

Grande Cache Coal Corporation

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the period ended June 30, 2009, and the audited consolidated financial statements, notes and related MD&A thereto of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the fiscal 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 August 12, 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

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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.

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Financial Overview

<i>(millions of dollars)</i>	As at June 30 2009	As at March 31 2009
Balance Sheet		
Cash and cash equivalents	98.3	68.0
Total assets	270.4	259.2
Long-term liabilities	19.3	16.7
Shareholders' equity	233.8	228.4
<i>(millions of dollars, except per share amounts)</i>	Three months ended June 30	
	2009	2008
Statement of Net Income and Comprehensive Income		
Revenue	74.6	41.3
Cost of sales	56.6	33.5
Income from operations	10.7	4.0
Net income and comprehensive income	5.1	3.4
Basic and diluted net income per share	0.05	0.04
<i>(millions of tonnes, except per tonne amounts)</i>	Three months ended June 30	
	2009	2008
Statistics		
Clean coal production (tonnes)	0.34	0.27
Coal sales (tonnes)	0.51	0.25
Average sales price (US\$/tonne)	129	165
Average sales price (CDN\$/tonne)	147	166
Cost of product sold (\$/tonne)	84	97
Distribution costs (\$/tonne)	27	38
Cost of sales (\$/tonne)	111	135

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Revenue

First quarter revenue was \$74.6 million on sales of 0.51 million tonnes, representing the largest quarterly sales volumes in the Corporation's history. The higher sales volumes were mainly driven by an increase in spot sales, primarily into the Chinese market. In the same period of fiscal 2009, revenue was \$41.3 million on sales of 0.25 million tonnes. Sales volumes were low in the comparable quarter due to low coal production.

The average price achieved during the first quarter was \$147 per tonne (US\$129 per tonne) compared to \$166 per tonne (US\$165 per tonne) in the same period last year. The reduced price reflects lower contract price settlements and spot sales in the current coal year partially offset by a more favourable exchange rate and carryover tonnage sold at last years prices.

Cost of Sales

First quarter cost of sales was \$56.6 million, or \$111 per tonne, compared to \$33.5 million, or \$135 per tonne in the same period last year. The cost of sales in the current quarter consisted of cost of product sold of \$42.7 million (\$84 per tonne) and distribution costs of \$13.9 million (\$27 per tonne). In the comparable quarter of fiscal 2009, the cost of product sold was \$24.1 million (\$97 per tonne) and the distribution costs were \$9.4 million (\$38 per tonne).

The decrease in the unit cost of product sold during the first quarter is partially a result of higher sales volumes. In addition, there was a significant reduction in the cost of contractor services, operating supplies and diesel fuel. During the first quarter, clean coal production was 25% higher than the same period last year even though the Corporation curtailed production for a two week period in May. The process plant achieved productivity improvements and realized a higher yield while a higher strip ratio in the surface mine was offset by improved mining productivity.

The decrease in distribution costs in the current quarter relates to a lower proportion of shipments going to eastern North America, which carry higher rail rates than shipments to western Canada, as well as a reduction of fuel surcharges included in the rail rates. In addition, during the comparable quarter the Corporation incurred demurrage charges for vessels that had arrived at the port but could not be loaded due to a shortage of available coal.

Other Operating Expenses

General and administrative expenses were \$2.1 million during the quarter, up slightly from \$1.8 million in the comparable period. Included in the general and administrative expenses were head office administrative and marketing charges of \$1.8 million (fiscal 2009 - \$1.6 million) and non-cash charges for stock-based compensation of \$0.3 million (fiscal 2009 - \$0.2 million).

Depreciation, depletion and accretion charges were \$5.2 million compared to \$2.0 million in the comparable period of last year. The increase is due to higher coal production, the addition of capital assets and the change in value of depreciation and depletion included in coal inventory.

Other Income (Expenses)

The Corporation incurred a foreign exchange loss of \$3.2 million (fiscal 2009 - \$0.1 million) during the current period, \$2.5 million of which was unrealized, due to a significant strengthening of the Canadian dollar against the US dollar. The Corporation recorded an unrealized foreign exchange loss of \$0.2 million relating to foreign exchange forward contracts.

Interest and other income was \$0.1 million in the first quarter of the current and comparable period. Interest and other income consists primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads and bridges belonging to the Corporation.

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Interest and other expenses were nil in the current quarter versus \$0.4 million in the comparable period. Interest and other expenses in the first quarter of fiscal 2009 consisted primarily of interest paid on the revolving and long term debt.

Taxes

The Corporation incurred tax expenses of \$2.3 million during the first quarter, which was comprised of a current tax expense of \$0.6 million for provincial Crown royalties and a future income tax expense of \$1.7 million. In the first quarter of fiscal 2009, the Corporation incurred a tax expense \$0.3 million for provincial Crown royalties.

Liquidity and Capital Resources

At June 30, 2009, Grande Cache Coal had cash and cash equivalents of \$98.3 million. The Corporation's cash position increased by \$30.3 million during the first quarter compared to a \$4.0 million increase in the same period last fiscal year.

Operating activities during the first quarter provided \$43.6 million in cash compared to \$13.1 million in the same period last year. The primary difference was a net change in non-cash working capital relating to operating activities of \$28.6 million, the majority of which related to a significant reduction in coal inventory.

Financing activities during the current quarter included the repayment of a capital lease of \$19 thousand. Financing activities during the first quarter of the prior fiscal year resulted in a cash increase of \$2.4 million and included the exercise of warrants for cash proceeds of \$4.8 million, the exercise of share options for cash proceeds of \$2.6 million and a \$5.0 million repayment on a revolving debt facility.

Investing activities led to a cash decrease of \$10.7 million in the first quarter, compared to a decrease of \$11.1 million in the comparable period. Capital additions were \$9.0 million (fiscal 2009 - \$9.2 million) and consisted of the addition of buildings and equipment totaling \$8.5 million (fiscal 2009 - \$8.8 million) and the development of mineral properties of \$0.5 million (fiscal 2009 - \$0.4 million). The Corporation also had a net increase in restricted cash of \$1.9 million during the first quarter of fiscal 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. During the current quarter, the Corporation entered into a series of foreign exchange forward contracts to sell a total of US\$45 million at an average rate of Canadian dollars 1.157 to the US dollar. At June 30, 2009, all of the foreign exchange forward contracts were outstanding and all will mature by April 2010.

The Corporation believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements. The Corporation expects that capital expenditures during fiscal 2010 will be funded by existing cash, cash flow from operations and equipment leases.

Grande Cache Coal expects that coal inventory and coal production will be sufficient to meet anticipated coal sales volumes for fiscal 2010. At June 30, 2009, the Corporation had \$16.2 million in coal inventory, compared to \$44.3 million at March 31, 2009.

The Corporation did not have any off-balance sheet financing structures in place at June 30, 2009. The only long term liabilities of the Corporation are asset retirement obligations with a present value of \$6.8 million and future income tax liabilities of \$12.5 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.

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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 has purchase commitments for eight new Komatsu AC 830E Haul Trucks and a new Hitachi EX5500 Hydraulic Excavator. At June 30, 2009, remaining commitments owing on this mining equipment totalled approximately \$39.4 million, which included USD commitments of US\$21.6 million.

Under contracts existing at June 30, 2009, future minimum undiscounted amounts payable under these agreements were:

(millions of Canadian dollars)

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Leases	2.2	0.7	0.8	0.3	0.4
Purchase Obligations	39.4	39.4	-	-	-
Total Contractual Obligations	41.6	40.1	0.8	0.3	0.4

Recent and Upcoming Changes in Accounting Policies

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 interim consolidated financial statements.

CICA Handbook section 3064 – Goodwill and Intangible Assets, was adopted by the Corporation on April 1, 2009. Section 3064 replaces section 3062 – Goodwill and Other Intangible Assets, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At the same time section 3064 was adopted, EIC-27 – Revenues and Expenditures during the Pre-operating Period, was withdrawn. The impact of adopting these accounting standard changes did not have a material impact on the interim consolidated financial statements.

EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, became applicable to the Corporation on 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 did not have a material impact on the interim 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.

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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.

Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	Fiscal 2010	Fiscal 2009				Fiscal 2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Clean coal production (tonnes)	0.34	0.26	0.35	0.43	0.27	0.37	0.35	0.37
Coal sales (tonnes)	0.51	0.11	0.36	0.34	0.25	0.42	0.44	0.36
Average sales price (US\$/tonne)	129	292	213	214	165	94	87	81
Average sales price (CDN\$/tonne)	147	364	254	223	166	95	85	85
Cost of product sold (\$/tonne)	84	72	96	69	97	59	56	64
Distribution costs (\$/tonne)	27	24	32	35	38	27	29	27
Cost of sales (\$/tonne)	111	96	128	104	135	86	85	91
Revenue	74.6	38.7	91.9	76.6	41.3	39.9	37.7	30.8
Income (loss) from operations	10.7	24.5	41.3	36.4	4.0	(0.8)	(3.0)	(7.3)
Net income (loss)	5.1	18.9	36.8	47.1	3.4	(1.2)	(3.4)	(8.8)
Basic net income (loss) per share	0.05	0.20	0.38	0.52	0.04	(0.02)	(0.05)	(0.14)
Diluted net income (loss) per share	0.05	0.20	0.38	0.51	0.04	(0.02)	(0.05)	(0.14)

In the current quarter, the Corporation achieved its highest quarterly sales tonnage of the past eight quarters, mainly because of an increase in spot sales. The average US dollar sales price was lower in the current period, primarily due to a decrease in current coal year contract price settlements; however it was aided by a portion of carryover sales from fiscal 2009, which were settled at record high prices. Contract price settlements for the current coal year, though lower than fiscal 2009, remain higher than price settlements from fiscal 2008. The average cost of sales increased in fiscal 2009, compared to fiscal 2008, because of a decrease in sales volumes, lower productivity from the underground mine, a higher surface mine strip ratio and a lower plant yield. In addition, mining input costs were higher in the early part of fiscal 2009 due to a strong economy. Certain mining input costs decreased during the two most recent quarters and the Corporation realized the benefits of some cost reduction initiatives.

Outlook

Metallurgical Coal Markets

For fiscal 2010, the Corporation continues to anticipate that sales volumes will be in the range of 1.3 to 1.5 million tonnes, contingent upon adequate clean coal production, rail service and vessel arrivals. The average sales price is projected to be in the range of US\$115 to US\$125 per tonne, which includes carryover shipments from the prior coal year, spot sales and contract sales for the coal year that commenced April 1, 2009.

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Operations

The Corporation is maintaining a focus on cost reduction initiatives and productivity improvements in the surface mine, underground mine and process plant. 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 still anticipated to be in the range of \$110 to \$115 per tonne.

Capital Expenditures

Capital expenditures are expected to total approximately \$85 million during fiscal 2010. Approximately \$46 million of the capital expenditures is for the acquisition of new surface mining equipment and approximately \$20 million is for the development of the No. 8 surface mine and the No. 12 South B2 underground mine, pending receipt of regulatory approvals. Fiscal 2010 capital expenditures are expected to be funded by existing cash, cash flow from operations and equipment leases.

Other Information

Looking forward, export trade credit insurance may be used to support accounts receivable.

As at August 12, 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
	62,500	62,500	\$3.70	August 26, 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	<u>4,616,308</u>	<u>1,707,964</u>		

Additional Information

Additional information regarding the Corporation and its business operations, including the Corporation's annual information form for the fiscal year ended March 31, 2009, is available on the Corporation's SEDAR company profile at www.sedar.com.

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

(unaudited)	As at June 30 2009	As at March 31 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 98,326	\$ 68,035
Restricted cash (note 3)	8,440	8,440
Accounts receivable	17,998	15,153
Inventory (note 4)	22,130	49,800
Prepaid expenses	831	965
	<u>147,725</u>	<u>142,393</u>
Deposit for future reclamation expenditures	82	82
Capital assets (note 5)	<u>122,571</u>	<u>116,707</u>
	<u>\$ 270,378</u>	<u>\$ 259,182</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 16,802	\$ 13,130
Future income taxes (note 6)	395	886
	<u>17,197</u>	<u>14,016</u>
Asset retirement obligations (note 7)	6,825	6,429
Future income taxes (note 6)	<u>12,524</u>	<u>10,298</u>
	<u>36,546</u>	<u>30,743</u>
Shareholders' Equity		
Share capital (note 8)	194,541	194,541
Contributed surplus	3,674	3,362
Retained earnings	<u>35,617</u>	<u>30,536</u>
	<u>233,832</u>	<u>228,439</u>
	<u>\$ 270,378</u>	<u>\$ 259,182</u>
Commitments (note 9)		

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Net Income, Comprehensive Income and Retained Earnings
(thousands of Canadian dollars, except per share amounts)

(unaudited)	Three months ended June 30	
	2009	2008
Revenue	\$ 74,585	\$ 41,346
Expenses		
Cost of product sold	42,665	24,122
Distribution	13,900	9,380
General and administrative	2,063	1,827
Depreciation, depletion and accretion	5,234	1,970
	<u>63,862</u>	<u>37,299</u>
Income from operations	10,723	4,047
Other income (expenses)		
Foreign exchange losses	(3,202)	(95)
Unrealized losses on foreign exchange forward contracts	(212)	-
Interest and other income	126	130
Interest and other expenses	(7)	(383)
	<u>7,428</u>	<u>3,699</u>
Income before taxes	7,428	3,699
Taxes		
Current tax expense	(612)	(346)
Future income taxes expense	(1,735)	-
	<u>(2,347)</u>	<u>(346)</u>
Net income and comprehensive income	5,081	3,353
Retained earnings (deficit), beginning of period	<u>30,536</u>	<u>(75,683)</u>
Retained earnings (deficit), end of period	\$ 35,617	\$ (72,330)
Net income per share (note 10)		
Basic and diluted	\$ 0.05	\$ 0.04

See accompanying notes to the consolidated financial statements.

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

(unaudited)	Three months ended June 30	
	2009	2008
Cash provided by (used for)		
Operating activities		
Net income and comprehensive income	\$ 5,081	\$ 3,353
Items not affecting cash		
Stock-based compensation (note 11)	312	216
Unrealized foreign exchange losses	2,475	310
Unrealized losses on foreign exchange forward contracts	212	-
Future income taxes	1,735	-
Depreciation, depletion and accretion	5,234	1,970
	<u>15,049</u>	<u>5,849</u>
Net change in non-cash working capital relating to operating activities	<u>28,586</u>	<u>7,229</u>
	<u>43,635</u>	<u>13,078</u>
Financing activities		
Repayment on revolving debt (note 12)	-	(5,000)
Proceeds on exercise of warrants (note 8)	-	4,792
Proceeds on exercise of options (note 8)	-	2,601
Share issuance costs	-	(1)
Payment on capital lease obligations	(19)	(17)
Net change in non-cash working capital relating to financing activities	-	-
	<u>(19)</u>	<u>2,375</u>
Investing activities		
Additions to mineral properties and development	(540)	(409)
Additions to buildings and equipment	(8,454)	(8,781)
Restricted cash (note 3)	-	(1,912)
Net change in non-cash working capital relating to investing activities	(1,668)	(8)
	<u>(10,662)</u>	<u>(11,110)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(2,663)</u>	<u>(310)</u>
Increase in cash and cash equivalents	<u>30,291</u>	<u>4,033</u>
Cash and cash equivalents, beginning of period	<u>68,035</u>	<u>4,238</u>
Cash and cash equivalents, end of period	<u>\$ 98,326</u>	<u>\$ 8,271</u>

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
June 30, 2009

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

1. Basis of Presentation

The interim consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared using the same accounting policies as the consolidated financial statements for the fiscal year ended March 31, 2009, except as described in note 2.

The interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the year ended March 31, 2009.

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

2. Recent and Upcoming Changes in Accounting Policies

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 interim consolidated financial statements.

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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.

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Notes to Consolidated Financial Statements
June 30, 2009
(Unaudited)

(thousands of Canadian dollars, except per share amounts)

3. Restricted Cash

Cash secured letters of credit in the amount of \$8,240 have been provided to the Alberta Government for security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure, including \$2,712 during the first quarter of last fiscal year. In addition, cash secured letters of credit of \$200 have been made available to service providers. During the first quarter of last fiscal year, the Corporation received \$800 in cash due to the return of restricted cash that had been used as security for a letter of credit that was made available to a service provider.

4. Inventory

	As at June 30 2009	As at March 31 2009
Coal inventory	\$ 16,204	\$ 44,332
Materials inventory	<u>5,926</u>	<u>5,468</u>
	<u>\$ 22,130</u>	<u>\$ 49,800</u>

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. For the three months ended June 30, 2009, parts and supplies inventories of \$1,617 were expensed to cost of product sold, compared to \$1,634 in the same period last fiscal year.

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

5. Capital Assets

	As at June 30 2009	As at March 31 2009
Mineral properties and development	\$ 22,329	\$ 22,718
Buildings and equipment	95,644	93,783
Capital leases	203	206
Assets held for sale	<u>4,395</u>	<u>-</u>
	<u>\$ 122,571</u>	<u>\$ 116,707</u>

In fiscal 2009 the Corporation entered into an agreement with a property and development company to purchase condominium units for employees. During the first quarter of fiscal 2010, construction of the condominium units was completed and final payments were made. The Corporation intends to sell the majority of the condominium units to employees within one year, as such these condominium units have been classified as assets held for sale and have not been depreciated.

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6. Taxes

At June 30, 2009, the Corporation had a future income tax liability of \$12,919, of which \$395 was classified as a current liability. The components of the future income tax liability were as follows:

	As at June 30 2009	As at March 31 2009
Temporary differences related to buildings and equipment and mineral properties and development costs	\$ (14,691)	\$ (12,428)
Asset retirement obligations	1,706	1,607
Share issuance costs	461	523
Other	(395)	(886)
Future income tax liability	<u>\$ (12,919)</u>	<u>\$ (11,184)</u>

7. Asset Retirement Obligations

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. The Corporation has estimated the net present value of its asset retirement obligations to be \$6,825 as at June 30, 2009, based on a total future liability of \$11,915. 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:

Balance – March 31, 2008	\$ 4,020
Increase in liability	2,170
Settlement of liability	(147)
Accretion expense	<u>386</u>
Balance – March 31, 2009	\$ 6,429
Increase in liability	286
Settlement of liability	-
Accretion expense	<u>110</u>
Balance – June 30, 2009	<u>\$ 6,825</u>

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8. Share Capital

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

<i>(thousands)</i>	Number	Stated Value
Common shares		
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 and June 30, 2009	<u>96,076</u>	<u>\$ 194,541</u>

There were no changes to share capital during the first quarter of fiscal 2010.

During the first quarter of fiscal 2009, 2,995 thousand warrants were exercised for cash proceeds of \$4,792. Additionally, 2,020 thousand common share options were exercised for cash proceeds of \$2,601. On exercise of these common share options, \$1,804 was credited to share capital from contributed surplus. As well, Brookfield Bridge Lending Fund Inc. ("Brookfield"), the Corporation's then existing senior lender, converted \$7,650 of a convertible debenture into 4,192 thousand common shares.

During the second quarter of fiscal 2009, 7,851 thousand warrants were exercised for cash proceeds of \$12,562. Additionally, 253 thousand common share options were exercised for cash proceeds of \$347. On exercise of these common share options, \$249 was credited to share capital from contributed surplus. As well, Brookfield converted \$9,850 of a convertible debenture into 5,397 thousand common shares.

There were no changes to share capital during the third quarter of fiscal 2009.

During the fourth quarter of fiscal 2009, 7 thousand common share options were exercised for cash proceeds of \$7. On exercise of these common share options, \$5 was credited to share capital from contributed surplus.

9. Commitments

The Corporation has purchase commitments for eight new Komatsu AC 830E Haul Trucks and a new Hitachi EX5500 Hydraulic Excavator. At June 30, 2009, remaining commitments owing on this mining equipment totalled approximately \$39,388, which included USD commitments of US\$21,647.

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10. Net Income per Share

The following table reconciles the denominators for basic and diluted net income per share calculations. The treasury stock method is used to determine the dilutive effect of the share options and the warrants and the if-converted method is used to determine the dilutive effect of the convertible debenture.

<i>(thousands, except per share amounts)</i>	Three months ended	
	June 30	
	2009	2008
Weighted average shares outstanding – basic	96,076	76,444
Dilutive effect of:		
Options	1,365	2,512
Warrants	-	6,166
Convertible debenture	-	5,397
Weighted average shares outstanding – diluted	97,441	90,519
Net income	\$ 5,081	\$ 3,353
Net income per share – basic	\$ 0.05	\$ 0.04
Net income per share - diluted	\$ 0.05	\$ 0.04

11. 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. Total stock-based compensation expense included in general and administrative expenses for the first quarter was \$312, compared to \$216 in the same quarter last year and was a result of options granted pursuant to the Corporation's share option plan.

During the first quarter of fiscal 2010 there was no grant, cancellation or exercise of options to purchase common shares.

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 fiscal 2009, 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.

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.

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Details of the share options outstanding are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
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 and June 30, 2009	<u>4,616</u>	<u>1.50</u>

Of the share options outstanding at June 30, 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 June 30, 2009 are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	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
	<u>1,708</u>	<u>\$ 1.99</u>

12. Revolving and Term Debt

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 were used for general corporate purposes.

Pursuant to the terms of the convertible debenture, Brookfield converted \$17,500 into 9,589 thousand common shares during fiscal 2009, including \$7,650 (4,192 thousand common shares) during the first quarter. In addition, net repayments of \$5,000 were made on the revolving facility during the first quarter of fiscal 2009 bringing the balance to nil at June 30, 2008. Interest expense on the revolving and term debt was \$486 during the first quarter of fiscal 2009. The revolving credit facility with Brookfield expired on April 1, 2009.

13. 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,

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consists of cash and cash equivalents, shareholders' equity. The Corporation also has an unused operating credit facility of up to \$25,000 and the ability to enter into foreign exchange hedging arrangements.

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

14. 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 an operating credit facility. 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
Operating credit facility	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 June 30, 2009 is \$17,998, 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. The Corporation has a \$25,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at June 30, 2009 was nil, however availability on the facility was reduced by approximately \$5,715 due to the Corporation entering into foreign exchange forward contracts. At June 30, 2009, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

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	Less than 1 year	2-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	16,802	-	-	-
Leases	650	816	341	406
Purchase obligations	39,388	-	-	-
	<u>56,840</u>	<u>816</u>	<u>341</u>	<u>406</u>

Market Risk

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

Foreign currency exchange rates

The majority 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 June 30, 2009, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$148, which would have been charged to income in the current period.

The Corporation entered into a series of foreign exchange forward contracts to sell a total of US\$45,000 at an average rate of Canadian dollars 1.157 to the US dollar. At June 30, 2009, all of the foreign exchange forward contracts were outstanding and all of the contracts will mature by April 2010. At June 30, 2009, the Corporation recorded an unrealized foreign exchange loss of \$212 relating to these foreign exchange forward contracts.

The Corporation has entered into a US dollar purchase commitment for mining equipment. At June 30, 2009, US\$21,647 remained owing on this commitment. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of this commitment.

Interest rates

Interest accrues on the Corporation's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 percent per annum, calculated daily. The Corporation did not have a balance owing on the operating credit facility at June 30, 2009.