

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 December 31, 2010, 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, 2010. 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 February 8, 2011.

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 2011 and fiscal 2012; anticipated cost of coal sales in fiscal 2011; anticipated capital expenditures in fiscal 2011 and subsequent fiscal years; anticipated development activities in No. 8 pit and the anticipated timing of such activities; and, anticipated increases in production volumes from No. 8 pit and the anticipated timing thereof.

These forward-looking statements are based on certain key assumptions regarding, among other things: no material change in the geological and operating conditions in No. 8 pit; no material disruption in production from the No. 8 pit or the No. 7 underground operation; 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 other than as anticipated; 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.

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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 laws.

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 the fiscal year ended March 31, 2010 for factors which could potentially impact the Corporation's financial performance and its ability to meet its targets.

Financial Overview

<i>(millions of dollars)</i>	As at December 31 2010	As at March 31 2010
Balance Sheet		
Cash and cash equivalents	40.5	87.4
Total assets	411.0	337.7
Long-term liabilities	95.5	54.4
Shareholders' equity	277.5	250.8

<i>(millions of dollars, except per share amounts)</i>	Three months ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Statement of Net Income and Comprehensive Income				
Revenue	50.6	62.4	200.8	181.8
Cost of sales	38.9	49.5	145.0	136.3
Income from operations	3.9	5.5	29.1	25.7
Net income and comprehensive income	4.5	4.3	22.6	18.7
Basic net income per share	0.05	0.04	0.23	0.19
Diluted net income per share	0.05	0.04	0.23	0.19

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<i>(millions of tonnes, except per tonne amounts)</i>	Three months ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Statistics				
Clean coal production (tonnes)	0.32	0.42	1.02	1.19
Coal sales (tonnes)	0.29	0.47	1.18	1.34
Average sales price (US\$/tonne)	179	131	167	128
Average sales price (CDN\$/tonne)	174	134	170	136
Cost of product sold (\$/tonne)	113	76	97	74
Distribution costs (\$/tonne)	21	30	25	28
Cost of sales (\$/tonne)	134	106	122	102

Revenue

The Corporation's third quarter revenue was \$50.6 million, compared to \$62.4 million in the same period last year. The decrease in revenue was mainly due to a decrease in sales volumes from 0.47 million in the third quarter of fiscal 2010, to 0.29 million tonnes in the current quarter of fiscal 2011. For the current fiscal year to date, revenue was \$200.8 million, up from \$181.8 million in the first nine months of fiscal 2010, reflecting higher coal prices in the current year. Coal sales for the current fiscal year to date were 1.18 million tonnes, down from 1.34 million tonnes in the comparable period, which was largely a result of lower production volumes.

The average sales price in the third quarter was \$174 per tonne, up from \$134 per tonne in the comparable period. Metallurgical coal sales accounted for 86% of the third quarter sales volumes and realized an average price of \$191 per tonne (US\$189 per tonne). The remaining sales volume related to thermal coal sales, some of which were sold in US dollars. For the current fiscal year to date, the average selling price was \$170 per tonne, a 25% increase over \$136 per tonne in the same period last fiscal year. The higher price during the current fiscal year reflects an increase in contract price settlements, which are primarily being negotiated on a quarterly basis, offset by a portion of lower priced thermal coal and lower priced carryover tonnage from fiscal 2010. The average Canadian dollar sales price on US dollar denominated sales is continuing to be negatively affected by a stronger Canadian dollar in relation to the US dollar, as the average exchange rate was 1.03 during the first nine months of fiscal 2011, compared to 1.12 in the same period last year.

Cost of Sales

Cost of sales was \$38.9 million, or \$134 per tonne, in the current quarter compared to \$49.5 million, or \$106 per tonne, in the same period last year. The cost of sales in the third quarter consisted of cost of product sold of \$32.7 million (\$113 per tonne) and distribution costs of \$6.2 million (\$21 per tonne). In the comparable quarter of fiscal 2010, the cost of product sold was \$35.3 million (\$76 per tonne) and distribution costs were \$14.2 million (\$30 per tonne).

The unit cost of product sold continues to be affected by lower than expected production volumes, due to challenging operating and geological conditions in the initial phases of mining in No. 8 pit. Operating costs are also being impacted by a lack of available skilled labour as the demand for manpower increases in the mining and resource sector, causing an increase in contractor services. The initial coal mined from No. 8 pit has been realizing a low plant yield due to the quality and characteristics of coal that is close to the surface, further affecting clean coal

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production levels. The distribution unit cost was lower during the third quarter of fiscal 2011 due to a portion of the sales volumes being sold from the mine site, whereby the customer incurred the rail and port costs.

Cost of sales for the fiscal year to date was \$145.0 million, or \$122 per tonne, compared to \$136.3 million, or \$102 per tonne in the first nine months of last year. Included in the current year was cost of product sold of \$114.9 million (\$97 per tonne) and distribution costs of \$30.2 million (\$25 per tonne). In the comparable period of fiscal 2010, the cost of product sold was \$98.4 million (\$74 per tonne) and distribution costs were \$37.9 million (\$28 per tonne).

The unit cost of product sold during the first nine months of fiscal 2011 was impacted by the transition in surface mining areas from No. 12B2 pit to No. 8 pit, as well as difficult operating conditions in the initial development and operations of No. 8 pit. The initial strip ratio in No. 8 pit has been higher than the strip ratio from No. 12B2 pit during fiscal 2010. As a result, the unit cost of product sold increased from fiscal 2010 as additional waste movement was required to release the raw coal. In addition, there were higher external contract service costs and higher maintenance and repair costs, resulting from an enhanced preventative maintenance program.

Other Operating Expenses

General and administrative expenses were \$2.9 million during the third quarter, down from \$3.1 million in the same period last year. General and administrative expenses included head office administrative and marketing charges of \$2.0 million (fiscal 2010 - \$1.8 million) and non-cash charges for stock-based compensation of \$0.9 million (fiscal 2010 - \$0.3 million). Also included in general and administrative expenses during the third quarter of fiscal 2010, was a \$1.0 million donation to the town of Grande Cache to assist in redeveloping the local recreation centre. Fiscal year to date general and administrative expenses were \$8.3 million, compared to \$7.3 million in the first nine months of last fiscal year.

Depreciation, depletion and accretion charges were \$4.8 million in the third quarter (fiscal 2010 - \$4.4 million) and \$18.4 million in the nine month period of the current fiscal year to date (fiscal 2010 - \$12.5 million). The increase was primarily a result of additional capital assets, the change in value of depreciation and depletion included in coal inventory, and a one time depletion expense during the first quarter to charge remaining No. 12B2 pit development costs to income.

Other Income (Expenses)

The Corporation had a foreign exchange gain of \$1.6 million in both the third quarter of fiscal 2011 and fiscal 2010. For the current fiscal year to date, the Corporation had a foreign exchange gain of \$4.2 million, versus a \$2.9 million loss in the first nine months of the prior fiscal year. The loss in fiscal 2010 was primarily the result of a significant strengthening of the Canadian dollar against the US dollar.

During the third quarter the Corporation recorded an unrealized foreign exchange gain of \$1.6 million relating to foreign exchange forward contracts, compared to a loss \$0.3 million in the same period of fiscal 2010. For the fiscal year to date, foreign exchange forward contracts have resulted in a gain of \$0.3 million compared to a \$2.7 million gain in the same period last year.

Interest and other income was \$0.2 million in the third quarter (fiscal 2010 - \$0.1 million) and \$0.3 million for the fiscal year to date (fiscal 2010 - \$0.3 million) and consisted 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. Interest and other expenses were \$0.6 million in the third quarter (fiscal 2010 - \$0.4 million) and \$1.3 million for the fiscal year to date (fiscal 2010 - \$0.4 million). Interest and other expenses consisted primarily of interest paid on capital leases.

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Taxes

The third quarter tax expense was \$2.2 million, including a current tax expense of \$0.4 million for provincial Crown royalties and a future income tax expense of \$1.8 million. During fiscal 2010, the Corporation incurred a third quarter tax expense of \$2.2 million, which included a current tax expense of \$0.5 million for provincial Crown royalties and a future income tax expense of \$1.7 million.

Liquidity and Capital Resources

Grande Cache Coal held cash and cash equivalents of \$40.5 million at December 31, 2010. During the third quarter cash and cash equivalents decreased by \$14.4 million in comparison to an increase of \$20.4 million during the same period last fiscal year. The Corporation's cash position has decreased by \$46.9 million during the first nine months of fiscal 2011.

Operating activities during the third quarter generated \$15.7 million in cash compared to \$22.5 million in the same period last year. Cash generated prior to changes in non-cash working capital was \$9.5 million in the current quarter and \$10.7 million during the comparable period. During the first nine months of the fiscal year, cash generated by operating activities before changes in non-cash working capital was \$49.9 million, an increase from \$38.0 million last year. Higher coal prices in the current fiscal year have resulted in higher net income, contributing to the higher cash generation from operating activities.

Financing activities resulted in a cash decrease of \$2.8 million during the current quarter and \$12.4 million for the year to date, in contrast to a cash increase of \$6.6 million and \$4.5 million in the comparable periods of last fiscal year. Fiscal 2011 payments towards capital lease obligations were \$4.2 million in the third quarter and \$14.4 million for the fiscal year to date. In the third quarter of fiscal 2010, the Corporation entered into a sale leaseback agreement for a Hitachi EX5500 hydraulic excavator that had been purchased during the second quarter of fiscal 2010, resulting in cash proceeds of \$10.7 million. Also included in fiscal 2011 financing activities were cash proceeds of \$1.5 million during the third quarter (fiscal 2010 - \$0.2 million) and \$2.0 million for the year to date (fiscal 2010 - \$0.5 million), due to the exercise of share options.

Investing activities during the third quarter led to a cash decrease of \$26.0 million, compared to \$9.0 million in the same period of fiscal 2010. Capital additions accounted for \$26.9 million (fiscal 2010 - \$5.4 million) and consisted of the additions to buildings and equipment of \$10.9 million (fiscal 2010 - \$4.2 million) and the development of mineral properties for \$16.0 million (fiscal 2010 - \$1.2 million). In the first nine months of fiscal 2011, investing activities resulted in a cash decrease of \$79.0 million, compared to \$38.3 million in fiscal 2010, the majority of which was due to capital expenditures. Fiscal year to date buildings and equipment additions were \$42.4 million while development of mineral properties was \$37.4 million, the majority of which related to the development of No. 8 pit.

During the first nine months of fiscal 2011 the Corporation acquired mining equipment through capital lease agreements amounting to US\$51.5 million, US\$25.9 million of which were acquired during the third quarter. As at December 31, 2010, the Corporation had made deposits of US\$11.2 million, and had remaining purchase commitments of US\$3.7 million and \$2.2 million, on mining equipment that will be financed through capital lease arrangements. Subsequent to December 31, 2010, the Corporation made deposit payments of US\$3.0 million and \$0.8 million towards mining equipment that will be financed through a capital lease arrangement, at which time all cash deposits will be returned to the Corporation.

Grande Cache Coal has an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to \$28 million and the ability to enter into foreign exchange hedging arrangements. At December 31, 2010, the Corporation had a series of foreign exchange forward contracts to sell a total of US\$24 million and US\$32 million at an average rate of 1.05 and 1.06, respectively. These contracts settle in monthly installments, the last of which will mature by July 2011.

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The Corporation believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing fiscal 2011 working capital requirements. The Corporation expects that capital expenditures during fiscal 2011 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 2011. At December 31, 2010, the Corporation had \$23.2 million in coal inventory, compared to \$13.8 million at September 30, 2010.

The Corporation did not have any off-balance sheet financing structures in place at December 31, 2010. At December 31, 2010, the Corporation had long term liabilities for asset retirement obligations with a present value of \$12.1 million, future income tax liabilities of \$25.3 million and capital lease obligations of \$58.0 million. Grande Cache Coal's asset retirement obligations are covered by letters of credit totaling \$12.7 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 has entered into various purchase commitments for mining equipment. At December 31, 2010, remaining payments owing on the mining equipment was approximately \$5.9 million, which included US dollar commitments of US\$3.7 million.

Future minimum undiscounted amounts payable by the Corporation under contracts existing at December 31, 2010, were:

(millions of Canadian dollars)

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
Operating Leases	3.5	0.8	1.4	0.9	0.4
Capital Leases	81.8	16.7	36.3	23.4	5.4
Purchase Obligations	5.9	5.9	-	-	-
Total Contractual Obligations	91.2	23.4	37.7	24.3	5.8

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 current period.

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") 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's first filing of IFRS compliant financial statements will be the first quarter of fiscal 2012 (the three months ended June 30, 2011).

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 Corporation's consolidated financial statements. The Corporation has made significant progress in the evaluation and development phase including the following:

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- completed an assessment on the effects of adoption on key financial statement components;
- made preliminary choices regarding alternatives available under First-time Adoption of International Financial Reporting Standards ("IFRS 1");
- componentization of property, plant and equipment has been substantially completed;
- prepared an assessment of changes to stock based compensation provisions and asset retirement obligations;
- prepared mock financial statements including only IFRS presentation and disclosure requirements and conducted a review of these statements with the Audit Committee of the Board of Directors;
- continued assessments of less critical IFRS transition issues;
- continued training of key personnel and stakeholders; and
- maintained communication with the Corporation's independent external auditors.

The Corporation has transitioned into the implementation phase. Key initiatives that will be achieved in the implementation phase include the following:

- finalize the development of IFRS accounting policies;
- revise internal control procedures and documentation and implement controls as required;
- prepare an IFRS compliant opening balance sheet as at April 1, 2010;
- prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2011, including reconciliation to previously reported GAAP; and
- prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2012.

The full extent of adopting IFRS and the impact on the Corporation's financial position and future results of operations is not reliably determinable at this time, however based on the progress made to date, the Corporation has identified the following accounting standard areas that are most likely to have a noteworthy financial statement impact. The following areas are not intended to be a complete list of all changes that may occur as a result of the transition to IFRS, nor is it intended to be regarded as final. The Corporation has performed this analysis based on preliminary policy choices and current IFRS standards. The Corporation will continue to monitor IFRS developments and review internal accounting policy choices and will provide the estimated financial impact on the opening balance sheet (April 1, 2010) when it is reliably determinable.

Decommissioning and Restoration Provisions

IFRS does not have a specific accounting standard for decommissioning and restoration provisions. Under IFRS these provisions are included in IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IFRS is more encompassing in that it requires that constructive obligations be included in the recognition of a liability. IFRS also differs in that estimates of future cash flows use a discount rate that is no longer credit adjusted. On a go-forward basis, IFRS requires that the provision be re-measured at each reporting date. As a result of these differences, and preliminary policy choices, the Corporation has estimated a pre-tax decrease to shareholders' equity of less than \$1.0 million as at April 1, 2010.

Share-Based Payments

IFRS requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has prepared an initial calculation of share-based payments under IFRS and does not expect the change will have a material impact on shareholders' equity as at April 1, 2010.

Impairment of Long-Lived Assets

Unlike Canadian GAAP where there is a two-step approach to impairment testing, IFRS requires the use of a one-step approach for testing both the identification and measurement of impairment. Impairment losses would be recognized when the carrying value exceeds the recoverable amount, which is the higher of value in use and fair value less costs to sell. While the Corporation does not expect the impairment test to have an impact on the opening

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balance sheet, IFRS requires that indicators of impairment be assessed at each reporting date, which could impact future periods. In addition, IFRS allows for the reversal of previously recognized impairments. The Corporation is continuing to assess these differences however they are not expected to have a material impact on the opening shareholders' equity as at April 1, 2010.

Property, plant and equipment

In valuing property, plant and equipment ("PP&E"), IFRS allows application of either the revaluation model or the historical cost model. The Corporation expects to apply the historical cost model for valuation purposes. Upon transition to IFRS, there is an optional exemption whereby an entity may value PP&E at deemed cost using either: i) fair value at the date of transition; ii) previous GAAP revaluation at or before the date of transition provided the revaluation was broadly comparable to either fair value or depreciated cost under IFRS; or iii) deemed cost established under previous GAAP by measuring PP&E at their fair value at some particular date because of a significant event. The Corporation does not expect to apply this exemption.

Similar to Canadian GAAP, IFRS requires that significant items, or components, of PP&E be recorded and depreciated separately. The Corporation does not expect that componentization of PP&E will have a material impact on the opening consolidated financial statements.

Coal Royalties

Under Canadian GAAP the Corporation presents the Alberta Coal Royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government are considered a resource tax expense, as payments to government should be classified in accordance with the substance of the transaction. The Corporation has made the preliminary determination that current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and should more likely be classified as a reduction to operating income. This preliminary decision to change the classification of coal royalties would not impact shareholders' equity on the opening balance sheet dated April 1, 2010, however it would change the presentation of the consolidated income statement in future periods.

The Corporation will continue 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 and will update its plan as necessary.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") 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 CEO and CFO 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 Corporation's CEO and CFO 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. 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 October 1, 2010 and ended on December 31, 2010, 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

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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.

Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	Fiscal 2011			Fiscal 2010				Fiscal 2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Clean coal production (tonnes)	0.32	0.33	0.37	0.54	0.42	0.43	0.34	0.26
Coal sales (tonnes)	0.29	0.44	0.45	0.43	0.47	0.36	0.51	0.11
Average sales price (US\$/tonne)	179	177	149	120	131	120	129	292
Average sales price (CDN\$/tonne)	174	185	152	118	134	124	147	364
Cost of product sold (\$/tonne)	113	98	86	66	76	57	84	72
Distribution costs (\$/tonne)	21	27	26	28	30	27	27	24
Cost of sales (\$/tonne)	134	125	112	94	106	84	111	96
Revenue (\$)	50.6	81.2	69.0	50.7	62.4	44.8	74.6	38.7
Income from operations (\$)	3.9	16.6	8.5	1.0	5.5	9.5	10.7	24.5
Net income (\$)	4.5	14.1	4.0	1.4	4.3	9.3	5.1	18.9
Basic net income per share (\$)	0.05	0.15	0.04	0.01	0.04	0.10	0.05	0.20
Diluted net income per share (\$)	0.05	0.14	0.04	0.01	0.04	0.09	0.05	0.20

Clean coal production during fiscal 2011 has been lower than the last three quarters of fiscal 2010, largely due to the transition in the surface mining areas and lower than anticipated production from No. 8 surface pit. Sales volumes are being impacted by the production volumes, most significantly in the third quarter of fiscal 2011. The average US dollar sales price has been increasing in recent quarters reflecting an increase in contract price settlements compared to the preceding coal year when prices were negotiated during the global economic downturn. The average cost of sales has been increasing during fiscal 2011, largely due to the transition in the surface mining areas and challenging operating conditions in the initial phases of No. 8 pit, which has caused a reduction of clean coal production. Also contributing to the cost increase has been higher repair and maintenance costs and an increase in external contractor services.

Outlook

Late in the third quarter of fiscal 2011, Grande Cache Coal began producing coal from the second phase of development in the No. 8 surface pit. The first phase of No. 8 surface pit began producing coal during the second quarter of fiscal 2011. Both phases are in the early stages of production with ongoing development activities continuing to be necessary. As a result, production volumes are increasing gradually from these two phases of development. As expected, a relatively higher percentage of the production has been partially oxidized coal, which is sold as a thermal coal product. Lower production levels during the third quarter and year to date have impacted the sales volumes for these periods. Production levels from the first two phases are expected to increase in the fourth quarter of fiscal 2011 as development activities decrease, operations progress and the stripping ratios improve.

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Development of the third phase of production in No. 8 surface pit will continue throughout the fourth quarter of fiscal 2011 with production expected to commence in the first quarter of fiscal 2012. Coal production from this phase of development has been delayed by slower than anticipated progress in the construction of access roads, which has resulted in lower than expected volumes of waste removal.

As a result of lower than expected production from each phase of No. 8 pit, in January 2011 the Corporation revised its fiscal 2011 sales volume guidance to a range of 1.5 to 1.6 million tonnes, down from the previous range of 1.7 to 1.9 million tonnes. Sales volumes are contingent upon achieving expected production levels from No. 8 pit and receiving adequate rail and port services. The timing of shipments in the fourth quarter could be impacted by possible shipping delays due to congestion at Westshore Terminals in Vancouver, B.C., where the majority of the Corporation's shipping takes place.

Industry benchmark pricing for the quarter beginning January 1, 2011 was settled at US\$225 per tonne for the highest quality product. Grande Cache Coal anticipates its average metallurgical coal sales price for the fourth quarter will be in the range of US\$185 to US\$195 per tonne, which includes lower priced carryover tonnage.

As announced in January 2011, the average cost of sales for fiscal 2011 is now anticipated to be approximately \$125 to \$130 per tonne, up from the previous guidance of \$110 to \$115 per tonne. The increase is primarily due to lower production volumes and increased mining costs in the initial stages of production in No. 8 pit. Operating costs are also being impacted by a lack of available skilled labour as the demand for manpower increases in the mining and resource sector. Lower than expected production levels, lower than expected sales volumes or a further escalation of mining input costs would continue to have a negative impact on the projected cost of sales.

The Corporation anticipates that its sales volumes will be in the range of 2.4 to 2.6 million tonnes for fiscal 2012, as demand for metallurgical coal is expected to remain strong and production from No. 8 pit is expected to increase. Sales volumes are contingent upon the Corporation achieving expected production levels and being provided with adequate rail and port services.

The Corporation continues to anticipate capital additions of approximately \$165 million during fiscal 2011, consistent with previous guidance. The Corporation anticipates that these capital expenditures will be funded by existing cash balances, cash flow from operations and equipment leases. Grande Cache Coal plans to increase its annual production rate to 3.5 million tonnes by the end of fiscal 2013.

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Other Information

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

As at February 8, 2011, there were 98,259,930 common shares issued and outstanding, and the following share options were also outstanding:

<u>Share Options Outstanding</u>	<u>Number Granted</u>	<u>Number Vested</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	135,000	135,000	\$2.44	April 11, 2011
	131,668	131,668	\$0.88	May 23, 2012
	458,337	458,337	\$1.04	January 8, 2013
	50,004	-	\$5.02	August 20, 2013
	1,218,342	616,662	\$1.01	November 12, 2013
	100,000	33,333	\$0.88	January 10, 2014
	83,334	-	\$0.77	February 10, 2014
	33,667	333	\$3.57	August 18, 2014
	125,000	-	\$5.95	February 10, 2015
	2,145,000	-	\$5.61	June 11, 2015
Total	<u>4,480,352</u>	<u>1,375,333</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, 2010, 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 December 31 2010	As at March 31 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 40,506	\$ 87,436
Restricted cash (note 2)	12,908	13,499
Accounts receivable (note 3)	14,448	12,483
Inventory (note 4)	30,169	33,999
Prepaid expenses and deposits (note 5)	13,432	9,114
Future income taxes (note 6)	-	232
	<u>111,463</u>	<u>156,763</u>
Capital assets (note 7)	<u>299,531</u>	<u>180,935</u>
	<u>\$ 410,994</u>	<u>\$ 337,698</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 24,247	\$ 25,716
Capital lease obligations (note 8)	12,885	6,744
Future income taxes (note 6)	849	-
	<u>37,981</u>	<u>32,460</u>
Asset retirement obligations (note 9)	12,079	8,801
Capital lease obligations (note 8)	58,045	27,515
Future income taxes (note 6)	25,342	18,102
	<u>133,447</u>	<u>86,878</u>
Shareholders' Equity		
Share capital (note 10)	199,736	196,232
Contributed surplus	4,573	3,945
Retained earnings	73,238	50,643
	<u>277,547</u>	<u>250,820</u>
	<u>\$ 410,994</u>	<u>\$ 337,698</u>
Commitments (note 11)		

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		Nine months ended	
	December 31		December 31	
	2010	2009	2010	2009
Revenue	\$ 50,619	\$ 62,388	\$ 200,835	\$ 181,766
Expenses				
Cost of product sold	32,685	35,259	114,851	98,411
Distribution	6,240	14,196	30,196	37,847
General and administrative	2,936	3,096	8,297	7,344
Depreciation, depletion and accretion	4,820	4,367	18,433	12,484
	<u>46,681</u>	<u>56,918</u>	<u>171,777</u>	<u>156,086</u>
Income from operations	3,938	5,470	29,058	25,680
Other income (expenses)				
Foreign exchange gain (loss)	1,644	1,646	4,233	(2,934)
Unrealized gain (loss) on foreign exchange forward contracts	1,588	(266)	255	2,739
Interest and other income	184	89	347	319
Interest and other expenses	(646)	(403)	(1,293)	(431)
	<u>6,708</u>	<u>6,536</u>	<u>32,600</u>	<u>25,373</u>
Income before taxes	6,708	6,536	32,600	25,373
Taxes				
Current tax expense	(415)	(484)	(1,684)	(1,451)
Future income taxes expense	(1,768)	(1,736)	(8,321)	(5,234)
	<u>(2,183)</u>	<u>(2,220)</u>	<u>(10,005)</u>	<u>(6,685)</u>
Net income and comprehensive income	4,525	4,316	22,595	18,688
Retained earnings, beginning of period	<u>68,713</u>	<u>44,908</u>	<u>50,643</u>	<u>30,536</u>
Retained earnings, end of period	\$ 73,238	\$ 49,224	\$ 73,238	\$ 49,224
Net income per share (note 12)				
Basic	\$ 0.05	\$ 0.04	\$ 0.23	\$ 0.19
Diluted	\$ 0.05	\$ 0.04	\$ 0.23	\$ 0.19

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		Nine months ended	
	December 31		December 31	
	2010	2009	2010	2009
Cash provided by (used for)				
Operating activities				
Net income and comprehensive income	\$ 4,525	\$ 4,316	\$ 22,595	\$ 18,688
Items not affecting cash				
Stock-based compensation (note 13)	863	326	2,135	957
Unrealized foreign exchange (gain) loss	(870)	(354)	(1,178)	3,378
Unrealized (gain) loss on foreign exchange forward contracts	(1,588)	266	(255)	(2,739)
Future income taxes	1,768	1,736	8,321	5,234
Depreciation, depletion and accretion	4,820	4,367	18,433	12,484
Settlement of asset retirement obligations (note 9)	(48)	-	(129)	-
	<u>9,470</u>	<u>10,657</u>	<u>49,922</u>	<u>38,002</u>
Net change in non-cash working capital relating to operating activities	<u>6,235</u>	<u>11,832</u>	<u>(4,645)</u>	<u>32,175</u>
	<u>15,705</u>	<u>22,489</u>	<u>45,277</u>	<u>70,177</u>
Financing activities				
Proceeds on exercise of options (note 10)	1,457	171	1,997	517
Payments on capital lease obligations	(4,210)	(4,294)	(14,423)	(6,696)
Net proceeds from capital lease financing	-	10,729	-	10,729
	<u>(2,753)</u>	<u>6,606</u>	<u>(12,426)</u>	<u>4,550</u>
Investing activities				
Additions to mineral properties and development	(16,017)	(1,181)	(37,439)	(2,821)
Additions to buildings and equipment	(10,852)	(4,240)	(42,399)	(30,340)
Restricted cash (note 2)	591	(3,570)	591	(3,570)
Net change in non-cash working capital relating to investing activities	<u>239</u>	<u>(23)</u>	<u>220</u>	<u>(1,552)</u>
	<u>(26,039)</u>	<u>(9,014)</u>	<u>(79,027)</u>	<u>(38,283)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(1,285)</u>	<u>272</u>	<u>(754)</u>	<u>(4,008)</u>
(Decrease) increase in cash and cash equivalents	<u>(14,372)</u>	<u>20,353</u>	<u>(46,930)</u>	<u>32,436</u>
Cash and cash equivalents, beginning of period	<u>54,878</u>	<u>80,118</u>	<u>87,436</u>	<u>68,035</u>
Cash and cash equivalents, end of period	<u>\$ 40,506</u>	<u>\$ 100,471</u>	<u>\$ 40,506</u>	<u>\$ 100,471</u>

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Notes to the Consolidated Financial Statements
December 31, 2010
(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, 2010.

The interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2010.

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

2. Restricted Cash

	As at December 31 2010	As at March 31 2010
Cash secured letters of credit - Alberta Government	\$ 12,708	\$ 11,799
Cash secured letters of credit - Service providers	200	1,700
	<u>\$ 12,908</u>	<u>\$ 13,499</u>

Cash secured letters of credit 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. In addition, cash secured letters of credit have been made available to service providers. During the third quarter of fiscal 2011, the Corporation increased its letters of credit with the Alberta Government by \$909, and reduced its letters of credit with service providers by \$1,500.

3. Accounts Receivable

	As at December 31 2010	As at March 31 2010
Trade accounts receivable	\$ 8,969	\$ 7,384
Goods and services tax receivable	1,684	1,440
Unrealized gain on foreign exchange forward contracts	3,279	3,024
Other	516	635
	<u>\$ 14,448</u>	<u>\$ 12,483</u>

4. Inventory

	As at December 31 2010	As at March 31 2010
Coal inventory	\$ 23,150	\$ 27,986
Materials inventory	7,019	6,013
	<u>\$ 30,169</u>	<u>\$ 33,999</u>

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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 December 31, 2010, parts and supplies inventories of \$2,468 were expensed to cost of product sold, compared to \$2,187 in the same period last fiscal year. For the nine months ended December 31, 2010, parts and supplies inventories of \$7,151 were expensed to cost of product sold, compared to \$5,602 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. Prepaid expenses and deposits

	As at December 31 2010	As at March 31 2010
Deposits on mining equipment	\$ 12,518	\$ 8,825
Prepaid expenses and other deposits	914	289
	<u>\$ 13,432</u>	<u>\$ 9,114</u>

The Corporation has made deposits on mining equipment that will be financed through capital lease arrangements prior to the equipment being commissioned, at which time the deposit amounts will be returned to the Corporation in cash.

6. Future Income Taxes

At December 31, 2010, the Corporation had a future income tax liability of \$26,191, of which \$849 was classified as a current liability. The components of the future income tax liability were as follows:

	As at December 31 2010	As at March 31 2010
Temporary differences related to:		
Buildings and equipment and mineral properties and development costs	\$ 29,701	\$ 20,611
Asset retirement obligations	(3,020)	(2,200)
Share issuance costs	(151)	(309)
Other	(339)	(232)
Net future income taxes	<u>\$ 26,191</u>	<u>\$ 17,870</u>

Grande Cache Coal Corporation
Notes to the Consolidated Financial Statements
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7. Capital Assets

	As at December 31 2010	As at March 31 2010
Buildings and equipment	\$ 134,094	101,289
Mineral properties and development	65,810	\$ 29,398
Capital leases	99,627	45,513
Assets held for sale	-	4,735
	<u>\$ 299,531</u>	<u>\$ 180,935</u>

In fiscal 2011, the Corporation acquired mining equipment through capital lease agreements including US\$10,849 during the first quarter, US\$14,746 during the second quarter and US\$25,943 during the third quarter.

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 intended to sell the condominium units to employees within one year, as such the condominium units were classified as assets held for sale. In June 2010, the Corporation changed its housing strategy and as such the condominium units were reclassified as assets in use and a full year of depreciation was recognized.

8. Capital Lease Obligations

The Corporation has certain mining equipment and buildings under capital leases agreements. The capital leases for the mining equipment are denominated in US dollars at interest rates up to a maximum of 6.7% per annum, expire by fiscal 2017 and are secured by the related assets.

The following table reconciles the Corporation's capital lease obligations:

Balance – March 31, 2009	\$ 52
Fair value of capital lease additions	44,311
Payments made during the period	(9,328)
Interest portion of payments	967
Foreign exchange adjustment to US dollar obligations	<u>(1,743)</u>
Balance – March 31, 2010	34,259
Fair value of capital lease additions	52,983
Payments made during the period	(16,527)
Interest portion of payments	2,104
Foreign exchange adjustment to US dollar obligations	<u>(1,889)</u>
Balance – December 31, 2010	70,930
Current portion of capital lease obligations	<u>(12,885)</u>
Long term portion of capital lease obligations	<u>\$ 58,045</u>

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Future minimum payments under capital leases at December 31, 2010 consist of the following:

Less than 1 year	\$	16,690
2-3 years		36,340
4-5 years		23,408
After 5 years		<u>5,393</u>
Total minimum lease payments		81,831
Amounts representing interest		<u>(10,901)</u>
Present value of minimum lease payments		70,930
Current portion of capital lease obligations		<u>(12,885)</u>
Long term portion of capital lease obligations	\$	<u>58,045</u>

9. 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 \$12,079 as at December 31, 2010, based on a total future liability of \$18,143. The Corporation's credit adjusted risk free rates range from 3.9% 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, 2009	\$	6,429
Increase in liability		1,865
Accretion expense		<u>507</u>
Balance – March 31, 2010		8,801
Increase in liability		2,929
Settlement of liability		(129)
Accretion expense		<u>478</u>
Balance – December 31, 2010	\$	<u>12,079</u>

10. Share Capital

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Grande Cache Coal Corporation
Notes to the Consolidated Financial Statements
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(Unaudited)
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Issued	Number	Stated Value
<i>(thousands)</i>		
Common shares		
Balance – March 31, 2009	96,076	\$ 194,541
Shares issued on exercise of options	<u>899</u>	<u>1,691</u>
Balance – March 31, 2010	96,975	196,232
Shares issued on exercise of options	<u>1,285</u>	<u>3,504</u>
Balance – December 31, 2010	<u><u>98,260</u></u>	<u><u>\$ 199,736</u></u>

During the first quarter of fiscal 2011, 100 thousand common share options were exercised for cash proceeds of \$104. On exercise of these common share options, \$78 was credited to share capital from contributed surplus.

During the second quarter of fiscal 2011, 320 thousand common share options were exercised for cash proceeds of \$436. On exercise of these common share options, \$306 was credited to share capital from contributed surplus.

During the third quarter of fiscal 2011, 865 thousand common share options were exercised for cash proceeds of \$1,457. On exercise of these common share options, \$1,123 was credited to share capital from contributed surplus.

The following transactions occurred during fiscal 2010.

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

During the second quarter of fiscal 2010, 274 thousand common share options were exercised for cash proceeds of \$346. On exercise of these common share options, \$220 was credited to share capital from contributed surplus.

During the third quarter of fiscal 2010, 170 thousand common share options were exercised for cash proceeds of \$171. On exercise of these common share options, \$131 was credited to share capital from contributed surplus.

During the fourth quarter of fiscal 2010, 455 thousand common share options were exercised for cash proceeds of \$445. On exercise of these common share options, \$378 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 various purchase commitments for mining equipment. At December 31, 2010, commitments owing on this equipment was approximately \$5,874, which included US dollar commitments of US\$3,743.

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Future minimum amounts payable by the Corporation under contracts existing at December 31, 2010, for each fiscal year is summarized below:

2011	\$	6,083
2012	\$	815
2013	\$	756
2014	\$	622
2015 and thereafter	\$	1,091

12. 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 outstanding options to purchase common shares.

<i>(thousands, except per share amounts)</i>	Three months ended		Nine months ended	
	December 31		December 31	
	2010	2009	2010	2009
Weighted average shares outstanding – basic	97,743	96,403	97,293	96,216
Dilutive effect of share options	<u>2,674</u>	<u>2,892</u>	<u>2,247</u>	<u>2,464</u>
Weighted average shares outstanding – diluted	100,417	99,295	99,540	98,680
Net income	\$ <u>4,525</u>	\$ <u>4,316</u>	\$ <u>22,595</u>	\$ <u>18,688</u>
Net income per share - basic	\$ 0.05	\$ 0.04	\$ 0.23	\$ 0.19
Net income per share - diluted	\$ 0.05	\$ 0.04	\$ 0.23	\$ 0.19

13. Stock-Based Compensation

The Corporation has a share option plan pursuant to which the outstanding share options of the Corporation as at August 17, 2010 are governed. Total stock-based compensation expense included in general and administrative expenses for the third quarter of fiscal 2011 was \$863, compared to \$326 in the same quarter last year and was a result of options granted pursuant to the Corporation's share option plan. The fiscal year to date stock-based compensation was \$2,135, compared to \$957 in the prior year.

On June 11, 2010, options to purchase 2,145 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of \$5.61 per share. The options have a five year term and are subject to a three year vesting period.

During the first quarter of fiscal 2011, options to purchase 100 thousand common shares were exercised at a weighted average price of \$1.04 per share and options to purchase 30 thousand common shares were cancelled.

During the second quarter of fiscal 2011, options to purchase 320 thousand common shares were exercised at a weighted average price of \$1.37 per share.

During the third quarter of fiscal 2011, options to purchase 865 thousand common shares were exercised at a weighted average price of \$1.68 per share and options to purchase 67 thousand common shares were cancelled.

The following transactions occurred during fiscal 2010.

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On August 17, 2009, options to purchase 50 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of \$3.57 per share. The options have a five year term and are subject to a three year vesting period.

During the second quarter of fiscal 2010, options to purchase 274 thousand common shares were exercised at a weighted average price of \$1.26 per share and options to purchase 37 thousand common shares were cancelled.

During the third quarter of fiscal 2010, options to purchase 170 thousand common shares were exercised at a weighted average price of \$1.01 per share.

On February 11, 2010, options to purchase 125 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of \$5.95 per share. The options have a five year term and are subject to a three year vesting period.

During the fourth quarter of fiscal 2010, 455 thousand common share options were exercised at a weighted average price of \$0.98 and options to purchase 138 thousand common shares were cancelled.

The fair value of each share option granted and currently outstanding 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 79% and 150%, risk-free interest rates of 1.3% to 4.5%, a dividend yield of 0% and an expected term of five years.

Details of the share options outstanding are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
Outstanding – March 31, 2009	4,616	\$ 1.50
Granted	175	5.27
Cancelled	(175)	7.29
Exercised	(899)	1.07
Outstanding – March 31, 2010	3,717	1.51
Granted	2,145	5.61
Cancelled	(97)	1.84
Exercised	(1,285)	1.55
Outstanding – December 31, 2010	4,480	\$ 3.45

Of the share options outstanding at December 31, 2010, 135 thousand options expire in fiscal 2012, 590 thousand options expire in fiscal 2013, 1,452 thousand options expire in fiscal 2014, 159 thousand options expire in fiscal 2015, and 2,145 thousand options expire in fiscal 2016.

Details of the share options exercisable at December 31, 2010 are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	135	\$ 2.44
	132	0.88
	458	1.04
	617	1.01
	33	0.88
	1,375	\$ 1.15

Grande Cache Coal Corporation
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14. 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, capital leases and shareholders' equity. The Corporation also has an unused operating credit facility of up to \$28,000 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 will 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.

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

15. Financial Instruments and Risks Management

The Corporation has identified all financial instruments that are recognized in the financial statements and has presented the financial instruments by classification in the table below.

Financial instrument	Classification
Cash and cash equivalents	Held-for-trading
Restricted cash	Held-to-maturity
Foreign exchange forward contracts	Held-for-trading
Trade accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Operating credit facility	Other financial liabilities

Fair value

The Corporation has certain financial instruments that are measured at fair value on a recurring basis. At December 31, 2010, the fair value of cash and cash equivalents, restricted cash, trade accounts receivable, foreign exchange forward contracts and accounts payable and accrued liabilities approximates their carrying amounts on the balance sheet due to the short periods to maturity and the terms of the financial instruments.

Financial instruments hierarchy

In estimating fair value, the Corporation utilizes quoted market prices when available. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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The hierarchy of the Corporation's financial instruments measured at fair value is as:

<i>(thousands of Canadian dollars)</i>	As at December 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial asset				
Cash and cash equivalents	40,506	-	-	40,506
Restricted cash	12,908	-	-	12,908
Foreign exchange forward contracts	-	3,279	-	3,279

Risk Management

Grande Cache Coal's operations are exposed to certain risks, which includes credit risk, liquidity risk and market risk. The Corporation's risk management is carried out by management under policies approved by the Board of Directors.

Credit Risk

Grande Cache Coal carries a balance of cash and cash equivalents as disclosed on the balance sheet at December 31, 2010. The Corporation invests conservatively a portion of its cash in short-term, low risk term deposits with credit worthy financial institutions. The remainder of the cash balance is held with major financial institutions and is available for immediate use.

The Corporation has a balance of restricted cash as disclosed on the balance sheet at December 31, 2010. Restricted cash is held with major financial institutions for the purpose of securing letters of credit and is invested in short-term guaranteed investment certificates. The Corporation is exposed to credit risk in the event that the financial institutions were to redeem the letter of credit to the beneficiary. The Corporation considers this risk as low as the majority of the letters of credit have been provided to the Alberta Government for security to cover future anticipated costs of reclamation.

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of trade accounts receivable. The maximum credit risk exposure is equal to the carrying amount of trade accounts receivable as disclosed in the notes to the interim consolidated financial statements. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider the accounts receivable to be impaired or past due.

The Corporation has the ability to enter into foreign exchange forward contracts. Derivative credit risk arises from the possibility that the counterparty to the contract fails to fulfill its obligation in accordance with the terms and conditions of the contract. Derivative credit risk is reduced by dealing with credit worthy counterparties in compliance with established credit approval policies.

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 \$28,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at December 31, 2010 was nil, however availability on the facility was reduced by approximately \$2,459 due to the Corporation entering into foreign exchange forward contracts. At December 31, 2010, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

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<i>(thousands of Canadian dollars)</i>	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	24,247	-	-	-
Operating leases	821	1,427	914	333
Capital leases	16,690	36,340	23,408	5,393
Purchase obligations	5,874	-	-	-
	47,632	37,767	24,322	5,726

Market Risk

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

Foreign exchange rates

The Corporation's revenues from operations are received in US dollars while most of its operating expenses are incurred in Canadian dollars. Although the Corporation has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance that the activities or products are, or will continue to be, effective. Accordingly, the inability of the Corporation to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the US dollar. This could have a material adverse effect on the Corporation's business, financial condition and results of operations. 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 coal products to compete in foreign markets.

Based on the US dollar denominated trade accounts receivable balance at December 31, 2010, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$80, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At December 31, 2010, the outstanding commitment on the capital lease obligations was US\$71,315. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the capital lease payments. The Corporation entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

The Corporation entered into a series of foreign exchange forward contracts that will mature by July 2011. At December 31, 2010, the Corporation had outstanding contracts to sell a total of US\$24,000 at an average rate of Canadian dollars 1.05 to the US dollar and a total of US\$32,000 at an average rate of Canadian dollars 1.06 to the US dollar. At December 31, 2010, these contracts were marked to market resulting in an unrealized foreign exchange gain of \$3,279 that was recognized in the income statement and has been classified on the balance sheet as accounts receivable. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

The Corporation entered into a US dollar purchase commitment for mining equipment. At December 31, 2010, US\$3,743 remained owing on this commitment. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of this commitment.

16. Subsequent Events

Subsequent to December 31, 2010, payments of US\$2,995 and \$825 were made towards purchase commitments on mining equipment.