, the unit cost of product sold was considerably higher as additional waste movement was required to release the raw coal. In addition, there were higher maintenance and repair costs resulting from an enhanced preventative maintenance program as well as an increase in the price of diesel fuel.

Other Operating Expenses

General and administrative expenses during the second quarter were $3.0 million, compared to $2.2 million in the same period last year. Included in general and administrative expenses were head office administrative and marketing charges of $2.1 million (fiscal 2010 - $1.9 million) and non-cash charges for stock-based compensation of

$0.9 million (fiscal 2010 - $0.3 million). For the fiscal year to date, general and administrative expenses were $5.4 million in comparison to $4.3 million during the first half of last fiscal year.

Depreciation, depletion and accretion charges were $6.4 million in the second quarter (fiscal 2010 – $2.9 million) and $13.6 million in the first six months of the year (fiscal 2010 - $8.1 million). The increase was primarily a result of additional capital assets, the change in value of depreciation and depletion included in coal inventory, and a one time depletion expense during the first quarter to charge remaining No. 12B2 pit development costs to income.

Other Income (Expenses)

During the second quarter the Corporation had a foreign exchange gain of $1.5 million, in contrast to a $1.4 million foreign exchange loss during the same period last fiscal year. For the fiscal year to date, the Corporation's foreign exchange gain was $2.6 million versus a $4.6 million loss in the first six months of the prior fiscal year. The loss in fiscal 2010 was the result of a significant strengthening of the Canadian dollar against the US dollar.

The Corporation recorded an unrealized foreign exchange gain of $2.5 million during the second quarter relating to foreign exchange forward contracts, compared to a gain $3.2 million in the same period of fiscal 2010. During the first half of the fiscal year, foreign exchange forward contracts have resulted in a loss of $1.3 million in contrast to a $3.0 million gain in the same period last year.

Interest and other income was $0.1 million in the second quarter (fiscal 2010 - $0.1 million) and $0.2 million for the fiscal year to date (fiscal 2010 - $0.2 million) and consisted primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads and bridges belonging to the Corporation. Interest and other expenses were $0.7 million for both the three and six months ended September 30, 2010, and consisted primarily of interest paid on capital leases.

Taxes

The Corporation's second quarter tax expense was $5.8 million, which included a current tax expense of $0.7 million for provincial Crown royalties and a future income tax expense of $5.1 million. In the second quarter of fiscal 2010, the Corporation incurred a tax expense of $2.1 million, which included a current tax expense of $0.3 million for provincial Crown royalties and a future income tax expense of $1.8 million.

Liquidity and Capital Resources

Grande Cache Coal held cash and cash equivalents of $54.9 million at September 30, 2010. During the second quarter cash and cash equivalents decreased by $17.3 million in comparison to a decrease of $18.2 million during the same period last fiscal year. The Corporation's cash position has decreased by $32.6 million during the first six months of fiscal 2011.

Second quarter operating activities generated $11.4 million in cash compared to $4.1 million in the same period last year. Cash generated prior to changes in non-cash working capital was $22.8 million (fiscal 2010 - $12.3 million) primarily as a result of higher net income. For the first half of the fiscal year, cash generated by operating activities before changes in non-cash working capital was $40.5 million compared to $27.3 million last year.

Fiscal 2011 financing activities led to a cash decrease of $6.2 million during the second quarter and $9.7 million for the year to date compared to a decrease of $2.0 million in both the three and six months ended September 30, 2009. Included in financing activities were payments towards capital lease obligations of $6.6 million in the second quarter (fiscal 2010 - $2.4 million) and $10.2 million for the year to date (fiscal 2010 - $2.4 million). Capital lease payments were higher during the current fiscal year as additional mining equipment was purchased under capital lease agreements. Also included in second quarter financing activities were cash proceeds of $0.4 million (fiscal 2010 - $0.3 million) from the exercise of share options.

Investing activities during the second quarter led to a cash decrease of $22.2 million compared to $18.6 million in the same period of fiscal 2010. Capital additions accounted for $21.8 million (fiscal 2010 - $18.7 million) and consisted of the addition of buildings and equipment of $14.6 million (fiscal 2010 - $17.6 million) and the development of mineral properties for $7.2 million (fiscal 2010 - $1.1 million).

During the first six months of fiscal 2011 investing activities resulted in a cash decrease of $53.0 million compared to $29.3 million in fiscal 2010, the majority of which was due to capital additions. Year to date buildings and equipment additions were $31.6 million and development of mineral properties was $21.4 million, the majority of which related to the development of No. 8 pit.

In fiscal 2011, the Corporation acquired mining equipment through capital lease agreements including US$10.8 million during the first quarter and US$14.7 million during the second quarter. As at September 30, 2010, the Corporation had made deposits of US$15.5 million, and had remaining purchase commitments of $18.7 million, on mining equipment that will be financed through capital lease arrangements in fiscal 2011, upon which time the cash will be returned to the Corporation. Subsequent to September 30, 2010, the Corporation finalized capital lease agreements for a Komatsu WA1200 loader and a P&H 320XPC drill amounting to US$3.7 million and US$5.0 million, respectively.

Grande Cache Coal has an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to $28 million and the ability to enter into foreign exchange hedging arrangements. At September 30, 2010, the Corporation had a series of foreign exchange forward contracts to sell a total of US$48 million and US$32 million at an average rate of 1.05 and 1.06, respectively. These contracts settle in monthly installments, the last of which will mature by July 2011.

The Corporation believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements. The Corporation expects that capital expenditures during fiscal 2011 will be funded by existing cash, cash flow from operations and equipment leases.

Grande Cache Coal expects that coal inventory and coal production will be sufficient to meet anticipated coal sales volumes for fiscal 2011. At September 30, 2010, the Corporation had $13.8 million in coal inventory, compared to $22.2 million at June 30, 2010.

The Corporation did not have any off-balance sheet financing structures in place at September 30, 2010. At September 30, 2010, the Corporation had long term liabilities for asset retirement obligations with a present value of $12.0 million, future income tax liabilities of $24.1 million and capital lease obligations of $41.3 million. Grande Cache Coal's asset retirement obligations are covered by letters of credit totaling $11.8 million provided to the Alberta Government, which are presently secured by restricted cash.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, light vehicles, equipment, buildings and office space.

The Corporation has entered into various purchase commitments for mining equipment. At September 30, 2010, remaining payments owing on the mining equipment was approximately $25.2 million, which included US dollar commitments of US$18.7 million.

Future minimum undiscounted amounts payable by the Corporation under contracts existing at September 30, 2010, were:

(millions of Canadian dollars)		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Operating Leases	3.6	0.8	1.4	1.0	0.4
Capital Leases	58.9	12.5	26.8	18.5	1.1
Purchase Obligations	25.2	25.2	-	-	-
Total Contractual Obligations	87.7	38.5	28.2	19.5	1.5

Recent and Upcoming Changes in Accounting Policies

All accounting policies adopted by the Corporation are in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the current period.

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") in 2011 for publicly accountable enterprises. As such, the Corporation will be required to adopt IFRS for the fiscal year beginning April 1, 2011, including comparative data from the prior fiscal year. The Corporation's first filing of IFRS compliant financial statements will be the first quarter of fiscal 2012 (June 30, 2011).

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation completed the diagnostic phase, which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation made significant progress in the evaluation and development phase including the following:

- Completed an assessment on the effects of adoption on key financial statement components;
- Made choices regarding alternatives available under first time adoption (IFRS 1);
- Componentization of property, plant and equipment has been substantially completed;
- Prepared an assessment of changes to stock based compensation provisions and asset retirement obligations;
- Prepared mock financial statements including only IFRS presentation and disclosure requirements and conducted a review of these statements with the Audit Committee of the Board of Directors;
- Continued assessments of less critical IFRS transition issues;
- Continued training of key personnel and stakeholders; and
- Maintained communication with the Corporation's independent external auditors.

The Corporation has transitioned into the implementation phase. Key initiatives that will be achieved in the implementation phase include the following:

- Finalize the development of IFRS accounting policies;
- Revise internal control procedures and documentation and implement controls as required;
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2011, including reconciliation to previously reported GAAP; and
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2012.

The full extent of adopting IFRS and the impact on the Corporation's financial position and future results of operations is not reliably determinable at this time. The Corporation will continue to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS and will update its plan as necessary.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Corporation's CEO and CFO have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP. The Corporation is required to disclose herein any change in the Corporation's internal control over financial reporting that occurred during the period beginning on July 1, 2010 and ended on September 30, 2010, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. No material changes in the Corporation's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

It should be noted that a control system, including the Corporation's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Summary of Quarterly Results

	Fiscal 2011		**Fiscal 2010**				**Fiscal 2009**	
(millions, except per unit amounts)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Clean coal production (tonnes)	0.33	0.37	0.54	0.42	0.43	0.34	0.26	0.35
Coal sales (tonnes)	0.44	0.45	0.43	0.47	0.36	0.51	0.11	0.36
Average sales price (US$/tonne)	177	149	120	131	120	129	292	213
Average sales price (CDN$/tonne)	185	152	118	134	124	147	364	254
Cost of product sold ($/tonne)	98	86	66	76	57	84	72	96
Distribution costs ($/tonne)	27	26	28	30	27	27	24	32
Cost of sales ($/tonne)	125	112	94	106	84	111	96	128
Revenue ($)	81.2	69.0	50.7	62.4	44.8	74.6	38.7	91.9
Income from operations ($)	16.6	8.5	1.0	5.5	9.5	10.7	24.5	41.3
Net income ($)	14.1	4.0	1.4	4.3	9.3	5.1	18.9	36.8
Basic net income per share ($)	0.15	0.04	0.01	0.04	0.10	0.05	0.20	0.38
Diluted net income per share ($)	0.14	0.04	0.01	0.04	0.09	0.05	0.20	0.38

Although clean coal production has declined in the past two quarters, largely due to the transition in the surface mining areas, sales volumes have remained stable over the past several quarters. The average US dollar sales price was higher in the current quarter reflecting an increase in contract price settlements compared to the preceding coal year when prices were negotiated during the global economic crisis. The average cost of sales has increased during the past two quarters largely due to the transition in the surface mining areas and challenging operating conditions in the initial phase of No. 8 pit, as well as higher repair and maintenance costs and an increase in the price of diesel fuel. Despite the increase in costs, the Corporation realized its highest net income since the fourth quarter of fiscal 2009 due to the increase in the selling price of coal.

Outlook

The Corporation began producing coal from the first phase of development in No. 8 surface pit during the second quarter of fiscal 2011, however challenging terrain slowed access development, resulting in lower than expected production levels and higher costs. Challenging topographical conditions are also impacting the construction of roads and the development of the next two phases of operations in No. 8 pit. Production from these two phases was anticipated to commence by October 1, 2010 but has been delayed by approximately two months.

Grande Cache Coal ships the majority of its product through Westshore Terminals port in Vancouver, where there have been some capacity constraint and congestion issues. The Corporation has been in discussions with Westshore Terminals regarding these issues and has been advised that due to the ongoing demand for coal, and an unprecedented backlog of vessels, congestion issues are expected to continue throughout the remainder of the Corporation’s fiscal year, which may affect the timing and volume of the Corporation’s coal shipments.

As a result, in October 2010 the Corporation reduced its anticipated sales volumes for fiscal 2011 to a range of 1.7 to 1.9 million tonnes, down from previous guidance of 2.0 to 2.2 million tonnes. Sales volumes are contingent upon commencing production in the next two phases of operations in No.8 pit and adequate rail and port services.

Industry benchmark pricing for the third quarter of fiscal 2011 has been settled at US$209 per tonne for the highest quality product. Grande Cache Coal anticipates its average metallurgical coal sales prices for the third quarter will be in the range of US$180 to US$190 per tonne, which includes carryover tonnage.

As announced in October 2010, the average cost of sales for fiscal 2011 is anticipated to be approximately $110 to $115 per tonne, up from previous guidance of $105 per tonne, primarily due to increased mining costs in the initial stages of production in No 8 pit and a reduction in anticipated sales volumes. Lower than expected production levels, lower than expected sales volumes or an escalation of mining input costs would have a negative impact on the projected cost of sales.

Grande Cache Coal plans to increase its annual production rate to 3.5 million tonnes by the end of fiscal 2013. This is anticipated to require aggregate capital expenditures of approximately $225 million over the three year period. The Corporation expects that approximately $165 million of this capital will be spent during fiscal 2011. Capital expenditures are expected to be funded by existing cash balances, cash flow from operations and equipment leases.

Other Information

Looking forward, export trade credit insurance may be used to support accounts receivable.

As at November 8, 2010, there were 97,394,873 common shares issued and outstanding, and the following share options were also outstanding:

Share Options Outstanding	Number Granted	Number Vested	Exercise Price	Expiry Date
	245,000	245,000	$2.44	April 11, 2011
	176,668	176,668	$0.88	May 23, 2012
	748,338	748,338	$1.04	January 8, 2013
	150,000	99,996	$5.02	August 20, 2013
	1,596,736	326,729	$1.01	November 12, 2013
	100,000	33,333	$0.88	January 10, 2014
	83,334	-	$0.77	February 10, 2014
	42,000	8,666	$3.57	August 18, 2014
	125,000	-	$5.95	February 10, 2015
	2,145,000	-	$5.61	June 11, 2015
Total	5,412,076	1,638,730		

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, 2010, 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)		As at September 30 2010		As at March 31 2010
Assets				
Current assets				
Cash and cash equivalents	**$**	**54,878**	$	87,436
Restricted cash (note 3)		**13,499**		13,499
Accounts receivable (note 4)		**21,292**		12,483
Inventory (note 5)		**20,627**		33,999
Prepaid expenses and deposits (note 6)		**17,511**		9,114
Future income taxes (note 7)		**-**		232
		127,807		156,763
Capital assets (note 8)		**251,677**		180,935
	$	**379,484**	$	337,698
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**21,423**	$	25,716
Capital lease obligations (note 9)		**9,665**		6,744
Future income taxes (note 7)		**314**		-
		31,402		32,460
Asset retirement obligations (note 10)		**11,971**		8,801
Capital lease obligations (note 9)		**41,300**		27,515
Future income taxes (note 7)		**24,109**		18,102
		108,782		86,878
Shareholders' Equity				
Share capital (note 11)		**197,156**		196,232
Contributed surplus		**4,833**		3,945
Retained earnings		**68,713**		50,643
		270,702		250,820
	$	**379,484**	$	337,698

Commitments (note 12)

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Net Income, Comprehensive Income and Retained Earnings
(thousands of Canadian dollars, except per share amounts)

(unaudited)	Three months ended September 30 2010	Three months ended September 30 2009	Six months ended September 30 2010	Six months ended September 30 2009
Revenue	**$ 81,183**	$ 44,793	**$ 150,216**	$ 119,378
Expenses				
Cost of product sold	**43,224**	20,487	**82,166**	63,152
Distribution	**11,975**	9,751	**23,956**	23,651
General and administrative	**2,960**	2,185	**5,361**	4,248
Depreciation, depletion and accretion	**6,414**	2,883	**13,613**	8,117
	64,573	35,306	**125,096**	99,168
Income from operations	**16,610**	9,487	**25,120**	20,210
Other income (expenses)				
Foreign exchange gain (loss)	**1,493**	(1,378)	**2,589**	(4,580)
Unrealized gain (loss) on foreign exchange forward contracts	**2,495**	3,217	**(1,333)**	3,005
Interest and other income	**102**	104	**163**	230
Interest and other expenses	**(744)**	(21)	**(647)**	(28)
Income before taxes	**19,956**	11,409	**25,892**	18,837
Taxes				
Current tax expense	**(697)**	(355)	**(1,269)**	(967)
Future income taxes expense	**(5,140)**	(1,763)	**(6,553)**	(3,498)
Net income and comprehensive income	**14,119**	9,291	**18,070**	14,372
Retained earnings, beginning of period	**54,594**	35,617	**50,643**	30,536
Retained earnings, end of period	**$ 68,713**	$ 44,908	**$ 68,713**	$ 44,908
Net income per share (note 13)				
Basic	**$ 0.15**	$ 0.10	**$ 0.19**	$ 0.15
Diluted	**$ 0.14**	$ 0.09	**$ 0.18**	$ 0.15

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 September 30 2010	Three months ended September 30 2009	Six months ended September 30 2010	Six months ended September 30 2009
Cash provided by (used for)				
Operating activities				
Net income and comprehensive income	**$ 14,119**	$ 9,291	**$ 18,070**	$ 14,372
Items not affecting cash				
Stock-based compensation (note 14)	**903**	319	**1,272**	631
Unrealized foreign exchange (gain) loss	**(1,233)**	1,257	**(308)**	3,732
Unrealized (gain) loss on foreign exchange forward contracts	**(2,495)**	(3,217)	**1,333**	(3,005)
Future income taxes	**5,140**	1,763	**6,553**	3,498
Depreciation, depletion and accretion	**6,414**	2,883	**13,613**	8,117
Settlement of asset retirement obligations (note 10)	**(81)**	-	**(81)**	-
	22,767	12,296	**40,452**	27,345
Net change in non-cash working capital relating to operating activities	**(11,406)**	(8,243)	**(10,880)**	20,343
	11,361	4,053	**29,572**	47,688
Financing activities				
Proceeds on exercise of options (note 11)	**436**	346	**540**	346
Payments on capital lease obligations	**(6,637)**	(2,383)	**(10,213)**	(2,402)
	(6,201)	(2,037)	**(9,673)**	(2,056)
Investing activities				
Additions to mineral properties and development	**(7,218)**	(1,100)	**(21,422)**	(1,640)
Additions to buildings and equipment	**(14,546)**	(17,646)	**(31,547)**	(26,100)
Net change in non-cash working capital relating to investing activities	**(452)**	139	**(19)**	(1,529)
	(22,216)	(18,607)	**(52,988)**	(29,269)
Effect of foreign exchange on cash and cash equivalents	**(226)**	(1,617)	**531**	(4,280)
(Decrease) increase in cash and cash equivalents	**(17,282)**	(18,208)	**(32,558)**	12,083
Cash and cash equivalents, beginning of period	**72,160**	98,326	**87,436**	68,035
Cash and cash equivalents, end of period	**$ 54,878**	$ 80,118	**$ 54,878**	$ 80,118

See accompanying notes to the consolidated financial statements.

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 fiscal year ended March 31, 2010.

The interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the year ended March 31, 2010.

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

2. Upcoming Changes in Accounting Policies

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") in 2011 for publicly accountable enterprises. As such, the Corporation will be required to adopt IFRS for the fiscal year beginning April 1, 2011, including comparative data from the prior fiscal year. The Corporation's first filing of IFRS compliant financial statements will be the first quarter of fiscal 2012 (June 30, 2011).

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation completed the diagnostic phase, which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation made significant progress in the evaluation and development phase including the following:

- Completed an assessment on the effects of adoption on key financial statement components;
- Made choices regarding alternatives available under first time adoption (IFRS 1);
- Componentization of property, plant and equipment has been substantially completed;
- Prepared an assessment of changes to stock based compensation provisions and asset retirement obligations;
- Prepared mock financial statements that included only IFRS presentation and disclosure requirements and conducted a review of these statements with the Audit Committee of the Board of Directors;
- Continued assessments of less critical IFRS transition issues;
- Continued training of key personnel and stakeholders; and
- Maintained communication with the Corporation's independent external auditors.

The Corporation has transitioned into the implementation phase. Key initiatives that will be achieved in the implementation phase include the following:

- Finalize the development of IFRS accounting policies;
- Revise internal control procedures and documentation and implement controls as required;
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2011, including reconciliation to previously reported GAAP; and
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2012.

The full extent of adopting IFRS and the impact on the Corporation's financial position and future results of operations is not reliably determinable at this time. The Corporation will continue to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS and will update its plan as necessary.

(thousands of Canadian dollars, except per share amounts)

3. Restricted Cash

	As at September 30 2010	As at March 31 2010
Cash secured letters of credit - Alberta Government	$ 11,799	$ 11,799
Cash secured letters of credit - Service providers	1,700	1,700
	$ 13,499	$ 13,499

Cash secured letters of credit have been provided to the Alberta Government for 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 have been made available to service providers.

4. Accounts Receivable

	As at September 30 2010	As at March 31 2010
Trade accounts receivable	$ 17,861	$ 7,384
Goods and services tax receivable	935	1,440
Unrealized gain on foreign exchange forward contracts	1,690	3,024
Other	806	635
	$ 21,292	$ 12,483

5. Inventory

	As at September 30 2010	As at March 31 2010
Coal inventory	$ 13,762	$ 27,986
Materials inventory	6,865	6,013
	$ 20,627	$ 33,999

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include mining, labour, operating materials and supplies, transportation costs and a relevant allocation of overhead including depreciation and depletion.

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value. The Corporation maintains an inventory of parts and supplies for day to day maintenance and operations. For the three months ended September 30, 2010, parts and supplies inventories of $2,294 were expensed to cost of product sold, compared to $1,798 in the same period last fiscal year. For the six months ended September 30, 2010, parts and supplies inventories of $4,683 were expensed to cost of product sold, compared to $3,415 in the same period last fiscal year

There was no write-down of inventories or reversal of a write-down of inventories during the current period.

(thousands of Canadian dollars, except per share amounts)

6. Prepaid expenses and deposits

	As at September 30 2010	As at March 31 2010
Deposits on mining equipment	$ 16,721	$ 8,825
Prepaid expenses and other deposits	790	289
	$ 17,511	$ 9,114

The Corporation has made deposits on mining equipment that will be financed through capital lease arrangements prior to the equipment being commissioned, upon which time the deposit amounts will be returned to the Corporation in cash.

7. Future Income Taxes

At September 30, 2010, the Corporation had a future income tax liability of $24,423, of which $314 was classified as a current liability. The components of the future income tax liability were as follows:

	As at September 30 2010	As at March 31 2010
Temporary differences related to:		
Buildings and equipment and mineral properties and development costs	$ 27,936	$ 20,611
Asset retirement obligations	(2,993)	(2,200)
Share issuance costs	(200)	(309)
Other	(320)	(232)
Net future income taxes	$ 24,423	$ 17,870

8. Capital Assets

	As at September 30 2010	As at March 31 2010
Mineral properties and development	$ 50,657	$ 29,398
Buildings and equipment	128,385	101,289
Capital leases	72,635	45,513
Assets held for sale	-	4,735
	$ 251,677	$ 180,935

In fiscal 2011, the Corporation acquired mining equipment through capital lease agreements including US$10,849 during the first quarter and US$14,746 during the second quarter.

(thousands of Canadian dollars, except per share amounts)

In fiscal 2009 the Corporation entered into an agreement with a property and development company to purchase condominium units for employees. During the first quarter of fiscal 2010, construction of the condominium units was completed and final payments were made. The Corporation intended to sell the condominium units to employees within one year, as such the condominium units were classified as assets held for sale. In June 2010, the Corporation changed its housing strategy and as such the condominium units were reclassified as assets in use and a full year of depreciation was recognized.

9. Capital Lease Obligations

The Corporation has certain mining equipment and buildings under capital leases agreements. The capital leases for the mining equipment are denominated in US dollars at interest rates up to a maximum of 6.7% per annum, expire by fiscal 2017 and are secured by the related assets.

The following table reconciles the Corporation's capital lease obligations:

Balance – March 31, 2009	$	52
Fair value of capital lease additions		44,311
Payments made during the period		(9,328)
Interest portion of payments		967
Foreign exchange adjustment to US dollar obligations		(1,743)
Balance – March 31, 2010		34,259
Fair value of capital lease additions		26,854
Payments made during the period		(11,480)
Interest portion of payments		1,267
Foreign exchange adjustment to US dollar obligations		65
Balance – September 30, 2010		50,965
Current portion of capital lease obligations		(9,665)
Long term portion of capital lease obligations	$	41,300

Future minimum payments under capital leases at September 30, 2010 consist of the following:

Less than 1 year	$	12,540
2-3 years		26,830
4-5 years		18,468
After 5 years		1,073
Total minimum lease payments		58,911
Amounts representing interest		(7,946)
Present value of minimum lease payments		50,965
Current portion of capital lease obligations		(9,665)
Long term portion of capital lease obligations	$	41,300

10. 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 $11,971 as at September 30, 2010, based on a total future liability of $18,143. The Corporation's credit adjusted risk free rates range from 3.9% to 7.6% depending on the period when the provision originated and the term of estimated years to reclamation.

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

Balance – March 31, 2009	$	6,429
Increase in liability		1,865
Accretion expense		507
Balance – March 31, 2010		8,801
Increase in liability		2,929
Settlement of liability		(81)
Accretion expense		322
Balance – September 30, 2010	$	11,971

11. Share Capital

Authorized

Unlimited common shares
Unlimited preferred shares, issuable in series

Issued

(thousands)	**Number**		**Stated Value**
Common shares			
Balance – March 31, 2009	96,076	$	194,541
Shares issued on exercise of options	899		1,691
Balance – March 31, 2010	96,975		196,232
Shares issued on exercise of options	420		924
Balance – September 30, 2010	97,395	$	197,156

During the first quarter of fiscal 2011, 100 thousand common share options were exercised for cash proceeds of $104. On exercise of these common share options, $78 was credited to share capital from contributed surplus.

During the second quarter of fiscal 2011, 320 thousand common share options were exercised for cash proceeds of $436. On exercise of these common share options, $306 was credited to share capital from contributed surplus.

The following transactions occurred during fiscal 2010.

There were no changes to share capital during the first quarter of fiscal 2010.

During the second quarter of fiscal 2010, 274 thousand common share options were exercised for cash proceeds of $346. On exercise of these common share options, $220 was credited to share capital from contributed surplus.

During the third quarter of fiscal 2010, 170 thousand common share options were exercised for cash proceeds of $171. On exercise of these common share options, $131 was credited to share capital from contributed surplus.

During the fourth quarter of fiscal 2010, 455 thousand common share options were exercised for cash proceeds of $445. On exercise of these common share options, $378 was credited to share capital from contributed surplus.

12. Commitments

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, vehicles, equipment, buildings and office space.

The Corporation entered into various purchase commitments for mining equipment. At September 30, 2010, commitments owing on this equipment was approximately $25,229, which included US dollar commitments of US$18,743.

Future minimum amounts payable by the Corporation under contracts existing at September 30, 2010, for each fiscal year is summarized below:

2011	$	25,642
2012	$	791
2013	$	732
2014	$	609
2015 and thereafter	$	1,091

13. Net Income per Share

The following table reconciles the denominators for basic and diluted net income per share calculations. The treasury stock method is used to determine the dilutive effect of outstanding options to purchase common shares.

	Three months ended September 30		**Six months ended September 30**	
(thousands, except per share amounts)	**2010**	**2009**	**2010**	**2009**
Weighted average shares outstanding – basic	97,139	96,165	97,067	96,121
Dilutive effect of share options	1,213	2,671	1,242	2,188
Weighted average shares outstanding – diluted	98,352	98,836	98,309	98,309
Net income	$ 14,119	$ 9,291	$ 18,070	$ 14,372
Net income per share - basic	$ 0.15	$ 0.10	$ 0.19	$ 0.15
Net income per share - diluted	$ 0.14	$ 0.09	$ 0.18	$ 0.15

14. 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 to directors, officers, employees and consultants of the Corporation. Total stock-based compensation expense included in general and administrative expenses for the second quarter of fiscal 2011 was $903, compared to $319 in the same quarter last year and was a result of options granted pursuant to the Corporation's share option plan. The fiscal year to date stock-based compensation was $1,272, compared to $631 in the prior year.

On June 11, 2010, options to purchase 2,145 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of $5.61 per share. The options have a five year term and are subject to a three year vesting period.

During the first quarter of fiscal 2011, options to purchase 100 thousand common shares were exercised at a weighted average price of $1.04 per share and options to purchase 30 thousand common shares were cancelled.

During the second quarter of fiscal 2011, options to purchase 320 thousand common shares were exercised at a weighted average price of $1.37 per share.

The following transactions occurred during fiscal 2010.

On August 17, 2009, options to purchase 50 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of $3.57 per share. The options have a five year term and are subject to a three year vesting period.

During the second quarter of fiscal 2010, options to purchase 274 thousand common shares were exercised at a weighted average price of $1.26 per share and options to purchase 37 thousand common shares were cancelled.

During the third quarter of fiscal 2010, options to purchase 170 thousand common shares were exercised at a weighted average price of $1.01 per share.

On February 11, 2010, options to purchase 125 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of $5.95 per share. The options have a five year term and are subject to a three year vesting period.

During the fourth quarter of fiscal 2010, 455 thousand common share options were exercised at a weighted average price of $0.98 and options to purchase 138 thousand common shares were cancelled.

The fair value of each share option granted and currently outstanding 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 150%, risk-free interest rates of 1.3% to 4.5% and an expected term of five years.

Details of the share options outstanding are as follows:

(thousands of shares)	Common Shares Number	Common Shares Weighted Average Exercise Price
Outstanding – March 31, 2009	4,616	$ 1.50
Granted	175	5.27
Cancelled	(175)	7.29
Exercised	(899)	1.07
Outstanding – March 31, 2010	3,717	1.51
Granted	2,145	5.61
Cancelled	(30)	3.70
Exercised	(420)	1.29
Outstanding – September 30, 2010	5,412	$ 3.14

Of the share options outstanding at September 30, 2010, 245 thousand options expire in fiscal 2012, 925 thousand options expire in fiscal 2013, 1,930 thousand options expire in fiscal 2014, 167 thousand options expire in fiscal 2015, and 2,145 thousand options expire in fiscal 2016.

Details of the share options exercisable at September 30, 2010 are as follows:

(thousands of shares)	Common Shares Number	Common Shares Weighted Average Exercise Price
	245	$ 2.44
	177	0.88
	748	1.04
	100	5.02
	327	1.01
	33	0.88
	9	3.57
	1,639	$ 1.48

15. Capital Management

Grande Cache Coal's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure, as disclosed on the balance sheet, consists of cash and cash equivalents, capital leases and shareholders' equity. The Corporation also has an unused operating credit facility of up to $28,000 and the ability to enter into foreign exchange hedging arrangements.

As part of capital management, the Corporation prepares an annual capital expenditures budget and may from time to time issue new equity or debt in order to finance capital expenditures. The Corporation has not declared or paid any dividends on its outstanding common shares and any decision to pay dividends in the future will be based on the financial condition of the Corporation. The Corporation may elect to adjust its capital structure through the purchase of shares for cancellation, issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The Corporation is subject to certain borrowing covenants in its operating credit facility that are monitored on a monthly basis when monies are drawn on such facility.

16. Financial Instruments and Risks Management

Grande Cache Coal's financial instruments include cash and cash equivalents, restricted cash, accounts The Corporation has identified all financial instruments that are recognized in the financial statements and has presented the financial instruments by category in the table below.

Financial instrument	**Classification**
Cash and cash equivalents	Held-for-trading
Restricted cash	Held-to-maturity
Foreign exchange forward contracts	Held-for-trading
Trade accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Operating credit facility	Other financial liabilities

Fair value

The Corporation has certain financial instruments that are measured at fair value on a recurring basis. At September 30, 2010, the fair value of cash and cash equivalents, restricted cash, trade accounts receivable, foreign exchange forward contracts and accounts payable and accrued liabilities approximates their carrying amounts on the balance sheet due to the short periods to maturity and the terms of the financial instruments.

Financial instruments hierarchy

In estimating fair value, the Corporation utilizes quoted market prices when available. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The hierarchy of the Corporation's financial instruments measured at fair value is as:

	As at September 30, 2010			
(thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset				
Cash and cash equivalents	54,878	-	-	54,878
Restricted cash	13,499	-	-	13,499
Foreign exchange forward contracts	-	1,690	-	1,690

Risk Management

Grande Cache Coal's operations are exposed to certain risks, which includes credit risk, liquidity risk and market risk. The Corporation's risk management is carried out by management under policies approved by the Board of

Directors.

Credit Risk

Grande Cache Coal carries a balance of cash and cash equivalents as disclosed on the balance sheet at September 30, 2010. The Corporation invests conservatively a portion of its cash in short-term, low risk term deposits with credit worthy financial institutions. The remainder of the cash balance is held with major financial institutions and is available for immediate use.

The Corporation has a balance of restricted cash as disclosed on the balance sheet at September 30, 2010. Restricted cash is held with major financial institutions for the purpose of securing letters of credit and is invested in short-term guaranteed investment certificates. The Corporation is exposed to credit risk in the event that the financial institutions were to redeem the letter of credit to the beneficiary. The Corporation considers this risk as low as the majority of the letters of credit have been provided to the Alberta Government for security to cover future anticipated costs of reclamation.

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of trade accounts receivable. The maximum credit risk exposure is equal to the carrying amount of trade accounts receivable as disclosed in the notes to the interim consolidated financial statements. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider the accounts receivable to be impaired or past due.

The Corporation has the ability to enter into foreign exchange forward contracts. Derivative credit risk arises from the possibility that the counterparty to the contract fails to fulfill its obligation in accordance with the terms and conditions of the contract. Derivative credit risk is reduced by dealing with credit worthy counterparties in compliance with established credit approval policies.

Liquidity Risk

The Corporation is exposed to liquidity risk in the event that it would be unable to meet obligations associated with financial liabilities. The Corporation has a $28,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at September 30, 2010 was nil, however availability on the facility was reduced by approximately $6,315 due to the Corporation entering into foreign exchange forward contracts. At September 30, 2010, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

(thousands of Canadian dollars)	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Accounts payable and accrued liabilities	21,423	-	-	-
Operating leases	809	1,432	1,002	393
Capital leases	12,540	26,830	18,468	1,073
Purchase obligations	25,229	-	-	-
	60,001	28,262	19,470	1,466

Market Risk

The Corporation is exposed to market risk due to fluctuations in foreign exchange rates and interest rates.

Foreign exchange rates

The Corporation's revenues from operations are received in US dollars while most of its operating expenses are incurred in Canadian dollars. Although the Corporation has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance that the activities or products are, or will continue to be, effective. Accordingly, the inability of the Corporation to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the US dollar. This could have a material adverse effect on the Corporation's business, financial condition and results of operations. In addition, the relative exchange rate fluctuation between the Canadian dollar and the currencies of Grande Cache Coal's international competitors will impact the ability of Grande Cache Coal's coal products to compete in foreign markets.

Based on the US dollar denominated trade accounts receivable balance at September 30, 2010, each decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease of $174, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At September 30, 2010, the outstanding commitment on the capital lease obligations was US$57,251. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the capital lease payments. The Corporation entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

The Corporation entered into a series of foreign exchange forward contracts that will mature by July 2011. At September 30, 2010, the Corporation had outstanding contracts to sell a total of US$48,000 at an average rate of Canadian dollars 1.05 to the US dollar and a total of US$32,000 at an average rate of Canadian dollars 1.06 to the US dollar. At September 30, 2010, these contracts were marked to market resulting in an unrealized foreign exchange gain of $1,690 that was recognized in the income statement and has been classified on the balance sheet as accounts receivable. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

The Corporation entered into a US dollar purchase commitment for mining equipment. At September 30, 2010, US$18,743 remained owing on this commitment. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of this commitment.

17. Subsequent Events

Subsequent to September 30, 2010, the following events occurred.

The Corporation finalized capital lease agreements for a Komatsu WA1200 loader and a P&H 320XPC drill amounting to US$3,689 and US$5,008, respectively. The loader has a five year lease term and the drill has a six-year lease term. Both lease agreements have an interest rate of 4.4% per annum and are secured by the capital assets.