



GRANDE CACHE COAL CORPORATION

NEWS RELEASE

GRANDE CACHE COAL CORPORATION ANNOUNCES FOURTH QUARTER 2005 FINANCIAL RESULTS

Calgary, Alberta (GCE-TSX) May 30, 2005 – Grande Cache Coal Corporation ("Grande Cache" or the "Corporation") announced today its financial and operating results for the three and twelve months ended March 31, 2005.

- Sales volumes for the year were 0.3 million tonnes, resulting in sales revenue of \$18 million at an average price of \$63 per tonne. Grande Cache achieved production volume and cost targets for the quarter. Sales volumes for the quarter were 0.2 million tonnes, with another 0.1 million tonnes in inventory at the port awaiting customer vessels.
- The net loss for the quarter was \$10.2 million. For the fiscal year, the Corporation's net loss was \$18.9 million due to the high startup costs experienced in the year.
- During the fourth quarter, Grande Cache invested \$10 million in capital projects. Capital expenditures were \$33 million for the year.
- Grande Cache completed the private placement of 2.9 million units at an issue price of \$13.60 per unit for gross proceeds of \$40 million during the fourth quarter. Each unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole common share purchase warrant entitling the holder to acquire one common share of the Corporation at a price of \$16.25 per share on or before February 27, 2006. Net proceeds to the Corporation from the private placement were \$38 million.

"We have continued to focus our efforts on increasing productivities in our mining operations and improving our cost structure" said Robert Stan, President and Chief Executive Officer. "Production costs for the fiscal year were as expected, however there remains much room for improvement. We believe that during fiscal 2006, we will meet our cost and sales targets."

Operations Update

Grande Cache is also pleased to provide the following operations update:

- The Corporation is focused on cost and productivity improvements. As a result, cost of product sold is expected to decline throughout the fiscal year and is anticipated to average approximately CAN\$70 per tonne for the period. Metallurgical coal sales volumes of 1.5 million tonnes are committed for the 2006 fiscal year at U.S.\$125 per tonne. The Corporation must also complete shipments of an additional 0.3 million tonnes of metallurgical coal under prior year contracts at U.S.\$64 per tonne.
- The Corporation has made significant progress towards finalizing the mine plan and start-up of the next surface mining area at its Grande Cache operation known as the No. 8 mine. Encouraging drilling results were achieved during the winter drilling program. A summary of No. 8 mine progress is as follows:

- An updated independent technical report prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Products ("NI 43-101") will be completed for the No. 8 mine by the end of June 2005. The report will incorporate the results of the winter drilling program and a sizeable increase in reserves is anticipated.
- The procurement of surface mining equipment is currently in progress. In April 2005, the Corporation entered into letters of intent to purchase an electric mining shovel and an electric drill. Discussions are underway for the purchase of haul trucks, loaders, dozers and other support equipment.
- An experienced surface mining superintendent has been hired who will be responsible for overseeing the development of the No. 8 mine. As well, he will work with the surface mining contractor currently operating in the No. 12S B2 mine.
- It is expected that the final operating license for the No. 8 mine will be received and developmental and pre-strip activities will commence within the current year.

Grande Cache is an Alberta based metallurgical coal mining company whose experienced team of coal professionals are developing a long-term mining operation to produce metallurgical coal for the export market from Grande Cache's coal leases covering over 15,000 hectares in the Smoky River Coalfield located in west-central Alberta. Grande Cache's common shares are listed on the Toronto Stock Exchange under the trading symbol "GCE".

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2005, and the audited consolidated financial statements, notes and related MD&A thereto of Grande Cache Coal Corporation (the "Corporation") for the fiscal year ended March 31, 2004. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In accordance with regulatory guidelines, the Corporation has not presented comparative figures for prior quarterly periods as the Corporation became a public entity on May 12, 2004 and comparative figures were not available for prior quarterly periods. This discussion provides management's analysis of the Corporation's historical financial and operating results and provides estimates of the Corporation's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 27, 2005.

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements, which are based on the Corporation's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Grande Cache's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, changes in general economic, market and business conditions; uncertainties associated with estimating the quantity and quality of coal reserves and resources; commodity prices, currency exchange rates, capital expenditures and debt service requirements; dependence on a single rail system; changes to legislation; liabilities inherent in coal mine development and production; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, mining and processing technical problems; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in coal mine development and production. Many of these risks and uncertainties are described in Grande Cache's 2004 Annual Information Form, Grande Cache's Management's Discussion and Analysis and other documents Grande Cache files with the Canadian securities authorities.

All references are to Canadian dollars unless otherwise indicated.

Grande Cache Coal Corporation
Management's Discussion & Analysis

Financial Overview

| <i>(millions of dollars)</i> | March 31 2005 | March 31 2004 |
|--|---|--|
| Balance Sheet | | |
| Total assets | 100.2 | 5.6 |
| Long-term liabilities | 2.3 | 0.1 |
| Shareholders' equity | 79.9 | 5.0 |
| | Three months ended March 31 2005 | Twelve months ended March 31 2005 |
| <i>(millions of dollars, except per share amounts)</i> | | |
| Income Statement | | |
| Revenue | 12.1 | 17.6 |
| Cost of sales | 20.5 | 30.5 |
| Net loss | (10.2) | (18.9) |
| Basic and diluted net loss per share | (0.27) | (0.56) |
| | Three months ended March 31 2005 | Twelve months ended March 31 2005 |
| <i>(millions, except per tonne amounts)</i> | | |
| Statistics | | |
| Clean coal production | 0.2 | 0.4 |
| Coal sales | 0.2 | 0.3 |
| Average sales price (CAN\$/tonne) | 65 | 63 |
| Average cost of sales (CAN\$/tonne) | 111 | 115 |

Revenue

The Corporation earned revenue of \$11.9 million on 0.2 million tonnes of coal sales in the quarter ended March 31, 2005. Year to date, \$16.8 million was earned on 0.3 million tonnes of sales.

The average sales price achieved in the quarter on U.S. dollar denominated sales was U.S.\$64, while year to date the U.S. dollar sales price was U.S.\$61. Including domestic thermal coal sales, the overall average Canadian sales price in the three months was \$65. Approximately 73% of coal sold in the quarter was metallurgical coal to export markets. At March 31, 2005, the Corporation had 0.1 million tonnes of coal at port awaiting customer vessels.

Interest and other revenue of \$0.2 million in the quarter consisted primarily of interest earned on short term investments. Interest and other revenue totaled \$0.8 million for the fiscal year.

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Cost of sales

Total cost of sales for the quarter was \$20.5 million, or \$111 per tonne. This consisted of cost of product sold of \$17.8 million (\$97 per tonne) and distribution costs of \$2.7 million (\$14 per tonne). Start-up delays, cost overruns and a high strip ratio in the surface mine carried over into the fourth quarter resulting in a total cost of sales for the fiscal year of \$30.5 million. The cost of sales for the year was \$115 per tonne, consisting of cost of product sold of \$99 per tonne and distribution costs of \$16 per tonne. The current competitive environment found in the Canadian resource industry for the services of consultants, contractors and equipment and service providers has contributed to the high cost of sales experienced by the Corporation.

The Corporation has remained focused on reducing the cost of product sold. Productivity rates from the surface mining contractor's fleet of mining equipment on site have been improving, but have not met expectations, and the volumes of waste and raw coal moved continue to be below satisfactory levels. The Corporation continues to work with the surface mining contractor to improve productivities and unit costs in the surface mine.

The underground mining operation experienced production rates that increased over the course of the fourth quarter as mining equipment was put into operation, operator training was completed and conditions improved. Production rates are continuing to increase, resulting in declining unit costs.

Distribution costs in the quarter were \$14 per tonne, due primarily to the timing of rail rate reconciliations. The Corporation has seen improvements in rail service and at March 31, 2005, the Corporation had 0.1 million tonnes of inventory at the port awaiting customer vessels.

Other Expenses

General and administrative expenses were \$1.0 million during the fourth quarter of 2005. The general and administrative expenses incurred in the quarter included customary overhead charges, while year to date general and administrative expenses of \$4.9 million also include non-recurring charges related to the initial startup of operations including internal labour, equipment rental and miscellaneous supplies that were not capitalized.

General and administrative expenses in the quarter include non-cash charges of \$0.5 million for stock-based compensation. Year to date stock-based compensation charges totaled \$1.0 million. A year to date foreign exchange loss of \$0.1 million is also included in general and administrative expenses.

Depreciation, depletion and accretion charges were \$0.7 million for the quarter and \$0.9 million year to date. Interest expense for the twelve months to March 31, 2005 was \$0.1 million.

Liquidity and Capital Resources

As at March 31, 2005, the Corporation's cash and cash equivalents position was \$35.5 million. During the quarter, the Corporation's cash position increased \$14.4 million. Investing activities resulted in a cash use of \$10.6 million, and operations resulted in a decrease in cash position of \$12.3 million. Financing activities resulted in a cash increase of \$37.1 million in the quarter. The Corporation's cash position increased by \$35.1 million over the course of the year.

Investing activities accounted for a cash use of \$10.6 million in the quarter and \$41.3 million year to date. During the fourth quarter, the Corporation spent \$10.1 million on additions to capital assets. Much of the capital additions in the quarter were further development activities and equipment purchases for the underground mine, as well as expenditures for processing plant and site facilities refurbishment and a drilling program on the No. 8 mine property.

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For the twelve months to March 31, 2005, additions to capital assets were \$33.1 million, while \$9.9 million was set aside to secure letters of credit. The net change in non-cash working capital related to investing activities was \$0.5 million in the fourth quarter and \$1.6 million year to date.

Financing activities resulted in cash additions of \$37.1 million in the quarter, consisting of proceeds of \$40.0 million on the issuance of share capital, share issuance costs of \$2.4 million and a \$0.6 million repayment of the note payable. For the year to date, financing activities provided cash of \$97.1 million due primarily to net proceeds of \$53.3 million on issuance of share capital from completion of the Corporation's initial public offering on May 12, 2004 and net proceeds of \$37.7 million from the Corporation's private placement on February 25, 2005. Funds raised by the initial public offering and private placement are being used to equip, mobilize and commence production from the Corporation's mining operations and fund development and operating activities. In addition, an advance payment agreement entered into with a Japanese trading company in the first quarter generated proceeds of U.S.\$4.0 million.

Cash used in operating activities was \$12.3 million in the quarter, due to the Corporation's net loss of \$10.2 million and the net change in non-cash working capital related to operations of \$3.2 million. Cash used in operations was \$20.6 million year to date.

At March 31, 2005, the Corporation had sufficient cash and cash equivalents to fund working capital requirements and planned development activities. The Corporation does not hold any long term debt and there were no off balance sheet financing structures in place at March 31, 2005. The only long term liability of the Corporation is asset retirement obligations with a present value of \$2.3 million. These amounts are covered by a cash deposit of \$0.1 million and letters of credit totaling \$4.2 million provided to the Alberta Government, which are currently secured by 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 and office space and for the provision of rail transportation. Under contracts existing at March 31, 2005, future minimum amounts payable under these agreements are \$1.4 million in 2006, \$1.4 million in 2007, \$0.2 million in 2008, \$0.2 million in 2009 and \$1.0 million for 2010 and thereafter.

Outlook

Operations

The Corporation is focused on improving productivities and reducing costs in each of the surface mine, the underground mine and the processing plant. Production levels are improving throughout the operations and as clean coal production and sales volumes increase, productivity improvements are realized and the surface mining strip ratio decreases a significant reduction in unit costs is expected. As the cost of sales declines, an average cost of sales of approximately \$70 per tonne is anticipated for the upcoming fiscal year.

The rail service providers are addressing their capacity issues and implementing plans to increase productivity, reduce cycle times and add additional capacity to their fleets. Noticeable improvement in rail service has occurred over the past six weeks and the Corporation expects continuing improvements to rail service resulting in the ability to reach metallurgical coal sales of 1.7 million tonnes in the upcoming fiscal year.

The Corporation has initiated a feasibility study for a staged expansion of operations up to four million tonnes per year. Sustaining and refurbishment capital expenditures and the cost of completion of an expansion feasibility study are expected to total \$15 million in fiscal 2006.

A drilling program has been completed in the No. 8 mine area and a revised independent reserve statement is being finalized. The Corporation is currently refining the No. 8 mine plan and completing applications to obtain the final

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required regulatory approvals. The Corporation is anticipating that development activities in No. 8 mine will begin late in the current calendar year. As such, the Corporation has entered into a letter of intent with a major equipment manufacturer for the purchase of a mining shovel and drill. Lead times for required equipment is expected to approximate 12 to 15 months from the time the initial deposit and order is placed. The Corporation is also reviewing all available options for the acquisition of haul trucks, loaders, dozers and other support equipment and is in discussions with equipment manufacturers. Developmental work in the No. 8 mine is expected to begin with smaller contract equipment in advance of the mobilization of the Corporation's purchased equipment. The Corporation has also hired an experienced surface mining superintendent whose duties will include overseeing and implementing the No. 8 mine plan, as well as working with the surface mining contractor currently operating in the No. 12S B2 mine.

Metallurgical Coal Markets

The Corporation has agreed to supply approximately 1.3 million tonnes of metallurgical coal to Japanese and Korean customers at a price of U.S.\$125 per tonne for the coal year beginning April 1, 2005. The Corporation has committed to sell an additional 0.2 million tonnes of metallurgical coal to other customers at similar prices. Also, during the upcoming coal year, the Corporation must complete shipments of the tonnes remaining on sales contracts for the coal year that ended March 31, 2005. This 0.3 million tonnes of carryover will be sold at an average price of U.S.\$64.

The global demand for metallurgical coking coal remains extremely strong at the present time as international steel production remains high. The worldwide supply of metallurgical coal remains tight and prices, which have risen dramatically over the past year, are expected to remain strong.

Capital Expenditures

Sustaining capital expenditures and continued refurbishment capital expenditures are expected to approximate \$10 million in the 2006 fiscal year. The Corporation also anticipates capital expenditures of \$5 million for completion of the ongoing expansion feasibility study.

The Corporation is in the process of completing reserve studies, mine plans and obtaining regulatory approvals for the No. 8 mine. It is anticipated that the Corporation will purchase a fleet of mining equipment to operate the mine, and as such has entered into letters of intent and placed initial cash deposits with a major equipment manufacturer for the purchase of a mining shovel and drill. Discussions are underway for the purchase of haul trucks, loaders, dozers and other support equipment. The Corporation will update capital spending related to the No. 8 mine upon completion of the detailed engineering studies.

Other Information

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

As at May 27, 2005, there were 40,618,690 shares issued and outstanding.

In addition, there were 1,805,000 common stock options outstanding at a weighted average exercise price of \$2.61. 1,325,000 common stock options are exercisable at a price of \$1.00 per share on or before March 21, 2009, 200,000 common stock options are exercisable at a price of \$3.70 per share on or before July 21, 2009, 75,000 common stock options are exercisable at a price of \$3.70 on or before August 8, 2009 and 205,000 common stock options are exercisable at a price of \$11.56 on or before March 13, 2010. There are also 1,471,000 warrants outstanding, exercisable at a price of \$16.25 per share on or before February 27, 2006.

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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, 2004, is available on the Corporation's SEDAR company profile at www.sedar.com.

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

| | March 31 2005 (Unaudited) | March 31 2004 (Audited) |
|---|--|--|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 35,455 | \$ 337 |
| Restricted cash (note 4) | 9,666 | - |
| Accounts receivable and prepaid expenses | 4,954 | 55 |
| Inventory (note 5) | <u>10,838</u> | <u>-</u> |
| | 60,913 | 392 |
| Deposit for future reclamation expenditures | 82 | 82 |
| Mineral properties and development costs | 17,163 | 3,380 |
| Buildings and equipment | 22,062 | 1,416 |
| Other assets | <u>-</u> | <u>315</u> |
| | <u>\$ 100,220</u> | <u>\$ 5,585</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 14,302 | \$ 464 |
| Notes payable (note 6) | <u>3,647</u> | <u>-</u> |
| | 17,949 | 464 |
| Asset retirement obligations (note 7) | <u>2,338</u> | <u>77</u> |
| | <u>20,287</u> | <u>541</u> |
| Shareholders' Equity | | |
| Share capital (note 8) | 99,751 | 7,189 |
| Contributed surplus | 1,275 | 9 |
| Deficit | <u>(21,093)</u> | <u>(2,154)</u> |
| | <u>79,933</u> | <u>5,044</u> |
| | <u>\$ 100,220</u> | <u>\$ 5,585</u> |

See accompanying notes to the consolidated financial statements.

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

| | Three months ended March 31 2005 (Unaudited) | Twelve months ended March 31 2005 (Unaudited) | Twelve months ended March 31 2004 (Audited) |
|---------------------------------------|--|---|---|
| Revenue | | | |
| Sales | \$ 11,935 | \$ 16,822 | \$ - |
| Interest and other | <u>213</u> | <u>827</u> | <u>1</u> |
| | <u>12,148</u> | <u>17,649</u> | <u>1</u> |
| Expenses | | | |
| Cost of product sold | 17,766 | 26,222 | - |
| Distribution | 2,704 | 4,259 | - |
| General and administrative (note 9) | 1,007 | 4,908 | 1,194 |
| Interest on notes payable (note 6) | 25 | 125 | 4 |
| Depreciation, depletion and accretion | <u>727</u> | <u>895</u> | <u>11</u> |
| | <u>22,229</u> | <u>36,409</u> | <u>1,209</u> |
| | (10,081) | (18,760) | (1,208) |
| Taxes (note 12) | <u>(146)</u> | <u>(179)</u> | <u>-</u> |
| Net loss | (10,227) | (18,939) | (1,208) |
| Deficit, beginning of period | <u>(10,866)</u> | <u>(2,154)</u> | <u>(946)</u> |
| Deficit, end of period | <u>\$ (21,093)</u> | <u>\$ (21,093)</u> | <u>\$ (2,154)</u> |
| Net loss per share (note 10) | | | |
| Basic and diluted | <u>\$ (0.27)</u> | <u>\$ (0.56)</u> | <u>\$ (0.23)</u> |

Note: As the Corporation did not become a public entity until May 12, 2004, there are no comparative figures for prior interim periods.

See accompanying notes to the consolidated financial statements.

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

| | Three months ended March 31 2005 (Unaudited) | Twelve months ended March 31 2005 (Unaudited) | Twelve months ended March 31 2004 (Audited) |
|---|--|---|---|
| Cash provided by (used for) | | | |
| Operating activities | | | |
| Net loss | \$ (10,227) | \$ (18,939) | \$ (1,208) |
| Items not affecting cash | | | |
| Stock-based compensation (note 11) | 486 | 1,004 | 617 |
| Unrealized foreign exchange gain | (168) | (253) | - |
| Depreciation, depletion and accretion | 727 | 895 | 11 |
| Other | - | - | (1) |
| | <u>(9,182)</u> | <u>(17,293)</u> | <u>(581)</u> |
| Net change in non-cash working capital relating to operating activities | <u>(3,111)</u> | <u>(3,314)</u> | <u>138</u> |
| | <u>(12,293)</u> | <u>(20,607)</u> | <u>(443)</u> |
| Financing activities | | | |
| Proceeds on issuance of share capital (note 8) | 40,011 | 99,097 | 1,374 |
| Proceeds on issuance of note payable (note 6) | - | 5,335 | - |
| Repayment of note payable (note 6) | (556) | (1,186) | (116) |
| Share issuance costs (note 8) | (2,357) | (5,959) | (325) |
| Net change in non-cash working capital relating to financing activities | - | (197) | 263 |
| | <u>37,098</u> | <u>97,090</u> | <u>1,196</u> |
| Investing activities | | | |
| Additions to mineral properties and development costs | (3,510) | (12,535) | (540) |
| Additions to buildings and equipment | (6,572) | (20,527) | (14) |
| Restricted cash (note 4) | (11) | (9,872) | - |
| Net change in non-cash working capital relating to investing activities | (489) | 1,612 | (61) |
| | <u>(10,582)</u> | <u>(41,322)</u> | <u>(615)</u> |
| Effect of foreign exchange on cash and cash equivalents | <u>179</u> | <u>(43)</u> | <u>-</u> |
| Increase in cash and cash equivalents | 14,402 | 35,118 | 138 |
| Cash and cash equivalents, beginning of period | <u>21,053</u> | <u>337</u> | <u>199</u> |
| Cash and cash equivalents, end of period | <u>\$ 35,455</u> | <u>\$ 35,455</u> | <u>\$ 337</u> |

Note: As the Corporation did not become a public entity until May 12, 2004, there are no comparative figures for prior interim periods.

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2005
(Unaudited)

(thousands of Canadian dollars, except per share amounts)

1. Basis of Presentation

The interim consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared using the same accounting policies as the consolidated financial statements for the year ended March 31, 2004, except as described in note 2.

The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual report for the year ended March 31, 2004.

Reclassification

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

2. Significant Accounting Policies

Inventory

Coal inventory is valued at production cost, subject to a net realizable value test. Production costs include contract mining, direct labor, 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 cost and net realizable value.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into Canadian dollars at the month-end exchange rate for monetary items and at the historical exchange rate for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. Foreign currency gains and losses are included in income immediately.

Revenue Recognition

Product revenues are recognized when title passes to the customer. Seaborne coal sales revenues are generally recognized when the coal has been loaded on the vessel. Direct sales are recognized when the ownership of the coal is transferred to the customer. Interest and other revenue are recognized when earned.

3. Mineral Properties and Development Costs

The Corporation has acquired eight crown coal leases ("Leases") in the Grande Cache, Alberta area, each for a term of 15 years. The Corporation is committed, under the Lease terms, to paying an annual lease rental and a royalty on all coal recovered from these Leases during their respective terms. The Corporation is also required to meet certain milestones under these Lease agreements or the Crown can, at its sole discretion, terminate the Leases. At December 31, 2004, all milestones were met by the Corporation.

4. Restricted Cash

Cash secured letters of credit in the amount of \$4,204 were provided to the Alberta Minister of Finance for abandonment security to cover anticipated costs of reclamation for the mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit of \$512 were provided to service providers and a cash secured letter of credit of U.S.\$4,100 was provided as security for the notes payable.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2005
(Unaudited)

(thousands of Canadian dollars, except per share amounts)

5. Inventory

| | March 31 2005 |
|---------------------|--------------------------|
| Coal inventory | \$ 10,478 |
| Materials inventory | <u>360</u> |
| Total | <u>\$ 10,838</u> |

6. Notes Payable

The Corporation entered into a coal sale agreement dated April 13, 2004 with a Japanese trading company (the "Trading Co.") for the sale of approximately 250,000 tonnes of metallurgical coal to the Trading Co. by September 30, 2005. In conjunction with the coal sale agreement, the parties entered into an advance payment agreement pursuant to which the Trading Co. agreed to advance U.S.\$4,000 to the Corporation to be used by the Corporation for certain development activities and operations of its mining properties near Grande Cache, Alberta. As the advance was denominated in U.S. dollars, changes in the U.S./Canadian dollar exchange rate impact the carrying value of the note. Interest is payable on the outstanding balance at LIBOR plus 2% per annum, but in any event, shall not exceed U.S. \$100 over the term of the advance.

Repayment of the advance occurs through a reduction in the price per tonne otherwise payable by the Trading Co. for coal delivered under the coal sale agreement. During the fourth quarter, U.S.\$455 (U.S.\$985 year to date) of principal and interest of U.S.\$31 (US \$100 year to date) was repaid.

As security for this advance, the Corporation granted the Trading Co. a letter of credit in the amount of U.S.\$4,100 in the second quarter of 2005, replacing the demand debenture on all present and after-acquired property of the Corporation that had initially been granted. The Corporation must repay the advance not later than September 30, 2005 and has the option to repay, without penalty, the outstanding balance of the advance at any time and thereafter obtain discharge of the letter of credit.

Interest expense on the note of \$25 was recorded in the quarter ended March 31, 2005 (\$125 year to date).

7. Asset Retirement Obligations

Future asset retirement obligations were estimated by management 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 \$2,338 as at March 31, 2005, based on a total future liability of \$5,695. The Corporation's credit adjusted risk free rates range from 5.5% to 7.6% depending on the term of estimated years to reclamation.

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

| | Twelve months ended March 31 2005 |
|------------------------------|--|
| Balance, beginning of period | \$ 77 |
| Increase in liability | 2,180 |
| Accretion expense | <u>81</u> |
| Balance, end of period | <u>\$ 2,338</u> |

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2005
(Unaudited)

(thousands of Canadian dollars, except per share amounts)

8. Share Capital

Authorized

Unlimited common shares

Issued

| <i>(thousands)</i> | Number | Stated Value |
|--|----------------|---------------------|
| Common shares | | |
| Balance – March 31, 2004 | 6,067 | \$ 485 |
| Shares issued on initial public offering | 22,000 | 57,200 |
| Conversion of Series 1 preferred shares to common shares | 8,400 | 6,825 |
| Shares issued on private placement | 2,942 | 40,011 |
| Shares issued on exercise of warrants | <u>725</u> | <u>2,277</u> |
| Balance – March 31, 2005 | <u>40,134</u> | <u>106,798</u> |
| Series 1 preferred shares | | |
| Balance – March 31, 2004 | 6,825 | \$ 6,825 |
| Conversion of Series 1 preferred shares to common shares | <u>(6,825)</u> | <u>(6,825)</u> |
| Balance – March 31, 2005 | <u>-</u> | <u>-</u> |
| | | 106,798 |
| Less: Share issuance costs | | <u>7,047</u> |
| | | <u>\$ 99,751</u> |

On May 12, 2004, the Corporation completed its initial public offering of 22.0 million common shares at a price of \$2.60 per common share for gross proceeds of \$57,200. This included the full exercise by the agents of their over-allotment option to sell an additional 2.0 million common shares. Net proceeds to the Corporation, after deducting the agents' fee of \$3,146 and cash costs of the offering of \$769 were \$53,285.

Following the completion of the offering, all issued and outstanding Series 1 preferred shares were exchanged into common shares with a conversion factor of 1.23 common shares for each preferred share. Holders of Series 1 preferred shares were not entitled to any accrued and unpaid cumulative dividends up to the date of exchange.

On February 25, 2005, the Corporation completed the private placement of 2.9 million units at an issue price of \$13.60 per unit for gross proceeds of \$40,011. This included the full exercise by the underwriters of their over-allotment option to purchase an additional 0.4 million units. Each unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole common share purchase warrant entitling the holder to acquire one common share of the Corporation at a price of \$16.25 per share on or before February 27, 2006. Net proceeds to the Corporation were \$37,654, after deducting the underwriters' fee of \$2,201 and cash costs of the offering of \$156.

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Warrants

On May 12, 2004, the Corporation issued agents' warrants to purchase 1.21 million common shares at an exercise price of \$2.60 per common share for a period of 12 months from the closing date of the initial public offering. The fair value of each warrant issued is estimated on the date of the issuance using the Black Scholes pricing model, using an estimated volatility at the time of the grant of 50%, risk free interest rate of 3% and an expected life of one year. The non-cash stock based compensation expense of the agents' warrants of \$653 was recorded as a share issuance cost.

During the year 725 thousand agents' warrants were exercised for cash proceeds of \$1,886. On exercise of these warrants, \$391 was credited to share capital from contributed surplus.

Upon closing of the private placement on February 25, 2005, the Corporation issued warrants to purchase 1.471 million common shares at an exercise price of \$16.25 per share on or before February 27, 2006. No value was attributed to the warrants.

9. General and Administrative

General and administrative expenses in the quarter consist of customary overhead charges which include non-cash charges of \$486 (\$1,004 year to date) for stock-based compensation (note 11) and a \$4 gain (\$101 loss year to date) for foreign exchange.

Year to date general and administrative expenses consist of customary overhead charges, as well as non-recurring charges related to the initial startup of operations including internal labour, equipment rental, and miscellaneous supplies that were not capitalized.

10. Net Loss per Share

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

| | Three months ended March 31 2005 | Twelve months ended March 31 2005 |
|---|---|--|
| <i>(thousands, except per share information)</i> | | |
| Weighted average shares outstanding – basic and diluted | <u>38,303</u> | <u>33,697</u> |
| Net loss | \$ <u>(10,227)</u> | \$ <u>(18,939)</u> |
| Net loss per common share: | | |
| Basic and diluted | \$ <u>(0.27)</u> | \$ <u>(0.56)</u> |

11. Stock-Based Compensation

The Corporation has a share option plan, pursuant to which the board of directors or a committee thereof may from time to time grant options to purchase common shares.

Total stock-based compensation expense included in general and administrative expenses for the quarter was \$486 and was a result of the Corporation's share option plan. The year to date stock-based compensation expense was \$1,004.

At March 31, 2004, 1.4 million options to purchase common shares at an exercise price of \$1.00 were outstanding. The options have a term of five years and vest in equal amounts over three years. On July 30, 2004,

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75 thousand of these options were cancelled.

Options to purchase 200 thousand common shares at an exercise price of \$3.70 were granted to directors and employees of the Corporation under the Corporation's share option plan on July 22, 2004. The options have a five year term and were priced at the trading price of the Common Shares on the date of the grant. Options to purchase 125 thousand of the common shares vested immediately and options to purchase 75 thousand of the common shares are subject to a two year vesting period.

Options to purchase 75 thousand common shares at an exercise price of \$3.70 were granted to employees and an officer of the Corporation under the Corporation's share option plan on August 9, 2004. The options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Options to purchase 25 thousand of the common shares vested immediately and options to purchase 50 thousand of the common shares are subject to a two year vesting period.

Options to purchase 205 thousand common shares at an exercise price of \$11.56 were granted to directors, an officer and employees of the Corporation under the Corporation's share option plan on March 14, 2005. The options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Options to purchase 75 thousand of the common shares vested immediately and options to purchase 130 thousand of the common shares are subject to a two year vesting period.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 50%, risk-free interest rates of 3% and expected lives of five years.

Details of the options outstanding are as follows:

| <i>(thousands of shares)</i> | Common Shares | |
|----------------------------------|----------------------|--|
| | Number | Weighted Average Exercise Price |
| Outstanding – March 31, 2004 | 1,400 | \$ 1.00 |
| Granted | - | - |
| Cancelled | - | - |
| Exercised | - | - |
| Outstanding – June 30, 2004 | 1,400 | \$ 1.00 |
| Granted | 275 | \$ 3.70 |
| Cancelled | (75) | \$ 1.00 |
| Exercised | - | - |
| Outstanding – September 30, 2004 | 1,600 | \$ 1.46 |
| Granted | - | - |
| Cancelled | - | - |
| Exercised | - | - |
| Outstanding – December 31, 2004 | 1,600 | \$ 1.46 |
| Granted | 205 | \$ 11.56 |
| Cancelled | - | - |
| Exercised | - | - |
| Outstanding – March 31, 2005 | 1,805 | \$ 2.61 |

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

| <i>(thousands of shares)</i> | Common Shares | |
|------------------------------|----------------------|--|
| | Number | Weighted Average Exercise Price |
| | 442 | \$ 1.00 |
| | 150 | 3.70 |
| | 75 | 11.56 |
| | 667 | \$ 2.80 |

Of the options outstanding, 1,600 thousand options expire in 2009 and the remaining 205 thousand options expire in 2010.

12. Taxes

The Corporation is required to pay Alberta Crown Royalties on product revenues. The royalty expense for the quarter ended March 31, 2005 was \$93 (\$126 year to date). Also included is Large Corporations Tax of \$53 for the year.

13. 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 and office space as well as a provision for rail transportation. Under contracts existing at March 31, 2005, future minimum amounts payable under these agreements are summarized below:

| | |
|---------------------|---------|
| 2006 | \$1,366 |
| 2007 | \$1,376 |
| 2008 | \$ 233 |
| 2009 | \$ 213 |
| 2010 and thereafter | \$1,017 |

14. Related Party Transactions

In the first quarter of 2005, prior to the Corporation's initial public offering, management fees of \$23, which have been included in general and administrative expenses, were paid to companies owned by two directors of the Corporation. These transactions were in the normal course of business and were measured at the exchange amount, which was the consideration agreed to by the parties.

15. Subsequent Events

In May 2005, 484,606 agents' warrants issued on the initial public offering were exercised at a price of \$2.60 for cash proceeds of \$1,260.

On April 12, 2005, the Corporation entered into letters of intent to purchase mining equipment and placed an initial deposit of U.S.\$1.6 million with a major mining equipment manufacturer for the purchase of a mining shovel and drill. The total estimated cost of the equipment is U.S.\$16 million pending final specification decisions.

For further information, please contact:

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This news release contains certain forward-looking statements, which are based on Grande Cache's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Grande Cache's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, changes in general economic, market and business conditions; uncertainties associated with estimating the quantity and quality of coal reserves and resources; commodity prices, currency exchange rates, capital expenditures and debt service requirements; dependence on a single rail system; changes to legislation; liabilities inherent in coal mine development and production; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, mining and processing technical problems; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in coal mine development and production. Many of these risks and uncertainties are described in Grande Cache's 2004 Annual Information Form, Grande Cache's Management's Discussion and Analysis and other documents Grande Cache files with the Canadian securities authorities. Copies of these documents are available without charge from Grande Cache or may be accessed on Grande Cache's website (www.gccoal.com) or on the website maintained by the Canadian securities regulatory authorities (www.sedar.com).

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