

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the year ended March 31, 2006. 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 22, 2006.

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> | March 31 2006 | March 31 2005 | March 31 2004 |
|--|--------------------------|--------------------------|--------------------------|
| Balance Sheet | | | |
| Total assets | 90.7 | 100.2 | 5.6 |
| Long-term liabilities | 13.5 | 2.3 | 0.1 |
| Shareholders' equity | 50.1 | 79.9 | 5.0 |
| | | | |
| <i>(millions of dollars, except per share amounts)</i> | 2006 | 2005 | 2004 |
| Income Statement | | | |
| Revenue | 90.7 | 17.6 | - |
| Cost of sales | 112.3 | 30.5 | - |
| Net loss | (32.1) | (18.9) | (1.2) |
| Basic and diluted net loss per share | (0.79) | (0.56) | (0.23) |
| | | | |
| <i>(millions, except per tonne amounts)</i> | 2006 | 2005 | 2004 |
| Statistics | | | |
| Clean coal production | 1.0 | 0.4 | - |
| Coal sales | 0.9 | 0.3 | - |
| Average sales price (CAN\$/tonne) | 100 | 63 | - |
| Average cost of sales (CAN\$/tonne) | 124 | 115 | - |
| Average cost of production (CAN\$/tonne) | 98 | 91 | - |

Grande Cache Coal commenced coal production and sales in 2005. As the Corporation was in the development stage in prior periods, there are no comparative figures for results of operations.

Results of Operations

Revenue

The Corporation earned revenue of \$90.1 million on 0.9 million tonnes of coal sales in 2006 compared with revenue of \$16.8 million on 0.3 million tonnes of coal sales in 2005. The Corporation commenced metallurgical coal sales in the third quarter of fiscal 2005.

The 2006 average realized sales price of \$100 per tonne includes 2006 contracted metallurgical coal sales, trial cargos, carryover coal sales tonnage and some thermal coal sales. Thermal coal sales were 10% of total sales volume in the year. The average realized sales price was \$63 per tonne in 2005, with thermal coal sales being 25% of total sales volume.

The average sales price achieved on U.S. dollar denominated metallurgical coal sales was U.S.\$91 per tonne in 2006 and U.S.\$61 per tonne in 2005. As the majority of the Corporation's revenue is earned in U.S. dollars, changes in the exchange rate, particularly recent strengthening of the Canadian dollar, significantly impacts the Corporation's results.

Interest and other revenue was \$0.6 million in 2006 compared to \$0.8 million in the prior year.

Cost of sales

The average cost of clean coal produced at Grande Cache Coal's mining operations in 2006 was \$98 per tonne. The cost of coal produced declined steadily over the year to \$86 per tonne in the fourth quarter. In fiscal 2005, as the Corporation transitioned from the development phase to the production phase, the average cost of coal produced was \$91 per tonne.

In the fourth quarter of 2006, the Corporation achieved its highest level of clean coal production since operations began in autumn 2004. The increased production levels and ongoing cost improvement measures had a positive impact on cost of production per clean tonne.

Increases in raw coal mined from both the surface mine and the underground mine were achieved over the course of the year. Depillaring operations in the underground mine began during the fourth quarter and resulted in substantial productivity increases and cost reductions. A declining strip ratio in the surface mine also led to cost improvements. The raw coal strip ratio was 9:1 in the fourth quarter and an average of 10:1 for the year. The strip ratio is the number of bank cubic meters of waste material moved per tonne of raw coal mined. As the Corporation does not capitalize stripping activities, mining costs are correlated to the rise and fall of strip ratios in the surface mine. As the strip ratio falls over the remaining life of the 12S B2 mine, production costs per tonne of coal are also expected to fall.

The Corporation remains focused on improving its cost structure, however high fuel costs as well as limited availability of both labour and equipment contributed to the cost levels experienced by the Corporation. The record high costs of diesel fuel and natural gas experienced during the year were beyond the Corporation's control, but steps to reduce reliance on natural gas remain under investigation. The competitive atmosphere across the Canadian resource industry for the services of skilled trades, consultants, contractors and equipment and service providers has also continued to contribute to the high costs experienced by the Corporation.

Total cost of sales for the year was \$112.3 million or \$124 per tonne compared to \$30.5 million or \$115 per tonne in the prior year. The cost of sales consisted of cost of product sold of \$91.4 million (\$101 per tonne) and distribution costs of \$20.9 million (\$23 per tonne). The cost of product sold in 2005 was \$26.2million (\$99 per tonne) and distribution costs were \$4.2 million (\$16 per tonne) when the Corporation was entering production with a strip ratio of 7:1 in the surface mine and selling significant quantities of thermal coal which carry lower distribution costs.

Other Expenses

The Corporation incurred general and administrative expenses of \$5.3 million during 2006 compared to \$4.9 million for the prior year.

General and administrative expenses included non-cash charges of \$0.8 million for stock-based compensation, compared to \$1.0 million last year. Also included in general and administrative expenses was a foreign exchange loss of \$0.2 million compared to \$0.1 million in the prior year.

Depreciation, depletion and accretion charges were \$3.7 million in 2006 compared to \$0.9 million in 2005, resulting from a full year of operations and increased production levels.

Liquidity and Capital Resources

Grande Cache Coal had cash and cash equivalents of \$1.0 million at March 31, 2006, a decrease of \$34.5 million from the March 31, 2006 balance of \$35.5 million.

Cash used in operating activities during the year was \$38.7 million compared to a cash use of \$20.6 million during the prior year. Cash used in operating activities was driven by the Corporation's 2006 net loss of \$32.1 million compared to

\$18.9 million in 2005. As well, the net change in non-cash working capital increased to a cash use of \$11.3 million in 2006 from \$3.3 million in 2005 due primarily to increased inventory levels.

Financing activities generated cash of \$19.3 million in 2006 compared to \$97.1 million in 2005. The current year included cash proceeds from 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.

During fiscal 2006, the Corporation entered into a \$25 million secured credit facility consisting of a \$10 million term facility and a \$15 million revolving facility. The facilities are secured by a general security agreement and have a maturity date of April 8, 2007, subject to a one year extension option. Interest is payable monthly at a rate of prime plus 2% per annum. The credit facilities financed the retirement of a \$5 million short-term loan the Corporation received from a related party in October 2005 and are being used to finance the Corporation's working capital.

Cash provided by financing activities totaled \$97.1 million in 2005 due to the issuance of share capital for net proceeds of \$93.1 million and net notes payable of \$4.1 million.

Investing activities accounted for cash use of \$14.9 million this year, compared to \$41.3 million in the prior year. Investing activities included capital asset additions of \$16.8 million in 2006, compared to \$33.1 million in 2005. In addition, the Corporation set aside \$9.9 million to secure letters of credit in 2005 and a net of \$3.5 million was released in 2006.

The Corporation 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, 2006, the Corporation had \$25.0 million in coal inventory, compared to \$10.5 million in the prior year.

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 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 will be used to finance the Corporation's capital expenditures and provide additional working capital.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 2006. The only long term liabilities of the Corporation are asset retirement obligations with a present value of \$3.5 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 \$5.4 million provided to the Alberta Government, which are presently secured by cash.

The Corporation has commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment is U.S.\$16 million, with progress payments required over the course of the manufacturing process. This arrangement is currently under review. To March 31, 2006, U.S.\$4.7 million in progress payments have been paid.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, light vehicles and office space and for the provision of rail transportation. The Corporation is also party to a secured credit facility. Under contracts existing at March 31, 2006, future minimum amounts payable under these agreements are:

| <i>(millions of dollars)</i> | Payments Due by Period | | | | |
|--------------------------------------|-------------------------------|-----------------------------|----------------------|----------------------|--------------------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual Obligations | | | | | |
| Long term debt | 10.0 | - | 10.0 | - | - |
| Operating Leases | 2.0 | 0.3 | 0.8 | 0.4 | 0.5 |
| Purchase Obligations | 1.1 | 1.1 | - | - | - |
| Total Contractual Obligations | 13.1 | 1.4 | 10.8 | 0.4 | 0.5 |

Summary of Quarterly Results

| <i>(millions, except per unit amounts)</i> | Q1 | Q2 | Q3 | Q4 | 2006 |
|--|-----------|-----------|-----------|-----------|-------------|
| 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) | 9.7 | 34.6 | 19.3 | 27.1 | 90.7 |
| 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) |
| <i>(millions, except per unit amounts)</i> | Q1 | Q2 | Q3 | Q4 | 2005 |
| Clean coal production | - | - | 0.2 | 0.2 | 0.4 |
| Coal sales | - | - | 0.1 | 0.2 | 0.3 |
| Average sales price (\$/tonne) | - | - | 59 | 65 | 63 |
| Average cost of sales (\$/tonne) | - | - | 121 | 111 | 115 |
| Average cost of production(\$/tonne) | - | - | 87 | 94 | 91 |
| Revenue (dollars) | 0.1 | 0.3 | 5.1 | 12.1 | 17.6 |
| Net loss (dollars) | (0.5) | (2.2) | (6.0) | (10.2) | (18.9) |
| Basic and diluted net loss per share | (0.02) | (0.06) | (0.16) | (0.27) | (0.56) |

The Corporation began coal production and sales during the third quarter of 2005. The productive capacity of the operations has increased steadily and the Corporation is now capable of producing approximately two million tonnes of clean coal per year. However, the Corporation has and will continue to manage production to approximate scheduled sales volumes over the course of the year.

The average sales price achieved by the Corporation increased each quarter to date, while cost of production declined during 2006.

Outlook

Operations

The Corporation relies on the railway to transport coal inventory to the ports. Rail service problems and delays during the last portion of the fourth quarter and the first several weeks of the first quarter of fiscal 2007 restricted the Corporation's sales. Grande Cache Coal requires improvement in rail service to meet customer shipments and has been in continual contact with the railway in attempts to secure adequate service levels.

During April 2006, the Corporation temporarily suspended clean coal production in the processing plant to undertake several capital improvement projects that are expected to increase its future operating efficiency. Grande Cache Coal held adequate clean coal inventory to meet shipment schedules through the month of April and normal operations resumed in the month of May. Both the underground and surface mines maintained normal production levels throughout April. It is anticipated that an annual maintenance and vacation shutdown will be taken during the Corporation's second quarter.

Production levels in fiscal 2007 will be managed to scheduled sales volumes. As the Corporation is continuing efforts to finalize contracts with new customers, total sales volumes have not been finalized. It is anticipated that production and sales in 2007 will be in the range of 1.0 to 1.4 million tonnes.

A significant portion of the Corporation's costs are fixed, so increases in production generated by increased sales volumes would result in unit cost reductions.

Metallurgical Coal Markets

Grande Cache Coal is maintaining a focus on expanding and diversifying its customer base geographically as well as within traditional markets to mitigate situations where shipment delays can occur. Negotiations of sales contracts and trial shipments with new customers are ongoing.

Contract negotiations for the upcoming coal year are ongoing. The Corporation will provide further information on coal sales for fiscal 2007 once substantially all contracts are settled and prices are established. The demand for metallurgical coking coal is expected to remain strong over the medium term as worldwide supply and demand remains balanced.

Capital Expenditures

The Corporation anticipates spending approximately \$10 million on capital additions and a drilling program in fiscal 2007. Options available for financing capital expenditures expected to result in improvements to the Corporation's cost structure include debt financing, capital or operating lease arrangements or equipment manufacturer's financing.

Other Information

The Corporation has not entered into any off-balance sheet arrangements or other financial instruments at this time. Export trade credit insurance may be used in the future to provide security for non-payment on certain coal sale transactions.

As at June 22, 2006, there were 50,768,688 common shares issued and outstanding and the following share options were 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 | 700,000 | \$1.00 | March 21, 2009 |
| | 162,500 | 137,500 | \$3.70 | July 21, 2009 |
| | 37,500 | 25,000 | \$3.70 | August 8, 2009 |
| | 135,000 | 105,000 | \$11.56 | March 15, 2010 |
| | 35,000 | 10,000 | \$9.08 | June 9, 2010 |
| | 125,000 | - | \$4.50 | October 18, 2010 |
| | 900,000 | - | \$2.44 | April 11, 2011 |
| Total | <u>2,453,334</u> | <u>977,500</u> | | |

There are also 5,500,000 warrants outstanding, exercisable at a price of \$3.40 per share on or before April 5, 2007.

Subsequent Events

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 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.

On April 7, 2006, the Corporation provided a cash secured letter of credit of \$300 to a service provider.

On April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation under the Corporation's share option plan at an exercise price of \$2.44 per share. The options have a five year term and are subject to an 18 month vesting period.

Additional Information

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

Critical Accounting Estimates

The Corporation'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.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation 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, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while the Corporation'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.

RISK FACTORS

An investment in the Corporation's securities involves numerous risks and uncertainties, particularly 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 that 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 the Corporation.

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 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 is not currently operating profitably and Grande Cache Coal has never earned a profit. 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 exploration and mining involves a high degree of risk. The amounts attributed to Grande Cache Coal's interest in its properties reflected in its financial statements represent acquisition and exploration and development expenses and

should not be taken to represent realizable value. Hazards such as unusual or unexpected mining conditions are involved.

Fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the operation of mines. Unknowns with respect to market demand, coal pricing and mining conditions are involved. Existing and future environmental laws may cause additional expenses and delays in Grande Cache Coal's activities, and they may render Grande Cache Coal's properties uneconomic. Grande Cache Coal has limited liability insurance, and Grande Cache Coal may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a material adverse effect on Grande Cache Coal's financial position.

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 Savage Alberta Railway Inc. and 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 Savage Alberta Railway Inc., CN, Westshore Terminals Ltd. or Thunder Bay Terminals Ltd. 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 can 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. A loss of, or a significant reduction in, purchases by any of the Corporation's largest customers could adversely affect the Corporation's revenue.

Title to Assets

The Corporation'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 the Corporation.

Reserve Estimates

While the estimates of Grande Cache Coal's reserves 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. For example, the estimation of reserves in accordance with applicable standards involves a determination of economic recovery of minerals, which in turn requires the Corporation to make assumptions regarding the future price of the Corporation's products and the cost of recovery, as well as other factors that are beyond Grande Cache Coal's control. Market price fluctuations for coal as well as increased production costs or reduced recovery rates, may render a portion or all of the reserves uneconomic and may ultimately result in a restatement of reserves. Short-term operating factors relating to the coal reserves, such as the need for sequential development of coal bodies, varying stripping ratios and the processing of new or different coal qualities, may adversely affect the Corporation's future results of operations and financial condition.

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 therefore may not accurately reflect Grande Cache Coal's actual reserves and may need to be restated in the future.

The Corporation's profitability will depend substantially on its 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 may be required before these properties can be brought into production. Access to such lands for mining purposes may be restricted by future legislation. Accordingly, there can be no assurance that Grande Cache Coal will be able to obtain the necessary authorizations to develop resource properties in the future and this may adversely affect the Corporation's future results of operations and financial condition.

Mining Risks and Insurance

Grande Cache Coal's exploration, development and mining operations are subject to conditions beyond the Corporation's control which can affect the cost of exploration, development and mining at particular sites for varying lengths of time. Such conditions include environmental hazards, industrial accidents, explosions, unusual or unexpected geological formations or pressures, pit wall slides, pit flooding and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or production facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability. In this regard, the Corporation 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 coverage will be adequate in all cases. The payment of uninsured liabilities would reduce the funds available to Grande Cache Coal. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Insurance against environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not available at reasonable economic rates to the Corporation or to other companies within the industry. To the extent that the Corporation is subject to environmental liabilities, the payment of such liabilities would reduce the funds available to Grande Cache Coal. Should the Corporation be unable to fully fund the cost of remedying an environmental problem, the Corporation 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, the Corporation 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

None of Grande Cache Coal's personnel are currently unionized, however, some or all of such personnel may become unionized. In addition, the contract miner at the No. 12S B2 mine and the rail carriers 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 contract miner at the No. 12S B2 mine or those of its key service suppliers could have a material adverse effect upon Grande Cache Coal's revenues.

In addition, the Corporation'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. In addition, 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 Canadian Parliament has voted to ratify its participation in this agreement. The Kyoto Protocol came into force in Canada on February, 16, 2005 after being ratified by enough signatory countries. 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.

The government of Canada has initiated the development of regulations for greenhouse gas emissions through a formal notice of intent to regulate greenhouse gas emissions by Large Final Emitters ("LFEs") under parts five and 11 of the *Canadian Environmental Protection Act, 1999*. The timetable for development indicated with the notice was to have at least part of the regulatory package ready for the first part of 2006. The operations of Grande Cache Coal are not currently classified as LFEs under this regulatory initiative, but this may change in the future.

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. A significant proportion of Canada's industrial sector faces a similar situation. The federal and provincial governments have not finalized any formal regulatory programs to control greenhouse gases, and it is not yet possible to reasonably estimate the nature, extent, timing and cost of any programs contemplated or 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.

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 existing 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

The Corporation anticipates making capital expenditures for the development of the coal leases acquired as well as capital expenditures to enhance the production of the current producing coal leases. The Corporation may have to obtain additional debt 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 the Corporation 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 the Corporation are also directors of other mineral resource companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of *the Business Corporations Act (Alberta)*.

Forward-Looking Information May Prove Inaccurate

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

Management's Report

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

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

Collins Barrow Calgary 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

May 15, 2006

Auditors' Report

To the Shareholders
Grande Cache Coal Corporation

We have audited the consolidated balance sheets of Grande Cache Coal Corporation as at March 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years ended March 31, 2006 and 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Collins Barrow Calgary LLP
Chartered Accountants

Calgary, Alberta
May 15, 2006

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

| | 2006 | 2005 |
|---|------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 973 | \$ 35,455 |
| Restricted cash (note 3) | 6,138 | 9,666 |
| Accounts receivable | 2,836 | 4,755 |
| Inventory (note 4) | 26,509 | 10,838 |
| Prepaid expenses | 1,490 | 199 |
| | <u>37,946</u> | <u>60,913</u> |
| Deposit for future reclamation expenditures | 82 | 82 |
| Property and equipment (note 5) | <u>52,720</u> | <u>39,225</u> |
| | <u>\$ 90,748</u> | <u>\$ 100,220</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 15,653 | \$ 14,302 |
| Notes payable (note 6) | - | 3,647 |
| Revolving debt (note 7) | 11,500 | - |
| | <u>27,153</u> | <u>17,949</u> |
| Long term debt (note 7) | 10,000 | - |
| Asset retirement obligations (note 8) | <u>3,470</u> | <u>2,338</u> |
| | <u>40,623</u> | <u>20,287</u> |
| Shareholders' equity | | |
| Share capital (note 9) | 101,715 | 99,751 |
| Contributed surplus | 1,621 | 1,275 |
| Deficit | <u>(53,211)</u> | <u>(21,093)</u> |
| | <u>50,125</u> | <u>79,933</u> |
| | <u>\$ 90,748</u> | <u>\$ 100,220</u> |

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)

| | 2006 | 2005 |
|---------------------------------------|--------------------|--------------------|
| Revenue | | |
| Sales | \$ 90,106 | \$ 16,822 |
| Interest and other | <u>578</u> | <u>827</u> |
| | <u>90,684</u> | <u>17,649</u> |
| Expenses | | |
| Cost of product sold | 91,385 | 26,222 |
| Distribution | 20,888 | 4,259 |
| General and administrative (note 10) | 5,335 | 4,908 |
| Interest and other | 747 | 125 |
| Depreciation, depletion and accretion | <u>3,686</u> | <u>895</u> |
| | <u>122,041</u> | <u>36,409</u> |
| Net loss before taxes | (31,357) | (18,760) |
| Taxes (note 13) | <u>(761)</u> | <u>(179)</u> |
| Net loss | (32,118) | (18,939) |
| Deficit, beginning of year | <u>(21,093)</u> | <u>(2,154)</u> |
| Deficit, end of year | \$ <u>(53,211)</u> | \$ <u>(21,093)</u> |
| Net loss per share (note 11) | | |
| Basic and diluted | \$ <u>(0.79)</u> | \$ <u>(0.56)</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)

| | 2006 | 2005 |
|---|-----------------|------------------|
| Cash provided by (used for) | | |
| Operating activities | | |
| Net loss | \$ (32,118) | \$ (18,939) |
| Items not affecting cash | | |
| Stock-based compensation (note 12) | 767 | 1,004 |
| Unrealized foreign exchange loss (gain) | 277 | (253) |
| Depreciation, depletion and accretion | 3,686 | 895 |
| | <u>(27,388)</u> | <u>(17,293)</u> |
| Net change in non-cash working capital relating to operating activities | <u>(11,345)</u> | <u>(3,314)</u> |
| | <u>(38,733)</u> | <u>(20,607)</u> |
| Financing activities | | |
| Proceeds on revolving and term debt (note 7) | 21,500 | - |
| Proceeds on issuance of share capital (note 9) | 1,545 | 99,097 |
| Proceeds on issuance of note payable (note 6) | - | 5,335 |
| Repayment of notes payable (note 6) | (3,752) | (1,186) |
| Share issuance costs (note 9) | (1) | (5,959) |
| Net change in non-cash working capital relating to financing activities | <u>-</u> | <u>(197)</u> |
| | <u>19,292</u> | <u>97,090</u> |
| Investing activities | | |
| Additions to mineral properties and development costs | (4,456) | (12,535) |
| Additions to buildings and equipment | (12,350) | (20,527) |
| Restricted cash (note 3) | 3,501 | (9,872) |
| Net change in non-cash working capital relating to investing activities | <u>(1,592)</u> | <u>1,612</u> |
| | <u>(14,897)</u> | <u>(41,322)</u> |
| Effect of foreign exchange on cash and cash equivalents | <u>(144)</u> | <u>(43)</u> |
| (Decrease) increase in cash and cash equivalents | (34,482) | 35,118 |
| Cash and cash equivalents, beginning of year | <u>35,455</u> | <u>337</u> |
| Cash and cash equivalents, end of year | <u>\$ 973</u> | <u>\$ 35,455</u> |
| Supplemental cash flow information: | | |
| Interest paid | \$ 740 | \$ 125 |
| Taxes paid | 777 | 104 |

See accompanying notes to the consolidated financial statements

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

1. Nature of Operations

Grande Cache Coal Corporation (“Grande Cache Coal” or the “Corporation”) is an Alberta based metallurgical coal mining company whose experienced team of coal professionals are developing a long-term mining operation that produces metallurgical coal for the export market from Grande Cache Coal’s coal leases covering over 18,000 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.

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 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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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.

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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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 \$5,438 (2005-\$4,204) 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 \$700 (2005-\$512) have been made available to service providers. As well, at March 31, 2005 a cash secured letter of credit of U.S.\$4,100 was provided as security for the notes payable.

4. Inventory

| | March 31 2006 | March 31 2005 |
|---------------------|--------------------------|--------------------------|
| Coal inventory | \$ 25,041 | \$ 10,478 |
| Materials inventory | <u>1,468</u> | <u>360</u> |
| Total | <u>\$ 26,509</u> | <u>\$ 10,838</u> |

5. Property and Equipment

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

| | As at March 31, 2005 | | |
|------------------------------------|-----------------------------|-----------------------------|-------------------|
| | Cost | Accumulated depreciation | Net Book Value |
| Buildings and equipment | \$ 21,078 | \$ 303 | \$ 20,775 |
| Mineral properties and development | <u>18,982</u> | <u>532</u> | <u>18,450</u> |
| | <u>\$ 40,060</u> | <u>\$ 835</u> | <u>\$ 39,225</u> |

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

At March 31, 2006, \$7,738 (2005-\$4,464) 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.

The Corporation has acquired several crown coal leases (“Leases”) in the Grande Cache, Alberta area, each for a term of 15 years. The Corporation is committed, under the Lease terms, to paying an annual lease rental and a royalty on all coal recovered from these Leases during their respective terms

6. Notes Payable

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

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

Interest expense on the note of \$125 was recorded in the prior year.

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 prior year, U.S.\$985 of principal and U.S.\$100 of interest charges were repaid. During the current year, the remainder of the coal under the agreement was shipped and the balance owing was repaid.

7. Revolving and Term Debt

During the third quarter of 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 consists of a \$10 million term facility and a \$15 million revolving facility. Interest is payable monthly at a rate of prime plus 2% per annum. The facilities are secured by a general security agreement and have a maturity date of April 8, 2007, subject to a one year extension option.

Interest expense on the revolving and term debt of \$428 was recorded in the current year.

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.

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. The Corporation has estimated the net present value of its asset retirement obligations to be \$3,470 (2005-\$2,338), based on a total future liability of \$7,123 (2005-\$5,695). The Corporation’s credit adjusted risk free rates range from 5.5% to 7.6% depending on the term of estimated years to reclamation.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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

| | 2006 | 2005 |
|----------------------------|-----------------|-----------------|
| Balance, beginning of year | \$ 2,338 | \$ 77 |
| Increase in liability | 935 | 2,180 |
| Accretion expense | 197 | 81 |
| Balance, end of year | <u>\$ 3,470</u> | <u>\$ 2,338</u> |

9. Share Capital

Authorized

Unlimited common shares

Issued

| | 2006 | | 2005 | |
|--|-----------------------|-------------------|-----------------------|-------------------|
| | Number (thousands) | Stated Value | Number (thousands) | Stated Value |
| Common shares | | | | |
| Balance, beginning of year | 40,134 | \$ 106,798 | 6,067 | \$ 485 |
| Shares issued on initial public offering | - | - | 22,000 | 57,200 |
| Conversion of Series 1 preferred shares | - | - | 8,400 | 6,825 |
| Shares issued on private placement | - | - | 2,942 | 40,011 |
| Shares issued on exercise of warrants | 485 | 1,521 | 725 | 2,277 |
| Shares issued on exercise of options | 150 | 444 | - | - |
| Balance, end of year | <u>40,769</u> | <u>\$ 108,763</u> | <u>40,134</u> | <u>\$ 106,798</u> |
| Series 1 preferred shares | | | | |
| Balance, beginning of year | - | \$ - | 6,825 | \$ 6,825 |
| Conversion of series 1 preferred shares to common shares | - | - | (6,825) | (6,825) |
| Balance, end of year | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| | | 108,763 | | 106,798 |
| Less: Share issuance costs | | 7,048 | | 7,047 |
| | | <u>\$ 101,715</u> | | <u>\$ 99,751</u> |

In the first quarter of 2006, 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 of 2006, 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.

During the third quarter of 2006, 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.

The following transactions occurred during the year ended March 31, 2005:

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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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

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

Warrants

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

During the year 485 thousand (2005-725 thousand) agents' warrants were exercised for cash proceeds of \$1,260 (2005-\$1,886). On exercise of these warrants, \$261 (2005-\$391) was credited to share capital from contributed surplus.

Upon closing of the private placement on February 25, 2005, the Corporation issued warrants to purchase 1,471 million common shares at an exercise price of \$16.25 per share on or before February 27, 2006. No value was attributed to the warrants.

10. General and Administrative

General and administrative expenses in the current year consist of customary overhead charges. General and administrative expenses in the prior year consist of customary overhead charges as well as non-recurring charges related to the initial start-up of operations including internal labour, equipment rental and miscellaneous supplies that were not capitalized. Also included are non-cash charges of \$767 (2005-\$1,004) for stock-based compensation and a \$219 (2005-\$101) loss for foreign exchange.

11. Net Loss per Share

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

(thousands, except per share information)

| | 2006 | 2005 |
|---|--------------------|--------------------|
| Weighted average shares outstanding – basic and diluted | <u>40,658</u> | <u>33,697</u> |
| Net loss | <u>\$ (32,118)</u> | <u>\$ (18,939)</u> |
| Net loss per share: | | |
| Basic and diluted | <u>\$ (0.79)</u> | <u>\$ (0.56)</u> |

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

12. 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 \$767 (2005-\$1,004) and was a result of the Corporation's share option plan.

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.

On September 30, 2005, 131 thousand options to purchase common shares were cancelled.

Options to purchase 125 thousand common shares at an exercise price of \$4.50 were granted to employees of the Corporation under the Corporation's share option plan on October 17, 2005. The options have a five year term and are subject to a two year vesting period.

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 following transactions occurred during the year ended March 31, 2005:

At March 31, 2004, 1.40 million options to purchase common shares at an exercise price of \$1.00 per share were outstanding. The options have a term of five years and vest in equal amounts over three years. On July 30, 2004, 75 thousand of these options were cancelled.

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

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

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

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 61%, risk-free interest rates of 3% and expected lives of five years.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Details of the options outstanding are as follows:

| <i>(thousands of shares)</i> | Common Shares | |
|------------------------------|---------------|---------------------------------|
| | Number | Weighted Average Exercise Price |
| Outstanding – March 31, 2004 | 1,400 | \$ 1.00 |
| Granted | 480 | 7.06 |
| Cancelled | (75) | 1.00 |
| Exercised | - | - |
| Outstanding – March 31, 2005 | 1,805 | \$ 2.61 |
| Granted | 180 | 5.90 |
| Cancelled | (282) | 4.44 |
| Exercised | (149) | 1.90 |
| Outstanding – March 31, 2006 | <u>1,554</u> | <u>2.73</u> |

Details of the options exercisable at March 31, 2006 are as follows:

| <i>(thousands of shares)</i> | Common Shares | |
|------------------------------|---------------|---------------------------------|
| | Number | Weighted Average Exercise Price |
| | 700 | \$ 1.00 |
| | 162 | 3.70 |
| | 105 | 11.56 |
| | 10 | 9.08 |
| | <u>977</u> | <u>2.67</u> |

Of the options outstanding, 1,259 thousand options expire in 2009 and the remaining 295 thousand share options expire in 2010.

13. Taxes

The Corporation is required to pay Alberta crown royalties on net product revenues. The royalty expense for the year ended March 31, 2006 was \$692 (2005-\$126). Also included is large corporation tax of \$69 for the year (2005-\$53).

The Corporation has a future income tax asset of \$18,486 (2005-\$ 8,632) that has not been recognized. The components of the future tax asset are as follows:

| | 2006 | 2005 |
|---|-------------|-------------|
| Temporary differences related to buildings and equipment and mineral properties and development costs | \$ (2,780) | \$ (1,621) |
| Asset retirement obligations | 1,151 | 773 |
| Share issuance costs | 1,484 | 2,065 |
| Non-capital loss carryforwards | 18,631 | 7,415 |
| Valuation allowance | (18,486) | (8,632) |
| | <u>\$ -</u> | <u>\$ -</u> |

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 35.62% (2005-37.12%) to the net loss before taxes, as follows:

| | 2006 | 2005 |
|---|-------------|-------------|
| Expected income tax recovery | \$ 11,169 | \$ 6,964 |
| Decrease resulting from: | | |
| Resource allowance | (1,061) | (1,136) |
| Stock based compensation | (273) | (373) |
| Tax rate reductions | (307) | (74) |
| Other | (7) | (6) |
| Non deductible crown payments | 160 | 27 |
| Future income tax recovery not recognized | (9,681) | (5,402) |
| | <u>\$ -</u> | <u>\$ -</u> |

The Corporation has non-capital losses for income tax purposes totaling approximately \$52,306 (2005-\$26,180) 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 and \$26,125 in 2016.

14. 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.

15. Commitments

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, vehicles and office space as well as a provision of rail transportation. Under contracts existing at March 31, 2006, future minimum amounts payable under these agreements are summarized below:

| | |
|---------------------|---------|
| 2007 | \$1,445 |
| 2008 | \$ 298 |
| 2009 | \$ 232 |
| 2010 | \$ 224 |
| 2011 and thereafter | \$ 928 |

The Corporation has commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment is U.S.\$16 million, with progress payments required over the course of the manufacturing process. To March 31, 2006, U.S.\$4.7 million in progress payments have been paid.

16. 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.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

During the year ended March 31, 2005, prior to the Corporation's initial public offering, management fees of \$23, which have been included in general and administrative expenses, were paid to companies owned by two directors of the Corporation. This transaction was in the normal course of business and was measured at the exchange amount, which was the consideration agreed to by the parties

17. Economic Dependence

All of the Corporation's metallurgical coal is transported by Canadian National Railway Company and Savage Alberta Railway Inc. 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.

18. Subsequent Events

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 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.

On April 7, 2006, the Corporation provided a cash secured letter of credit of \$300 to a service provider.

On April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation under the Corporation's share option plan at an exercise price of \$2.44 per share. The options have a five year term and are subject to an 18 month vesting period.