

Grande Cache Coal Corporation

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the year ended March 31, 2008. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This discussion provides management's analysis of the Corporation's historical financial and operating results and provides estimates of the Corporation's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of June 26, 2008.

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements, which are based on the Corporation's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Grande Cache Coal's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to: liabilities inherent in coal mine development and production; geological, mining and processing technical problems; the Corporation's inability to obtain required mine licenses, mine permits and regulatory approvals required in connection with mining and coal processing operations; dependence on third party coal transportation systems; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; changes in commodity prices and exchange rates; changes in steel-making methods and other technological changes; the strength of various economies; difficulties inherent with selling in foreign countries; changes in the regulations in respect to the use of metallurgical coal; the effects of competition and pricing pressures in the metallurgical coal market; the oversupply of, or lack of demand for, metallurgical coal; currency and interest rate fluctuations; various events which could disrupt operations and/or the transportation of coal products, including labour stoppages and severe weather conditions; the demand for and availability of rail, port and other transportation services; and management's ability to anticipate and manage the foregoing factors and risks. Many of these risks and uncertainties are described in Grande Cache Coal's Annual Information Form, Grande Cache Coal's Management's Discussion and Analysis and other documents Grande Cache Coal files with the Canadian securities authorities.

All references are to Canadian dollars unless otherwise indicated.

Management's Discussion & Analysis

Financial Overview

<i>(millions of dollars)</i>	As at March 31 2008	As at March 31 2007	As at March 31 2006
Balance Sheet			
Total assets	123.5	107.5	90.7
Long-term liabilities	21.5	13.9	13.5
Shareholders' equity	83.6	69.8	50.1
<i>(millions of dollars, except per share amounts)</i>	2008	2007	2006
Income Statement			
Revenue	146.6	101.3	90.1
Cost of sales	141.3	93.2	112.3
Loss from operations	(13.9)	(2.4)	(31.2)
Net loss	(15.5)	(7.0)	(32.1)
Basic and diluted net loss per share	(0.24)	(0.14)	(0.79)
<i>(millions of tonnes, except per tonne amounts)</i>	2008	2007	2006
Statistics			
Clean coal production	1.42	0.99	1.04
Coal sales	1.65	1.00	0.90
Average sales price (U.S.\$/tonne)	86	93	91
Average sales price (\$/tonne)	89	101	100
Average cost of sales (\$/tonne)	86	93	124
Average cost of production (\$/tonne)	58	63	98

Fiscal 2008 Compared with Fiscal 2007

Revenue

Fiscal 2008 sales volumes were 1.65 million tonnes, a 65% increase over the 1.00 million tonnes sold in the prior year.

Sales Volumes	2008	2007	2006
Coal sales (millions of tonnes)	1.65	1.00	0.90
Sales by Geographic Region (%)			
Asia	53	50	83
Europe	38	20	-
North America	9	30	17

For the current fiscal year, the average price achieved on U.S. dollar denominated sales was U.S.\$86 per tonne compared to U.S.\$93 per tonne in the prior year. The product sales mix in fiscal 2008 included hard coking coal sales (87%) at an average price of U.S.\$89 per tonne and PCI sales (13%) at an average price of U.S.\$68 per tonne. Fiscal 2007 included hard coking coal sales (75%) at an average price of U.S.\$100 per tonne, PCI sales (18%) at an average price of U.S.\$65 per tonne and thermal coal sales to a neighboring power plant (7%) at an average price of \$34 per tonne

The weaker U.S dollar in relation to the Canadian dollar had a negative impact on the Corporation's financial results in the current year. During fiscal 2008, on average U.S.\$1 equaled Cdn\$1.03 compared to fiscal 2007 during which U.S.\$1 equaled Cdn\$1.14. As a result, the average Canadian sales price for U.S. dollar denominated sales was \$89 per tonne compared to \$106 per tonne in the comparable year. Including thermal coal sales, the prior year's average total sales price was \$101 per tonne.

Sales Prices	2008	2007	2006
U.S.\$/tonne			
Average hard coking coal sales price	89	100	99
Average PCI coal sales price	68	65	64
Average sales price	86	93	91
Average exchange rate (1 USD = Canadian)	1.03	1.14	1.19
Canadian \$/tonne			
Average hard coking coal sales price	91	114	117
Average PCI coal sales price	70	75	77
Average sales price for \$U.S. denominated sales	89	106	108
Average thermal coal sales price	-	34	25
Average total sales price	89	101	100

For the year, revenue was \$146.6 million compared to \$101.3 million in fiscal 2007. The annual increase is the result of higher sales volumes partially offset by lower U.S. dollar denominated contract sales prices and a lower exchange rate due to a stronger Canadian dollar.

Production Costs and Cost of Sales

Clean coal production cost for the year was 8% lower at \$58 per tonne compared to \$63 per tonne last fiscal year. In fiscal 2007, the Corporation made the decision to end its relationship with the surface mine contractor and purchase its own fleet of mining equipment. During the transition period, the contractor's efforts were focused on moving waste to

Management's Discussion & Analysis

maximize the coal readily available to the Corporation, which had the effect of temporarily increasing the strip ratio in the mine for the benefit of future periods. Certain stripping costs totaling \$4.3 million were capitalized during the second and third quarters of fiscal 2007. These prepaid charges were amortized over the production generated by the stripping activity resulting in amortization charges of \$0.1 million in the fourth quarter of fiscal 2007 and \$4.2 million in the second quarter of fiscal 2008.

For the current fiscal year, cost of sales were \$141.3 million (\$86 per tonne), versus \$93.2 million (\$93 per tonne) in the prior year. The cost of sales consisted of cost of product sold of \$96.2 million (\$59 per tonne) and distribution costs of \$45.1 million (\$27 per tonne). In the prior period, the cost of product sold was \$64.4 million (\$64 per tonne) and the distribution costs were \$28.8 million (\$29 per tonne).

The reduction in the unit cost of product sold is primarily a result of lower operating costs in the surface mine and reduced process plant costs due to improved operating productivities and a higher plant yield. The Corporation has also eliminated the services of several contractors and replaced essential services with Grande Cache Coal employees and equipment.

The decrease in distribution costs for the current year is mainly due to a lower proportion of shipments to eastern North America which carry higher rail rates than shipments to port in western Canada.

Production Costs and Cost of Sales	2008	2007	2006
Clean coal production (millions of tonnes)	1.42	0.99	1.04
Coal sales (millions of tonnes)	1.65	1.00	0.90
Average cost of production (\$/tonne)	58	63	98
Average cost of product sold (\$/tonne)	59	64	101
Average distribution costs (\$/tonne)	27	29	23
Average cost of sales (\$/tonne)	86	93	124

Other Operating Expenses

General and administrative expenses during the year were \$9.1 million, compared to \$6.0 million in fiscal 2007. A major reason for the increase is related to foreign exchange losses on currency translation which accounted for \$1.9 million in the current year (\$0.6 million – 2007) and is a result of a stronger Canadian dollar. Head office administrative and marketing charges were \$5.6 million (\$4.0 million – 2007) and non-cash charges for stock-based compensation were \$1.6 million (\$1.4 million – 2007).

Depreciation, depletion and accretion expenses for the year were \$10.1 million, up from \$4.4 million in the prior period. The increase is reflective of higher coal production levels, the addition of productive capital assets and the change in value of depreciation and depletion included in coal inventory.

Other Income (Expenses)

The Corporation's interest and other income was \$1.1 million in fiscal 2008 versus \$0.4 million in the prior year and consists primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads belonging to the Corporation.

Interest and other expenses for the year were \$1.7 million, compared to \$1.8 million in fiscal 2007 and consist primarily of interest paid on the revolving, term and convertible debt.

Non-recurring charges in the prior year were \$2.5 million and consisted of \$2.2 million in demobilization costs paid to the surface mining contractor in connection with the termination of the contract and a \$0.3 million fee for the cancellation of a planned equipment purchase.

Liquidity and Capital Resources

At March 31, 2008, Grande Cache Coal had cash and cash equivalents of \$4.2 million and availability of \$15.0 million on the revolving debt facility. During the year, the Corporation's cash position decreased \$0.4 million in contrast to a cash increase of \$3.6 million in fiscal 2007.

Cash provided by operating activities since March 31, 2007 was \$10.6 million versus a cash use of \$16.8 million in the previous fiscal year. Cash generated in the current year was weakened by the Corporation's \$15.5 million net loss, which was largely a result of reduced revenue due to lower contract sales prices and a weaker U.S. dollar.

Financing activities since March 31, 2007 have resulted in cash proceeds of \$25.0 million compared to cash proceeds of \$28.7 million in the prior year.

On August 9, 2007, Grande Cache Coal closed a bought deal equity financing. At closing, a total of 20.5 million units (the "Units") of the Corporation were issued at a price of \$1.30 per Unit for gross proceeds of \$26.65 million. In addition, the Corporation granted to the underwriters an over-allotment option to purchase up to an additional 3,075,000 Units at the issue price for a period of 30 days following the closing date. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$1.60 per share until August 11, 2008. On September 7, 2007, the underwriters of the Corporation's bought deal equity financing that closed on August 9, 2007 exercised their over-allotment option, resulting in the issuance of 791,300 Units of the Corporation at a price of \$1.30 per Unit for gross proceeds of \$1.03 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$1.60 per share until August 11, 2008. Costs for issuing the share capital were \$2.0 million. As at March 31, 2008, 861 thousand warrants were exercised generating cash of \$1.4 million.

During the fourth quarter of the current year, Grande Cache Coal completed negotiations on credit financing with Brookfield Bridge Lending Fund Inc. ("Brookfield"), the Corporation's existing senior lender. At closing, a \$17.5 million floating rate senior secured convertible debenture (the "Convertible Debenture") was issued to Brookfield and a secured revolving credit facility was entered into with Brookfield for an amount up to \$20.0 million (the "Revolving Facility"), subject to a borrowing base calculation. The proceeds from the Convertible Debenture were used to fully repay the Corporation's pre-existing term facility with Brookfield (\$10 million) and associated fees. The balance of the proceeds from the Convertible Debenture as well as proceeds from the Revolving Facility will be used for general corporate purposes.

The Convertible Debenture matures on April 1, 2011 (the "Maturity Date"). Interest accrues on the Convertible Debenture at a variable annual rate equal to a Canadian chartered bank's prime lending rate plus 1.75 percent per annum, calculated daily. The Convertible Debenture is convertible at Brookfield's option into common shares of the Corporation ("Common Shares") at the earlier of any time prior to the Maturity Date and the business day immediately preceding the date fixed by Grande Cache Coal for redemption at a conversion price of \$1.825 per Common Share (the "Conversion Price"). The Convertible Debenture is non-transferable except to affiliates of Brookfield and funds managed by Brookfield or its affiliates.

Grande Cache Coal may redeem the Convertible Debenture at any time in multiples of \$250,000 on 30 days notice at a redemption price equal to 107% of the principal amount being redeemed plus accrued and unpaid interest. Grande Cache Coal is required to redeem all amounts of outstanding indebtedness under the Convertible Debenture at a 107% premium in the event of a change of control of Grande Cache Coal. In addition, at any time after August 12, 2008, Grande Cache Coal may require Brookfield to convert up to 50% of the Convertible Debenture at the Conversion Price, provided that the 15 day volume weighted average trading price ("VWAP") (on volumes of at least 300,000 Common Shares for 15 consecutive trading days) of the Common Shares on the Corporation's principal stock exchange exceeds \$2.50 per share. Grande Cache Coal may require Brookfield to convert the balance of the Convertible Debenture in the event the 15 day VWAP of the Common Shares exceeds \$4.00 per share.

During the current year, the Corporation made net repayments of \$10.0 million on the Revolving Facility bringing the balance to \$5.0 million at March 31, 2008. Additionally, common share options were exercised for cash proceeds of \$0.2 million.

Financing activities in the prior year generated cash of \$28.7 million, during which time the Corporation closed a bought deal equity financing for net proceeds of \$25.3 million, consisting of gross proceeds of \$27.0 million and share

Management's Discussion & Analysis

issuance costs of \$1.7 million. The Corporation also received net proceeds from the revolving debt facility of \$3.5 million during the previous fiscal year.

Investing activities resulted in a cash decrease of \$34.6 million for the year, compared to a decrease of \$8.3 million in the prior fiscal year. Capital additions accounted for \$38.8 million of expenditures in the current year compared to \$3.6 million in fiscal 2007. Included in the current year's capital spending was \$30.4 million for the purchase of surface mine equipment. Also included in investing activities in fiscal 2007 was the capitalization and amortization of certain prestrip costs. Prestrip costs totaling \$4.3 million were capitalized and subsequently amortized over the production generated by the stripping activity resulting in amortization charges of \$4.2 million in the current fiscal year.

The Corporation believes that the Revolving Facility will be sufficient to fund ongoing working capital requirements. Grande Cache Coal expects that coal production will be sufficient to meet customer requirements during 2009. At March 31, 2008, the Corporation had \$5.5 million in coal inventory, compared to \$30.3 million at the end of the previous fiscal year.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 2008. The only long term liabilities of the Corporation are long term debt of \$17.4 million, asset retirement obligations with a present value of \$4.0 million, and capital lease obligations of \$0.1 million. Grande Cache Coal's asset retirement obligations are covered by a cash deposit of \$0.1 million and letters of credit totaling \$5.5 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, buildings and office space. The Corporation is also party to a Convertible Debenture. Under contracts existing at March 31, 2008, future minimum amounts payable under these agreements are:

<i>(millions of dollars)</i>	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Convertible Debenture	17.5	-	17.5	-	-
Leases	2.2	0.7	0.9	0.2	0.4
Total Contractual Obligations	19.7	0.7	18.4	0.2	0.4

Fiscal 2008 Fourth Quarter

Grande Cache Coal had a net loss of \$1.2 million in the fourth quarter of fiscal 2008, compared to a net loss of \$4.7 million in the same period last fiscal year.

During the fourth quarter, Grande Cache Coal sold 0.42 million tonnes at an average price of \$95 per tonne generating revenue of \$39.9 million. In the comparable period, poor weather conditions restricted rail transportation limiting coal sales to 0.18 million tonnes and revenue to \$13.8 million.

Cost of sales for the fourth quarter were \$35.9 million, or \$86 per tonne, compared to \$15.3 million, or \$86 per tonne in the same period last fiscal year. The cost of sales in the quarter consisted of cost of product sold of \$24.9 million (\$59 per tonne) and distribution costs of \$11.0 million (\$27 per tonne). In the comparable quarter of fiscal 2007, the cost of product sold was \$11.5 million (\$65 per tonne) and the distribution costs were \$3.8 million (\$21 per tonne).

Fiscal 2007 Compared with Fiscal 2006

The Corporation's net loss for fiscal 2007 was \$7.0 million, or \$0.14 per share, versus a net loss of \$32.1 million, or \$0.79 per share in fiscal 2006.

Grande Cache Coal's sales volumes for fiscal 2007 were 1.00 million tonnes generating revenue of \$101.3 million, an increase from the previous year's sales volumes of 0.90 million tonnes and revenue of \$90.1 million. The average

Management's Discussion & Analysis

realized Canadian dollar sales price for fiscal 2007 was \$101 per tonne, a slight increase from \$100 per tonne in fiscal 2006.

Grande Cache Coal's cost of sales in fiscal 2007 was \$93.2 million or \$93 per tonne, compared to \$112.3 million or \$124 per tonne in fiscal 2006. Included in the cost of sales were cost of product sold of \$64.4 million (\$64 per tonne) and distribution costs of \$28.8 million (\$29 per tonne). The cost of product sold and distribution costs in fiscal 2006 were \$91.4 million (\$101 per tonne) and \$20.9 million (\$23 per tonne), respectively.

Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	2008	Q4	Q3	Q2	Q1
Clean coal production	1.42	0.37	0.35	0.37	0.33
Coal sales	1.65	0.42	0.44	0.36	0.43
Average sales price (\$/tonne)	89	95	85	85	89
Average cost of sales (\$/tonne)	86	86	85	91	81
Average cost of production (\$/tonne)	58	63	50	62	55
Revenue	146.6	39.9	37.7	30.8	38.2
Loss from operations	(13.9)	(0.7)	(3.0)	(8.5)	(1.7)
Net loss	(15.5)	(1.2)	(3.4)	(8.8)	(2.0)
Basic and diluted net loss per share	(0.24)	(0.02)	(0.05)	(0.14)	(0.04)
<i>(millions, except per unit amounts)</i>	2007	Q4	Q3	Q2	Q1
Clean coal production	0.99	0.23	0.27	0.22	0.27
Coal sales	1.00	0.18	0.30	0.29	0.23
Average sales price (\$/tonne)	101	78	95	103	125
Average cost of sales (\$/tonne)	93	86	88	97	101
Average cost of production (\$/tonne)	63	68	63	63	60
Revenue	101.3	13.8	28.7	29.8	29.0
(Loss) income from operations	(2.4)	(4.2)	0.6	(0.9)	2.1
Net (loss) income	(7.0)	(4.7)	(2.2)	(1.8)	1.7
Basic and diluted net (loss) income per share	(0.14)	(0.09)	(0.04)	(0.03)	0.03

Outlook

Metallurgical Coal Markets

Grande Cache Coal has completed contract negotiations for fiscal 2009. Coal sales volumes are projected to be 1.8 to 2.0 million tonnes contingent upon adequate rail service and shipping. The average sales price for fiscal 2009 is anticipated to be in the range of U.S.\$245 to U.S.\$255 per tonne and includes carryover shipments from the prior coal year, contract sales negotiated on a calendar year basis and hard coking coal and PCI contract sales for the new coal year commencing on April 1, 2008. The expected average coal price is comprised of a range of prices from U.S.\$81 per tonne for carry over shipments to U.S.\$300 per tonne for contracts settled in the new coal year. The Corporation negotiated an average price of approximately U.S.\$290 per tonne for roughly 70% of the projected sales volume for fiscal 2009.

The Corporation is maintaining a focus on expanding and diversifying its customer base geographically as well as within traditional markets to mitigate delays in vessel nominations. The demand for metallurgical coking coal is expected to remain strong over the medium term as worldwide markets have tightened as production and infrastructure issues in parts of the world continue to constrain supply.

Management's Discussion & Analysis

Operations

The Corporation is continuing to focus on productivity improvements and cost control measures in the surface mine, underground mine and process plant. Several cost reduction initiatives have been realized and while it is expected that the average cost of sales will vary from quarter to quarter, the average cost of sales for fiscal 2009 is anticipated to be in the range of \$85 to \$88 per tonne. There has been a significant rise in industry wide mining and processing input costs recently, most notably diesel fuel and natural gas. A continued escalation of these costs would have a negative impact on the anticipated cost of sales.

Coal production in the first quarter of fiscal 2009 thus far has been below plan due to the underground mine being in a development stage, which temporarily reduces coal production, and issues with the deployment of equipment and people in the surface mine. Depillaring activities in the underground mine are expected to resume early in the second quarter of fiscal 2009 which will result in increased coal production. The Corporation is adding equipment and skilled personnel in the surface mine to increase production volume over the remainder of the fiscal year. As a result of the lower production volume, the Corporation expects that the cost of sales in the first quarter of fiscal 2009 will be higher than the average cost of sales projected for the fiscal year.

Capital Expenditures

The Corporation anticipates capital expenditures will total approximately \$50 million in fiscal 2009.

Expenditures related to surface mining are expected to total \$30 million in the year, including \$11 million on equipment to increase mine productivity and \$19 million of mine development projects. The development expenditures are to include an extension of the current surface mining area as well as development on future surface mining areas including the No. 8 surface mine. The Corporation has filed an application for an Energy Resources Conservation Board mine permit amendment and mine license and for an Alberta Environment amendment of the Corporation's present EPEA approval for the No. 8 mine.

Capital expenditures related to underground mining and the coal processing plant are projected to total approximately \$5 million each, including both sustaining capital expenditures and projects designed to increase efficiency. Safety, environmental, engineering and other projects are expected to total \$8 million. Ongoing drilling and exploration programs are anticipated to total approximately \$2 million.

Income Tax

Since the Corporation has been operating it has not incurred income tax. The Corporation expects to be taxable in fiscal 2009 due to a significant increase in the average coal sales price and improved operating results.

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 support accounts receivable.

Management's Discussion & Analysis

As at June 26, 2008, there were 82,568,043 common shares issued and outstanding, and the following share options were also outstanding:

<u>Share Options Outstanding</u>	<u>Number Granted</u>	<u>Number Vested</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	375,000	375,000	\$1.00	March 21, 2009
	100,000	100,000	\$3.70	July 21, 2009
	12,500	12,500	\$3.70	August 8, 2009
	115,000	115,000	\$11.56	March 15, 2010
	10,000	10,000	\$9.08	June 9, 2010
	75,000	75,000	\$4.50	October 18, 2010
	345,000	345,000	\$2.44	April 11, 2011
	175,000	175,000	\$1.05	October 11, 2011
	50,000	50,000	\$1.05	November 16, 2011
	373,407	200,000	\$0.88	May 23, 2012
	<u>1,566,736</u>	<u>266,667</u>	\$1.04	January 8, 2013
Total	<u>3,197,643</u>	<u>1,724,167</u>		

As at June 26, 2008, there were 6.8 million purchase warrants outstanding, exercisable at a price of \$1.60 per share until August 11, 2008.

Subsequent Events

Subsequent to March 31, 2008, the following events occurred.

The Corporation made payments of U.S.\$1.3 million towards the purchase commitment on the haul trucks.

3.0 million warrants were exercised into common shares at an exercise price of \$1.60 per share for gross proceeds of \$4.8 million.

2.0 million common shares were issued on the exercise of options at an average price of \$1.29 per share for gross proceeds of \$2.6 million.

The Corporation received \$0.8 million in cash due to the return of restricted cash that had been used as security for a letter of credit that had been made available to a service provider. A cash secured letter of credit in the amount of \$1.9 million was provided to the Alberta Government for abandonment security to cover anticipated costs of reclamation.

Pursuant to the terms of the convertible debenture, Brookfield converted \$7.7 million of the convertible debenture into 4.2 million shares.

Additional Information

Additional information regarding the Corporation and its business operations, including the Corporation's annual information form, is available on the Corporation's SEDAR company profile at www.sedar.com.

Critical Accounting Estimates

Grande Cache Coal's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and in preparing these statements management must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates and assumptions are believed to be reasonable under the circumstances and are based on historical experience and current conditions. The use of other

Management's Discussion & Analysis

assumptions could result in different estimates and actual results may vary from results based on these estimates. As events occur and additional information is obtained, these estimates may be subject to change. Estimates are deemed critical when the Corporation's financial condition or results of operations could be materially impacted by a change in estimate. The Corporation's significant accounting policies are discussed in note 2 of the consolidated financial statements. The following is a discussion of the critical accounting estimates used to determine the financial results of the Corporation.

Capital Assets, Depletion and Impairment

Mineral properties and development assets include expenditures to acquire and develop mineral properties and reserves, as well as development costs incurred to develop new reserves in advance of commercial production. Depletion on producing properties is based on a unit of production based on proven and probable reserves of the respective coal leases.

The determination of coal reserves requires a number of assumptions and estimates, including geological sampling and modeling as well as estimates of future coal prices and future production costs. Estimates of the reserves may change based on additional information obtained subsequent to the assessment date. This may include data obtained from exploration drilling, significant changes in the price of coal and changes in estimates of the cost of production. Reserve estimates can have a significant impact on income, as they are a key component in the calculation of depletion and asset impairment. A change in the estimate of reserves could result in a change in the rate of depletion or in impairment of the assets.

The Corporation reviews the recoverability of the assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The test for impairment involves a significant number of estimates including future coal prices, future cost of production, reserve amounts, interest rates and future cost of capital. A change in these estimates could result in an impairment of the related assets resulting in a write down.

Inventory Valuation

Coal inventory is valued at the lower of average cost and net realizable value. Net realizable value is based on the expected selling price less the costs to get the coal into a saleable form and to the selling location. The determination of net realizable value requires a number of estimates, such as expected selling prices, anticipated timing of sales, distribution costs and foreign exchange rates. A change in these estimates could result in a write down of inventory value with a corresponding charge to cost of product sold.

Asset Retirement Obligations

The Corporation has adopted the standard for asset retirement obligations required by CICA Handbook Section 3110. The standard requires recognition of an asset and a liability for asset retirement obligations determined by estimating the fair value of the obligation at the balance sheet date. The total asset retirement obligation, calculated using estimates of the timing and amount of third party cash flows required for restoration, is discounted to its present value using the Corporation's credit adjusted risk-free rate and the corresponding amount is recognized by increasing the carrying amount of mineral properties. The carrying amount is depleted on units of production based on the proven and probable reserves of the coal leases. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to accretion expense in the period. Any change in the timing or amount of the cash flows subsequent to initial recognition results in a change in the asset and liability, which then impacts depletion and accretion charges.

Stock-based Compensation

The Corporation uses the fair-value method of accounting for stock-based compensation related to share options for all awards granted, modified or settled. Under this method, compensation cost attributable to all share options granted is measured at fair-value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The Corporation has not incorporated an estimated forfeiture rate of share options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur. In determining the fair value, the Corporation makes estimates for expected volatility of the stock as well as an estimated discount rate. Changes to these estimates could result in the fair-value of the stock-based compensation to be less than or greater than the amount recorded.

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 year except as described below.

The CICA Handbook sections 1530 - Comprehensive Income, 3855 - Financial Instruments – Recognition and Measurement and 3865 - Hedges, became applicable to the Corporation on April 1, 2007.

Section 1530 requires the presentation of a statement of comprehensive income and its components that are not included in net income (loss). Other comprehensive income is the change in net assets during a period that result from transactions, events and circumstances from non-owner sources such as unrealized gains or losses on available-for-sale investments. The Corporation did not have other comprehensive income or losses during the period therefore comprehensive loss was equal to the net loss.

Section 3855 establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard. Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income (loss). Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income (loss). Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The methods used by the Corporation in determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

Section 3865 provides new standards for entities applying hedge accounting. The Corporation had no transactions which have been designated as hedges for accounting purposes therefore the new standard did not impact the financial statements.

The CICA Handbook sections 1535 – Capital Disclosures, 3031 – Inventories, 3862 – Financial Instruments - Disclosures and 3863 – Financial Instruments – Presentations, will become applicable to the Corporation on April 1, 2008.

Section 1535 requires the disclosure of information regarding objectives, policies and processes for managing capital. Adoption of this accounting standard may result in additional disclosure in the Corporation's notes to the financial statements.

Section 3031 prescribes new accounting treatment for inventories. The impact of adopting this accounting standard is currently being assessed.

Section 3862 requires enhanced financial statement disclosure of financial instruments including the significance of financial instruments, the nature and extent of risks arising from financial instruments and how those risks will be managed. Section 3863 establishes enhanced financial statement presentation of financial instruments and their implications on the Corporation's financial position, performance and cash flows. The impact of adopting these accounting standards is currently being assessed.

The Canadian Accounting Standards Board has decided that International Financial Reporting Standards ("IFRS") will be adopted as Canadian generally accepted accounting principles ("GAAP") 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 year. The Corporation is in the process of assessing the differences between IFRS and Canadian GAAP and the impact the transition will have on the financial statements.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Grande Cache Coal is accumulated and communicated to the Corporation's management as appropriate to allow timely decisions regarding required disclosure. The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the

Management's Discussion & Analysis

Corporation is made known to them. It should be noted that while Grande Cache Coal's Chief Executive Officer and Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls Over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the business to provide reasonable assurance regarding the reliability of financial reporting for the Corporation.

Grande Cache Coal's management, including the Chief Executive Officer and Chief Financial Officer, have assessed the design of the Company's internal control over financial reporting procedures. Any system of internal control over financial reporting has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and presentation. Management is continually monitoring and revising its control procedures and processes. The Company does not have complete segregation of duties within the Finance function due to a small staff complement. As a result there is no independent review of more complex areas of accounting and certain accounting estimates prepared by the Chief Financial Officer. The Corporation employs additional entity level controls to compensate for any deficiencies which may exist.

As at March 31, 2008, management has concluded that the internal controls over financial reporting were appropriately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

RISK FACTORS

An investment in the Corporation's securities should be considered highly speculative due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development and mining of, coal reserves. An investment in the Corporation's securities involves a high degree of risk and should only be made by persons who can afford the total loss of their investment. An investor should consider carefully the risk factors set out below. In addition, investors should carefully review and consider all other information contained in this management's discussion and analysis, the annual consolidated financial statements and other public disclosures of the Corporation before making an investment decision.

Market Risks

Competition

The coal mining industry is competitive in all its phases. Grande Cache Coal competes with numerous other participants in the search for, and the acquisition of, coal properties and in the marketing of coal. Grande Cache Coal's competitors include coal mining companies that have substantially greater financial resources, staff and facilities than those of Grande Cache Coal. Grande Cache Coal's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects. Competitive factors in the distribution and marketing of coal include price and methods and reliability of delivery.

Coal Price and Volume Volatility

Grande Cache Coal's financial condition will be directly related to the volume and price of coal and coal products sold. Coal demand and price are determined by numerous factors beyond the control of Grande Cache Coal including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates and political and economic conditions, and production costs in major coal producing regions. In the past, there have been periods of oversupply of metallurgical coal in the market, which have resulted in price decreases. An oversupply of metallurgical coal in world markets or a general downturn in the economies of any of Grande Cache Coal's significant markets would have a material adverse effect on the financial condition of the Corporation. Grande Cache Coal's dependence on foreign markets may result in instability due to political and economic factors in those

Management's Discussion & Analysis

foreign jurisdictions which is beyond the control of the Corporation. The combined effects of any or all of these factors on coal price or volume are impossible for Grande Cache Coal to predict. If realized coal prices fall below the full cost of production of any of Grande Cache Coal's operations and remain at such level for any sustained period, Grande Cache Coal will experience losses and may decide to discontinue production, forcing Grande Cache Coal to incur closure and/or care and maintenance costs, as the case may be.

Dependence Upon the Steel Industry

Substantially all of the metallurgical coal that Grande Cache Coal produces is sold to steel producers. The steel industry's demand for metallurgical coal is affected by a number of factors including the cyclical nature of that industry's business, technological developments in the steel-making process and the availability of substitutes for steel such as aluminum, composites and plastics. A significant reduction in the demand for steel products would reduce the demand for metallurgical coal, which would have a material adverse effect upon Grande Cache Coal. Similarly, if less expensive ingredients could be used in substitution for metallurgical coal in the integrated steel mill process, the demand for metallurgical coal would materially decrease, which would also materially and adversely affect Grande Cache Coal.

Operational Risks

Exploration, Development and Production

Coal mining operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Grande Cache Coal depends on its ability to find, acquire, develop and commercially produce coal. A future increase in Grande Cache Coal's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Grande Cache Coal will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Grande Cache Coal may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of coal will be discovered or acquired by Grande Cache Coal.

Establishment of a coal reserve and development of a coal mine does not assure a profit on the investment or recovery of costs. In addition, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological, geotechnical and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Coal exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as environmental hazards and industrial accidents, each of which could result in substantial damage to mines, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Grande Cache Coal is not fully insured against all of these risks, nor are all such risks insurable. Although Grande Cache Coal maintains liability insurance in an amount that it considers consistent with industry practice for a company in the exploration and development stage, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Coal mining operations are also subject to all the risks typically associated with such operations, including encountering unexpected mining conditions, pit wall slides and pit flooding. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Stage of Development

Grande Cache Coal has not earned profits to date and there is no assurance that it will do so in the future. As a result, there can be no assurance that Grande Cache Coal will be able to develop and operate its properties, or any one of them, profitably, or that its activities will generate positive cash flow. As a result of Grande Cache Coal's lack of significant operating history, it faces many of the risks inherent in starting a new business.

Coal Transportation

The majority of coal that is produced by Grande Cache Coal is exported outside of North America. Grande Cache Coal's mines are located more than 1,000 kilometres from seaports and are all serviced by a single rail system. Accordingly, operations are highly dependent on both rail and port services. As a result, a significant portion of total transportation and other costs are attributable to rail and port costs, which includes demurrage charges for vessel waiting times. All of the metallurgical coal production from Grande Cache Coal is transported to port facilities by Canadian National Railway Company ("CN") and loaded on to vessels in either Vancouver at Westshore Terminals or Thunder Bay at Thunder Bay Terminals. Contractual disputes, rail and port capacity issues, prolonged labour stoppages, availability of vessels, weather problems or other factors that prevent CN, Westshore Terminals or Thunder Bay Terminals from providing their services could seriously impact Grande Cache Coal's financial condition. In addition, significant cost escalation for these services will serve to reduce profitability, possibly increasing the full cost of production above realized coal prices. To the extent such increases are sustained, Grande Cache Coal could experience losses and may decide to discontinue production, forcing Grande Cache Coal to incur closure and/or care and maintenance costs, as the case may be.

Shortage of Mining Equipment and Operating Supplies

The recent growth in global mining activities has created a demand for mining equipment and related supplies that outpaces supply. As a result, future operations could be adversely affected if Grande Cache Coal encounters difficulties obtaining equipment, tires and other supplies on a timely basis. In the event that Grande Cache Coal is unable to secure required mining equipment on a timely basis, expansion activities, production, productivity and costs could be negatively affected.

Foreign Currency Exchange

Grande Cache Coal's operating results and cash flows are affected by foreign currency exchange rates. Exchange rate movements have a significant impact on results since the vast majority of Grande Cache Coal's operating costs are incurred in Canadian dollars and most of its revenues are denominated in U.S. dollars. An increase in the value of the Canadian dollar relative to the U.S. dollar would reduce Grande Cache Coal's realized Canadian dollar-selling price thereby reducing the profitability of Grande Cache Coal and such reduction could be material. 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 products to compete in foreign markets.

Dependence on Major Customers

The metallurgical coal industry is characterized by a relatively small number of customers worldwide. Consequently, Grande Cache Coal expects that future revenues will continue to be derived from a small number of customers. A loss of, or a significant reduction in, purchases by any of Grande Cache Coal's largest customers could adversely affect the Corporation's revenue.

Title to Assets

Grande Cache Coal's properties may be subject to native land claims or government regulations. Although title reviews may be conducted prior to the purchase of coal properties, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's claim which could result in a reduction or extinguishment of the revenue received by Grande Cache Coal.

Reserve and Resource Estimates

While the estimates of reserves and resources of Grande Cache Coal have been prepared in accordance with industry standards and applicable law based on information which the Corporation believes to be reliable, there are numerous uncertainties inherent in the estimation of mineral reserves and resources. For example, the estimation of reserves and resources in accordance with applicable standards involves a determination of economic recovery of minerals that are in the ground, which in turn requires that assumptions be made regarding their future price and the cost of recovery, as well as other factors that are beyond Grande Cache Coal's control. Market price fluctuations in the price of coal, as well as increased production costs or reduced recovery rates, may render a portion or all of the reserves and resources uneconomic and may ultimately result in a restatement of reserves and resources. Moreover, short-term operating factors relating to the coal reserves and resources, such as the need for sequential development of coal bodies, varying

Management's Discussion & Analysis

stripping ratios and the processing of new or different ore grades, may adversely affect the Corporation's future results of operations and financial condition in any particular accounting period.

For these reasons, the actual mineral tonnage recovered from identified reserve areas or properties, and revenues and expenditures related to the exploitation of Grande Cache Coal's reserves, may vary materially from estimates. The estimates of reserves and resources therefore may not accurately reflect Grande Cache Coal's actual reserves and resources and may need to be restated in the future.

Grande Cache Coal's profitability will depend substantially on the Corporation's ability to mine coal deposits that have the geological characteristics that enable them to be mined at competitive costs. Replacement deposits may not be available when required or may not be capable of being mined at costs comparable to those of the depleting mines. The Corporation will seek to replace its economic mineral holdings through exploration and development of currently owned properties and the acquisition of properties from third parties. However, management may not be able to fully assess the geological characteristics of any properties that it acquires until after the acquisition, which may adversely affect the profitability and financial condition of the Corporation.

Grande Cache Coal has extensive coal properties that are undeveloped. Authorization from federal or provincial governments will be required before these properties can be brought into production. Access to such lands for mining purposes may be restricted by future legislation. Accordingly, there can be no assurance that Grande Cache Coal will be able to obtain the necessary authorizations to develop resource properties in the future and this may adversely affect the Corporation's future results of operations and financial condition.

Mining Risks and Insurance

Grande Cache Coal's exploration, development and mining operations are subject to conditions beyond the control of management that can delay coal production or delivery, or increase the cost of mining. Such conditions include natural disasters, unexpected equipment repairs or replacements, unusual geological formations, environmental hazards, industrial accidents, and inclement or hazardous weather conditions. Such conditions could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and legal liability. In this regard, Grande Cache Coal maintains insurance against risks that are typical in the mining industry. In addition, Grande Cache Coal has insured its physical assets and purchased liability insurance at levels it believes to be reasonable. However, there is no guarantee that such insurance coverages will be adequate in all cases.

Insurance against certain risks, including liabilities for environmental damage, is not available at reasonable economic rates to Grande Cache Coal or other companies within the industry. To the extent that Grande Cache Coal is subject to environmental liabilities, the payment of such liabilities would reduce the funds available to Grande Cache Coal. Should Grande Cache Coal be unable to fully fund the cost of remedying an environmental problem, Grande Cache Coal may be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

Litigation

Legal proceedings may arise from time to time in the course of Grande Cache Coal's business. There have been a number of cases where the rights and privileges of mining and exploration companies have been the subject of litigation. Such litigation may be brought against Grande Cache Coal in the future from time to time or Grande Cache Coal may be subject to another form of litigation.

Dividends

To date, Grande Cache Coal has not paid any dividends on the outstanding common shares. Any decision to pay dividends on the common shares will be made by the board of directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

Personnel

Grande Cache Coal's personnel are not currently unionized. Some or all of such personnel may choose to become unionized. The rail carrier and port facilities on which the Corporation is dependent to deliver coal to its customers are unionized. Strikes, lockouts or other work stoppages or slow-downs involving the unionized employees of Grande Cache Coal's key service suppliers could have a material adverse effect upon Grande Cache Coal's revenues.

Management's Discussion & Analysis

Grande Cache Coal's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. Grande Cache Coal does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. The competition for qualified personnel in the coal mining industry is intense and there can be no assurance that Grande Cache Coal will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

Government Regulations

Changes in Legislation

There can be no assurance that income tax laws, royalty regulations and governmental incentive programs relating to the mining industry in Canada will not be changed in a manner which adversely affects the Corporation. There can be no assurance that income tax laws, royalty regulations and government incentive programs relating to the mining industry in other coal producing countries will not change to favor the Corporation's competitors leading to reduced international coal prices and demand for coal products that the Corporation intends to produce.

Government Regulations

Government authorities regulate the coal mining industry to a significant degree, in connection with, among other things, employee health and safety, air quality standards, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties and the discharge of materials into the environment. This legislation has had and will continue to have a significant effect on Grande Cache Coal's operations and competitive position. Future legislation may also adversely impact the Corporation's operations by hindering the Corporation's mining operations or by increasing its costs. The Corporation's lands and activities are subject to extensive federal and provincial laws and regulations controlling not only the mining of and exploration of mineral properties, but also the possible effects of such activities upon the environment. Future legislation and regulations could cause additional expense, capital expenditures, reclamation obligations, restrictions and delays in the development of the Corporation's properties, the extent of which cannot be predicted. In the context of environmental permitting, including the approval of reclamation plans, Grande Cache Coal must comply with legislated or regulated standards and existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority.

Permits and Permitting Process

Mining companies must obtain numerous permits, licenses and approvals that strictly regulate access, environmental and health and safety and other matters in connection with coal mining. Regulatory authorities exercise considerable discretion in whether or not to issue permits, licenses and approvals and the timing of such issuances. Also, private individuals and the public at large possess rights to comment on and otherwise engage in the permitting, licensing and approval process, including through intervention in the courts. Accordingly, new permits, licenses and approvals required by the Corporation to fully exploit its properties may not be issued, or if issued, may not be issued in a timely fashion, or may contain requirements which restrict the Corporation's ability to conduct its mining operations or to do so profitably.

Kyoto Protocol

The Kyoto Protocol is an international agreement that sets limits on greenhouse gas emissions from certain signatory countries. While the United States government has announced that it will not ratify the Kyoto Protocol, the Kyoto Protocol came into force in Canada on February, 16, 2005. The Kyoto agreement commits Canada to limit its net greenhouse gas emissions to 6% below the levels emitted in 1990. Canada's current level of greenhouse gas emissions significantly exceeds the agreed-upon limit.

In October 2006 the government of Canada announced its intention to develop and implement regulatory measures primarily, but not exclusively under the *Canadian Environmental Protection Act, 1999*, and as enabled by amendments set out in the proposed *Canada's Clean Air Act*, addressing the main human-made sources (including industry, transportation and certain products) of air pollutants and greenhouse gases.

A consultation process between members of key industry sectors and the government of Canada commenced in late 2006. The government of Canada has committed to consult on the form of the overall regulatory framework that will

Management's Discussion & Analysis

guide the development of industrial sector regulations. The intent is to reach a decision on the overall regulatory approach, including proposed short-term targets for air pollutants and greenhouse gases to be reflected in the proposed regulations to come into effect in the 2010-2015 periods.

As a result of the second consultation phase on April 26, 2007, the Federal Government released its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan") also known as ecoACTION which includes the regulatory framework for air emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy using products. In order to strengthen the Action Plan, on March 10, 2008, the Government of Canada released "Turning the Corner – Taking Action to Fight Climate Change" which provides some additional guidance with respect to the Government's plan to reduce greenhouse gas emissions by 20% by 2020 and by 60% to 70% by 2050.

The primary source of greenhouse gas emissions in Canada is the use of hydrocarbon energy. The operations of Grande Cache Coal depend significantly on hydrocarbon energy sources to conduct daily operations, and there are currently no economic substitutes for these forms of energy. As discussed above, the federal government has not finalized any formal regulatory programs to control greenhouse gases and it is not yet possible to determine their potential effects on the operations of Grande Cache Coal. Most of Grande Cache Coal's products are sold outside of Canada, and sales are not expected to be significantly affected by Canada's Kyoto ratification decision. However, the broad adoption of emission limitations or other regulatory efforts to control greenhouse gas emissions could negatively affect in a material adverse way the demand for coal as well as increase production and transportation costs.

The Government of Alberta has confirmed its intent to set greenhouse gas intensity limits for large emitters of greenhouse gases in Alberta. The Government has established the Specified Gas Emitters Regulation, which came into force on July 1, 2007. Under the Regulation, all industrial operations that exceed 100,000 tonnes carbon dioxide equivalent annually will be subject to reporting and a 12% intensity reduction requirement. In addition, on January 31, 2008 the Government of Canada and the Province of Alberta released the final report of the Canada-Alberta ecoENERGY Carbon Capture and Storage Task Force, which recommends among others: (i) incorporating carbon capture and storage into Canada's clean air regulation; (ii) allocating new funding into projects through competitive process; and targeting research to lower the cost of technology.

For "new" facilities such as Grande Cache Coal's operations, emission intensity reductions will be phased in over a six year period. The program is intended to induce improvements in operations that have the effect of reducing greenhouse gas emissions intensity. If the 12% intensity reduction target is not achieved, the operator will be subject to paying into a Climate Change and Emissions Management Fund (\$15 per tonne of carbon dioxide equivalent) or purchase offsets or performance credits from other Alberta-based operators.

Grande Cache Coal hopes to expand current levels of production, which will undoubtedly qualify the Corporation for the greenhouse gas intensity reduction requirement.

Until the federal and provincial regulations are reconciled, industry is faced with uncertainty and is pushing for an equivalency agreement between the Province of Alberta and the Government of Canada to minimize duplication of reporting or financial penalties.

Environmental

All phases of the coal mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with coal mining operations. The legislation also requires that mines and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although Grande Cache Coal believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Credit Risk

Debt Instruments

Grande Cache Coal's revolving facility and convertible debenture contain covenants that require the Corporation to meet certain financial tests and that restrict, among other things, the ability to incur additional debt, dispose of assets or pay dividends in certain circumstances. These restrictions may limit Grande Cache Coal from paying dividends to shareholders.

Additional Funding Requirements

Grande Cache Coal anticipates making substantial capital expenditures for the exploration, development, production and acquisition of coal reserves in the future. Grande Cache Coal may have to obtain additional debt and/or equity financing to the extent that the capital expenditures are not funded by internally generated cash flow. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of Grande Cache Coal to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Conflicts of Interest

Certain directors of Grande Cache Coal are also directors of other mineral resource companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the *Business Corporations Act (Alberta)*.

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Management's Report

The accompanying consolidated financial statements and related financial information in the annual report are the responsibility of management, have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgment and estimates. Financial information contained elsewhere in this annual report is consistent with that found in the consolidated financial statements.

Management has developed and maintains systems of accounting, disclosure and internal control in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets. Policies and procedures are maintained to support the control systems and include a code of business conduct.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders, have conducted an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

The Board of Directors of the Corporation has established an Audit Committee, consisting of three non-management directors. The Audit Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board of Directors for approval. The independent auditors have full and free access to the Audit Committee. The Audit Committee reviews annual and interim consolidated financial statements and Management's Discussion and Analysis, as well as the Corporation's Annual Information Form prior to their release.

(Signed) Robert H. Stan
President and Chief Executive Officer

(Signed) Anita L. Roncin
Vice-President, Finance and Chief Financial Officer

June 27, 2008

Auditors' Report

To the Shareholders of
Grande Cache Coal Corporation

We have audited the consolidated balance sheets of Grande Cache Coal Corporation as at March 31, 2008 and 2007 and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and 2007 and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
June 27, 2008

Grande Cache Coal Corporation
Consolidated Balance Sheets
As at March 31
(thousands of Canadian dollars)

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 4,238	\$ 4,614
Restricted cash (note 4)	6,528	6,528
Accounts receivable	20,171	5,129
Inventory (note 5)	10,477	34,677
Prepaid expenses	1,084	1,769
Prepaid prestrip charges (note 6)	-	4,193
	<u>42,498</u>	<u>56,910</u>
Deposit for future reclamation expenditures	82	82
Capital assets (note 7)	<u>80,937</u>	<u>50,473</u>
	<u>\$ 123,517</u>	<u>\$ 107,465</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,484	\$ 8,788
Revolving debt (note 8)	<u>5,000</u>	<u>15,000</u>
	18,484	23,788
Long term debt (note 8)	17,382	10,000
Asset retirement obligations (note 9)	4,020	3,783
Capital lease obligations	<u>52</u>	<u>104</u>
	<u>39,938</u>	<u>37,675</u>
Shareholders' equity		
Share capital (note 10)	154,676	126,979
Convertible debenture (note 8)	118	-
Contributed surplus	4,468	3,036
Deficit	<u>(75,683)</u>	<u>(60,225)</u>
	<u>83,579</u>	<u>69,790</u>
	<u>\$ 123,517</u>	<u>\$ 107,465</u>
Commitments (note 11)		

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Donald J. Douglas
Director

Grande Cache Coal Corporation
Consolidated Statements of Net Loss, Comprehensive Loss and Deficit
Years Ended March 31

(thousands of Canadian dollars, except per share amounts)

	2008	2007
Revenue	\$ 146,579	\$ 101,251
Expenses		
Cost of product sold	96,246	64,398
Distribution	45,081	28,841
General and administrative (note 12)	9,089	6,000
Depreciation, depletion and accretion	10,057	4,409
	<u>160,473</u>	<u>103,648</u>
Loss from operations	(13,894)	(2,397)
Other income (expenses)		
Interest and other income	1,123	399
Interest and other expenses	(1,672)	(1,751)
Non-recurring charges (note 13)	-	(2,541)
	<u>(14,443)</u>	<u>(6,290)</u>
Loss before taxes	(14,443)	(6,290)
Taxes (note 14)	(1,015)	(724)
Net loss and comprehensive loss	(15,458)	(7,014)
Deficit, beginning of year	<u>(60,225)</u>	<u>(53,211)</u>
Deficit, end of year	<u>\$ (75,683)</u>	<u>\$ (60,225)</u>
Net loss per share (note 15)		
Basic and diluted	<u>\$ (0.24)</u>	<u>\$ (0.14)</u>

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Cash Flows
Years Ended March 31
(thousands of Canadian dollars)

	2008	2007
Cash provided by (used for)		
Operating activities		
Net loss and comprehensive loss	\$ (15,458)	\$ (7,014)
Items not affecting cash		
Stock-based compensation (note 16)	1,575	1,415
Settlement of asset retirement obligations (note 9)	(19)	-
Unrealized foreign exchange loss	1,433	25
Depreciation, depletion and accretion	10,057	4,409
	<u>(2,412)</u>	<u>(1,165)</u>
Net change in non-cash working capital relating to operating activities	13,042	(15,650)
	<u>10,630</u>	<u>(16,815)</u>
Financing activities		
(Repayment) proceeds on revolving debt (note 8)	(10,000)	3,500
Proceeds on long term debt (note 8)	7,500	-
Proceeds on issuance of share capital (note 10)	27,956	27,000
Share issuance costs (note 10)	(1,979)	(1,736)
Proceeds on exercise of warrants (note 10)	1,377	-
Proceeds on exercise of options (note 10)	200	-
Payment on capital lease obligations	(62)	(39)
Net change in non-cash working capital relating to financing activities	2	-
	<u>24,994</u>	<u>28,725</u>
Investing activities		
Additions to mineral properties and development	(1,380)	(2,219)
Additions to buildings and equipment	(37,369)	(1,376)
Restricted cash (note 4)	-	(390)
Net change in non-cash working capital relating to investing activities	4,198	(4,333)
	<u>(34,551)</u>	<u>(8,318)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(1,449)</u>	<u>49</u>
(Decrease) increase in cash and cash equivalents	(376)	3,641
Cash and cash equivalents, beginning of year	4,614	973
Cash and cash equivalents, end of year	<u>\$ 4,238</u>	<u>\$ 4,614</u>
Supplemental cash flow information:		
Interest paid	\$ 1,672	\$ 1,751
Taxes paid	923	703

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

1. Nature of Operations

Grande Cache Coal Corporation (“Grande Cache Coal” or the “Corporation”) is an Alberta based metallurgical coal mining company whose experienced team of coal professionals are managing a mine that produces metallurgical coal for the steel industry and holds coal leases covering over 22,000 hectares in the Smoky River Coalfield located in west-central Alberta.

2. Significant Accounting Policies

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below:

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its inactive wholly-owned subsidiary, Smoky River International Inc.

Management Estimates

The consolidated financial statements include certain management estimates that may require accounting adjustments based on future occurrences. The most significant estimates relate to asset retirement obligations, stock based compensation, depletion, depreciation, and an asset impairment test calculation for mineral properties and deferred development. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in future periods could be material.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of amounts on deposit with banks and other highly liquid investments with a maturity at the time of purchase of three months or less. Cash and cash equivalents are recorded at cost, which approximates market value.

Restricted Cash

Restricted cash consists of cash set aside as security for letters of credits provided to government agencies and to service providers. Restricted cash is recorded at fair market value.

Inventory

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.

Prepaid Prestrip Charges

In accordance with EIC-160: Stripping Costs Incurred in the Production Phase of a Mining Operation, the Corporation capitalized certain stripping costs due to mining conditions in which the surface mine contractor was winding down its activities for the Corporation. During the transition period, the contractor’s efforts were focused on removing waste to maximize the coal readily available to the Corporation, which had the affect of temporarily increasing the strip ratio in the mine for the benefit of future periods. These deferred charges were amortized over the future production generated by the stripping activity.

Mineral Properties and Development

The Corporation has acquired several crown coal leases (“Leases”) in the Grande Cache, Alberta area, each for a

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

term of 15 years. The recoverability of the amounts recorded for mineral properties and development costs are dependent on the existence of economically recoverable reserves and future profitable production from the mineral properties.

Mineral properties and development include expenditures to acquire and develop mineral properties and reserves. Development costs incurred to develop new reserves in advance of commercial production are capitalized. Exploration costs that relate to specific properties for which economically recoverable reserves have been established are capitalized.

Mineral properties and development costs are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When the net carrying value of the mineral properties, less their related provision for asset retirement obligations, exceeds the estimated undiscounted future net cash flows together with their residual values, the mineral properties are written down to their fair value.

Depreciation and Depletion

Depreciation of computer equipment and software is provided for using the declining balance method at rates ranging from 30% to 100% per annum. Depreciation of buildings and equipment is straight-line based on the useful life of the asset ranging from 2 to 20 years. Depletion on producing properties is calculated using a unit of production method based on proven and probable reserves of the respective coal leases. Development costs are charged to depletion expense on a unit of production method based on proven and probable reserves of the respective coal leases.

Asset Retirement Obligations

The value of the liabilities for asset retirement obligations is recognized in the period they are incurred, discounted to their present value using the Corporation's credit adjusted risk-free rate and the corresponding amount is recognized by increasing the carrying amount of mineral properties. The carrying amount is depleted on unit of production method based on the proven and probable reserves of the respective coal leases. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to accretion expense in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cash flows could also result in an increase or decrease in the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognized as a gain or loss in the period in which the settlement occurs.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into Canadian dollars at the period-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.

Financial Instruments

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified upon its inception as either i) held-for-trading, ii) available-for-sale, iii) held-to-maturity, iv) loans and receivables, or v) other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income (loss). Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income (loss). Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

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 revenues are recognized when earned.

Cost of Product Sold

Cost of product sold represents the cost of coal production including mining and hauling, labour, operating materials and supplies, and a relevant allocation of overhead. Cost of product sold is charged against income at the time of sale.

Distribution

Distribution includes the cost of transporting coal to port or direct to customers, port charges for storage and loading of coal onto vessels, testing charges, commission and demurrage. Distribution charges are charged against income at the time of sale.

Taxes

Taxes include Alberta crown royalties and federal large corporation tax. The Alberta crown royalty is based on a portion of product revenue, net of distribution expenses incurred. The large corporation tax is calculated based on a percentage of eligible capital.

Future income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the recovery or settlement of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets and liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on enacted and substantially enacted tax rates that are anticipated to apply in the period of realization.

Stock-based Compensation

The Corporation uses the fair-value method of accounting for stock-based compensation related to share options for all awards granted, modified or settled. Under this method, compensation cost attributable to all share options granted is measured at fair-value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the share options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation has not incorporated an estimated forfeiture rate of share options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

Reclassification

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

3. Recent and Upcoming Changes in Accounting Policies

The CICA Handbook sections 1530 - Comprehensive Income, 3855 - Financial Instruments – Recognition and Measurement and 3865 - Hedges, became applicable to the Corporation on April 1, 2007.

Section 1530 requires the presentation of a statement of comprehensive income and its components that are not included in net income (loss). Other comprehensive income is the change in net assets during a period that result from transactions, events and circumstances from non-owner sources such as unrealized gains or losses on available-for-sale investments. The Corporation did not have other comprehensive income or losses during the period therefore comprehensive loss was equal to the net loss.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

Section 3855 establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard. Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income (loss). Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income (loss). Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The methods used by the Corporation in determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

Section 3865 provides new standards for entities applying hedge accounting. The Corporation had no transactions which have been designated as hedges for accounting purposes therefore the new standard did not impact the financial statements.

The CICA Handbook sections 1535 – Capital Disclosures, 3031 – Inventories, 3862 – Financial Instruments - Disclosures and 3863 – Financial Instruments – Presentations, will become applicable to the Corporation on April 1, 2008.

Section 1535 requires the disclosure of information regarding objectives, policies and processes for managing capital. Adoption of this accounting standard may result in additional disclosure in the Corporation's notes to the financial statements.

Section 3031 prescribes new accounting treatment for inventories. The impact of adopting this accounting standard is currently being assessed.

Section 3862 requires enhanced financial statement disclosure of financial instruments including their significance, the nature and extent of risks arising from financial instruments and how those risks will be managed. Section 3863 established enhanced financial statement presentation of financial instruments and their implications on the Corporation's financial position, performance and cash flows. The impact of adopting these accounting standards is currently being assessed.

The Canadian Accounting Standards Board has made the decision that International Financial Reporting Standards ("IFRS") will be adopted as Canadian generally accepted accounting principles ("GAAP") 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 year. The Corporation is in the process of assessing the differences between IFRS and Canadian GAAP and the impact the transition will have on the financial statements.

4. Restricted Cash

Cash secured letters of credit in the amount of \$5,528 (2007 - \$5,528) have been provided to the Alberta Minister of Finance for abandonment security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit of \$1,000 (2007 - \$1,000) have been made available to service providers.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

5. Inventory

	As at March 31 2008	As at March 31 2007
Coal inventory	\$ 5,500	\$ 30,251
Materials inventory	<u>4,977</u>	<u>4,426</u>
Total	<u>\$ 10,477</u>	<u>\$ 34,677</u>

6. Prepaid Prestrip Charges

In accordance with EIC-160: Stripping Costs Incurred in the Production Phase of a Mining Operation, the Corporation capitalized certain stripping costs totaling \$4,325 in fiscal 2007 due to mining conditions during the period in which the surface mine contractor was winding down its activities for the Corporation. During the transition period, the contractor's efforts were focused on removing waste to maximize the coal readily available to the Corporation, which had the affect of temporarily increasing the strip ratio in the mine for the benefit of future periods.

Prepaid prestrip charges were amortized over the production generated by the stripping activity resulting in amortization charges of \$132 during fiscal 2007 and \$4,193 during fiscal 2008.

7. Capital Assets

	As at March 31, 2008		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 71,060	\$ 6,421	\$ 64,639
Mineral properties and development	28,045	11,965	16,080
Capital leases	<u>230</u>	<u>12</u>	<u>218</u>
	<u>\$ 99,335</u>	<u>\$ 18,398</u>	<u>\$ 80,937</u>

	As at March 31, 2007		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 33,691	\$ 3,235	\$ 30,456
Mineral properties and development	26,666	6,878	19,788
Capital leases	<u>230</u>	<u>1</u>	<u>229</u>
	<u>\$ 60,587</u>	<u>\$ 10,114</u>	<u>\$ 50,473</u>

At March 31, 2008, \$8,797 (2007 - \$5,575) was capitalized for reserves, buildings, equipment, leasehold improvements, computer hardware and software that were not in use during the year. No depreciation has been taken on these assets.

8. Revolving and Long Term Debt

In fiscal 2006, the Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

facility and a \$10 million revolving facility with Brookfield Bridge Lending Fund Inc. ("Brookfield"). On March 28, 2006 the Corporation amended and extended its secured credit facility to consist of a \$10 million term facility and a \$15 million revolving facility with interest payable monthly at a rate of prime plus 2% per annum. The amended facilities had a maturity date of April 8, 2007, subject to a one year extension option.

In the fourth quarter of fiscal 2007, the Corporation exercised its option to extend its \$10 million term facility and \$15 million revolving facility for an additional year. The credit facilities were secured by a general security agreement with interest payable monthly at a rate of prime plus 2% per annum and had a maturity date of April 8, 2008. The net borrowing on the revolving facility during fiscal 2007 was \$3,500 bringing the balance at March 31, 2007 to \$15,000. At March 31, 2007 the \$10 million term facility was classified as long term debt. The credit facilities were being used to finance the Corporation's working capital.

During the fourth quarter of the current year, Grande Cache Coal completed negotiations on credit financing with Brookfield for a \$17.5 million three year floating rate senior secured convertible debenture and a secured revolving credit facility for an amount up to \$20 million, subject to a borrowing base calculation. The proceeds from the convertible debenture were used to fully repay the Corporation's pre-existing term facility with Brookfield (\$10 million) and associated fees. The balance of the proceeds from the convertible debenture as well as proceeds from the revolving facility will be used for general corporate purposes.

The convertible debenture matures on April 1, 2011. Interest accrues on the convertible debenture at a variable annual rate equal to a Canadian chartered bank's prime lending rate plus 1.75 percent per annum, calculated daily. The convertible debenture is convertible at Brookfield's option into common shares of the Corporation at the earlier of any time prior to the maturity date and the business day immediately preceding the date fixed by Grande Cache Coal for redemption at a conversion price of \$1.825 per common share.

Grande Cache Coal may redeem the convertible debenture at any time in multiples of \$250 on 30 days notice at a redemption price equal to 107% of the principal amount being redeemed plus accrued and unpaid interest. Grande Cache Coal is required to redeem all amounts of outstanding indebtedness under the convertible debenture at a 107% premium in the event of a change of control of Grande Cache Coal. In addition, at any time after August 12, 2008, Grande Cache Coal may require Brookfield to convert up to 50% of the convertible debenture at the conversion price, provided that the 15 day volume weighted average trading price ("VWAP") (on volumes of at least 300,000 common shares for 15 consecutive trading days) of the common shares on the Corporation's principal stock exchange exceeds \$2.50 per share. Grande Cache Coal may require Brookfield to convert the balance of the convertible debenture in the event the 15 day VWAP of the common shares exceeds \$4.00 per share. Upon full conversion of the convertible debenture, 9,589,042 common shares would be issued and outstanding.

At closing, Grande Cache Coal entered into an investor rights agreement with Brookfield pursuant to which it granted Brookfield the right to appoint one individual to the Board of Directors of Grande Cache Coal upon Brookfield converting the convertible debenture and holding at least 10% of the outstanding common shares. In addition, Grande Cache Coal also granted Brookfield the right of first offer to purchase its pro rata equity interest in future security issuances of the Corporation provided that Brookfield and its affiliates owns and/or has rights to acquire pursuant to the terms of convertible debenture not less than 3% of the outstanding common shares. At closing, Grande Cache Coal also entered into a standstill agreement with Brookfield pursuant to which Brookfield agreed with the Corporation that until the date which is one year from the date that the convertible debenture has been fully repaid (either through conversion or redemption or repayment on the maturity date), neither it nor any of its affiliates or funds managed by it will, directly or indirectly, acquire any securities of the Corporation unless specifically approved in writing by the Board of Directors of Grande Cache Coal.

At March 31, 2008, the Corporation determined that \$17,382 of the convertible debenture should be classified as long term debt based on the market interest rate of a similar liability that does not have an associated equity component. The residual value of \$118 has been allocated to equity.

Net repayments on the revolving facility in the current fiscal year were \$3.0 million during the first quarter and \$7.0 million during the second quarter bringing the balance at March 31, 2008 to \$5.0 million.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

Interest expense on the revolving and term debt was \$1,600 in the current year and \$1,703 in the prior year.

	As at March 31 2008	As at March 31 2007
Revolving debt	\$ 5,000	\$ 15,000
Term facility	-	10,000
Convertible debenture	17,500	-
Less: Equity portion of convertible debenture	(118)	-
Long term debt	<u>17,382</u>	<u>10,000</u>
	<u>\$ 22,382</u>	<u>\$ 25,000</u>

9. 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. At fiscal year end, the Corporation has estimated the net present value of its asset retirement obligations to be \$4,020 (2007 - \$3,783), based on a total future liability of \$7,225 (2007 - \$7,225). The Corporation's credit adjusted risk free rates range from 5.5% to 7.6% depending on the period when the provision originated and the term of estimated years to reclamation.

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

	2008	2007
Balance, beginning of year	\$ 3,783	\$ 3,470
Increase in liability	-	72
Settlement of liability	(19)	-
Accretion expense	<u>256</u>	<u>241</u>
Balance, end of year	<u>\$ 4,020</u>	<u>\$ 3,783</u>

10. Share Capital

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

Issued		Stated
(thousands)	Number	Value
Common shares		
Balance – March 31, 2006	40,769	\$ 101,715
Shares issued on bought deal equity financing	10,000	27,000
Share issuance costs	-	(1,736)
Balance – March 31, 2007	<u>50,769</u>	<u>126,979</u>
Shares issued on private placement	289	277
Shares issued on bought deal equity financing	20,500	26,650
Shares issued on over-allotment option	791	1,029
Shares issued on exercise of warrants	861	1,377
Shares issued on exercise of options	151	343
Share issuance costs	-	(1,979)
Balance – March 31, 2008	<u>73,361</u>	<u>\$ 154,676</u>

On April 5, 2006, the Corporation closed a bought deal equity financing. At closing, a total of 10 million units (the "Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation. Each whole warrant entitled the holder thereof to acquire one common share at a price of \$3.40 per share until April 5, 2007. Share issuance costs related to the bought deal equity financing were \$1,736. Warrants to purchase an aggregate of 500 thousand common shares at an exercise price of \$3.40 per share until April 5, 2007, were also issued to the agents.

On July 9, 2007, Grande Cache Coal completed a private placement of 289 thousand common shares at a price of \$0.96 per share, which was the five day volume weighted average trading price of the common shares of the Corporation calculated as at June 14, 2007. The shares were issued to certain directors and officers of the Corporation.

On August 9, 2007, the Corporation closed a bought deal equity financing. At closing, a total of 20.5 million units (the "Units") of the Corporation were issued at a price of \$1.30 per Unit for gross proceeds of \$26.65 million. In addition, the Corporation granted to the underwriters an over-allotment option to purchase up to an additional 3.1 million Units at the issue price for a period of 30 days following the closing date. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$1.60 per share until August 11, 2008.

On September 7, 2007, the underwriters of the Corporation's bought deal equity financing that closed on August 9, 2007 exercised their over-allotment option, resulting in the issuance of 791 thousand units (the "Units") of the Corporation at a price of \$1.30 per Unit for gross proceeds of \$1,029. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$1.60 per share until August 11, 2008.

Share issuance costs related to the private placement, bought-deal equity financing and over-allotment option were \$1,979.

During the fourth quarter of fiscal 2008, 861 thousand warrants were exercised for cash proceeds of \$1,377. At March 31, 2008, there were 9.8 million purchase warrants outstanding. No value was attributed to the warrants issued during the second quarter.

During the fourth quarter of fiscal 2008, 151 thousand common share options were exercised for cash proceeds of \$200. On exercise of these common share options, \$143 was credited to share capital from contributed surplus.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

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. Under contracts existing at March 31, 2008, future minimum amounts payable under these agreements are summarized below:

2009	\$ 726
2010	\$ 401
2011	\$ 238
2012	\$ 238
2013 and thereafter	\$ 612

Grande Cache Coal has a commitment to purchase six haul trucks that will primarily be used to supplement the transportation of coal from the surface mine to the process plant. The haul trucks have an estimated cost of U.S.\$4.1 million. At March 31, 2008, U.S.\$1.9 million had been paid towards the purchase of the haul trucks.

12. General and Administrative

	2008	2007
Head office administrative and marketing charges	\$ 5,630	\$ 3,935
Non-cash stock-based compensation charges	1,575	1,415
Foreign exchange loss	1,884	650
	<u>\$ 9,089</u>	<u>\$ 6,000</u>

13. Non-recurring Charges

In fiscal 2007, Grande Cache Coal incurred a charge of \$335 for cancelling a commitment to purchase mining equipment from a major equipment manufacturer and \$2.2 million in demobilization costs were paid to the surface mining contractor in connection with the termination of the contract. These expenses are not expected to occur again in the future and have been classified as non-recurring costs. These non-recurring costs have been classified as Other Expenses as they are not part of the continuing day to day operations of the mine.

14. Taxes

The Corporation has a future income tax asset of \$22,413 (2007 - \$20,218) that has not been recognized. The components of the future tax asset are as follows:

	2008	2007
Temporary differences related to buildings and equipment and mineral properties and development costs	\$ 2,396	\$ 35
Asset retirement obligations	1,181	1,229
Share issuance costs	1,178	1,353
Non-capital loss carryforward	17,658	17,601
Valuation allowance	(22,413)	(20,218)
	<u>\$ -</u>	<u>\$ -</u>

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 29.4% (2007 – 32.5%) to the net loss before taxes, as follows:

	2008	2007
Expected income tax recovery	\$ 4,243	\$ 2,044
Decrease resulting from:		
Stock based compensation	(463)	(460)
Other	359	230
Tax rate reductions	(1,944)	-
Future income tax recovery not recognized	(2,195)	(1,814)
Provincial crown royalties	1,015	724
	<u>\$ 1,015</u>	<u>\$ 724</u>

The Corporation has non-capital losses for income tax purposes totaling approximately \$60,113 (2007-\$54,157) which may be carried forward and applied against taxable income of future years, expiring as to \$479 in 2008, \$981 in 2009, \$1,081 in 2010, \$1,872 in 2014, \$21,768 in 2015, \$26,125 in 2016, \$1,851 in 2017 and \$5,956 in 2018.

15. Net Loss per Share

The following table 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. There was no dilutive effect for the Corporation's outstanding share options, warrants and convertible debentures as the effect of all exercises and conversions would be anti-dilutive to the net loss per share.

<i>(thousands, except per share information)</i>	2008	2007
Weighted average shares outstanding – basic and diluted	<u>64,666</u>	<u>50,632</u>
Net loss	<u>\$ (15,458)</u>	<u>\$ (7,014)</u>
Net loss per share:		
Basic and diluted	<u>\$ (0.24)</u>	<u>\$ (0.14)</u>

16. 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. Share options granted under the plan may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors. The maximum number of shares authorized for option grants is limited to 10% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security based compensation arrangements.

Total stock-based compensation expense included in general and administrative expenses for the fiscal year was \$1,575 (2007 - \$1,415) and was a result of options granted pursuant to the Corporation's share option plan.

On May 24, 2007, pursuant to the Corporation's share option plan, options to purchase 520 thousand common shares were granted to employees, consultants, officers and directors of the Corporation at an exercise price of \$0.88 per share. The options have a five year term and are subject to an 18 month vesting period.

On June 30, 2007, options to purchase 32 thousand common shares were cancelled. On August 31, 2007, options to purchase 17 thousand common shares were cancelled.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

On January 9, 2008, options to purchase 1,950 thousand common shares were granted to employees, consultants, officers and directors of the Corporation pursuant to the Corporation's share option plan at an exercise price of \$1.04 per share. The options have a five year term and will vest on a one third basis on each of March 31, 2008, March 31, 2009 and March 31, 2010.

During the fourth quarter of fiscal 2008, options to purchase 151 thousand common shares were exercised at a weighted average price of \$1.32 per share.

The following transactions occurred during the year ended March 31, 2007:

On April 12, 2006, pursuant to the Corporation's share option plan, options to purchase 900 thousand common shares were granted to employees, consultants, officers and directors of the Corporation at an exercise price of \$2.44 per share, on October 12, 2006, options to purchase 525 thousand common shares were granted to employees, consultants, officers and directors of the Corporation at an exercise price of \$1.05, on November 17, 2006, options to purchase 175 thousand common shares were granted to employees of the Corporation at an exercise price of \$1.05 and on December 15, 2006, options to 125 thousand purchase common shares were granted to employees of the Corporation at an exercise price of \$0.79. The options have a five year term and are subject to an 18 month vesting period.

On July 28, 2006, options to purchase 35 thousand common shares were cancelled, on September 26, 2006, options to purchase 188 thousand common shares were cancelled, on October 26, 2006, options to purchase 5 thousand common shares were cancelled, on November 10, 2006, options to purchase 23 thousand common shares were cancelled, on November 30, 2006, options to purchase 23 thousand common shares were cancelled, on December 25, 2006, options to purchase 13 thousand common shares were cancelled, on February 10, 2007, options to purchase 12 thousand common shares were cancelled, on March 2, 2007, options to purchase 12 thousand common shares were cancelled and on March 30, 2007, options to purchase 20 thousand common shares were cancelled.

The fair value of each share option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 95%, risk-free interest rates of 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, 2006	1,554	\$ 2.73
Granted	1,725	1.76
Cancelled	(331)	3.53
Exercised	-	-
Outstanding – March 31, 2007	2,948	2.07
Granted	2,470	1.01
Cancelled	(49)	4.13
Exercised	(151)	1.32
Outstanding – March 31, 2008	5,218	\$ 1.57

Of the share options outstanding at March 31, 2008, 1,129 thousand options expire in 2009, 200 thousand options expire in 2010, 1,435 thousand options expire in 2011, 504 thousand options expire in 2012, and 1,950 expire in 2013.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(thousands of Canadian dollars, except per share amounts)

Details of the share options exercisable at March 31, 2008 are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	942	\$ 1.00
	187	3.70
	115	11.56
	10	9.08
	75	4.50
	610	2.44
	467	1.05
	83	0.79
	168	0.88
	650	1.04
	<u>3,307</u>	<u>\$ 1.89</u>

17. Financial Instruments

Fair Values

The fair values of accounts receivable, accounts payable and accrued liabilities and revolving debt approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of long term debt approximates its carrying value as it bears interest based on a variable market rate.

18. Economic Dependence

All of the Corporation's metallurgical coal production is transported by CN and loaded onto vessels at Vancouver by Westshore Terminals Ltd. or at Thunder Bay by Thunder Bay Terminals Ltd. There are limited alternatives for these services and securing alternatives could increase distribution costs. Interruption of rail services would limit the Corporation's ability to operate.

19. Subsequent Events

Subsequent to March 31, 2008, the following events occurred.

The Corporation made payments of U.S.\$1.3 million towards the purchase commitment on the haul trucks.

3.0 million warrants were exercised into common shares at an exercise price of \$1.60 per share for gross proceeds of \$4.8 million.

2.0 million common shares were issued on the exercise of options at an average price of \$1.29 per share for gross proceeds of \$2.6 million.

The Corporation received \$0.8 million in cash due to the return of restricted cash that had been used as security for a letter of credit that had been made available to a service provider. A cash secured letter of credit in the amount of \$1.9 million was provided to the Alberta Government for abandonment security to cover anticipated costs of reclamation.

Pursuant to the terms of the convertible debenture, Brookfield converted \$7.7 million of the convertible debenture into 4.2 million shares.