Grande Cache Coal Corporation

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the year ended March 31, 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This discussion provides management's analysis of the Corporation's historical financial and operating results and provides estimates of the Corporation's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. All references are to Canadian dollars unless otherwise indicated.

This MD&A was prepared using information that is current as of June 16, 2009.

In the interest of providing Grande Cache Coal's shareholders and potential investors with information regarding Grande Cache Coal, including management's assessment of Grande Cache Coal's future plans and operations, certain statements in this MD&A are "forward-looking statements" within the meaning of applicable Canadian securities legislation. In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this MD&A speak only as of the date of this document and are expressly qualified by this cautionary statement.

Specifically, this MD&A contains forward-looking statements relating to: anticipated sales volumes of metallurgical coal in fiscal 2010; management of coal production in fiscal 2010; future development activities and related capital expenditures; the capital expenditure program for fiscal 2010; and funding sources for the capital expenditure program.

These forward-looking statements are based on certain key assumptions regarding, among other things: no material disruption in production; no material variation in anticipated coal sales volumes; no material variations in markets and pricing of metallurgical coal other than anticipated variations; continued availability of and no material disruption in rail service and port facilities; no material delays in the current timing for completion of ongoing projects; financing will be available on terms favourable to the Corporation; no material variation in historical coal purchasing practices of customers; coal sales contracts will be entered into with new customers; parties execute and deliver contracts currently under negotiation; and no material variations in the current regulatory environment. The reader is cautioned that such assumptions, although considered reasonable by Grande Cache Coal at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: changes in general economic, market and business conditions; uncertainties associated with estimating the quantity and quality of coal reserves and resources; commodity prices, currency exchange rates, the availability of credit facilities for capital expenditure requirements, debt service requirements; dependence on a single rail system; changes to legislation; liabilities inherent in coal mine development and production; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, mining and processing technical problems; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in coal mine development and production; and other factors, many of which are beyond the control of Grande Cache Coal. Many of these risk factors and uncertainties are discussed in Grande Cache Coal's Annual Information Form, Grande Cache Coal's MD&A, and other documents Grande Cache Coal files with the Canadian securities regulatory authorities.

There is no representation by Grande Cache Coal that actual results achieved during the forecast period will be the same in whole or in part as those forecast and Grande Cache Coal does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law.

Readers of this Management's Discussion and Analysis should refer to the section entitled "Risk Factors" in Grande Cache Coal's Management's Discussion and Analysis and Annual Information Form for factors which could potentially impact the Corporation's financial performance and its ability to meet its targets.

Financial Overview

(millions of dollars)	**As at March 31 2009**	**As at March 31 2008**	**As at March 31 2007**
Balance Sheet			
Cash and cash equivalents	**68.0**	4.2	4.6
Total assets	**259.2**	123.5	107.5
Long-term liabilities	**16.7**	21.5	13.9
Shareholders' equity	**228.4**	83.6	69.8

(millions of dollars, except per share amounts)	**2009**	**2008**	**2007**
Statement of Net Income (Loss) and Comprehensive Income (Loss)			
Revenue	**248.6**	146.6	101.3
Cost of sales	**126.0**	141.3	93.2
Income (loss) from operations	**118.8**	(13.9)	(2.4)
Net income (loss) and comprehensive income (loss)	**106.2**	(15.5)	(7.0)
Basic net income (loss) per share	**1.18**	(0.24)	(0.14)
Diluted net income (loss) per share	**1.15**	(0.24)	(0.14)

(millions of tonnes, except per tonne amounts)	**2009**	**2008**	**2007**
Statistics			
Clean coal production (tonnes)	**1.31**	1.42	0.99
Coal sales (tonnes)	**1.06**	1.65	1.00
Average sales price (US$/tonne)	**210**	86	93
Average sales price ($/tonne)	**234**	89	101
Average cost of sales ($/tonne)	**119**	86	93
Average cost of production ($/tonne)	**86**	58	63

Fiscal 2009 Compared with Fiscal 2008

Net income in fiscal 2009 was $106.2 million, or $1.18 per basic share ($1.15 per diluted share), compared to a net loss of $15.5 million, or $0.24 per basic and diluted share, in fiscal 2008. Income from operations was $118.8 million in the current year versus a loss from operations of $13.9 million in the comparable period.

Net income in the current fiscal year was significantly higher than the previous fiscal year as coal prices for the coal year commencing April 1, 2008 were settled at record high levels due to supply constraints and a robust economy. However due to production issues during the first part of fiscal 2009, the Corporation had lower than expected clean coal production which led to lower than planned sales volumes. Production was improving as the fiscal year progressed however the economy slowed dramatically during the third quarter and lower sales volumes forced the Corporation to reduce production. Despite the lower sales volumes, the sales price remained high due to the contractual agreements that were in place for the coal year. The strength of the economy during the first portion of fiscal 2009 led to higher costs for the Corporation as there were significant increases in mining input costs. Certain mining costs stabilized or subsided late in the fiscal year and some productivity improvements were achieved.

Revenue

Fiscal 2009 sales volumes were 1.06 million tonnes, a 36% decrease from 1.65 million tonnes sold in the prior year. The decline in sales volume was primarily caused by a slowdown in the global economy during the latter part of the fiscal year which caused a decrease in the demand for steel, and subsequently a reduced demand for metallurgical coal. Also contributing to the lower sales volumes was lower than planned production during the first part of the fiscal year due to an extended period of development in the underground mine and issues with the deployment of people and equipment in the surface mine. The lower than planned production resulted in a decrease in sales during this period as there was a temporary shortage of available coal.

Sales Volumes	2009	2008	2007
Coal sales (millions of tonnes)	**1.06**	1.65	1.00
Sales by Geographic Region (%)			
Asia	**42**	53	50
Europe	**32**	38	20
North America	**26**	9	30

The average sales price achieved in the current fiscal year was US$210 per tonne representing a 144% increase over US$86 per tonne last fiscal year. The increase in price was primarily due to higher contractual sales prices for the coal year commencing April 1, 2008. At the time of negotiations, the global economy was strong and there was a high demand for steel and subsequently metallurgical coal. At the same time, there were concerns about the supply of metallurgical coal as other coal producers around the world encountered production issues primarily caused by flooding in Australia. As a result, all of the product sold during fiscal 2009 was hard coking coal and ranged in price from US$300 per tonne, for current coal year sales, to US$81 per tonne for carryover sales from the prior year. The product sales mix in fiscal 2008 included hard coking coal sales (87%) at an average price of US$89 per tonne and Pulverized Coal Injection (PCI) sales (13%) at an average price of US$68 per tonne.

In fiscal 2009, the stronger US dollar (USD) in relation to the Canadian dollar had a positive impact on the Corporation's financial results. On average, US$1 equaled Cdn$1.11 in the current fiscal year compared to fiscal 2008 during which US$1 equaled Cdn$1.03. The average Canadian sales price for USD denominated sales was $234 per tonne in the current year compared to $89 per tonne in the comparable period.

Sales Prices	**2009**	**2008**	**2007**
US$/tonne			
Average hard coking coal sales price	**210**	89	100
Average PCI coal sales price	**-**	68	65
Average sales price	**210**	86	93
Average exchange rate (1 USD = Canadian)	**1.11**	1.03	1.14
Canadian $/tonne			
Average hard coking coal sales price	**234**	91	114
Average PCI coal sales price	**-**	70	75
Average sales price for $US denominated sales	**234**	89	106
Average thermal coal sales price	**-**	-	34
Average total sales price	**234**	89	101

Revenue in fiscal 2009 increased 70% to $248.6 million (fiscal 2008 - $146.6 million). The increase in revenue was predominantly a result of higher USD sales prices, marginally aided by the stronger USD, partially offset by lower sales volumes.

Production Costs and Cost of Sales

The average clean coal production cost for the current year was $86 per tonne, compared to $58 per tonne last fiscal year. The increase was caused by a higher strip ratio in the surface mine, a lower plant yield and higher mining input costs, especially for diesel fuel and contract labour. Additionally, the underground mine spent a higher proportion of time in development compared to fiscal 2008, which temporarily decreased coal production, increasing the unit cost.

In the current fiscal year, cost of sales were $126.0 million ($119 per tonne), versus $141.3 million ($86 per tonne) in the prior year. The cost of sales consisted of cost of product sold of $90.4 million ($85 per tonne) and distribution costs of $35.6 million ($34 per tonne). In the prior period, cost of product sold was $96.2 million ($59 per tonne) and the distribution costs were $45.1 million ($27 per tonne).

The increase in the unit cost of product sold in the current fiscal year was a result of lower sales volumes combined with lower productivity in the underground mine, a lower plant yield and a higher surface mine strip ratio. In addition, mining costs were considerably higher during fiscal 2009. During the current year a number of contractual service arrangements were terminated and replaced with Grande Cache Coal employees and the pre-existing coal haul contractor was replaced with a new contractor. These measures resulted in additional transition costs but are expected to reduce operating costs going forward.

The increase in distribution costs in the current fiscal year was primarily caused by the inclusion of fuel surcharges in the rail rates due to higher diesel fuel prices. Additionally, there were a higher proportion of shipments to eastern North America, which carry higher rail rates than shipments to port in western Canada. Also contributing to the higher distribution costs, but to a lesser extent, was an increase in demurrage charges due to a temporary shortage of available coal in the first few months of the fiscal year.

Production Costs and Cost of Sales	**2009**	**2008**	**2007**
Clean coal production (millions of tonnes)	**1.31**	1.42	0.99
Coal sales (millions of tonnes)	**1.06**	1.65	1.00
Average cost of production ($/tonne)	**86**	58	63
Average cost of product sold ($/tonne)	**85**	59	64
Average distribution costs ($/tonne)	**34**	27	29
Average cost of sales ($/tonne)	**119**	86	93

Other Operating Expenses

General and administrative expenses during the current fiscal year were $7.1 million, down from $7.2 million in fiscal 2008. Included in these expenses were head office administrative and marketing charges of $6.1 million (fiscal 2008 - $5.6 million) and non-cash charges for stock-based compensation of $1.0 million (fiscal 2008 - $1.6 million).

The Corporation recorded a foreign exchange gain of $12.5 million in fiscal 2009 due to a significant weakening of the Canadian dollar against the US dollar. In the prior fiscal year, there was a foreign exchange loss of $1.9 million as the Canadian dollar strengthened in relation to the US dollar.

Depreciation, depletion and accretion expenses for the fiscal year were $9.3 million, compared to $10.1 million in fiscal 2008. The decrease was a result of lower coal production levels, as well as the change in the value of depreciation and depletion included in inventory, offset by the addition of productive capital assets.

Other Income (Expenses)

Interest and other income in fiscal 2009 was $1.3 million versus $1.1 million in the prior year and consisted primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads belonging to the Corporation.

Interest and other expenses were $0.6 million in the current fiscal year, down from $1.7 million in the prior period due to a reduction of interest being paid on the revolving and long term debt.

Taxes

The Corporation incurred tax expenses of $13.3 million during fiscal 2009, compared to $1.0 million in fiscal 2008. Taxes were comprised of a current tax expense of $2.1 million for provincial Crown royalties as well as a future income tax expense of $11.2 million. In the prior fiscal year the Corporation did not incur any income taxes as it was not profitable, therefore the entire tax expense related to provincial Crown royalties, which was comparably lower due to the lower sales price during the year.

Liquidity and Capital Resources

The Corporation's cash position increased $63.8 million during fiscal 2009 resulting in cash and cash equivalents of $68.0 million at March 31, 2009. In the prior fiscal year, the Corporation's cash position decreased $0.4 million to $4.2 million.

Operating activities produced cash of $86.0 million during fiscal 2009 compared to $10.6 million in fiscal 2008. The increase in cash generation in the current year was primarily related to the net income of $106.2 million due to the substantial increase in the price of coal. In the prior year, the Corporation's $15.5 million net loss was largely a result of reduced revenue due to lower contract sales prices and a weaker US dollar.

Financing activities since March 31, 2008 resulted in cash proceeds of $15.2 million (fiscal 2008 - $25.0 million). In fiscal 2008 Grande Cache Coal closed a bought deal equity financing whereby a total of 20,500,000 units of the Corporation were issued for gross proceeds of $26.7 million. In addition, the Corporation granted to the underwriters an over-allotment option to purchase up to an additional 3,075,000 units, of which 791,300 units were exercised for gross proceeds of $1.0 million. Each unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of $1.60 per share. During fiscal 2008, warrants were exercised for cash proceeds of $1.4 million. Costs associated with issuing the share capital were $2.0 million.

During the fourth quarter of fiscal 2008, Grande Cache Coal completed negotiations on credit financing with Brookfield Bridge Lending Fund Inc. ("Brookfield"), the Corporation's then existing senior lender. At closing, a $17.5 million floating rate senior secured convertible debenture (the "convertible debenture") was issued to Brookfield and a secured revolving credit facility was entered into with Brookfield for an amount up to $20.0 million (the "revolving facility"), subject to a borrowing base calculation. The proceeds from the convertible debenture were used to fully repay the Corporation's pre-existing term facility with Brookfield ($10 million) and associated fees. The balance of the proceeds from the convertible debenture, as well as proceeds from the revolving facility, was used for general corporate purposes. During fiscal 2008, the Corporation made net repayments of $10.0 million on the revolving facility bringing the balance to $5.0 million at March 31, 2008. Additionally, common share options were exercised for cash proceeds of $0.2 million.

During the current fiscal year, warrants were exercised for cash proceeds of $17.4 million and common share options were exercised for cash proceeds of $3.0 million. Pursuant to the terms of the convertible debenture, Brookfield converted $17.5 million into 9.6 million common shares. The Corporation also made net repayments on the revolving debt facility of $5.0 million bringing the balance to nil. The revolving debt facility with Brookfield expired on April 1, 2009.

In June 2009, the Corporation entered into an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to $25 million and the ability to enter into foreign exchange hedging arrangements.

Investing activities led to a cash decrease of $45.1 million in fiscal 2009, compared to a decrease of $34.6 million in the prior fiscal year. Capital additions in fiscal 2009 were $45.2 million (fiscal 2008 - $38.8 million) and consisted of the addition of equipment totaling $36.9 million (fiscal 2008 - $37.4 million) and the development of mineral properties of $8.3 million (fiscal 2008 - $1.4 million).

The Corporation believes that its existing cash, cash flow from operations and the $25 million operating line of credit will be sufficient to fund ongoing working capital requirements. The Corporation expects that capital expenditures will be funded by existing cash, cash flow from operations and equipment leases. See also section regarding Outlook – Capital Expenditures.

Grande Cache Coal expects that coal inventory and coal production will be sufficient to meet customer requirements during fiscal 2010. At March 31, 2009, the Corporation had $44.3 million in coal inventory, compared to $5.5 million at the end of the previous fiscal year.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 2009. The only long term liabilities of the Corporation are asset retirement obligations with a present value of $6.4 million and future income tax liabilities of $10.3 million. Grande Cache Coal's asset retirement obligations are covered by a cash deposit of $0.1 million and letters of credit totaling $8.2 million provided to the Alberta Government, which are presently secured by restricted cash.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, light vehicles, equipment, buildings and office space.

The Corporation entered into an agreement with a property and development company to purchase condominium units for employees. At March 31, 2009, $4.2 million remained owing on this commitment.

The Corporation entered into various purchase commitments for mining equipment. At March 31, 2009, remaining payments owing on the mining equipment totalled $43.1 million, which included USD commitments of US$29.0 million.

Under contracts existing at March 31, 2009, future minimum undiscounted amounts payable under these agreements were:

(millions of Canadian dollars)		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Leases	2.4	0.7	1.1	0.2	0.4
Purchase Obligations	47.3	47.3	-	-	-
Total Contractual Obligations	49.7	48.0	1.1	0.2	0.4

Fiscal 2008 Compared with Fiscal 2007

In fiscal 2008, the Corporation incurred a net loss of $15.5 million, or $0.24 per basic and diluted share, compared to a net loss of $7.0 million, or $0.14 per basic and diluted share in fiscal 2007. The Corporation's loss from operations was $13.9 million in fiscal 2008 and $2.4 million in fiscal 2007.

Fiscal 2008 sales volumes were 1.65 million tonnes, a 65% increase over 1.00 million tonnes sold in fiscal 2007. The average price achieved on US dollar denominated sales was US$86 per tonne compared to US$93 per tonne in fiscal 2007. The weaker US dollar in relation to the Canadian dollar had a negative impact on the Corporation's financial results in the prior year. During fiscal 2008, on average US$1 equaled Cdn$1.03 compared to fiscal 2007 during which US$1 equaled Cdn$1.14. As a result, the average Canadian sales price for US dollar denominated sales was $89 per tonne compared to $106 per tonne in the comparable year. Including thermal coal sales, the average total sales price was $101 per tonne in fiscal 2007. Revenue was $146.6 million in fiscal 2008 compared to $101.3 million in fiscal 2007. The annual increase was the result of higher sales volumes partially offset by lower US dollar denominated contract sales prices and a lower exchange rate due to a stronger Canadian dollar.

In fiscal 2008, cost of sales were $141.3 million ($86 per tonne), versus $93.2 million ($93 per tonne) in the comparable year. Cost of sales consisted of cost of product sold of $96.2 million ($59 per tonne) and distribution costs of $45.1 million ($27 per tonne). In fiscal 2007, cost of product sold was $64.4 million ($64 per tonne) and the distribution costs were $28.8 million ($29 per tonne). The reduction in the unit cost of product sold was primarily a result of lower operating costs in the surface mine and reduced process plant costs due to improved operating productivities and a higher plant yield. The Corporation also eliminated the services of several contractors and replaced essential services with Grande Cache Coal employees and equipment. The decrease in distribution costs in fiscal 2008 was mainly due to a lower proportion of shipments to eastern North America, which carry higher rail rates than shipments to port in western Canada.

General and administrative expenses during fiscal 2008 were $7.2 million, up from $5.4 million in fiscal 2007. Included in these expenses were head office administrative and marketing charges of $5.6 million ($4.0 million – 2007) and non-cash charges for stock-based compensation of $1.6 million (fiscal 2007 - $1.4 million). The Corporation incurred a foreign exchange loss of $1.9 million in fiscal 2008 (fiscal 2007 - $0.6 million) due to a strengthening of the Canadian dollar against the US dollar.

Depreciation, depletion and accretion expenses in fiscal 2008 were $10.1 million, up from $4.4 million in the comparable period. The increase was reflective of higher coal production levels, the addition of productive capital assets and the change in value of depreciation and depletion included in coal inventory.

The Corporation's interest and other income was $1.1 million in fiscal 2008 versus $0.4 million in fiscal 2007 and consisted primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads belonging to the Corporation. Interest and other expenses in fiscal 2008 were $1.7 million, compared to $1.8 million in fiscal 2007 and consisted primarily of interest paid on the revolving, term and convertible debt.

Fiscal 2009 Fourth Quarter

	Three months ended March 31	
(millions of dollars, except per share amounts)	**2009**	**2008**
Statement of Net Income (Loss) and Comprehensive Income (Loss)		
Revenue	**38.7**	39.9
Cost of sales	**10.2**	35.9
Income (loss) from operations	**25.7**	(0.7)
Net income (loss) and comprehensive income (loss)	**18.9**	(1.2)
Basic and diluted net income (loss) per share	**0.20**	(0.02)

	Three months ended March 31	
(millions of tonnes, except per tonne amounts)	**2009**	**2008**
Statistics		
Clean coal production (tonnes)	**0.26**	0.37
Coal sales (tonnes)	**0.11**	0.42
Average sales price (US$/tonne)	**292**	94
Average sales price ($/tonne)	**364**	95
Average cost of sales ($/tonne)	**96**	86
Average cost of production ($/tonne)	**82**	63

In the fourth quarter of fiscal 2009, Grande Cache Coal earned net income of $18.9 million, in contrast to a net loss of $1.2 million in the same period last fiscal year. Income from operations was $25.7 million during the quarter compared to a loss from operations of $0.7 million in the fourth quarter of fiscal 2008.

During the fourth quarter, Grande Cache Coal sold 0.11 million tonnes of coal at an average price of $364 per tonne (US$292 per tonne) generating revenue of $38.7 million. In the same period of fiscal 2008 the Corporation sold 0.42 million tonnes of coal at an average price of $95 per tonne (US$94 per tonne) generating revenue of $39.9 million. Overall, fourth quarter revenue remained fairly stable compared to the same period last fiscal year as the substantial increase in the average sales price and the favorable impact of the exchange rate were offset by a considerable reduction in sales volumes. The decrease in sales volumes in the fourth quarter was due to the downturn in the global markets which led to a decrease in the demand for steel and a resulting decrease in the demand for metallurgical coal.

The average cost of production during the fourth quarter increased to $82 per tonne (fiscal 2008 - $63 per tonne) largely due to a 30% decrease in clean coal production volumes, which was in response to a decline in the demand for metallurgical coal. Additionally, development work continued in the underground mine leading to lower productivity and the strip ratio in the surface mine was higher and the plant yield was lower. In response to the decreased demand for metallurgical coal and resulting lower production requirements, the Corporation reduced its workforce at the mine site by approximately 100 employees and contractors.

Cost of sales in the fourth quarter was $96 per tonne, up from $86 per tonne in the same period last fiscal year. The cost of sales consisted of cost of product sold of $72 per tonne (fiscal 2008 - $59 per tonne) and distribution costs of $24 per tonne (fiscal 2008 - $27 per tonne). The cost of product sold was higher than the comparable period largely due to a decline in sales volumes. During the fourth quarter the Corporation achieved some productivity improvements in the surface mine and benefited from cost saving measures implemented in previous quarters as well as the stabilization and in some cases, decreases of certain mining input costs. Distribution costs were lower in the fourth quarter as previously accrued demurrage charges were settled at lesser amounts.

Summary of Quarterly Results

(millions, except per unit amounts)	**2009**	**Q4**	**Q3**	**Q2**	**Q1**
Clean coal production (tonnes)	1.31	0.26	0.35	0.43	0.27
Coal sales (tonnes)	1.06	0.11	0.36	0.34	0.25
Average sales price (US$/tonne)	210	292	213	214	165
Average sales price ($/tonne)	234	364	254	223	166
Average cost of sales ($/tonne)	119	96	128	104	135
Average cost of production ($/tonne)	86	82	97	70	100
Revenue ($)	248.6	38.7	91.9	76.6	41.4
Income from operations ($)	118.8	25.7	51.7	37.4	4.0
Net income ($)	106.2	18.9	36.8	47.1	3.4
Basic net income per share ($)	1.18	0.20	0.38	0.52	0.04
Diluted net income per share ($)	1.15	0.20	0.38	0.51	0.04

(millions, except per unit amounts)	**2008**	**Q4**	**Q3**	**Q2**	**Q1**
Clean coal production (tonnes)	1.42	0.37	0.35	0.37	0.33
Coal sales (tonnes)	1.65	0.42	0.44	0.36	0.43
Average sales price (US$/tonne)	86	94	87	81	82
Average sales price ($/tonne)	89	95	85	85	89
Average cost of sales ($/tonne)	86	86	85	91	81
Average cost of production ($/tonne)	58	63	50	62	55
Revenue ($)	146.6	39.9	37.7	30.8	38.2
Loss from operations ($)	(13.9)	(0.7)	(3.0)	(8.5)	(1.7)
Net loss ($)	(15.5)	(1.2)	(3.4)	(8.8)	(2.0)
Basic and diluted net loss per share ($)	(0.24)	(0.02)	(0.05)	(0.14)	(0.04)

The Corporation earned net income in all four quarters of fiscal 2009 compared to net losses in all quarters of fiscal 2008. The primary reason for the improvement in earnings relates to an increase in the USD price of coal. Coal price contracts are settled on a coal year, which coincides with the Corporation's fiscal year, and record high prices were contracted for the coal year commencing April 1, 2008. During the first quarter of fiscal 2009 the Corporation sold a portion of carryover tonnage from the previous coal year, which was settled at lower prices. In addition to the increase in the USD coal price, the USD began to strengthen in relation to the Canadian dollar during the second quarter of fiscal 2009, thus having an additional positive impact on the Corporation's revenue. The average cost of sales increased in fiscal 2009 because of a decrease in sales volumes, as well as lower productivity from the underground mine due to additional development, a higher strip ratio in the surface mine and a lower plant yield. In addition, mining costs were higher coming into fiscal 2009 as a strong economy drove up the cost of certain mining inputs, most notably diesel fuel and contract labour.

Outlook

Metallurgical Coal Markets

Metallurgical coal prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of this commodity due to the current state of the world economies and the ongoing global credit and liquidity concerns.

The Corporation anticipates sales volumes of 1.2 to 1.4 million tonnes in fiscal 2010, a significant amount of which has already been contracted. The Corporation is continuing to aggressively pursue new markets and spot sales, and will also maintain relations with existing customers should their coal requirements change. Anticipated annual coal sales volumes are contingent upon market demand and adequate production levels. Coal sales for the first quarter of fiscal 2010 are expected to be approximately 0.40 million tonnes.

The average sales price for fiscal 2010 is expected to be in the range of US$115 to US$125 per tonne, which includes carryover shipments from the prior coal year and contract sales negotiated for the new coal year that commenced on April 1, 2009. The expected average sales price may vary depending on the Corporation's ability to successfully negotiate additional spot sales or sales within new markets.

Operations

Grande Cache Coal intends to manage production levels throughout fiscal 2010 to meet the anticipated demand for coal. While it is expected that the average cost of sales will vary from quarter to quarter, the average cost of sales for fiscal 2010 is anticipated to be in the range of $110 to $115 per tonne. The Corporation will continue to focus on productivity improvements and cost control measures throughout the operations. An escalation of mining input costs or lower than expected production levels would have a negative impact on the anticipated cost of sales.

Capital Expenditures

The Corporation anticipates capital expenditures will total approximately $67 million in fiscal 2010. This includes approximately $20 million related to the development of the No. 8 surface mine and the No. 12B2 underground mine, subject to receipt of pending regulatory approval for both mines. The anticipated capital expenditures also include the acquisition of new surface mining equipment required for the development of the No. 8 surface mine totaling approximately $28 million. The Corporation intends to enter into lease financing arrangements denominated in US dollars to acquire this new mining equipment. This equipment was ordered in 2008 for delivery early in 2009 and was subsequently deferred to the fall of 2009. The fiscal 2010 capital expenditures are expected to be funded by existing cash, cash flow from operations and equipment leases.

Foreign Exchange

The recent strengthening of the Canadian dollar against the US dollar is expected to have a negative impact on Grande Cache Coal's fiscal 2010 first quarter financial results. Substantially all of the Corporation's coal sales occur in US dollars and the Corporation has not entered into hedges to mitigate the effect of a weaker US dollar. Sustained or additional strengthening of the Canadian dollar, without hedges, would continue to have a negative impact on Grande Cache Coal's financial results.

Other Information

The Corporation has not entered into any off-balance sheet arrangements at this time. Looking forward, export trade credit insurance may be used to support accounts receivable.

As at June 16, 2009, there were 96,076,476 common shares issued and outstanding, and the following share options were also outstanding:

Share Options Outstanding	Number Granted	Number Vested	Exercise Price	Expiry Date
	50,000	50,000	$3.70	July 21, 2009
	12,500	12,500	$3.70	August 8, 2009
	95,000	95,000	$11.56	March 15, 2010
	10,000	10,000	$9.08	June 9, 2010
	25,000	25,000	$4.50	October 18, 2010
	245,000	245,000	$2.44	April 11, 2011
	125,000	125,000	$1.05	October 11, 2011
	50,000	50,000	$1.05	November 16, 2011
	320,406	320,406	$0.88	May 23, 2012
	1,333,402	775,058	$1.04	January 8, 2013
	150,000	-	$5.02	August 20, 2013
	1,975,000	-	$1.01	November 12, 2013
	100,000	-	$0.88	January 10, 2014
	125,000	-	$0.77	February 10, 2014
Total	4,616,308	1,707,964		

Subsequent Events

Subsequent to March 31, 2009, the following events occurred.

The Corporation's $20 million revolving credit facility with Brookfield expired.

The Corporation entered into an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to $25 million and the ability to enter into foreign exchange hedging arrangements.

The Corporation made payments of $4.0 million to complete the purchase of a condominium complex located at Grande Cache.

Additional Information

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

Critical Accounting Estimates

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

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

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

Inventory Valuation

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

Asset Retirement Obligations

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

Stock-based Compensation

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

Recent and Upcoming Changes in Accounting Policies

All accounting policies adopted by the Corporation are in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the year except as described below.

The CICA Handbook sections 1535 – Capital Disclosures, 3031 – Inventories, 3862 – Financial Instruments - Disclosures and 3863 – Financial Instruments – Presentation, were adopted by the Corporation on April 1, 2008.

Section 1535 requires the disclosure of information regarding objectives, policies and processes for managing capital. Adoption of this accounting standard resulted in additional disclosure which is provided in the notes to the consolidated financial statements.

Section 3031 prescribes new accounting treatment for inventories. The adoption of section 3031 did not have a material impact on the consolidated financial statements however it resulted in additional disclosure which is provided in the notes to the consolidated financial statements.

Section 3862 requires enhanced financial statement disclosure of financial instruments including their significance, the nature and extent of risks arising from financial instruments and how those risks will be managed. Section 3863 established enhanced financial statement presentation of financial instruments and their implications on the Corporation's financial position, performance and cash flows. Adoption of these accounting standards did not have a material impact on the consolidated financial statements however it resulted in additional disclosure which is provided in the notes to the consolidated financial statements.

EIC-174 - Mining Exploration Costs, was issued by the CICA on March 27, 2009 and became applicable to the Corporation's financial statements issued after that date. EIC-174 provides guidance on accounting for capitalization and impairment of exploration costs related to mining properties. The impact of applying EIC-174 did not have a material impact on the consolidated financial statements.

CICA Handbook section 3064 – Goodwill and Intangible Assets, will be adopted by the Corporation for periods commencing after April 1, 2009. Section 3064 will replace section 3062 – Goodwill and Other Intangible Assets, and will establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At the same time section 3064 is adopted, EIC-27 – Revenues and Expenditures during the Pre-operating Period, will be withdrawn. The impact of adopting these accounting standard changes is not expected to have a material impact on the consolidated financial statements.

EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, was issued in January 2009 and will be applicable to the Corporation for periods commencing after April 1, 2009. EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The impact of applying EIC-173 is not expected to have a material impact on the consolidated financial statements.

The Canadian Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") in 2011 for publicly accountable enterprises. As such, the Corporation will be required to adopt IFRS for the fiscal year beginning April 1, 2011, including comparative data from the prior fiscal year. The Corporation has established a plan for transition and has engaged third party advisors to assist in the conversion project.

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation has completed the diagnostic phase which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation has moved into phase two and is preparing detailed component evaluations assessing the impact of the differences and the need for amendments to existing accounting policies in order to comply with IFRS.

The transition to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. Because the Corporation is in the Evaluation and Development phase and has not yet selected its accounting policy choices and exemptions available to it under IFRS 1, the Corporation is unable to quantify the impact of IFRS to its consolidated financial statements at this time. The Corporation continues to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The control framework used to design the Corporation's internal control over financial reporting is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's disclosure controls and procedures at the financial year end of the Corporation and have concluded that the Corporation's disclosure controls and procedures are effective at the financial year end of the Corporation for the foregoing purposes.

Internal Control over Financial Reporting

The Corporation's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's internal control over financial reporting at the financial year end of the Corporation and concluded that the Corporation's internal control over financial reporting is effective, at the financial year end of the Corporation, for the foregoing purpose.

The Corporation is required to disclose herein any change in the Corporation's internal control over financial reporting that occurred during the period beginning on January 1, 2009 and ended on March 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. No material changes in the Corporation's internal control over financial reporting were identified during such period, that has materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

It should be noted that a control system, including the Corporation's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

RISK FACTORS

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

Market Risks

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader United States of America and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Metallurgical coal prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of this commodity due to the current state of the world economies and the ongoing global credit and liquidity concerns.

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 production, forcing Grande Cache Coal to incur closure and/or care and maintenance costs, as the case may be.

Dependence Upon the Steel Industry

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

Operational Risks

Exploration, Development and Production

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

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

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

Stage of Development

Grande Cache Coal earned profits for the first time during the fiscal year ended March 31, 2009 and there is no assurance that it will do so in the future. As a result, there can be no assurance that Grande Cache Coal will be able to develop and operate its properties profitably, or that its activities will generate positive cash flow. As a result of Grande Cache Coal's lack of significant operating history, it faces many of the risks inherent in starting a new business.

Coal Transportation

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

Shortage of Mining Equipment and Operating Supplies

In past years, growth in global mining activities created a demand for mining equipment and related supplies that, at times has outpaced supply. Should these conditions return, future operations could be adversely affected if Grande Cache Coal were to encounter difficulties obtaining equipment, tires and other supplies on a timely basis. In the event that Grande Cache Coal is unable to secure required mining equipment on a timely basis, expansion activities, production, productivity and costs could be negatively affected.

Foreign Currency Exchange

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

Dependence on Major Customers

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

Title to Assets

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

Reserve and Resource Estimates

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

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

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

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

Mining Risks and Insurance

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

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

Litigation

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

Dividends

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

Personnel

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

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

Government Regulations

Changes in Legislation

There can be no assurance that income tax laws, royalty regulations and governmental incentive programs relating to the mining industry in Canada will not be changed in a manner which adversely affects the Corporation. In addition, 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.

Regulatory Efforts to Control Greenhouse Gas Emissions

Grande Cache Coal's business emits a large quantity of carbon dioxide and produces metallurgical coal products that emit large quantities of carbon dioxide when consumed by end users. Carbon dioxide and other greenhouse gases are the subject of increasing public concern and regulatory scrutiny.

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 protocol, the Canadian Parliament voted to ratify its participation in this agreement and the Kyoto Protocol came into force in Canada on February 16, 2005. The Kyoto agreement commits Canada to limit its net greenhouse gas emissions to 6% below the levels emitted in 1990. Canada's current level of greenhouse gas emissions significantly exceeds the agreed-upon limit.

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

In Alberta, the *Climate Change and Emissions Management Act* and the Specified Gas Emitters Regulation require certain existing large emitters (facilities, including coal processing facilities, that are releasing 100,000 tonnes or more of greenhouse gas emissions in any calendar year after and including 2003) to reduce their emissions intensity by 12% starting July 1, 2007. The regulation also outlines options for meeting reduction targets. If reducing emissions intensity by 12% is not initially possible, large emitters will be able to invest in an Alberta-based technology fund to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. Large emitters will be required to pay $15 per tonne to the technology fund for every tonne of emissions above the 12% reduction target. Alternatively, large emitters could also invest in Alberta-based projects outside their operations that reduce or offset emissions on their behalf. Grande Cache Coal hopes to expand current levels of production, which will undoubtedly qualify the Corporation for the greenhouse gas intensity reduction requirement.

The primary source of greenhouse gas emissions in Canada is the use of hydrocarbon energy. Grande Cache Coal's operations depend significantly on hydrocarbon energy sources such as diesel fuel and natural gas to conduct daily operations, and there are typically no economic substitutes for these forms of energy. 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 by Kyoto signatory countries and others of emission limitations or other regulatory efforts to control greenhouse gas emissions could materially negatively affect the demand for coal as well as restrict development of new coal projects and 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 requires 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. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Credit Risk

Debt Instruments

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

Additional Funding Requirements

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

Conflicts of Interest

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

Forward-Looking Information May Prove Inaccurate

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

Management's Report

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

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

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

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

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

(Signed) Ian Bootle
Vice-President, Finance and Chief Financial Officer

June 16, 2009

Auditors' Report

To the Shareholders of
Grande Cache Coal Corporation

We have audited the consolidated balance sheets of Grande Cache Coal Corporation as at March 31, 2009 and 2008 and the consolidated statements of net income (loss), comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
June 16, 2009

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

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 68,035	$ 4,238
Restricted cash (note 4)	8,440	6,528
Accounts receivable	15,153	20,171
Inventory (note 5)	49,800	10,477
Prepaid expenses	965	1,084
	142,393	42,498
Deposit for future reclamation expenditures	82	82
Capital assets (note 7)	116,707	80,937
	$ 259,182	$ 123,517
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 13,130	$ 13,484
Future income taxes (note 6)	886	-
Revolving debt (note 8)	-	5,000
	14,016	18,484
Long term debt (note 8)	-	17,382
Asset retirement obligations (note 9)	6,429	4,020
Capital lease obligations	-	52
Future income taxes (note 6)	10,298	-
	30,743	39,938
Shareholders' equity		
Share capital (note 10)	194,541	154,676
Equity portion of convertible debenture (note 8)	-	118
Contributed surplus	3,362	4,468
Retained earnings (deficit)	30,536	(75,683)
	228,439	83,579
	$ 259,182	$ 123,517

Commitments (note 11)

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Nicholas G. Kirton
Director

Grande Cache Coal Corporation
Consolidated Statements of Net Income (Loss), Comprehensive Income (Loss) and Retained Earnings (Deficit)
Years Ended March 31
(thousands of Canadian dollars, except per share amounts)

	2009	2008
Revenue	$ 248,628	$ 146,579
Expenses		
Cost of product sold	90,428	96,246
Distribution	35,548	45,081
General and administrative (note 12)	7,086	7,205
Foreign exchange (gain) loss	(12,535)	1,884
Depreciation, depletion and accretion	9,281	10,057
	129,808	160,473
Income (loss) from operations	118,820	(13,894)
Other income (expenses)		
Interest and other income	1,290	1,123
Interest and other expenses	(574)	(1,672)
Income (loss) before taxes	119,536	(14,443)
Taxes (note 6)		
Current tax expense	(2,133)	(1,015)
Future income taxes expense	(11,184)	-
Net income (loss) and comprehensive income (loss)	106,219	(15,458)
Deficit, beginning of year	(75,683)	(60,225)
Retained earnings (deficit), end of year	$ 30,536	$ (75,683)
Net income (loss) per share (note 13)		
Basic	$ 1.18	$ (0.24)
Diluted	$ 1.15	$ (0.24)

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)

	2009	2008
Cash provided by (used for)		
Operating activities		
Net Income (loss) and comprehensive income (loss)	$ 106,219	$ (15,458)
Items not affecting cash		
Stock-based compensation (note 14)	952	1,575
Unrealized foreign exchange (gain) loss	(7,646)	1,433
Future income taxes (note 6)	11,184	-
Depreciation, depletion and accretion	9,281	10,057
Settlement of asset retirement obligations (note 9)	(147)	(19)
	119,843	(2,412)
Net change in non-cash working capital relating to operating activities	(33,834)	13,042
	86,009	10,630
Financing activities		
Proceeds on exercise of warrants (note 10)	17,354	1,377
Proceeds on exercise of options (note 10)	2,955	200
Repayment on revolving debt (note 8)	(5,000)	(10,000)
Proceeds on long term debt (note 8)	-	7,500
Proceeds on issuance of share capital (note 10)	-	27,956
Share issuance costs (note 10)	(2)	(1,979)
Payment on capital lease obligations	(71)	(62)
Net change in non-cash working capital relating to financing activities	-	2
	15,236	24,994
Investing activities		
Additions to mineral properties and development	(8,319)	(1,380)
Additions to buildings and equipment	(36,894)	(37,369)
Restricted cash (note 4)	(1,912)	-
Net change in non-cash working capital relating to investing activities	2,031	4,198
	(45,094)	(34,551)
Effect of foreign exchange on cash and cash equivalents	7,646	(1,449)
Increase (decrease) in cash and cash equivalents	63,797	(376)
Cash and cash equivalents, beginning of year	4,238	4,614
Cash and cash equivalents, end of year	$ 68,035	$ 4,238

Supplemental cash flow information:

	2009	2008
Interest paid	$ 574	$ 1,672
Taxes paid	$ 2,123	$ 923

See accompanying notes to the consolidated financial statements.

1. Nature of Operations

Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") is an Alberta based metallurgical coal mining company that produces metallurgical coal for the steel industry and holds coal leases covering over 22,000 hectares in the Smoky River Coalfield located in west-central Alberta.

2. Significant Accounting Policies

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

Principles of Consolidation

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

Management Estimates

The consolidated financial statements include certain management estimates that may require accounting adjustments based on future occurrences. The most significant estimates relate to asset retirement obligations, stock based compensation, income taxes, 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 credit provided to government agencies and to service providers. Restricted cash is recorded at fair market value.

Inventory

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include mining, labour, operating materials and supplies, transportation costs and a relevant allocation of overhead including depreciation and depletion.

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value.

Prepaid Prestrip Charges

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

Mineral Properties and Development

The Corporation has acquired several Crown coal leases (“Leases”) in the Grande Cache, Alberta area, each for a term of 15 years. The recoverability of the amounts recorded for mineral properties and development costs are dependent on the existence of economically recoverable reserves and future profitable production from the mineral properties.

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

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

Depreciation and Depletion

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

Asset Retirement Obligations

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

Foreign Currency Translation

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

Financial Instruments

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

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

Revenue Recognition

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

Cost of Product Sold

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

Distribution

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

Taxes

Current income taxes are recognized for the estimated income taxes payable for the current year. Current taxes also include Alberta Crown royalties which is based on a portion of product revenue, net of distribution expenses incurred.

Future income taxes are accounted for using the liability method of income tax allocation. Under the this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of the respective assets and liabilities, using the enacted or substantially enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Future income tax inflows and outflows arising from the recovery or settlement of assets and liabilities are subject to estimation in terms of timing and amount of future taxable earnings. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets and liabilities. The valuation of future income tax assets is reviewed on a regular basis and is recognized to the extent that they are considered more likely than not to be realized.

Stock-based Compensation

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

Reclassification

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

3. Recent and Upcoming Changes in Accounting Policies

The CICA Handbook sections 1535 – Capital Disclosures, 3031 – Inventories, 3862 – Financial Instruments - Disclosures and 3863 – Financial Instruments – Presentation, were adopted by the Corporation on April 1, 2008.

Section 1535 requires the disclosure of information regarding objectives, policies and processes for managing capital. Adoption of this accounting standard resulted in additional disclosure which is provided in the notes to the consolidated financial statements.

Section 3031 prescribes new accounting treatment for inventories. The adoption of section 3031 did not have a material impact on the consolidated financial statements however it resulted in additional disclosure which is provided in the notes to the consolidated financial statements.

Section 3862 requires enhanced financial statement disclosure of financial instruments including their significance, the nature and extent of risks arising from financial instruments and how those risks will be managed. Section 3863 established enhanced financial statement presentation of financial instruments and their implications on the Corporation's financial position, performance and cash flows. Adoption of these accounting standards did not have a material impact on the consolidated financial statements however it resulted in additional disclosure which is provided in the notes to the consolidated financial statements.

EIC-174 - Mining Exploration Costs, was issued by the CICA on March 27, 2009 and became applicable to the Corporation's financial statements issued after that date. EIC-174 provides guidance on accounting for capitalization and impairment of exploration costs related to mining properties. The impact of applying EIC-174 did not have a material impact on the consolidated financial statements.

CICA Handbook section 3064 – Goodwill and Intangible Assets, will be adopted by the Corporation for periods commencing after April 1, 2009. Section 3064 will replace section 3062 – Goodwill and Other Intangible Assets, and will establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At the same time section 3064 is adopted, EIC-27 – Revenues and Expenditures during the Pre-operating Period, will be withdrawn. The impact of adopting these accounting standard changes is not expected to have a material impact on the consolidated financial statements.

EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, was issued in January 2009 and will be applicable to the Corporation for periods commencing after April 1, 2009. EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The impact of applying EIC-173 is not expected to have a material impact on the consolidated financial statements.

The Canadian Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") in 2011 for publicly accountable enterprises. As such, the Corporation will be required to adopt IFRS for the fiscal year beginning April 1, 2011, including comparative data from the prior fiscal year. The Corporation has established a plan for transition and has engaged third party advisors to assist in the conversion project.

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation has completed the diagnostic phase which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation has moved into phase two and is preparing detailed component evaluations assessing the impact of the differences and the need for amendments to existing accounting policies in order to comply with IFRS.

The transition to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. Because the Corporation is in the Evaluation and Development phase and has not yet selected its accounting policy choices and exemptions available to it under IFRS 1, the Corporation is unable to quantify the impact of IFRS to its consolidated financial statements at this time. The Corporation continues to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS.

4. Restricted Cash

Cash secured letters of credit in the amount of $8,240 (2008 - $5,528) have been provided to the Alberta

(thousands of Canadian dollars, except per share amounts)

Government for security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit of $200 (2008 - $1,000) have been made available to service providers.

5. Inventory

	As at March 31 2009	As at March 31 2008
Coal inventory	$ 44,332	$ 5,500
Materials inventory	5,468	4,977
Total	$ 49,800	$ 10,477

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include mining, labour, operating materials and supplies, transportation costs and a relevant allocation of overhead including depreciation and depletion.

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value. The Corporation maintains an inventory of parts and supplies for day to day maintenance and operations. During fiscal 2009, parts and supplies inventories of $7,364 were expensed to cost of product sold compared to $5,279 in the same period of fiscal 2008.

There was no write-down of inventories or reversal of a write-down of inventories during the current period.

6. Taxes

The Corporation had a future income tax liability of $11,184, of which $886 was classified as a current liability. At the end of the prior fiscal year the Corporation had a future income tax asset of $22,413 that had not been recognized. The components of the future income tax (liability) asset are as follows:

	As at March 31 2009	As at March 31 2008
Temporary differences related to buildings and equipment and mineral properties and development costs	$ (12,428)	$ 2,396
Asset retirement obligations	1,607	1,181
Share issuance costs	523	1,178
Non-capital loss carryforward	-	17,658
Other	(886)	-
Valuation allowance	-	(22,413)
Future income tax liability	$ (11,184)	$ -

(thousands of Canadian dollars, except per share amounts)

Tax expenses differ from that which would be expected from applying the statutory Canadian federal and provincial income tax rates of 29.4% (2008 – 29.4%) to the income (loss) before taxes, as follows:

	2009	2008
Expected income tax (expense) recovery	$ (34,487)	$ 4,243
Decrease resulting from:		
Stock based compensation	(280)	(463)
Other	(671)	359
Change in tax rates	1,841	(1,944)
Change in valuation allowance	22,413	(2,195)
Provincial crown royalties	(2,133)	(1,015)
	$ (13,317)	$ (1,015)

At March 31, 2008, the Corporation had non-capital losses for income tax purposes totaling approximately $42,697, all of which were carried forward and applied against taxable income in the current fiscal year.

7. Capital Assets

	As at March 31, 2009		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	$ 107,954	$ 14,171	$ 93,783
Mineral properties and development	38,534	15,816	22,718
Capital leases	230	24	206
	$ 146,718	$ 30,011	$ 116,707

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

At March 31, 2009, $11,539 (2008 - $8,797) was capitalized for mineral properties and development that were not producing and equipment that was not in use during the year. No depreciation or depletion has been taken on these assets.

8. Revolving and Long Term Debt

At the beginning of the prior fiscal year, the Corporation had a $25,000 secured credit facility consisting of a $10,000 term facility and a $15,000 revolving facility with Brookfield Bridge Lending Fund Inc. ("Brookfield"). The credit facilities were secured by a general security agreement and had a maturity date of April 8, 2008. The credit facilities were being used to finance the Corporation’s working capital.

During the fourth quarter of fiscal 2008, Grande Cache Coal completed a financing agreement with Brookfield for a $17,500 three year floating rate senior secured convertible debenture and a secured revolving credit facility for an amount up to $20,000, subject to a borrowing base calculation. The proceeds from the convertible debenture were used to fully repay the Corporation's pre-existing term facility with Brookfield ($10,000) and associated fees. The balance of the proceeds from the convertible debenture, as well as proceeds from the revolving facility, was used for general corporate purposes.

(thousands of Canadian dollars, except per share amounts)

At March 31, 2008, the Corporation determined that $17,382 of the convertible debenture should be classified as long term debt based on the market interest rate of a similar liability without an associated equity component. The residual value of $118 was allocated to equity.

Pursuant to the terms of the convertible debenture, Brookfield converted $17,500 into 9,589 thousand common shares during the current fiscal year, bringing the balance of the convertible debenture to nil.

Net repayments on the revolving credit facility in fiscal 2009 were $5,000 (2008 - $10,000) bringing the balance to nil. The revolving credit facility with Brookfield expired on April 1, 2009.

Interest expense on the revolving and term debt was $486 in the current fiscal year and $1,600 in the prior fiscal year.

	As at March 31 2009	As at March 31 2008
Revolving debt	$ -	$ 5,000
Convertible debenture	-	17,500
Less: Equity portion of convertible debenture	-	(118)
Long term debt	-	17,382
	$ -	$ 22,382

9. Asset Retirement Obligations

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. At fiscal year end, the Corporation has estimated the net present value of its asset retirement obligations to be $6,429 (2008 - $4,020), based on a total future liability of $10,952 (2008 - $7,225). The Corporation's credit adjusted risk-free rates range from 5.0% to 7.6% depending on the period when the provision originated and the term of estimated years to reclamation.

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

	2009	2008
Balance, beginning of year	$ 4,020	$ 3,783
Increase in liability	2,170	-
Settlement of liability	(147)	(19)
Accretion expense	386	256
Balance, end of year	$ 6,429	$ 4,020

10. Share Capital

Authorized

Unlimited common shares
Unlimited preferred shares, issuable in series

Issued

(thousands)	**Number**		**Stated Value**
Common shares			
Balance – March 31, 2007	50,769	$	126,979
Shares issued on private placement	289		277
Shares issued on bought deal equity financing	20,500		26,650
Shares issued on over-allotment option	791		1,029
Shares issued on exercise of warrants	861		1,377
Shares issued on exercise of options	151		343
Share issuance costs	-		(1,979)
Balance – March 31, 2008	73,361		154,676
Shares issued on exercise of warrants	10,846		17,354
Shares issued on exercise of options	2,280		5,013
Shares issued on conversion of convertible debenture	9,589		17,500
Share issuance costs	-		(2)
Balance – March 31, 2009	96,076	$	194,541

During fiscal 2009, 10,846 thousand warrants were exercised for cash proceeds of $17,354. Additionally, 2,280 thousand common share options were exercised for cash proceeds of $2,955. On exercise of these common share options, $2,058 was credited to share capital from contributed surplus. As well, Brookfield converted $17,500 of the convertible debenture into 9,589 thousand common shares.

The following transactions occurred during the fiscal year ended March 31, 2008.

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

On August 9, 2007, the Corporation completed a bought deal equity financing. At closing, a total of 20,500 thousand units (the "units") of the Corporation were issued at a price of $1.30 per unit for gross proceeds of $26,650. In addition, the Corporation granted the underwriters an over-allotment option to purchase up to an additional 3,075 thousand units at the issue price for a period of 30 days following the closing date. Each unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of $1.60 per share until August 11, 2008.

On September 7, 2007, the underwriters of the Corporation's bought deal equity financing that closed on August 9, 2007 exercised their over-allotment option, resulting in the issuance of 791 thousand units at a price of $1.30 per unit for gross proceeds of $1,029.

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

(thousands of Canadian dollars, except per share amounts)

During fiscal 2008, 861 thousand warrants were exercised for cash proceeds of $1,377 and 151 thousand common share options were exercised for cash proceeds of $200. On exercise of these common share options, $143 was credited to share capital from contributed surplus.

11. Commitments

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, vehicles, equipment, buildings and office space.

The Corporation entered into an agreement with a property and development company to purchase condominium units for employees. At March 31, 2009, $4,162 remained owing on this commitment.

The Corporation entered into various purchase commitments for mining equipment. At March 31, 2009, remaining payments owing on the mining equipment totalled $43,126, which included USD commitments of US$29,047.

Under contracts existing at March 31, 2009, future minimum amounts payable under these agreements are summarized below:

2010	$	48,000
2011	$	461
2012	$	406
2013	$	258
2014 and thereafter	$	553

12. General and Administrative

	2009	2008
Head office administrative and marketing charges	$ 6,134	$ 5,630
Non-cash stock-based compensation charges	952	1,575
	$ 7,086	$ 7,205

13. Net Income (Loss) per Share

The following table reconciles the denominators for basic and diluted net income (loss) per share calculations. The treasury stock method is used to determine the dilutive effect of the share options. In the prior fiscal year, there was no dilutive effect for the Corporation's outstanding share options, warrants and convertible debentures as the effect of all exercises and conversions would have been anti-dilutive to the net loss per share.

(thousands, except per share information)		**2009**		**2008**
Weighted average shares outstanding – basic		89,677		64,666
Dilutive effect of options		3,043		-
Weighted average shares outstanding – diluted		92,720		64,666
Net income (loss)	$	106,219	$	(15,458)
Net income (loss) per share - basic	$	1.18	$	(0.24)
Net income (loss) per share - diluted	$	1.15	$	(0.24)

14. Stock-Based Compensation

The Corporation has a share option plan for the benefit of directors, officers, employees and consultants, pursuant to which the Board of Directors or a committee thereof may from time to time grant options to purchase common shares. Share options granted under the plan may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors. The maximum number of shares authorized for option grants is limited to 10% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security based compensation arrangements.

Total stock-based compensation expense included in general and administrative expenses for the fiscal year was $952 (2008 - $1,575) and was a result of options granted pursuant to the Corporation's share option plan.

During fiscal 2009, options to purchase common shares were granted pursuant to the share option plan as follows. On August 20, 2008, options were granted to purchase 150 thousand common shares at an exercise price of $5.02 per share, on November 12, 2008, options were granted to purchase 1,975 thousand common shares at an exercise price of $1.01 per share, on January 12, 2009, options were granted to purchase 100 thousand common shares at an exercise price of $0.88 per share and on February 11, 2009 options were granted to purchase 125 thousand common shares at an exercise price of $0.77 per share. The options have a five year term and are subject to a three year vesting period.

During the current fiscal year, options to purchase 2,280 thousand common shares were exercised at a weighted average price of $1.30 per share and options to purchase 672 thousand common shares were cancelled.

During fiscal 2008, options to purchase common shares were granted pursuant to the share option plan as follows. On May 24, 2007, options were granted to purchase 520 thousand common shares at an exercise price of $0.88 per share. These options have a five year term and are subject to an 18 month vesting period. On January 9, 2008, options were granted to purchase 1,950 thousand common shares at an exercise price of $1.04 per share. These options have a five year term and vest on a one third basis on each of March 31, 2008, March 31, 2009 and March 31, 2010.

During fiscal 2008, options to purchase 151 thousand common shares were exercised at a weighted average price of $1.32 per share and options to purchase 49 thousand common shares were cancelled.

The fair value of each share option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 147%, risk-free interest rates of 1.3% to 4.5% and an expected term of five years.

Details of the share options outstanding are as follows:

(thousands of shares)	**Number of Options**	**Weighted Average Exercise Price**
Outstanding – March 31, 2007	2,948	$ 2.07
Granted	2,470	1.01
Cancelled	(49)	4.13
Exercised	(151)	1.32
Outstanding – March 31, 2008	5,218	1.57
Granted	2,350	1.25
Cancelled	(672)	1.86
Exercised	(2,280)	1.30
Outstanding – March 31, 2009	4,616	$ 1.50

Of the share options outstanding at March 31, 2009, 157 thousand options expire in fiscal 2010, 35 thousand options expire in fiscal 2011, 420 thousand options expire in fiscal 2012, 1,654 thousand options expire in fiscal 2013, and 2,350 thousand options expire in fiscal 2014.

Details of the share options exercisable at March 31, 2009 are as follows:

(thousands of shares)	**Number of Options**	**Weighted Average Exercise Price**
	63	$ 3.70
	95	11.56
	10	9.08
	25	4.50
	245	2.44
	175	1.05
	320	0.88
	775	1.04
	1,708	$ 1.99

15. Capital Management

Grande Cache Coal's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure, as disclosed on the balance sheet, consists of cash and cash equivalents, shareholders' equity and a credit facility.

As part of capital management, the Corporation prepares an annual capital expenditures budget and may from time to time issue new equity or debt in order to finance capital expenditures. The Corporation has not declared or paid any dividends on its outstanding common shares and any decision to pay dividends in the future would be based on the financial condition of the Corporation. The Corporation may elect to adjust its capital structure through the purchase of shares for cancellation, issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

For the credit facility, the Corporation is subject to certain borrowing covenants that are monitored on a monthly basis when monies are drawn on such facility.

16. Financial Instruments

Grande Cache Coal's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, current income tax payable and revolving debt. The fair value of these financial instruments approximates their carrying amounts on the balance sheet due to the short periods to maturity and the terms of the financial instruments.

The Corporation's financial instruments have been classified as follows:

Financial instrument	Classification
Cash and cash equivalents	Held-for-trading
Restricted cash	Held-to-maturity
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Current income tax payable	Other financial liabilities
Revolving debt	Other financial liabilities

The Corporation's financial instruments are exposed to certain risks, including credit risk, liquidity risk and market risk.

Credit Risk

The Corporation is exposed to credit risk in the event that it does not receive payment of accounts receivable. The Corporation typically sells its product to large steel companies with high credit ratings. The maximum credit risk exposure at March 31, 2009 is $15,153, which is equal to the carrying amount of all accounts receivable. The Corporation does not deem the accounts receivable to be impaired or past due.

Liquidity Risk

The Corporation is exposed to liquidity risk in the event that it would be unable to meet obligations associated with financial liabilities. At March 31, 2009, the Corporation had a $20,000 revolving credit facility which it utilized for working capital purposes. The balance on the revolving debt facility was nil at March 31, 2009 and the facility expired on April 1, 2009. At March 31, 2009, the Corporation had contractual obligation with future minimum undiscounted amounts payable that were due as follows:

(thousands of Canadian dollars)	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	13,130	-	-	-
Leases	712	1,125	205	348
Purchase obligations	47,288	-	-	-
	61,130	1,125	205	348

Market Risk

The Corporation is exposed to market risk due to fluctuations in foreign exchange rates and interest rates.

Foreign exchange rates

Substantially all of the Corporation's sales are denominated in US dollars. As such, accounts receivable are exposed to changes in the US/Canadian dollar exchange rate. Based on the US dollar denominated accounts receivable balance at March 31, 2009, each decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease of $110, which would have been charged to income in the current period.

Interest rates

Interest accrues on the Corporation's revolving debt facility at a rate equal to a Canadian chartered bank's prime lending rate plus 1.75 percent per annum, calculated daily. The Corporation did not have a balance owing on the revolving debt facility at March 31, 2009.

17. Prepaid Prestrip Charges

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

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

18. Economic Dependence

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

19. Subsequent Events

Subsequent to March 31, 2009, the following events occurred.

The Corporation's $20,000 revolving credit facility with Brookfield expired.

The Corporation entered into an agreement with HSBC Bank Canada to provide the Corporation with a credit facility and banking arrangements. Under the agreement Grande Cache Coal will have access to an operating line of credit up to $25,000 and the ability to enter into foreign exchange hedging arrangements.

The Corporation made payments of $4,005 to complete the purchase of a condominium complex at Grande Cache.