

# Grande Cache Coal Corporation

## Management's Discussion & Analysis

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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, 2007. 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, 2007.

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.

## **Financial Overview**

<i>(millions of dollars)</i>	<b>March 31 2007</b>	<b>March 31 2006</b>	<b>March 31 2005</b>
<b>Balance Sheet</b>			
Total assets	107.5	90.7	100.2
Long-term liabilities	13.9	13.5	2.3
Shareholders' equity	69.8	50.1	79.9
<i>(millions of dollars, except per share amounts)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Income Statement</b>			
Revenue	101.3	90.1	16.8
Cost of sales	93.2	112.3	30.5
Net loss	(7.0)	(32.1)	(18.9)
Basic and diluted net loss per share	(0.14)	(0.79)	(0.56)
<i>(millions, except per tonne amounts)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Statistics</b>			
Clean coal production	1.0	1.0	0.4
Coal sales	1.0	0.9	0.3
Average sales price (\$/tonne)	101	100	63
Average cost of sales (\$/tonne)	93	124	115
Average cost of production (\$/tonne)	63	98	91

Grande Cache Coal commenced coal production and sales during the third quarter of 2005.

## **Results of Operations**

### **Revenue**

Grande Cache Coal's sales volumes for the year were 1.0 million tonnes generating revenue of \$101.3 million, an increase from last year's sales volumes of 0.9 million tonnes and revenue of \$90.1 million.

The average U.S. dollar sales price in fiscal 2007 increased to U.S.\$93 per tonne, up from U.S.\$91 per tonne last year. The annual sales volumes included hard coking coal sales (76%) at an average price of U.S.\$100 per tonne and PCI sales (17%) at an average price of U.S.\$65 per tonne. The average Canadian dollar equivalent on U.S. dollar denominated sales was \$106 per tonne in comparison to \$108 per tonne in the prior year, reflecting a stronger Canadian dollar. Thermal coal sales to the neighboring power plant facility accounted for 7% of the total sales volumes and carried an average Canadian price of \$34 per tonne. Overall, the average realized Canadian dollar sales price for the year was \$101 per tonne, a slight increase from \$100 per tonne in fiscal 2006.

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

The Corporation's cost of coal produced was \$63 per tonne, a 36% decline from \$98 per tonne last year. There were significant productivity gains and cost reduction achievements during the year which led to the cost improvement. Additionally, the Corporation achieved a higher coal recovery yield in the processing plant and progressed into a lower strip ratio phase in the surface mine.

Because the strip ratio remaining over the life of the current surface mining area was reduced to a level below the average for the mine, the Corporation made the decision to end its relationship with its surface mine contractor and secure a fleet of mining equipment appropriately sized to the lower strip ratio mining conditions. During the transition period in the second and third quarters, 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. Certain stripping costs totaling \$4.3 million were capitalized and will be amortized over the future coal production generated by the stripping activity which occurred during the transition period. The surface mine contractor completed mining activity in November 2006, however raw coal continued to be hauled from the surface mine as needed to meet sales commitments.

Grande Cache Coal's cost of sales 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 are 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.

The decrease in the unit cost of product sold compared to the prior period is a result of improved productivities across all areas of the operation, a lower strip ratio in the surface mine and a higher plant yield. The Corporation has also made a concerted effort to eliminate the services of contractors and replace the essential services with Grande Cache Coal employees and equipment.

The increase in distribution costs during the year is primarily a result of a higher proportion of shipments to eastern North America which carry higher rail rates than shipments to port in western Canada, and the impact of fuel surcharges on rail costs.

## **Other Operating Expenses**

General and administrative expenses during the year were \$6.0 million, compared to \$5.3 million in fiscal 2006. These costs included head office administrative and marketing charges of \$4.0 million (\$4.3 million – 2006), non-cash charges for stock-based compensation of \$1.4 million (\$0.8 million – 2006) and a foreign exchange loss of \$0.6 million (\$0.2 million – 2006).

Depreciation, depletion and accretion expenses for the year were \$4.4 million, up from \$3.7 million in the prior period. The increase is mainly due to the addition and productive use of more capital assets.

## **Other Income (Expenses)**

The Corporation's interest and other income was \$0.4 million in fiscal 2007 versus \$0.6 million last 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, up from \$0.7 million last year and consist primarily of interest paid on the revolving and term debt.

Non-recurring charges during the year were \$2.5 million (nil – 2006). These expenses consist of \$2.2 million in demobilization costs paid to the surface mining contractor in connection with the termination of the contract and a charge of \$0.3 million as a fee for the cancellation of a planned equipment purchase.

## **Liquidity and Capital Resources**

At March 31, 2007, Grande Cache Coal had cash and cash equivalents of \$4.6 million, an increase of \$3.6 million over the year, compared to a cash decrease in fiscal 2006 of \$34.5 million.

Cash used in operating activities during the year was \$16.8 million compared to a cash use of \$38.7 million in the prior year. The Corporation's net loss of \$7.0 million (\$32.1 million - 2006) was a large reason for the cash use. As well, the net change in non-cash working capital increased to a cash use of \$15.7 million in 2007, from \$11.3 million in 2006, due mainly to an increase in inventory and a decrease in accounts payable.

During fiscal 2007, financing activities generated cash of \$28.7 million, up from \$19.3 million in the comparable period. The Corporation closed a bought deal equity financing for net proceeds of \$25.3 million. A total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27.0 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 \$3.40 per share until April 5, 2007. The proceeds of the equity financing were used to finance the Corporation's capital expenditures and provide additional working capital. Share issuance costs related to the bought deal equity financing were \$1.7 million.

During the year, the Corporation also exercised its option to extend its \$10 million term facility and \$15 million revolving facility for an additional year. The credit facilities are secured by a general security agreement with interest payable monthly at a rate of prime plus 2% per annum and have a maturity date of April 8, 2008. The net borrowing on the revolving facility during the year was \$3.5 million, bringing the balance at March 31, 2007, to \$15 million.

The prior year included cash proceeds from the revolving and term debt of \$21.5 million, proceeds on the issuance of share capital of \$1.5 million and repayments of notes payable totaling \$3.8 million.

Investing activities resulted in a cash decrease of \$8.3 million compared to \$14.9 million last year. The current year included \$4.3 million of cash used for prestripping activities in the surface mine. As the strip ratio remaining over the life of the current surface mining area was reduced, the decision was made to end the Corporation's relationship with its surface mine contractor and secure a fleet of mining equipment more appropriately sized to the mine's lower strip ratio mining conditions. 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 will be amortized over the future production generated by the stripping activity which occurred during the year.

Cash invested in capital projects was \$3.6 million (\$16.8 million – 2006), which was net of a deposit refund of U.S.\$1.0 million on the cancellation of an equipment purchase for which a deposit had previously been made. The Corporation had commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment was U.S.\$16 million, with progress payments required over the course of the manufacturing process. The Corporation cancelled this commitment on September 8, 2006. To the date of cancellation, progress payments of U.S.\$4.7 had been paid towards this commitment. Of the U.S.\$4.7 million already paid, U.S.\$3.4 million has been used to purchase underground mining equipment from the same vendor, U.S.\$0.3 million was retained by the vendor as a cancellation fee and U.S.\$1.0 million was returned to the Corporation.

The prior year's investing activities included cash released of \$3.5 million relating to letters of credit.

Grande Cache Coal believes the current revolving facility is sufficient to fund its ongoing working capital requirements. The Corporation expects to maintain sufficient inventory levels at the port to meet customer requirements, provided adequate rail service is available. At March 31, 2007, the Corporation had \$30.3 million in coal inventory, compared to \$30.9 million at the end of the previous quarter.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 2007. The only long term liabilities of the Corporation are asset retirement obligations with a present value of \$3.8 million, capital lease obligations of \$0.1 million and long term debt of \$10.0 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.

Grande Cache Coal is finalizing the acquisition of a fleet of mining equipment with which to resume full-scale operations in the surface mine. Financing for the equipment is currently being negotiated and is expected to result in a combination of lease and debt financing. As of March 31, 2007, the Corporation has placed U.S.\$0.8 million in deposits on surface mining equipment which is projected to be onsite in the second quarter of fiscal 2008. It is anticipated that operations in the surface mine will resume in September 2007, conditional upon timely delivery of the mining equipment and the availability of skilled labour for commissioning the equipment. Capital expenditures for the surface mine are expected to total approximately \$32 million during fiscal 2008, with approximately \$3.0 million to be incurred in the first quarter and the balance in the second and third quarters.

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 secured credit facility. Under contracts existing at March 31, 2007, future minimum amounts payable under these agreements are:

<i>(millions of dollars)</i>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
<b>Contractual Obligations</b>					
Long term debt	10.0	-	10.0	-	-
Leases	2.3	0.5	1.0	0.3	0.5
<b>Total Contractual Obligations</b>	<b>12.3</b>	<b>0.5</b>	<b>11.0</b>	<b>0.3</b>	<b>0.5</b>

### **Summary of Quarterly Results**

<i>(millions, except per unit amounts)</i>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>2007</b>
Clean coal production	0.3	0.2	0.3	0.2	1.0
Coal sales	0.2	0.3	0.3	0.2	1.0
Average sales price (\$/tonne)	125	103	95	78	101
Average cost of sales (\$/tonne)	101	97	88	86	93
Average cost of production (\$/tonne)	60	63	63	68	63
Revenue (dollars)	29.0	29.8	28.7	13.8	101.3
Net (loss) income (dollars)	1.7	(1.8)	(2.2)	(4.7)	(7.0)
Basic and diluted net (loss) income per share	0.03	(0.03)	(0.04)	(0.09)	(0.14)

<i>(millions, except per unit amounts)</i>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>2006</b>
Clean coal production	0.2	0.3	0.2	0.3	1.0
Coal sales	0.1	0.4	0.2	0.2	0.9
Average sales price (\$/tonne)	81	90	106	122	100
Average cost of sales (\$/tonne)	172	109	130	121	124
Average cost of production (\$/tonne)	110	104	99	86	98
Revenue (dollars)	9.4	34.5	19.2	27.0	90.1
Net loss (dollars)	(12.2)	(10.5)	(6.9)	(2.6)	(32.1)
Basic and diluted net loss per share	(0.30)	(0.26)	(0.17)	(0.06)	(0.79)

### **Outlook**

#### **Metallurgical Coal Markets**

Coal sales volumes for fiscal 2008 are expected to be in the range of 1.4 to 1.6 million tonnes, contingent upon adequate rail service and a timely startup of the surface mine. It is projected that coking coal will account for 90% of the total sales volumes and achieve an average price of approximately U.S.\$85 per tonne. It is anticipated that PCI sales will account for 10% of the total sales volumes and realize an average price of approximately U.S.\$68 per tonne.

Grande Cache Coal 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 supply and demand remains balanced.

### Operations

It is projected that operations in the surface mine will resume in September 2007, contingent upon timely delivery of the mining equipment and the availability of skilled labour for commissioning the equipment. Once full surface mine operations resume the combination of a lower strip ratio and the anticipated productivity improvements are expected to reduce production costs from 2007 levels.

The Corporation is continuing to focus on cost control and productivity improvements in the underground mine and the process plant. These areas are not affected by the change in the surface mining activities and with continued underground mine production the Corporation expects it will produce sufficient coal volumes to meet its sales commitments for the first half of the fiscal year, following which the surface mine operations are expected to resume.

Production levels for fiscal 2008 will continue to be managed according to scheduled sales volumes and the maintenance of adequate inventory levels.

### Capital Expenditures

The Corporation anticipates spending approximately \$40 million on capital additions and a drilling program in fiscal 2008. Grande Cache Coal is finalizing the acquisition of a fleet of mining equipment with which to operate the surface mine. Financing for the equipment is currently being negotiated and is expected to result in a combination of lease and debt financing. Expenditures on equipment for the Corporation's surface mining fleet are expected to approximate \$32 million and will occur primarily during the second and third quarters of the year. The Corporation has placed deposits on a mining shovel, a mining drill and a fleet of haul trucks. It is anticipated that operations in the surface mine will resume in September 2007, conditional upon timely delivery of the mining equipment and the availability of skilled labour for commissioning the equipment.

### 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.

As at June 26, 2007, there were 50,768,688 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>
	1,058,334	1,058,334	\$1.00	March 21, 2009
	162,500	162,500	\$3.70	July 21, 2009
	37,500	37,500	\$3.70	August 8, 2009
	125,000	125,000	\$11.56	March 15, 2010
	10,000	10,000	\$9.08	June 9, 2010
	75,000	37,500	\$4.50	October 18, 2010
	655,000	430,000	\$2.44	April 11, 2011
	525,000	175,000	\$1.05	October 11, 2011
	175,000	58,333	\$1.05	November 16, 2011
	125,000	41,667	\$0.79	December 14, 2011
	520,000	-	\$0.88	May 23, 2012
Total	<u>3,468,334</u>	<u>2,135,834</u>		

## **Subsequent Events**

On April 5, 2007, 5,000,000 warrants entitling the holder to purchase one Common Share at a price of \$3.40 each expired. On the same day, warrants entitling agents to purchase an aggregate of 500,000 Common Shares at an exercise price of \$3.40 per share also expired.

On April 26, 2007, the Corporation placed a U.S.\$0.25 million deposit on a mining drill for the surface mine operations. To date, the total deposit placed on the mining drill is U.S.\$0.5 million.

On May 9, 2007, the Corporation placed a U.S.\$1.2 million deposit on the haul trucks for the surface mine operations. To date, the total deposit placed on the haul trucks is U.S.\$1.45 million.

On May 24, 2007, as part of the Corporation's share option plan, 520 thousand options to purchase common shares were granted to employees 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 1, 2007, the Corporation placed a U.S.\$0.2 million deposit on a mining shovel for the surface mine operations. To date, the total deposit placed on the mining shovel is U.S.\$0.5 million.

On June 11, 2007, the Corporation signed a term sheet and made a U.S.\$250 deposit with a Canadian financial institution. A credit agreement for financing the surface mining equipment is currently being negotiated.

On June 19, 2007, the Corporation placed a U.S.\$0.3 million progress payment on the haul trucks for the surface mine operations. To date, total payments placed on the haul trucks is U.S.\$1.7 million.

## **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](http://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 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. 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.

### **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.

### **Initial Adoption and 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.

CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" will be applicable to the Corporation in fiscal 2008. Section 3855 establishes standards for recognizing and measuring financial instruments and non-financial derivatives. The Corporation does not believe that this change in accounting policy will have a material effect 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 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 CEO and CFO 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 CFO. The Corporation employs additional entity level controls to compensate for any deficiencies which may exist.

As at March 31, 2007, 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 GAAP.

## **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 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 that operation 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 does not have a significant operating history. Grande Cache Coal has earned limited profits to date, and there is no assurance that it will continue to 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 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 Rates**

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 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 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. 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 its key service suppliers could have a material adverse effect upon Grande Cache Coal's revenues.

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 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 period.

In the second consultation phase, beginning in summer 2007 and likely continuing until the end of 2008, the government of Canada intends to engage in detailed consultations on the proposed regulations that will apply to individual sectors, including defining sectoral obligations and timelines. The government of Canada intends to publish the first sectoral regulations, for public comment beginning in spring 2008. Proposed regulations for the first sectors are expected to be finalized no later than 2008. All other regulations are at this time planned to come into force by the end of 2010.

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 comes 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.

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.

Operators are expected to report on emission levels on September 1, 2007. 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**

### **Credit Facility**

Grande Cache Coal's secured credit facility contains 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 will 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

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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, 2007

## Auditors' Report

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To the Shareholders  
**Grande Cache Coal Corporation**

We have audited the consolidated balance sheet of Grande Cache Coal Corporation as at March 31, 2007 and the consolidated statements of loss and deficit and cash flows for the year ended March 31, 2007. 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 audit.

We conducted our audit 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The 2006 comparative figures are based upon consolidated financial statements which were reported on by other auditors who signed their opinion on May 15, 2006.

(Signed) PricewaterhouseCoopers LLP  
Chartered Accountants

Calgary, Alberta  
June 27, 2007

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

	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,614	\$ 973
Restricted cash (note 3)	6,528	6,138
Accounts receivable	5,129	2,836
Inventory (note 4)	34,677	26,509
Prepaid prestrip charges (note 5)	4,193	-
Prepaid expenses	1,769	1,490
	<u>56,910</u>	<u>37,946</u>
Deposit for future reclamation expenditures	82	82
Capital assets (note 6)	<u>50,473</u>	<u>52,720</u>
	<u>\$ 107,465</u>	<u>\$ 90,748</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,788	\$ 15,653
Revolving debt (note 7)	<u>15,000</u>	<u>11,500</u>
	23,788	27,153
Long term debt (note 7)	10,000	10,000
Asset retirement obligations (note 8)	3,783	3,470
Capital lease obligations	<u>104</u>	<u>-</u>
	<u>37,675</u>	<u>40,623</u>
<b>Shareholders' equity</b>		
Share capital (note 9)	126,979	101,715
Contributed surplus	3,036	1,621
Deficit	<u>(60,225)</u>	<u>(53,211)</u>
	<u>69,790</u>	<u>50,125</u>
	<u>\$ 107,465</u>	<u>\$ 90,748</u>

Commitments and Contingencies (note 17)

*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 Loss and Deficit**  
**Years Ended March 31**

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

	<b>2007</b>	<b>2006</b>
<b>Revenue</b>	\$ 101,251	\$ 90,106
<b>Expenses</b>		
Cost of product sold	64,398	91,385
Distribution	28,841	20,888
General and administrative (note 10)	6,000	5,335
Depreciation, depletion and accretion	4,409	3,686
	<u>103,648</u>	<u>121,294</u>
<b>Loss from operations</b>	(2,397)	(31,188)
<b>Other income (expenses)</b>		
Interest and other income	399	578
Interest and other expenses	(1,751)	(747)
Non-recurring charges (note 11)	(2,541)	-
	<u>(6,290)</u>	<u>(31,357)</u>
<b>Net loss before taxes</b>	(6,290)	(31,357)
<b>Taxes</b> (note 12)	(724)	(761)
	<u>(7,014)</u>	<u>(32,118)</u>
<b>Net loss</b>	(7,014)	(32,118)
Deficit, beginning of year	<u>(53,211)</u>	<u>(21,093)</u>
<b>Deficit, end of year</b>	\$ <u>(60,225)</u>	\$ <u>(53,211)</u>
<b>Net loss per share</b> (note 13)		
Basic and diluted	\$ <u>(0.14)</u>	\$ <u>(0.79)</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)*

	2007	2006
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net loss	\$ (7,014)	\$ (32,118)
Items not affecting cash		
Stock-based compensation (note 14)	1,415	767
Unrealized foreign exchange loss	25	277
Depreciation, depletion and accretion	4,409	3,686
	<u>(1,165)</u>	<u>(27,388)</u>
Net change in non-cash working capital relating to operating activities	<u>(15,650)</u>	<u>(11,345)</u>
	<u>(16,815)</u>	<u>(38,733)</u>
<b>Financing activities</b>		
Proceeds on revolving and long term debt (note 7)	3,500	21,500
Proceeds on issuance of share capital (note 9)	27,000	1,545
Share issuance costs (note 9)	(1,736)	(1)
Payment on capital lease obligations	(39)	-
Repayment of notes payable (note 15)	-	(3,752)
	<u>28,725</u>	<u>19,292</u>
<b>Investing activities</b>		
Additions to mineral properties and development	(2,219)	(4,456)
Additions to buildings and equipment	(1,376)	(12,350)
Restricted cash (note 3)	(390)	3,501
Net change in non-cash working capital relating to investing activities	<u>(4,333)</u>	<u>(1,592)</u>
	<u>(8,318)</u>	<u>(14,897)</u>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<u>49</u>	<u>(144)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	3,641	(34,482)
Cash and cash equivalents, beginning of year	<u>973</u>	<u>35,455</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 4,614</u>	<u>\$ 973</u>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 1,751	\$ 740
Taxes paid	703	777

*See accompanying notes to the consolidated financial statements.*

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**March 31, 2007 and 2006**

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

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**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 operating a mining operation 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 contract 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 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 has 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 will be 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 term of 15 years. The recoverability of the amounts recorded for mineral properties and development

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**March 31, 2007 and 2006**

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

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

### **Revenue Recognition**

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

### **Cost of Product Sold**

Cost of product sold represents the cost of coal production including contract 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.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**March 31, 2007 and 2006**

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

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**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 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. Restricted Cash**

Cash secured letters of credit in the amount of \$5,528 (2006 - \$5,438) 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 (2006 - \$700) have been made available to service providers.

**4. Inventory**

	<b>March 31 2007</b>	<b>March 31 2006</b>
Coal inventory	\$ 30,251	\$ 25,041
Materials inventory	<u>4,426</u>	<u>1,468</u>
Total	<u>\$ 34,677</u>	<u>\$ 26,509</u>

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**5. Prepaid Prestrip Charges**

In accordance with EIC-160: Stripping Costs Incurred in the Production Phase of a Mining Operation, the Corporation has capitalized certain stripping costs in the amount of \$4,325, 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 will be amortized over the future production generated by the stripping activity. Amortization charges in the current year were \$132.

**6. Capital Assets**

	<b>As at March 31, 2007</b>		
	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	230	1	229
	<u>\$ 60,587</u>	<u>\$ 10,114</u>	<u>\$ 50,473</u>

  

	<b>As at March 31, 2006</b>		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 33,426	\$ 1,780	\$ 31,646
Mineral properties and development	24,374	3,300	21,074
Capital leases	-	-	-
	<u>\$ 57,800</u>	<u>\$ 5,080</u>	<u>\$ 52,720</u>

At March 31, 2007, \$5,575 (2006 - \$7,738) 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.

**7. Revolving and Long Term Debt**

In 2006, the Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term facility and a \$10 million revolving facility. Interest was payable monthly at a rate of prime plus 2% per annum.

The Corporation amended and extended its secured credit facility on March 28, 2006. The restated credit facility consisted 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 the current year, the Corporation exercised its option to extend its \$10 million term facility and \$15 million revolving facility for an additional year. The credit facilities are secured by a general security agreement with interest payable monthly at a rate of prime plus 2% per annum and have a maturity date of April 8, 2008.

The net borrowing on the revolving facility during the year was \$3,500 bringing the balance at March 31, 2007 to \$15,000. Interest expense on the revolving and term debt was \$1,703 in the current year and \$428 in the prior year.

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The credit facilities are being used to finance the Corporation's working capital and allowed for the retirement of a \$5 million loan the Corporation received from a related party in the prior year.

**8. 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 \$3,783 (2006 - \$3,470), based on a total future liability of \$7,225 (2006 - \$7,123). 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:

	2007	2006
Balance, beginning of year	\$ 3,470	\$ 2,338
Increase in liability	72	935
Accretion expense	<u>241</u>	<u>197</u>
Balance, end of year	<u>\$ 3,783</u>	<u>\$ 3,470</u>

**9. Share Capital**

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

	2007		2006	
	Number <i>(thousands)</i>	Stated Value	Number <i>(thousands)</i>	Stated Value
<b>Common shares</b>				
Balance, beginning of year	40,769	\$ 101,715	40,134	\$ 99,751
Shares issued on exercise of warrants	-	-	485	1,521
Shares issued on exercise of options	-	-	150	444
Shares issued on bought deal equity financing	<u>10,000</u>	<u>27,000</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>50,769</u>	<u>\$ 128,715</u>	<u>40,769</u>	<u>\$ 101,716</u>
Less: Share issuance costs		<u>1,736</u>		<u>1</u>
		<u>\$ 126,979</u>		<u>\$ 101,715</u>

On April 5, 2006, the Corporation closed a bought deal equity financing. At closing, a total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27.0 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 \$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 500,000 Common Shares at an exercise price of \$3.40 per share until April 5, 2007, were also issued to the agents.

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The following transactions occurred during the year ended March 31, 2006:

In the first quarter, 485 thousand agents' warrants were exercised for cash proceeds of \$1,260. On exercise of these warrants, \$261 was credited to share capital from contributed surplus. During the second quarter, 133 thousand share options were exercised for cash proceeds of \$268. On exercise of these options, \$147 was credited to the share capital from contributed surplus. In the third quarter, 16 thousand share options were exercised for cash proceeds of \$17. On exercise of these options, \$12 was credited to share capital from contributed surplus.

**10. General and Administrative**

	<b>2007</b>	<b>2006</b>
Head office administrative and marketing charges	\$ 3,935	\$ 4,349
Non-cash stock-based compensation charges	1,415	767
Foreign exchange loss	<u>650</u>	<u>219</u>
	<u>\$ 6,000</u>	<u>\$ 5,335</u>

**11. Non-recurring Charges**

In the second quarter of 2007, Grande Cache Coal incurred a charge of \$335 for cancelling a commitment to purchase mining equipment from a major equipment manufacturer.

During the third quarter of 2007, demobilization charges of \$2,206 were paid by the Corporation to North American Energy Partners as part of ending a contractual relationship.

These expenses are not expected to occur again in the future and have been classified as non-recurring costs. The non-recurring costs have been classified as Other Expenses as they are not part of the continuing day to day operations of the mine.

**12. Taxes**

The Corporation has a future income tax asset of \$20,218 (2006 - \$18,486) that has not been recognized. The components of the future tax asset are as follows:

	<b>2007</b>	<b>2006</b>
Temporary differences related to buildings and equipment and mineral properties and development costs	\$ 35	\$ (2,780)
Asset retirement obligations	1,229	1,151
Share issuance costs	1,353	1,484
Non-capital loss carryforward	17,601	18,631
Valuation allowance	<u>(20,218)</u>	<u>(18,486)</u>
	<u>\$ -</u>	<u>\$ -</u>

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Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 32.5% (2006 - 35.6%) to the net loss before taxes, as follows:

	2007	2006
Expected income tax recovery	\$ 2,044	\$ 11,169
Decrease resulting from:		
Resource allowance	-	(1,061)
Stock based compensation	(460)	(273)
Other	230	(314)
Non deductible crown payments	-	160
Future income tax recovery not recognized	(1,814)	(9,681)
Provincial crown royalties	724	692
Large corporation tax	-	69
	<u>\$ 724</u>	<u>\$ 761</u>

The Corporation has non-capital losses for income tax purposes totaling approximately \$54,157 (2006-\$52,306) 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 and \$1,851 in 2017.

**13. 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 and warrants as they were not in-the-money during the quarter, and the effect of all option and warrant exercises would be anti-dilutive to the net loss per share amount.

<i>(thousands, except per share information)</i>	2007	2006
Weighted average shares outstanding – basic and diluted	<u>50,632</u>	<u>40,658</u>
Net loss	<u>\$ (7,014)</u>	<u>\$ (32,118)</u>
Net loss per share:		
Basic and diluted	<u>\$ (0.14)</u>	<u>\$ (0.79)</u>

**14. Stock-based Compensation**

The Corporation has a share option plan, pursuant to which the Board of Directors or a committee thereof may from time to time grant options to purchase common shares. 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 number of shares authorized for option grants is limited to 3.6 million options.

Total stock-based compensation expense included in general and administrative expenses for the year was \$1,415 (2006 - \$767) and was a result of options granted pursuant to the Corporation's share option plan.

As part of the Corporation's share option plan, on April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation at an exercise price of \$2.44 per share, on October 12, 2006, 525 thousand options to purchase common shares were granted to employees and directors of the Corporation at an exercise price of \$1.05, on November 17, 2006, 175 thousand options to purchase

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common shares were granted to employees of the Corporation at an exercise price of \$1.05 and on December 15, 2006, 125 thousand options to 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, 35 thousand options to purchase common shares were cancelled, on September 26, 2006, 188 thousand options to purchase common shares were cancelled, on October 26, 2006, 5 thousand options to purchase common shares were cancelled, on November 10, 2006, 23 thousand options to purchase common shares were cancelled, on November 30, 2006, 23 thousand options to purchase common shares were cancelled, on December 25, 2006, 13 thousand options to purchase common shares were cancelled, on February 10, 2007, 12 thousand options to purchase common shares were cancelled, on March 2, 2007, 12 thousand options to purchase common shares were cancelled and on March 30, 2007, 20 thousand options to purchase common shares were cancelled.

The following transactions occurred during the year ended March 31, 2006:

Share options to purchase 55 thousand common shares at an exercise price of \$9.08 were granted to employees of the Corporation under the Corporation's share option plan on June 10, 2005. The share options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Share options to purchase 30 thousand of the common shares vested immediately and options to purchase 25 thousand of the common shares are subject to a two year vesting period. Options to purchase 125 thousand common shares at an exercise price of \$4.50 were granted to employees of the Corporation on October 17, 2005. The options have a five year term and are subject to a two year vesting period.

On September 30, 2005, 131 thousand options to purchase common shares were cancelled, on October 15, 2005, 108 thousand options to purchase common shares were cancelled, on December 2, 2005, 23 thousand options to purchase common shares were cancelled, on December 29, 2005, 10 thousand options to purchase common shares were cancelled and on January 13, 2006, 10 thousand options to purchase common shares were cancelled.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 86%, risk-free interest rates of 3% to 4% and expected lives of five years.

Details of the options outstanding are as follows:

<i>(thousands of shares)</i>	<b>Number</b>	<b>Common Shares</b>	
			<b>Weighted Average Exercise Price</b>
Outstanding – March 31, 2005	1,806	\$	2.61
Granted	180		5.90
Cancelled	(282)		4.44
Exercised	(150)		1.90
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

Of the share options outstanding at March 31, 2007, 1,258 thousand options expire in 2009, 210 thousand options expire in 2010, and the remaining 1,480 thousand options expire in 2011.

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Details of the options exercisable at March 31, 2007 are as follows:

<i>(thousands of shares)</i>	<b>Number</b>	<b>Common Shares Weighted Average Exercise Price</b>
	1,058	\$ 1.00
	200	3.70
	125	11.56
	10	9.08
	38	4.50
	218	2.44
	<u>1,649</u>	<u>\$ 2.45</u>

**15. Notes Payable**

The Corporation entered into a coal sale agreement dated April 13, 2004, with a Japanese trading company (the "Trading Co.") for the sale of approximately 250,000 tonnes of metallurgical coal to the Trading Co. by September 30, 2005. In conjunction with the coal sale agreement, the parties entered into an advance payment agreement pursuant to which the Trading Co. agreed to advance U.S.\$4,000 to the Corporation. As the advance was denominated in U.S. dollars, changes in the U.S./Canadian dollar exchange rate impacted the carrying value of the note.

Repayment of the advance occurred through a reduction in the price per tonne otherwise payable by the Trading Co. for coal delivered under the coal sale agreement. During the second quarter of 2006, the remainder of the coal under the agreement was shipped and the balance owing was repaid.

**16. Financial Instruments**

**Fair Values**

The fair values of accounts receivable, accounts payable and accrued liabilities, revolving debt and notes payable 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.

**17. Commitments and Contingencies**

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, buildings and office space. Under contracts existing at March 31, 2007, future minimum amounts payable under these agreements are summarized below:

2008	\$ 487
2009	\$ 400
2010	\$ 326
2011	\$ 238
2012 and thereafter	\$ 849

The Corporation had previously made commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment was U.S.\$16 million, with progress payments required over the course of the manufacturing process. The Corporation cancelled this commitment on September 8, 2006. To the date of cancellation, progress payments of U.S.\$4.7 million had been paid towards this commitment. Of the U.S.\$4.7 million already paid, U.S.\$3.4 million has been used to purchase underground mining equipment from the same vendor, U.S.\$0.3 million was retained by the vendor as a cancellation fee, and U.S.\$1.0 million was returned to the Corporation.

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The Corporation has commitments to purchase mining equipment from heavy equipment distributors for the purpose of operating the surface mine. Included in these commitments are a mining shovel with an estimated total cost of U.S.\$4.7 million, a mining drill with an estimated total cost of U.S.\$1.9 million, and haul trucks with an estimated total cost of U.S.\$5.5 million. At March 31, 2007, deposits of U.S.\$0.8 million have been placed on this mining equipment.

**18. Related Party Transactions**

In October 2005, due to a temporary build-up of inventory, the Corporation received short-term financing from a member of the Board of Directors in the amount of \$5 million. The loan was secured by coal inventory at the port and bore interest at 8% per annum and was repayable 2 months from the date of receipt. The loan was repaid in December 2005 and interest expense of \$98 was recorded.

**19. 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.

**20. Subsequent Events**

On April 5, 2007, 5,000,000 warrants entitling the holder to purchase one Common Share at a price of \$3.40 each expired. On the same day, warrants entitling agents to purchase an aggregate of 500,000 Common Shares at an exercise price of \$3.40 per share also expired.

On April 26, 2007, the Corporation placed a U.S.\$0.25 million deposit on a mining drill for the surface mine operations. To date, the total deposit placed on the mining drill is U.S.\$0.5 million.

On May 9, 2007, the Corporation placed a U.S.\$1.2 million deposit on the haul trucks for the surface mine operations. To date, the total deposit placed on the haul trucks is U.S.\$1.45 million.

On May 24, 2007, as part of the Corporation's share option plan, 520 thousand options to purchase common shares were granted to employees 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 1, 2007, the Corporation placed a U.S.\$0.2 million deposit on a mining shovel for the surface mine operations. To date, the total deposit placed on the mining shovel is U.S.\$0.5 million.

On June 11, 2007, the Corporation signed a term sheet and made a U.S.\$250 deposit with a Canadian financial institution. A credit agreement for financing the surface mining equipment is currently being negotiated.

On June 19, 2007, the Corporation placed a U.S.\$0.3 million progress payment on the haul trucks for the surface mine operations. To date, total payments placed on the haul trucks is U.S.\$1.7 million.