

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 June 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 August 11, 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 average cost of sales for fiscal 2011, management of coal production in fiscal 2011; future development activities and related capital expenditures; the capital expenditure program for fiscal 2011; and funding sources for the capital expenditure program.

These forward-looking statements are based on certain key assumptions regarding, among other things: no material disruption in production other than anticipated variation; 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; 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: uncertainties associated with production levels during development of the new No. 8 mining area; 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.

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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 law.

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 factors which could potentially impact the Corporation's financial performance and its ability to meet its targets.

Financial Overview

<i>(\$ millions)</i>	As at June 30 2010	As at March 31 2010
Balance Sheet		
Cash and cash equivalents	72.2	87.4
Total assets	356.4	337.7
Long-term liabilities	66.1	54.4
Shareholders' equity	255.2	250.8
	Three months ended June 30	
<i>(\$ millions, except per share amounts)</i>	2010	2009
Statement of Net Income and Comprehensive Income		
Revenue	69.0	74.6
Cost of sales	50.9	56.6
Income from operations	8.5	10.7
Net income and comprehensive income	4.0	5.1
Basic and diluted net income per share	0.04	0.05
	Three months ended June 30	
<i>(millions of tonnes, except per tonne amounts)</i>	2010	2009
Statistics		
Clean coal production (tonnes)	0.37	0.34
Coal sales (tonnes)	0.45	0.51
Average sales price (US\$/tonne)	149	129
Average sales price (\$/tonne)	152	147
Average cost of product sold (\$/tonne)	86	84
Average distribution costs (\$/tonne)	26	27
Average cost of sales (\$/tonne)	112	111

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Revenue

Revenue during the first quarter of fiscal 2011 was \$69.0 million on sales of 0.45 million tonnes compared to \$74.6 million on 0.51 million tonnes in the same period last year. Sales volumes in the current quarter were 12% lower than the comparable period mainly due to the timing of shipments.

The average sales price achieved during the first quarter was \$152 per tonne (US\$149 per tonne) compared to \$147 per tonne (US\$129 per tonne) in the same period last year. The average first quarter sales price for metallurgical coal, which accounted for 92% of the sales volumes, was \$158 per tonne (US\$154 per tonne). The higher price during the current quarter reflects an increase in contract price settlements compared to last year, reduced somewhat by a portion of lower priced thermal coal sales and a portion of carryover tonnage from fiscal 2010, which was contracted at lower prices. The average exchange rate for converting US sales into Canadian dollars during the first quarter was 1.03 compared to 1.16 in the first three months of fiscal 2010, thus having a negative impact on the Canadian sales price of US dollar denominated sales.

Cost of Sales

First quarter cost of sales was \$50.9 million, or \$112 per tonne, compared to \$56.6 million, or \$111 per tonne per tonne in the same period last year. The cost of sales in the current quarter consisted of cost of product sold of \$38.9 million (\$86 per tonne) and distribution costs of \$12.0 million (\$26 per tonne). In the comparable quarter of fiscal 2010, the cost of product sold was \$42.7 million (\$84 per tonne) and distribution costs of \$13.9 million (\$27 per tonne).

The unit cost of product sold during the first quarter of the current fiscal year was largely affected by a transition in surface mines where operations were being completed at the No. 12B2 pit in preparation for the commencement of production from the No. 8 mining area. During the late stages of mining in No. 12B2 pit, mining conditions were difficult leading to lower productivity and higher unit costs. In addition, lower coal recovery from No. 12B2 pit resulted in lower than expected production volumes. The Corporation also incurred an increase in maintenance and repair costs as it initiated an enhanced preventive maintenance program to its existing mining equipment designed to lower long term maintenance costs and increase equipment availability.

Other Operating Expenses

General and administrative expenses were \$2.4 million during the quarter, up slightly from \$2.1 million in the comparable period. Included in the general and administrative expenses were head office administrative and marketing charges of \$2.0 million (fiscal 2010 - \$1.8 million) and non-cash charges for stock-based compensation of \$0.4 million (fiscal 2010 - \$0.3 million).

Depreciation, depletion and accretion charges were \$7.2 million compared to \$5.2 million in the comparable period of last year. The increase was mainly due to higher depletion in No. 12B2 pit because of operational design changes and lower coal recovery, resulting in a higher than normal one time depletion expense to charge the remaining development costs to income. In addition, depreciation increased due to the addition of capital assets during the current period and throughout last fiscal year.

Other Income (Expenses)

The Corporation incurred a net foreign exchange loss of \$2.7 million during the first quarter compared to a loss of \$3.4 million in the same period last fiscal year. Included in the loss was an unrealized foreign exchange loss of \$3.8 million (fiscal 2010 - \$0.2 million) related to foreign exchange forward contracts.

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Interest and other income was \$0.2 million during the first quarter, versus \$0.1 million in the comparable period. Interest and other income consisted primarily of interest earned on restricted cash and access fees charged for the use of roads and bridges belonging to the Corporation.

Taxes

The Corporation incurred tax expenses of \$2.0 million during the first quarter, which was comprised of a current tax expense of \$0.6 million for provincial Crown royalties and a future income tax expense of \$1.4 million. In the first quarter of fiscal 2010, the Corporation incurred a tax expense of \$2.3 million, which consisted of a current tax expense of \$0.6 million for provincial Crown royalties and a future income tax expense of \$1.7 million.

Liquidity and Capital Resources

At June 30, 2010, Grande Cache Coal had cash and cash equivalents of \$72.2 million. The Corporation's cash position decreased by \$15.3 million during the first quarter compared to a \$30.3 million increase in the same period last fiscal year.

Operating activities during the first quarter provided \$18.2 million in cash, down from \$43.6 million in the same period last year. The primary difference was due to a net change in non-cash working capital relating to operating activities. The current quarter provided \$0.5 million in cash compared to \$28.6 million in the first quarter of fiscal 2010, the majority of which related to a significant reduction in coal inventory.

Financing activities during the current quarter included the repayment of capital leases of \$3.6 million and the exercise of share options for cash proceeds of \$0.1 million.

Investing activities resulted in a cash decrease of \$30.8 million in the first quarter, compared to \$10.7 million in the comparable period. Capital expenditures accounted for \$31.2 million (fiscal 2010 - \$9.0 million) and consisted of the addition of buildings and equipment totaling \$17.0 million (fiscal 2010 - \$8.5 million) as well as the development of mineral properties of \$14.2 million (fiscal 2010 - \$0.5 million), most of which was for the development of No. 8 pit.

During the first quarter of fiscal 2011, the Corporation acquired mining equipment at a cost of US\$10.8 million through capital lease arrangements. Subsequent to June 30, 2010, the Corporation finalized a capital lease agreement for two Komatsu 830E haul trucks amounting to US\$7.4 million.

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 June 30, 2010, the Corporation had a series of foreign exchange forward contracts to sell a total of US\$24 million and US\$48 million at an average rate of 1.0645 and 1.0494, respectively. These contracts settle in monthly installments, the last of which will mature by March 2011.

The Corporation believes that its existing cash, cash flow from operations and credit facility will be sufficient to fund ongoing working capital requirements during fiscal 2011. The Corporation expects that capital expenditures 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 customer requirements during fiscal 2011. At June 30, 2010, the Corporation had \$22.2 million in coal inventory, compared to \$28.0 million at March 31, 2010.

The Corporation did not have any off-balance sheet financing structures in place at June 30, 2010. Long term liabilities of the Corporation include asset retirement obligations with a present value of \$11.7 million, capital lease

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obligations of \$34.8 million and future income tax liabilities of \$19.5 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 June 30, 2010, remaining payments owing on the mining equipment totalled \$18.5 million, which included US dollar commitments of US\$11.9 million.

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

(\$ millions)

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases	3.7	0.8	1.4	1.1	0.4
Capital Leases	50.6	11.5	21.2	17.9	-
Purchase Obligations	18.5	18.5	-	-	-
Total Contractual Obligations	76.8	30.8	22.6	19.0	0.4

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

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- 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.

Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	Fiscal 2011	Fiscal 2010				Fiscal 2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Clean coal production (tonnes)	0.37	0.54	0.42	0.43	0.34	0.26	0.35	0.43
Coal sales (tonnes)	0.45	0.43	0.47	0.36	0.51	0.11	0.36	0.34
Average sales price (US\$/tonne)	149	120	131	120	129	292	213	214
Average sales price (CDN\$/tonne)	152	118	134	124	147	364	254	223
Cost of product sold (\$/tonne)	86	66	76	57	84	72	96	69
Distribution costs (\$/tonne)	26	28	30	27	27	24	32	35
Cost of sales (\$/tonne)	112	94	106	84	111	96	128	104
Revenue (\$)	69.0	50.7	62.4	44.8	74.6	38.7	91.9	76.6
Income from operations (\$)	8.5	1.0	5.5	9.5	10.7	24.5	41.3	36.4
Net income (\$)	4.0	1.4	4.3	9.3	5.1	18.9	36.8	47.1
Basic net income per share (\$)	0.04	0.01	0.04	0.10	0.05	0.20	0.38	0.52
Diluted net income per share (\$)	0.04	0.01	0.04	0.09	0.05	0.20	0.38	0.51

Sales volumes during the current quarter remained stable compared to the past several quarters mainly because of an increase in sales to Chinese customers. The average US dollar sales price was higher in the current period reflecting an increase in contract price settlements compared to the last coal year. The average cost of sales increased in the first quarter of fiscal 2011, compared to fiscal 2010, due largely to the transition in surface mines, which caused lower productivity, as well as higher repair and maintenance costs.

Outlook

Coal Markets

The Corporation continues to anticipate fiscal 2011 sales volumes of 2.0 to 2.2 million tonnes, however it is expected that sales may be on the lower end of this range. Sales volumes are dependent upon production and due to the transition in surface mines from No. 12B2 pit to No. 8 pit, it is expected that sales volumes in the last half of the

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fiscal year will be higher compared to the first half. Sales volumes are also contingent upon adequate rail service, the timing of vessel arrivals and port loading schedules.

As a result of developing the new No. 8 pit area, there will be a short term increase in the sales volume of thermal coal over the balance of the current fiscal year, which is expected to represent approximately 5% to 10% of the total annual sales volume.

Industry benchmark pricing for metallurgical coal for the second quarter of fiscal 2011 was settled at US\$225 per tonne. The Corporation expects that its average metallurgical sales price for the second quarter will be in the range of US\$190 to US\$195 per tonne, which includes second quarter sales contracts, contracts settled on an annual basis and carryover tonnage from the first quarter, which was contracted at lower prices.

Various external reports suggest that metallurgical coal markets have softened recently and as a result the benchmark price settlement for the third quarter may be lower than the benchmark price settlement achieved during the second quarter. The Corporation is uncertain at this time what the market impact will be on its third quarter pricing as negotiations are not likely to commence until mid to late August.

Operations

The unit cost of product sold during the first quarter was higher than anticipated because of difficult mining conditions in the late stages of mining at the No. 12B2 pit. In addition, the Corporation expects that second quarter clean coal production will be low due to the transition in surface mining areas. As a result, the Corporation anticipates that the average cost of sales for fiscal 2011 will be approximately \$105 per tonne, up from the previous guidance of \$100 per tonne. A continuation of lower than expected production levels or an escalation of mining input costs would have a negative impact on the projected cost of sales.

The Corporation expects that cost of sales will continue to vary from quarter to quarter. The Corporation will continue to focus on productivity improvements and cost control measures throughout all areas of operation.

Capital Expenditures

Grande Cache Coal plans to increase annual production 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.

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Other Information

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

As at August 11, 2010, there were 97,075,206 common shares issued and outstanding, and the following share options were also outstanding:

Share Options Outstanding	Number Granted	Number Vested	Exercise Price	Expiry Date
	25,000	25,000	\$4.50	October 18, 2010
	245,000	245,000	\$2.44	April 11, 2011
	125,000	125,000	\$1.05	October 11, 2011
	25,000	25,000	\$1.05	November 16, 2011
	201,668	201,668	\$0.88	May 23, 2012
	850,005	850,005	\$1.04	January 8, 2013
	150,000	49,998	\$5.02	August 20, 2013
	1,606,736	316,729	\$1.01	November 12, 2013
	100,000	33,333	\$0.88	January 10, 2014
	83,334	-	\$0.77	February 10, 2014
	50,000	-	\$3.57	August 18, 2014
	125,000	-	\$5.95	February 10, 2015
	2,145,000	-	\$5.61	June 11, 2015
Total	<u>5,731,743</u>	<u>1,871,733</u>		

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 June 30 2010	As at March 31 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 72,160	\$ 87,436
Restricted cash (note 3)	13,499	13,499
Accounts receivable (note 4)	4,936	12,483
Inventory (note 5)	28,879	33,999
Prepaid expenses	17,233	9,114
Future income taxes (note 7)	256	232
	<u>136,963</u>	<u>156,763</u>
Capital assets (note 6)	<u>219,391</u>	<u>180,935</u>
	<u>\$ 356,354</u>	<u>\$ 337,698</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 26,063	\$ 25,716
Current portion of capital lease obligations (note 8)	8,986	6,744
	<u>35,049</u>	<u>32,460</u>
Asset retirement obligations (note 9)	11,706	8,801
Capital lease obligations (note 8)	34,816	27,515
Future income taxes (note 7)	19,539	18,102
	<u>101,110</u>	<u>86,878</u>
Shareholders' Equity		
Share capital (note 10)	196,414	196,232
Contributed surplus	4,236	3,945
Retained earnings	54,594	50,643
	<u>255,244</u>	<u>250,820</u>
	<u>\$ 356,354</u>	<u>\$ 337,698</u>
Commitments (note 11)		

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 June 30	
	2010	2009
Revenue	\$ 69,033	\$ 74,585
Expenses		
Cost of product sold	38,942	42,665
Distribution	11,981	13,900
General and administrative	2,401	2,063
Depreciation, depletion and accretion	7,199	5,234
	<u>60,523</u>	<u>63,862</u>
Income from operations	8,510	10,723
Other income (expenses)		
Foreign exchange gain (losses)	1,096	(3,202)
Unrealized losses on foreign exchange forward contracts	(3,828)	(212)
Interest and other	158	119
	<u>5,936</u>	<u>7,428</u>
Income before taxes	5,936	7,428
Taxes		
Current tax expense	(572)	(612)
Future income taxes expense	(1,413)	(1,735)
	<u>3,951</u>	<u>5,081</u>
Net income and comprehensive income	3,951	5,081
Retained earnings, beginning of period	<u>50,643</u>	<u>30,536</u>
Retained earnings, end of period	\$ <u>54,594</u>	\$ <u>35,617</u>
Net income per share (note 12)		
Basic and diluted	\$ 0.04	\$ 0.05

See accompanying notes to the consolidated financial statements.

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

(unaudited)	Three months ended June 30	
	2010	2009
Cash provided by (used for)		
Operating activities		
Net income and comprehensive income	\$ 3,951	\$ 5,081
Items not affecting cash		
Stock-based compensation (note 13)	369	312
Unrealized foreign exchange losses	925	2,475
Unrealized losses on foreign exchange forward contracts	3,828	212
Future income taxes	1,413	1,735
Depreciation, depletion and accretion	7,199	5,234
	17,685	15,049
Net change in non-cash working capital relating to operating activities	526	28,586
	18,211	43,635
Financing activities		
Proceeds on exercise of options (note 10)	104	-
Payments on capital lease obligations (note 8)	(3,576)	(19)
	(3,472)	(19)
Investing activities		
Additions to mineral properties and development	(14,204)	(540)
Additions to buildings and equipment	(17,001)	(8,454)
Net change in non-cash working capital relating to investing activities	433	(1,668)
	(30,772)	(10,662)
Effect of foreign exchange on cash and cash equivalents	757	(2,663)
(Decrease) increase in cash and cash equivalents	(15,276)	30,291
Cash and cash equivalents, beginning of period	87,436	68,035
Cash and cash equivalents, end of period	\$ 72,160	\$ 98,326

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2010
(Unaudited)

(thousands of Canadian dollars, except per share amounts)

1. Basis of Presentation

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

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June 30, 2010

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

3. Restricted Cash

Cash secured letters of credit in the amount of \$11,799 (2010 - \$11,799) 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 of \$1,700 (2010 - \$1,700) have been made available to service providers.

4. Accounts Receivable

	As at June 30 2010	As at March 31 2010
Trade accounts receivable	\$ 2,298	\$ 7,384
Goods and services tax receivable	2,156	1,440
Unrealized gain on foreign exchange forward contracts	-	3,024
Other	482	635
	<u>\$ 4,936</u>	<u>\$ 12,483</u>

5. Inventory

	As at June 30 2010	As at March 31 2010
Coal inventory	\$ 22,207	\$ 27,986
Materials inventory	6,672	6,013
	<u>\$ 28,879</u>	<u>\$ 33,999</u>

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 June 30, 2010, parts and supplies inventories of \$2,389 were expensed to cost of product sold, compared to \$1,617 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.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2010

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

6. Capital Assets

	As at June 30 2010	As at March 31 2010
Mineral properties and development	\$ 44,019	\$ 29,398
Buildings and equipment	118,608	101,289
Capital leases	56,764	45,513
Assets held for sale	-	4,735
	<u>\$ 219,391</u>	<u>\$ 180,935</u>

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 had intended to sell the condominium units to employees within one year, as such these condominium units were classified as assets held for sale. In June 2010, the Corporation changed its housing strategy and as such the condominium units have been reclassified as assets in use and a full year's depreciation has been recognized.

During the first quarter of fiscal 2011, the Corporation acquired mining equipment at a cost of US\$10,849 through capital lease agreements.

7. Future Income Taxes

At June 30, 2010, the Corporation had a net future income tax liability of \$19,283, of which \$256 was classified as a current asset. The components of the future income tax liability were as follows:

	As at June 30 2010	As at March 31 2010
Temporary differences related to:		
Buildings and equipment and mineral properties and development costs	\$ 22,715	\$ 20,611
Asset retirement obligations	(2,927)	(2,200)
Share issuance costs	(249)	(309)
Other	(256)	(232)
Net future income taxes	<u>\$ 19,283</u>	<u>\$ 17,870</u>

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8. Capital Lease Obligations

The Corporation has certain mining equipment and buildings under capital lease 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 summarizes the Corporation's capital lease obligations:

Balance – March 31, 2009	\$ 52
Fair value of initial capital leases	44,311
Payments made during the period	(9,328)
Interest portion of payments	967
Foreign exchange adjustment to US dollar obligation	<u>(1,743)</u>
Balance – March 31, 2010	34,259
Fair value of initial capital leases	11,422
Payments made during the period	(4,122)
Interest portion of payments	546
Foreign exchange adjustment to US dollar obligation	<u>1,697</u>
Balance – June 30, 2010	43,802
Current portion of capital lease obligations	<u>(8,986)</u>
Long term portion of capital lease obligations	<u>\$ 34,816</u>

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

Less than 1 year	\$ 11,476
2-3 years	21,190
4-5 years	<u>17,934</u>
Total minimum lease payments	50,600
Amounts representing interest	<u>(6,798)</u>
Present value of minimum lease payments	43,802
Current portion of capital lease obligations	<u>(8,986)</u>
Long term portion of capital lease obligations	<u>\$ 34,816</u>

9. 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 \$11,706 as at June 30, 2010, based on a total future liability of \$17,833. 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.

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

Balance – March 31, 2009	\$	6,429
Increase in liability		1,865
Accretion expense		<u>507</u>
Balance – March 31, 2010		8,801
Increase in liability		2,745
Accretion expense		<u>160</u>
Balance – June 30, 2010	\$	<u><u>11,706</u></u>

10. Share Capital

Authorized

Unlimited common shares
 Unlimited preferred shares, issuable in series

Issued

<i>(thousands)</i>	Number	Stated Value
Common shares		
Balance – March 31, 2009	96,076	\$ 194,541
Shares issued on exercise of options	<u>899</u>	<u>1,691</u>
Balance – March 31, 2010	96,975	196,232
Shares issued on exercise of options	<u>100</u>	<u>182</u>
Balance – June 30, 2010	<u><u>97,075</u></u>	<u><u>\$ 196,414</u></u>

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.

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.

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11. 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 June 30, 2010, commitments owing on this equipment totalled approximately \$18,481, which included US dollar commitments of US\$11,924.

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

2011	\$	19,077
2012	\$	745
2013	\$	663
2014	\$	592
2015 and thereafter	\$	1,091

12. 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 the share options to purchase common shares.

<i>(thousands, except per share amounts)</i>	Three months ended June 30	
	2010	2009
Weighted average shares outstanding – basic	96,995	96,076
Dilutive effect of share options	1,483	1,365
Weighted average shares outstanding – diluted	98,478	97,441
Net income	\$ 3,951	\$ 5,081
Net income per share – basic and diluted	\$ 0.04	\$ 0.05

13. 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 first quarter was \$369, compared to \$312 in the same quarter last year and was a result of options granted pursuant to the Corporation's share option plan.

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

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weighted average price of \$1.04 per share and options to purchase 30 thousand common shares were cancelled.

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:

<i>(thousands of shares)</i>	Common Shares	
	Number	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	(100)	1.04
Outstanding – June 30, 2010	5,732	\$ 3.04

Of the share options outstanding at June 30, 2010, 25 thousand options expire in fiscal 2011, 395 thousand options expire in fiscal 2012, 1,052 thousand options expire in fiscal 2013, 1,940 thousand options expire in fiscal 2014, 175 thousand options expire in fiscal 2015, and 2,145 thousand options expire in fiscal 2016.

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

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	25	\$ 4.50
	245	2.44
	125	1.05
	25	1.05
	202	0.88
	850	1.04
	50	5.02
	317	1.01
	33	0.88
	<u>1,872</u>	<u>\$ 1.35</u>

14. 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.

15. Financial Instruments and Risks Management

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

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Fair value

The Corporation has certain financial instruments that are measured at fair value on a recurring basis. At June 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:

<i>(thousands of Canadian dollars)</i>	As at June 30 2010			
	Level 1	Level 2	Level 3	Total
Financial asset				
Cash and cash equivalents	72,160	-	-	72,160
Restricted cash	13,499	-	-	13,499
Financial liability				
Foreign exchange forward contracts	-	804	-	804

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 June 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 June 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.

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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 June 30, 2010 was nil, however availability on the facility was reduced by approximately \$7,338 due to the Corporation entering into foreign exchange forward contracts. At June 30, 2010, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

<i>(thousands of Canadian dollars)</i>	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	26,063	-	-	-
Operating leases	782	1,369	1,081	454
Capital leases	11,476	21,190	17,934	-
Purchase obligations	18,481	-	-	-
	56,802	22,559	19,015	454

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 June 30, 2010, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$22, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At June 30, 2010, the outstanding commitment on the capital lease obligations was US\$41,144. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the capital lease payments. The Corporation

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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 March 2011. At June 30, 2010, the Corporation had outstanding contracts to sell a total of US\$24,000 at an average rate of Canadian dollars 1.065 to the US dollar and a total of US\$48,000 at an average rate of Canadian dollars 1.049 to the US dollar. At June 30, 2010, these contracts were marked to market resulting in an unrealized foreign exchange loss of \$804 that was recognized in the income statement and has been classified on the balance sheet as accounts payable. 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 June 30, 2010, US\$11,924 remained owing on this commitment. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of this commitment.

16. Subsequent events

Subsequent to June 30, 2010, the Corporation finalized a capital lease agreement for two Komatsu 830E haul trucks amounting to US\$7,385. The lease has a five year term, an interest rate of 5.7% per annum and is secured by the capital assets.