

Grande Cache Coal Corporation

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the fiscal year ended March 31, 2011. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This discussion provides management's analysis of the Corporation's historical financial and operating results and provides estimates of the Corporation's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. All references are to Canadian dollars unless otherwise indicated.

This MD&A was prepared using information that is current as of June 2, 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 coal in fiscal 2012; anticipated sales prices of metallurgical coal in fiscal 2012; management of coal production in fiscal 2012; anticipated cost of sales in fiscal 2012; future development activities and related capital expenditures; the capital expenditure program for fiscal 2012; and funding sources for the capital expenditure program in fiscal 2012.

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

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

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

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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 and operational performance and its ability to meet its targets.

Financial Overview

<i>(\$ millions)</i>	As at March 31 2011	As at March 31 2010	As at March 31 2009
Balance Sheet			
Cash and cash equivalents	17.1	87.4	68.0
Total assets	434.4	337.7	259.2
Long-term liabilities	105.9	54.4	16.7
Shareholders' equity	283.6	250.8	228.4
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<i>(\$ millions, except per share, for the years ended March 31)</i>	2011	2010	2009
Statement of Net Income and Comprehensive Income			
Revenue	268.1	232.5	248.6
Cost of sales	197.3	176.9	126.0
Income from operations	34.7	26.7	106.3
Net income and comprehensive income	27.7	20.1	106.2
Basic net income per share	0.28	0.21	1.18
Diluted net income per share	0.28	0.20	1.15
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Statistics			
Clean coal production (millions of tonnes)	1.41	1.74	1.31
Coal sales (millions of tonnes)	1.55	1.77	1.06
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Average sales price (\$/tonne)	172	132	234
Average cost product sold (\$/tonne)	101	72	85
Average distribution costs (\$/tonne)	26	28	34
Average cost of sales (\$/tonne)	127	100	119

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Fiscal 2011 Compared with Fiscal 2010

The Corporation earned net income of \$27.7 million, or \$0.28 per basic and diluted share, during fiscal 2011 compared to net income of \$20.1 million, or \$0.21 per basic share and \$0.20 per diluted share, in fiscal 2010. The current year's net income increased mainly due to higher metallurgical coal prices for the coal year commencing April 1, 2010, however the increase was offset somewhat by a decrease in sales volumes and an increase in operating costs. Fiscal 2011 income from operations was \$34.7 million, representing a 30% increase over \$26.7 million in fiscal 2010.

Revenue

The Corporation's current fiscal year revenue was \$268.1 million, up from \$232.5 million in fiscal 2010, reflecting higher coal prices in the current year. Coal sales volumes for the current fiscal year were 1.55 million tonnes, down from 1.77 million tonnes in fiscal 2010, mainly as a result of lower production volumes.

<u>Sales Volumes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Coal sales (millions of tonnes)	1.55	1.77	1.06
Sales by Geographic Region (%)			
Asia	72	81	42
Europe	8	5	32
North America	20	14	26

The average sales price for the current fiscal year was \$172 per tonne, a 30% increase over \$132 per tonne in fiscal 2010. Metallurgical coal sales accounted for 91% of the current fiscal year sales volumes and realized an average price of \$181 per tonne (US\$178 per tonne). The remaining sales volumes related to thermal coal sales, some of which were sold in US dollars. The higher price during the current fiscal year reflects an increase in contract price settlements, which were primarily being negotiated on a quarterly basis, offset by a portion of lower priced carryover tonnage from fiscal 2010. Fiscal 2010 coal prices were negatively impacted by the global economic slowdown when demand for metallurgical coal was low. The average Canadian dollar sales price on US dollar denominated sales was affected unfavorably by a stronger Canadian dollar in relation to the US dollar as the average exchange rate was 1.02 in fiscal 2011, compared to 1.09 in the previous fiscal year.

<u>Sales Prices</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Average metallurgical coal sales price (US\$/tonne)	178	125	210
Average exchange rate (1 USD = Canadian)	1.02	1.09	1.11
Average metallurgical coal sales price (\$/tonne)	181	137	234
Average thermal coal sales price (\$/tonne)	77	51	-
Average total sales price (\$/tonne)	172	132	234

Cost of Sales

Cost of sales for the current fiscal year was \$197.3 million, or \$127 per tonne, compared to \$176.9 million, or \$100 per tonne in fiscal 2010. Included in the current fiscal year was cost of product sold of \$157.0 million (\$101 per tonne) and distribution costs of \$40.3 million (\$26 per tonne). In the comparable fiscal year, the cost of product sold was \$127.2 million (\$72 per tonne) and distribution costs were \$49.7 million (\$28 per tonne).

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The unit cost of product sold during fiscal 2011 was affected by the transition in surface mining areas from No. 12B2 pit to No. 8 pit. The initial strip ratio in No. 8 pit was higher than the strip ratio in No. 12B2 pit during fiscal 2010, resulting in additional waste movement and a corresponding increase in costs. In addition, the unit cost of product sold increased because of lower than expected production volumes due to challenging operating and geological conditions in the initial phases of mining in No. 8 pit. Additionally, early coal mined from No. 8 pit realized a low plant yield due to the quality and characteristics of coal that is close to the surface, further reducing clean coal production levels. Operating costs were also impacted by a lack of available skilled labour as the demand for manpower increased in the mining and resource sector, causing an increase in the use of external contractor services. During fiscal 2011, the Corporation incurred an increase in maintenance and repair costs as it initiated an enhanced preventive maintenance program to its existing mining equipment designed to lower long term maintenance costs and increase equipment availability.

The distribution unit cost was lower during 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.

Other Operating Expenses

General and administrative expenses were \$11.8 million in fiscal 2011, up from \$10.0 million in the previous fiscal year. General and administrative expenses included head office administrative and marketing charges of \$8.8 million (fiscal 2010 - \$7.7 million) and non-cash charges for stock-based compensation of \$3.0 million (fiscal 2010 - \$1.3 million). Also included in general and administrative expenses in fiscal 2010, was a \$1.0 million donation to the town of Grande Cache to assist in redeveloping the local recreation centre.

Depreciation, depletion and accretion charges were \$24.4 million in the current fiscal year compared to \$19.0 million in previous fiscal year. The increase was primarily a result of additional capital assets and a one time depletion expense in fiscal 2011 to charge remaining No. 12B2 pit development costs to income.

Other Income (Expenses)

For the current fiscal year, the Corporation had a foreign exchange gain of \$6.8 million compared to a \$2.5 million gain in the prior fiscal year. The increase was largely attributable to a favorable exchange on the Corporation's capital lease obligations due to a significant strengthening of the Canadian dollar against the US dollar.

Interest and other income was \$0.5 million in the current fiscal year and in fiscal 2010 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 \$1.6 million in fiscal 2011 (fiscal 2010 - \$1.0 million) and consisted primarily of interest paid on capital lease obligations.

Taxes

Tax expenses during fiscal 2011 were \$12.6 million compared to \$8.5 million in fiscal 2010. Taxes were comprised of a current tax expense of \$2.3 million for provincial Crown royalties as well as a future income tax expense of \$10.3 million. Fiscal 2010 taxes consisted of a current tax expense of \$1.8 million for provincial Crown royalties and a future income tax expense of \$6.7 million.

Liquidity and Capital Resources

Grande Cache Coal held cash and cash equivalents of \$17.1 million at March 31, 2011, a decrease of \$70.3 million from March 31, 2010. In fiscal 2010, the Corporation had an increase in cash position of \$19.4 million.

Operating activities during the current fiscal year generated \$52.7 million in cash compared to \$73.7 million in fiscal 2010. Cash generated prior to changes in non-cash working capital was \$63.1 million in the current fiscal year, up from \$46.6 million in fiscal 2010, due in part to higher coal prices which led to an increase in net income. Changes in non-cash working capital included a \$19.2 million increase in accounts receivable, as a result of sales that occurred late in the fiscal year, and an \$8.7 million decrease in prepaid expenses and deposits.

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Financing activities resulted in a cash decrease of \$17.4 million during the current fiscal year, in contrast to a cash increase of \$3.3 million in fiscal 2010. Financing activities included payments towards capital lease obligations of \$21.8 million, as well as proceeds from a mortgage loan and the exercise of share options for \$2.4 million and \$2.0 million, respectively. In fiscal 2010, the Corporation entered into a sales-leaseback agreement for a Hitachi EX5500 hydraulic excavator, which resulted in cash proceeds of \$10.7 million, and made payments of \$8.4 million towards capital lease obligations.

Investing activities during the current fiscal year led to a cash decrease of \$104.4 million, compared to \$53.2 million in fiscal 2010. Capital additions during the year totaled \$105.4 million (fiscal 2010 - \$47.2 million) and consisted of the additions to land, buildings and equipment of \$57.2 million (fiscal 2010 - \$35.3 million) and the development of mineral properties for \$48.2 million (fiscal 2010 - \$12.0 million), the majority of which related to No. 8 pit development. Expenditures for No. 8 pit development were higher than anticipated due to challenging operating, topographical and geological conditions.

During fiscal 2011, the Corporation acquired mining equipment through capital lease agreements amounting to \$70.3 million (US\$69.1 million). The additional mining equipment included haul trucks, electric drills, a loader, dozers and an electric shovel.

Grande Cache Coal has an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to \$28 million, which can be utilized to meet financial liabilities, and the ability to enter into foreign exchange hedging arrangements. The balance owing on the operating credit facility at March 31, 2011 was nil, however availability on the facility was reduced by approximately \$0.6 million due to the Corporation entering into foreign exchange forward contracts. At March 31, 2011, the Corporation had a series of foreign exchange forward contracts to sell a total of US\$32 million at an average rate of 1.06. These contracts settle in monthly installments, the last of which will mature by July 2011.

The Corporation's financial instruments, including cash and cash equivalents, restricted cash, trade accounts receivable, foreign exchange forward contracts and accounts payable and accrued liabilities, are measured at fair value on a recurring basis. At March 31, 2011, fair value approximates their carrying amounts on the balance sheet due to the short periods to maturity and the terms of the financial instruments.

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. 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 related to trade accounts receivable, however the Corporation typically sells its product to large steel companies with high credit ratings and does not consider any of the trade accounts receivable to be impaired or past due.

The majority of the Corporation's revenues from operations are received in US dollars while most of its operating expenses are incurred in Canadian dollars. The Corporation has taken certain steps to help mitigate foreign currency fluctuations, including entering into US dollar denominated capital lease obligations. 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 believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements during fiscal 2012. The Corporation expects that fiscal 2012 capital expenditures will be funded by existing cash and cash flow from operations.

Grande Cache Coal anticipates that its coal inventory and coal production will be sufficient to meet anticipated coal sales volumes for fiscal 2012. At March 31, 2011, the Corporation had \$27.6 million in coal inventory, compared to \$28.0 million at the end of previous fiscal year.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 2011. At March 31, 2011, the Corporation had long term liabilities for asset retirement obligations with a present value of \$14.2 million, future income tax liabilities of \$27.3 million and capital lease obligations of \$64.4 million. Grande Cache Coal's asset

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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.

Under contracts existing at March 31, 2011, future minimum undiscounted amounts payable under these agreements were:

(\$ millions)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Operating Leases	3.4	0.9	1.5	0.8	0.2
Capital Leases	90.8	18.7	38.6	31.4	2.1
Total Contractual Obligations	94.2	19.6	40.1	32.2	2.3

Fiscal 2010 Compared with Fiscal 2009

Net income in fiscal 2010 was \$20.1 million, or \$0.21 per basic share (\$0.20 per diluted share) compared to net income of \$106.2 million, or \$1.18 per basic share (\$1.15 per diluted share) in fiscal 2009. Net income in fiscal 2010 was significantly reduced due to lower metallurgical coal prices for the coal year commencing April 1, 2009. However, the impact of lower pricing was mitigated somewhat by a significant increase in sales volumes and a considerable reduction in operating costs. Income from operations was \$26.7 million in fiscal 2010 versus \$106.3 million in fiscal 2009.

The Corporation's fiscal 2010 revenue was \$232.5 million compared to \$248.6 million in fiscal 2009. The 6% decrease was primarily a result of lower sales prices, offset to a large extent by significantly higher sales volumes. Fiscal 2010 sales volumes were 1.77 million tonnes, a 67% increase from 1.06 million tonnes sold in fiscal 2009. The increase in sales was driven by a recovery in the global economy which led to an increase in steel production, and consequently an increase in the demand for metallurgical coal. Sales to new customers in China accounted for virtually all of the increase in sales volume during the year while there was a moderate increase in demand from traditional Asian customers following a slow start to the year.

The average sales price for metallurgical coal was US\$125 per tonne in fiscal 2010, down 40% from US\$210 per tonne in fiscal 2009. The decrease was primarily related to lower contract price settlements in the coal year, which commenced on April 1, 2009. In the preceding coal year prices were settled at record high levels due to supply constraints and a robust economy, however the economy slowed dramatically mid way through the year reducing the demand for metallurgical coal. The slowdown resulted in significantly reduced pricing for fiscal 2010 sales as contract negotiations took place during the period when demand for metallurgical coal was lower. The average realized price in both the fiscal 2010 and 2009 contained a portion of carryover tonnage from the preceding year.

The average Canadian dollar sales price for metallurgical coal in fiscal 2010 was \$137 per tonne compared to \$234 per tonne in fiscal 2009. The average exchange rate for converting US dollars (USD) into Canadian dollars was slightly lower in fiscal 2010, having a marginally negative impact on the Corporation's revenue. Thermal coal sales, which accounted for 6% of fiscal 2010 sales volumes, realized an average price of \$51 per tonne bringing the Corporation's average total sales price to \$132 per tonne.

The cost of sales was \$176.9 million (\$100 per tonne), versus \$126.0 million (\$119 per tonne) in fiscal 2009. The cost of sales consisted of cost of product sold of \$127.2 million (\$72 per tonne) and distribution costs of \$49.7 million (\$28 per tonne). In the prior period, cost of product sold was \$90.4 million (\$85 per tonne) and the distribution costs were \$35.6 million (\$34 per tonne).

The Corporation's fiscal 2010 unit cost of product sold decreased 16% from fiscal 2009. The improvement was partially related to higher sales volumes due to the fixed cost component included in operating costs. There was also a reduction

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of costs incurred on external contractor services, equipment maintenance and diesel fuel. Improved productivities throughout various areas of the operations further contributed to a lower unit cost of product sold.

The unit cost of distribution in fiscal 2010 was 18% lower than the comparable year. The main reasons for the decrease in unit cost were attributed to a lower proportion of shipments to eastern Canada, which carry higher rail rates than shipments to the west coast, and a reduction of fuel surcharges included in the rail rates.

General and administrative expenses during fiscal 2010 were \$10.0 million, up from \$7.1 million in fiscal 2009. Included were head office administrative and marketing charges of \$7.7 million (fiscal 2009 - \$6.1 million), non-cash charges for stock-based compensation of \$1.3 million (fiscal 2009 - \$1.0 million) and a \$1.0 million donation to the town of Grande Cache to redevelop the local recreation centre.

Depreciation, depletion and accretion expenses in fiscal 2010 were \$19.0 million, compared to \$9.3 million in fiscal 2009. The increase was largely caused by the addition of capital assets, particularly in the surface mine. Also contributing to the increase in fiscal 2010 was higher coal production and a reduction of depreciation and depletion costs included in coal inventory.

The Corporation had a foreign exchange gain of \$2.5 million in fiscal 2010 compared to a gain of \$12.5 million in fiscal 2009. The foreign exchange gain in fiscal 2009 was the result of a significant weakening of the Canadian dollar against the US dollar.

Interest and other income was \$0.5 million in fiscal 2010, down from \$1.3 million in the prior year. Interest and other income 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 \$1.0 million in fiscal 2010 (fiscal 2009 - \$0.6 million) and mainly related to interest charges on capital leases.

Fiscal 2010 tax expenses were \$8.5 million, compared to \$13.3 million in fiscal 2009. Taxes were comprised of a current tax expense of \$1.8 million for provincial Crown royalties as well as a future income tax expense of \$6.7 million. In fiscal 2009, taxes were comprised of a current tax expense of \$2.1 million for provincial Crown royalties and a future income tax expense of \$11.2 million.

Fiscal 2011 Fourth Quarter

	Three months ended	
	March 31	
	2011	2010
<i>(\$ millions, except per share amounts)</i>		
Statement of Net Income and Comprehensive Income		
Revenue	67.3	50.7
Cost of sales	52.3	40.7
Income from operations	5.6	1.0
Net income and comprehensive income	5.1	1.4
Basic net income per share	0.05	0.01
Diluted net income per share	0.05	0.01

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	Three months ended March 31	
	2011	2010
Statistics		
Clean coal production (millions of tonnes)	0.39	0.54
Coal sales (millions of tonnes)	0.37	0.43
Average sales price (US\$/tonne)	192	120
Average sales price (\$/tonne)	181	118
Average cost of product sold (\$/tonne)	114	66
Average distribution cost (\$/tonne)	27	28
Average cost of sales (\$/tonne)	141	94

Grande Cache Coal earned net income of \$5.1 million during the fourth quarter of fiscal 2011 compared to net income of \$1.4 million in the same period last fiscal year. Income from operations was \$5.6 million during the quarter, up from \$1.0 million in the fourth quarter of fiscal 2010.

Coal sold during the three months ended March 31, 2011 was 0.37 million tonnes at an average price of \$181 per tonne, generating revenue of \$67.3 million. In the fourth quarter of fiscal 2010 the Corporation sold 0.43 million tonnes of coal at an average price of \$118 per tonne generating revenue of \$50.8 million. Despite the reduction in sales volume, fourth quarter revenue was 31% higher than comparable period last year due to higher coal prices. Fourth quarter sales volumes were lower due to a decrease in clean coal production volumes. Metallurgical coal accounted for 93% of the fourth quarter sales volumes and realized an average price of \$189 per tonne (US\$192 per tonne). The remaining sales volumes related to thermal coal sales.

Cost of sales was \$52.3 million, or \$141 per tonne, in the fourth quarter compared to \$40.7 million, or \$94 per tonne, in the same period last year. The cost of sales in the current quarter consisted of cost of product sold of \$42.2 million (\$114 per tonne) and distribution costs of \$10.1 million (\$27 per tonne). In the comparable quarter of fiscal 2010, the cost of product sold was \$28.8 million (\$66 per tonne) and distribution costs were \$11.9 million (\$28 per tonne).

The fourth quarter unit cost of product sold was substantially higher than last year due to lower production volumes, a lower plant yield and a higher strip ratio. In addition, higher operating costs, which include contractor services, wages, materials and supplies, were incurred during the current year's fourth quarter. The distribution unit cost in the fourth quarter of fiscal 2011 remained relatively constant from the same period last year.

Depreciation, depletion and accretion expenses were \$5.9 million in the fourth quarter, compared to \$6.5 million in the same period last year. The slight decrease was primarily caused by lower coal production in the current quarter.

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Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	2011	Q4	Q3	Q2	Q1
Clean coal production (tonnes)	1.41	0.39	0.32	0.33	0.37
Coal sales (tonnes)	1.55	0.37	0.29	0.44	0.45
Average sales price (US\$/tonne)	173	192	179	177	149
Average sales price (\$/tonne)	172	180	174	185	152
Average cost of sales (\$/tonne)	127	141	134	125	112
Revenue (\$)	268.1	67.3	50.6	81.2	69.0
Income from operations (\$)	34.7	5.6	3.9	16.6	8.5
Net income (\$)	27.7	5.1	4.5	14.1	4.0
Basic net income per share (\$)	0.28	0.05	0.05	0.15	0.04
Diluted net income per share (\$)	0.28	0.05	0.05	0.14	0.04
<i>(millions, except per unit amounts)</i>	2010	Q4	Q3	Q2	Q1
Clean coal production (tonnes)	1.74	0.54	0.42	0.43	0.34
Coal sales (tonnes)	1.77	0.43	0.47	0.36	0.51
Average sales price (US\$/tonne)	125	120	131	120	129
Average sales price (\$/tonne)	132	118	134	124	147
Average cost of sales (\$/tonne)	100	94	106	84	111
Revenue (\$)	232.5	50.7	62.4	44.8	74.6
Income from operations (\$)	26.7	1.0	5.5	9.5	10.7
Net income (\$)	20.1	1.4	4.3	9.3	5.1
Basic net income per share (\$)	0.21	0.01	0.04	0.10	0.05
Diluted net income per share (\$)	0.20	0.01	0.04	0.09	0.05

Clean coal production during fiscal 2011 was lower than fiscal 2010, largely due to the transition in surface mining areas. In fiscal 2010, surface mining occurred in No. 12B2 pit, where the Corporation had been mining since 2004. Late in the third quarter of fiscal 2010, the Corporation received regulatory approval to mine in No. 8 surface pit and road construction and initial development activities commenced immediately. Development work in No. 8 pit continued throughout the fourth quarter of fiscal 2010 as mining activities were beginning to wind down in No. 12B2 pit. In the first quarter of fiscal 2011, operations were completed in No. 12B2 pit, during which time mining conditions were difficult leading to lower productivity and an increase in unit costs. During the second quarter of fiscal 2011 the Corporation began producing coal from the first phase of development in No. 8 pit, however challenging operating conditions led to lower than expected production volumes. Challenging mining conditions in No. 8 pit continued into the second and third quarters of fiscal 2011. Production volumes increased slightly in the final quarter of the current fiscal year as pit development progressed and additional equipment was utilized. During fiscal 2011, challenging operating conditions, a higher strip ratio and a lower plant yield contributed to lower clean coal production volumes from No. 8 pit resulting in higher unit costs. Also contributing to the cost increase were higher repair and maintenance costs and increases in external contractor services.

Lower coal production volumes during fiscal 2011 resulted in lower sales volumes compared to fiscal 2010. The average US dollar sales price increased throughout fiscal 2011 reflecting an increase in contract price settlements compared to the preceding coal year when contract prices were negotiated during the global economic downturn. There was also a tightening of the market in fiscal 2011 due to flooding in Australia combined with strong demand for hard coking coal, which led to higher benchmark price settlements. During fiscal 2011, the Canadian dollar strengthened in relation to the US dollar, most significantly in the fourth quarter of fiscal 2011, which had an adverse impact on the Canadian sales price.

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Outlook

As previously announced in April 2011, the Corporation anticipates coal sales volumes for fiscal 2012 in the range of 2.2 to 2.4 million tonnes. The anticipated sales volumes are based on an updated operational plan that reflects fiscal 2011 experience in the surface mine where mining conditions were more challenging than expected resulting in lower production volumes in the initial stages of mining. Metallurgical coal is expected to account for approximately 90% of the total sales volumes while thermal coal will account for the remainder. Sales volumes are contingent upon the Corporation achieving anticipated production levels and being provided with adequate rail and port services.

For fiscal 2012, approximately 80% of the annual sales volume will be sold under quarterly or spot pricing arrangements, which is consistent with industry practice. A small portion of traditional annual priced contracts remain in place. Benchmark contract price settlements for the first quarter of fiscal 2012 for the highest quality metallurgical coal are approximately US\$330 per tonne. However, the average selling price of metallurgical coal for Grande Cache Coal in the first quarter of fiscal 2012 is expected to be US\$230 to US\$240 per tonne due to the impact of carryover tonnage and shipments on annual contracts.

While expected to vary from quarter to quarter, the average cash cost of sales for fiscal 2012 is anticipated to be \$125 to \$130 per tonne, similar to the range of costs incurred in fiscal 2011. Unit cost improvements anticipated from an increase in sales volumes in fiscal 2012, are being offset by cost increases from a higher strip ratio, longer waste haul distances, as well as increases in mining input costs and other costs such as third party contractor services. An escalation in mining input costs or lower than expected production and sales levels would have a negative impact on the anticipated cost of sales in fiscal 2012.

Fiscal 2012 capital additions are anticipated to be approximately \$80 million. This includes development expenditures for the surface and underground mining operations, upgrades and refurbishments at the process plant, employee housing projects and other sustainable capital expenditures. Capital expenditures are expected to be funded by existing cash and cash flow from operations.

Other Information

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

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As at June 2, 2011, there were 98,299,929 common shares issued and outstanding, and the following share options were also outstanding:

Share Options Outstanding	Number Granted	Number Vested	Exercise Price	Expiry Date
	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
	1,161,675	576,663	\$1.01	November 12, 2013
	100,000	66,666	\$0.88	January 10, 2014
	83,334	41,666	\$0.77	February 10, 2014
	33,667	333	\$3.57	August 18, 2014
	125,000	41,666	\$5.95	February 10, 2015
	2,110,000	-	\$5.61	June 11, 2015
Total	<u>4,388,685</u>	<u>1,451,999</u>		

Additional Information

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

Critical Accounting Estimates

Grande Cache Coal's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and in preparing these statements management must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates and assumptions are believed to be reasonable under the circumstances and are based on historical experience and current conditions. The use of other assumptions could result in different estimates and actual results may vary from results based on these estimates. As events occur and additional information is obtained, these estimates may be subject to change. Estimates are deemed critical when the Corporation's financial condition or results of operations could be materially impacted by a change in estimate. The Corporation's significant accounting policies are discussed in the notes to the consolidated financial statements. The following is a discussion of the critical accounting estimates used to determine the financial results of the Corporation.

Capital Assets, Depletion and Impairment

Mineral properties and development assets include expenditures to acquire and develop mineral properties and reserves, as well as development costs incurred to develop new reserves in advance of commercial production. Depletion on producing properties is calculated on a unit of production basis using proven and probable reserves of the respective coal leases.

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

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

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Inventory Valuation

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

Asset Retirement Obligations

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

Stock-based Compensation

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

Recent and Upcoming Changes in Accounting Policies

All accounting policies adopted by the Corporation are in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the 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 is 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 completed the evaluation and development phase including the following:

- completed an assessment on the effects of adoption on key financial statement components;
- made choices regarding alternatives available under First-time Adoption of International Financial Reporting Standards ("IFRS 1");
- componentization of property, plant and equipment has been 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;

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- conducted 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:

- identify and assess changes in internal control procedures and documentation and implement internal control changes 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 finalized 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 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 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

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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 parts, or components, of PP&E be recorded and depreciated separately. IFRS applies this principle more stringently and as a result the Corporation has estimated a pre-tax decrease to shareholders' equity of less than \$1.0 million as at April 1, 2010.

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 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.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

The Corporation is required to disclose herein any change in the Corporation's internal control over financial reporting that occurred during the period beginning on January 1, 2011 and ended on March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting. No material changes in the Corporation's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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

RISK FACTORS

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

Market Risks

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader United States of America and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved toward the latter portion of 2009 and during 2010 and 2011, as anticipated, the recovery from the recession has been slow in various jurisdictions including in Europe and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and to result in high volatility in the stock market.

Competition

The coal mining industry is competitive in all its phases. Grande Cache Coal competes with numerous other participants in the search for, and the acquisition of, coal properties and in the marketing of coal as well as for the recruitment and retention of qualified employees and other personnel. Grande Cache Coal's competitors include coal mining companies that have substantially greater financial resources, staff and facilities than those of Grande Cache Coal. Grande Cache Coal's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Marketability

The marketability of the coal owned by the Corporation, or which may be acquired or discovered by the Corporation, will be affected by numerous factors beyond the control of the Corporation. These factors include market fluctuations, the proximity and capacity of coal markets and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of coal and environmental protection. A combination of one or more of these factors may result in the Corporation not receiving an adequate return on invested capital.

Volatility of Coal Prices

The market price of coal is volatile and is affected by numerous factors that are beyond the Corporation's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events, as well as a range of other market forces. Sustained downward movements in coal market

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prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration and development activities to be undertaken by the Corporation.

Dependence Upon the Steel Industry

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

Operational Risks

Exploration, Development and Operating Risks

The exploration for and development of coal deposits involves significant risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Few properties that are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of coal disclosed will be available to extract. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Coal exploration is speculative in nature and there can be no assurance that any coal discovered will result in an increase in the Corporation's resource base.

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

The Corporation's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Project Development, Expansion Targets and Operational Delays

There can be no assurance that the Corporation will be able to manage effectively the expansion of its operations or that the Corporation's current personnel, systems, procedures and controls will be adequate to support the Corporation's operations. Any failure of management to effectively manage the Corporation's growth and development could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Corporation's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Corporation.

The location of all of the Corporation's current activities dictate that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and mining activity levels might fluctuate. Unscheduled interruptions in the Corporation's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

Dependence on Suppliers of Services and Products

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Grande Cache Coal's mine is located more than 1,000 kilometres from seaports and all are serviced by a single rail line, for which there are no economic alternatives. Additionally, all of the Corporation's export sales are loaded through one port facility, for which there are limited cost effective alternatives. Accordingly, operations are highly dependent on both rail and port services. The cost of securing additional facilities and services of this nature could significantly increase transportation and other costs. An interruption of rail or port services, including due to severe weather or labour disruptions, could significantly limit the Corporation's ability to operate and to the extent that alternate sources of transportation of port and rail services are available, it could increase transportation and port costs significantly. Further, the vagaries of the shipping industry could affect the Corporation's revenues as a result of delays of ocean vessels and could significantly affect the Corporation's costs and relative competitiveness against the supply of coal from other markets.

The growth in global mining activities has created a demand for mining equipment and related supplies that until recently, was in excess of supply. As a result, future operations could be adversely affected if Grande Cache Coal were to encounter difficulties obtaining equipment, tires and other supplies on a timely basis. In the event that Grande Cache Coal is unable to secure required mining equipment on a timely basis, expansion activities, production, productivity and costs could be negatively affected.

Currency Risk

The Corporation's revenues from operations are received in United States 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.

Health and Safety

The Corporation's activities are and will continue to be subject to health and safety standards and regulations. Failure to comply with such requirements may result in fines and/or penalties being assessed against the Corporation.

Title to Assets

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

Reserve and Resource Estimates

The Corporation's reported coal reserves and resources are only estimates. No assurance can be given that the estimated coal reserves and resources will be recovered or that they will be recovered at the rates estimated. Coal reserve and resource estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Coal reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of coal, as well as increased production costs or reduced recovery rates, may render certain coal reserves and resources uneconomic and may ultimately result in a restatement of reserves and/or resources. Moreover, short-term operating factors relating to the coal reserves and resources, such as the need for subsequent development of ore bodies and the processing of new or different ore grades, may adversely affect the Corporation's profitability in any particular accounting period.

Uninsured Risks

The Corporation, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Corporation may incur liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Litigation

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

Dividends

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

Work Stoppages and Dependence on Key Personnel

Substantially all the Corporation's personnel located at the mine site are unionized. In addition, the rail carrier and port facilities on which Grande Cache Coal is dependent to deliver coal to its customers are unionized. Strikes, lockouts or other work stoppages or slow-downs involving the unionized employees of Grande Cache Coal's key service suppliers could have a material adverse effect upon Grande Cache Coal's business, financial condition and results of operations.

Grande Cache Coal's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on Grande Cache Coal. Grande Cache Coal does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of Grande Cache Coal are likely to be of central importance. The competition for qualified personnel in the coal mining and other resource industries is intense and there can be no assurance that Grande Cache Coal will be able to continue to attract and retain all personnel necessary for the development and operation of its business. The Corporation could experience increases in costs and decreases in operating efficiency, productivity and profit margins if it were unable to attract, hire and retain a sufficient number of skilled employees to support the operation. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Grande Cache Coal.

Government Regulations

Changes in Legislation

There can be no assurance that income tax laws, royalty regulations and governmental incentive programs relating to the mining industry in Canada will not be changed in a manner which adversely affects Grande Cache Coal. In addition, there can be no assurance that income tax laws, royalty regulations and government incentive programs relating to the mining industry in other coal producing countries will not change to favour Grande Cache Coal's competitors leading to reduced international coal prices and demand for coal products that Grande Cache Coal intends to produce.

Government Regulations and Processing Licenses and Permits

The activities of the Corporation are subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local First Nations and Aboriginal populations. Activities of the Corporation are also subject to various laws and regulations relating to the protection of the environment. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Corporation. Further, the mining licenses and permits issued in respect of the Corporation's projects and mines may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Corporation's investments in such projects may decline.

Permits and Permitting Process

The Corporation must obtain numerous permits, licenses and approvals that strictly regulate access, environmental and health and safety and other matters in connection with coal mining. Regulatory authorities exercise considerable discretion in whether or not to issue permits, licenses and approvals and the timing of such issuances. Also, private individuals and the public at large possess rights to comment on and otherwise engage in the permitting, licensing and approval process, including through intervention in the courts. Accordingly, new permits, licenses and approvals required by the Corporation to fully exploit its properties may not be issued, or if issued, may not be issued in a timely

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fashion, or may contain requirements which restrict Grande Cache Coal's ability to conduct its mining operations or to do so profitably.

Regulatory Efforts to Control Greenhouse Gas Emissions

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

In early 2010, the Government of Canada announced revised targets for reducing greenhouse gas emissions as it had committed to do as a signatory to the Copenhagen Accord. Canada's new aim is to reduce absolute emissions by 17 per cent from 2005 levels by 2020. However, regulations to reduce greenhouse gas emissions that the Canadian government initially indicated would be developed in 2008 have been put on hold and the Government of Canada has indicated that such proposals will be modified to ensure consistency with the direction ultimately taken by the United States with respect to greenhouse gas emissions regulation. Additional policy measures are anticipated over the coming years by the Government of Canada.

In Alberta, the *Climate Change and Emissions Management Act* and the Specified Gas Emitters Regulation require certain existing large emitters (facilities, including coal processing facilities, that are releasing 100,000 tonnes or more of greenhouse gas emissions in any calendar year after and including 2003) to reduce their emissions intensity from a baseline emissions intensity by 2% annually to a maximum of 12% starting July 1, 2007. The regulation also outlines options for meeting reduction targets. Large emitters that are unable to reduce emissions intensity by the required amount in a given compliance period will be able to invest in an Alberta-based technology fund to develop infrastructure to reduce emissions and support research into innovative climate change solutions by paying \$15 per tonne into the technology fund for every tonne of emissions above their annual emissions limit. Alternatively, large emitters can purchase emissions offset credits generated by Alberta-based projects that have reduced greenhouse emission emissions.

The Government of Alberta has recently reduced the reporting threshold from 100,000 tonnes of greenhouse gas emissions in any calendar year to 50,000 tonnes per year, in order to harmonize the provincial requirements with similar federal requirements.

One issue affecting the reporting of greenhouse gas emissions is the accounting for fugitive emissions at the mine face, where methane may be released; at present, no technology is available to capture these emissions. The coal industry is engaged in discussions with the Government of Alberta to seek ways to deal with this issue. The risk to the coal mining industry is that disproportionate greenhouse gas management will need to be applied to other aspects of operations under its control to meet intensity reduction targets.

Grande Cache Coal intends to expand current levels of production, which will likely qualify the Corporation for the greenhouse gas intensity reduction requirement. Grande Cache Coal is engaged in upgrading processing plant operations, ongoing modernization of equipment and efficiency improvements, which will have the effect of reducing greenhouse gas emissions intensity.

The primary source of greenhouse gas emissions in Canada is the use of hydrocarbon energy. Grande Cache Coal's operations depend significantly on hydrocarbon energy sources such as diesel fuel and natural gas to conduct daily operations, and there are typically no economic substitutes for these forms of energy. Other than as described above, it is not yet possible to reasonably estimate the nature, extent, timing and cost of any federal or provincial government programs proposed or contemplated to control greenhouse gas emissions, or their potential effects on operations. Most of Grande Cache Coal's products are sold outside of Canada, and sales are not expected to be significantly affected by Canada's expressed goals. However, the broad adoption of emission limitations or other regulatory efforts to control greenhouse gas emissions by other countries could materially negatively affect the demand for coal, as well as restrict development of new coal projects and increase production and transportation costs.

Environmental Regulation and Liability

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The Corporation's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in the Province of Alberta, including Canadian federal legislation. Such regulations typically cover a wide variety of matters including, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. The Corporation may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances that may exist on or under any of its properties or that may be produced as a result of its operations. Environmental legislation and permitting are likely to evolve in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, a heightened degree of responsibility for companies and their directors and employees, and potentially greater financial and economic burdens.

Credit Risk

Debt Instruments

Grande Cache Coal's operating credit facility of up to \$28 million with a Canadian chartered bank contains covenants that require Grande Cache Coal to meet certain financial tests and that restrict, among other things, the ability to incur additional debt, dispose of assets or pay dividends in certain circumstances. These restrictions limit Grande Cache Coal from paying dividends to shareholders.

Additional Funding Requirements

Grande Cache Coal anticipates requiring substantial funds for the exploration, development, production and acquisition of coal reserves in the future. No assurance can be given that the Corporation will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from existing cash and internally generated cash flow. Coal prices, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors that will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Corporation may be required to undertake additional equity financing, which would be dilutive to shareholders. Additional debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing would be available on terms acceptable to the Corporation or at all. If the Corporation is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, forfeit its interest in some or all of its properties and licenses, incur financial penalties or reduce or terminate its operations.

Directors' and Officers' Conflicts of Interest

Certain of the Corporation's directors and officers are directors and officers of other natural resource or mining-related companies. These associations may give rise to conflicts of interest from time to time, and as a result of such conflicts of interest, the Corporation may miss opportunities to participate in certain transactions which may have a material adverse effect on the Corporation's business, financial condition and results of operations.

Forward-Looking Information May Prove Inaccurate

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

Management's Report

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

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

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

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

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

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

June 2, 2011

Independent Auditor's Report

To the Shareholders Of Grande Cache Coal Corporation

We have audited the accompanying consolidated financial statements of Grande Cache Coal Corporation, which comprise the consolidated balance sheets as at March 31, 2011 and March 31, 2010 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grande Cache Coal Corporation as at March 31, 2011 and March 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
June 2, 2011

Grande Cache Coal Corporation
Consolidated Balance Sheets
As at March 31

(thousands of Canadian dollars)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 17,136	\$ 87,436
Restricted cash (note 4)	12,908	13,499
Accounts receivable (note 5)	31,287	12,483
Inventory (note 6)	34,244	33,999
Prepaid expenses and deposits (note 7)	399	9,114
Future income taxes (note 10)	-	232
	<u>95,974</u>	<u>156,763</u>
Capital assets (note 8)	<u>338,405</u>	<u>180,935</u>
	<u>\$ 434,379</u>	<u>\$ 337,698</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	\$ 29,496	\$ 25,716
Current portion of capital lease obligations (note 11)	14,447	6,744
Future income taxes (note 10)	891	-
	<u>44,834</u>	<u>32,460</u>
Asset retirement obligations (note 12)	14,217	8,801
Capital lease obligations (note 11)	64,390	27,515
Future income taxes (note 10)	27,319	18,102
	<u>150,760</u>	<u>86,878</u>
Shareholders' equity		
Share capital (note 13)	199,810	196,232
Contributed surplus	5,437	3,945
Retained earnings	78,372	50,643
	<u>283,619</u>	<u>250,820</u>
	<u>\$ 434,379</u>	<u>\$ 337,698</u>
Commitments (note 14)		

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Nicholas G. Kirton
Director

Grande Cache Coal Corporation
Consolidated Statements of Net Income, Comprehensive Income and Retained Earnings
Years Ended March 31

(thousands of Canadian dollars, except per share amounts)

	2011	2010
Revenue	\$ 268,103	\$ 232,530
Expenses		
Cost of product sold	157,019	127,198
Distribution	40,289	49,736
General and administrative (note 15)	11,762	9,960
Depreciation, depletion and accretion	24,381	18,980
	<u>233,451</u>	<u>205,874</u>
Income from operations	34,652	26,656
Other income (expenses)		
Foreign exchange gains	6,839	2,510
Interest and other income	505	491
Interest and other expenses	<u>(1,644)</u>	<u>(1,017)</u>
Income before taxes	40,352	28,640
Taxes (note 10)		
Current tax expense	(2,283)	(1,847)
Future income taxes expense	<u>(10,340)</u>	<u>(6,686)</u>
Net income and comprehensive income	27,729	20,107
Retained earnings, beginning of year	<u>50,643</u>	<u>30,536</u>
Retained earnings, end of year	<u>\$ 78,372</u>	<u>\$ 50,643</u>
Net income per share (note 16)		
Basic	\$ 0.28	\$ 0.21
Diluted	\$ 0.28	\$ 0.20

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Cash Flows
Years Ended March 31

(thousands of Canadian dollars)

	2011	2010
Cash provided by (used for)		
Operating activities		
Net income and comprehensive income	\$ 27,729	\$ 20,107
Items not affecting cash		
Stock-based compensation (note 17)	3,033	1,312
Unrealized foreign exchange (gains) losses	(2,447)	2,517
Unrealized losses (gains) on foreign exchange forward contracts	167	(3,024)
Future income taxes (note 10)	10,340	6,686
Depreciation, depletion and accretion	24,381	18,980
Settlement of asset retirement obligations (note 12)	(135)	-
	<u>63,068</u>	<u>46,578</u>
Net change in non-cash working capital items (note 18)	<u>(10,350)</u>	<u>27,087</u>
	<u>52,718</u>	<u>73,665</u>
Financing activities		
Proceeds on exercise of options (note 13)	2,037	962
Payment on capital lease obligations (note 11)	(21,839)	(8,361)
Proceeds from mortgage loan (note 9)	2,400	-
Net proceeds from capital lease financings (note 8)	-	10,729
	<u>(17,402)</u>	<u>3,330</u>
Investing activities		
Additions to mineral properties and development	(48,158)	(11,961)
Additions to land, buildings and equipment	(57,220)	(35,279)
Restricted cash (note 4)	591	(5,059)
Net change in non-cash working capital relating to investing activities	399	(885)
	<u>(104,388)</u>	<u>(53,184)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(1,228)</u>	<u>(4,410)</u>
(Decrease) increase in cash and cash equivalents	(70,300)	19,401
Cash and cash equivalents, beginning of year	<u>87,436</u>	<u>68,035</u>
Cash and cash equivalents, end of year	<u>\$ 17,136</u>	<u>\$ 87,436</u>

Supplemental cash flow information (note 18)

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

1. Nature of Operations

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

2. Significant Accounting Policies

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

Principles of Consolidation

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

Management Estimates

The consolidated financial statements include certain management estimates that may require accounting adjustments based on future occurrences. The most significant estimates relate to asset retirement obligations, stock based compensation, income taxes, depletion and depreciation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in future periods could be material.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of amounts on deposit with banks and other highly liquid investments with a maturity at the time of purchase of three months or less. Cash and cash equivalents are recorded at cost, which approximates fair market value.

Restricted Cash

Restricted cash consists of cash set aside as security for letters of credit provided to government agencies and to service providers. Restricted cash is recorded at cost, which approximates fair market value.

Inventory

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

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

Property, plant and equipment

Plant and equipment are recorded at cost. The cost of an item of property, plant and equipment includes the purchase price and other acquisition costs directly attributable to bringing the asset to its management's intended use.

Repairs and maintenance costs that significantly extend the life of the plant and equipment or increase the productive capacity of the equipment are capitalized as part of property, plant and equipment. All other repairs and maintenance costs are expensed in the period they are incurred.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

Mineral Properties and Development

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

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

Interest expense relating to the acquisition of mining equipment and depreciation of mining equipment identified as directly used in the development of mining properties are capitalized as part of mineral properties and development. The capitalization of the interest expense and depreciation ceases upon the commencement of commercial production of the new mine area.

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

Depreciation and Depletion

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

Leases

Leases where the Corporation assumes substantially all the benefits and risks of ownership are accounted for as capital leases and classified as property, plant and equipment with offsetting capital lease obligations. The leased asset is recorded as the lesser of its fair value at inception and the present value of the minimum lease payments and is depreciated over the shorter of the asset’s useful life and the lease term. All other leases are classified as operating leases under which lease payments are expensed in the period incurred.

Asset Retirement Obligations

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

Foreign Currency Translation

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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

gains and losses are included in income immediately.

Financial Instruments

The Corporation's financial instruments are measured at fair value on initial recognition and subsequently measured based on their classification as either held-for-trading, available-for-sale, held-to-maturity, loan and receivables and other financial liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value on the balance sheet with changes in the fair value of these instruments reflected through net income. Financial assets classified as available-for-sale are measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities are measured at fair value upon initial recognition but are subsequently measured at their amortized cost using the effective interest method.

The Corporation has certain derivative financial instruments that are used only to manage risk. These derivatives are recorded at fair value on the balance sheet. Mark-to-market adjustments on these financial instruments are recognized in net income.

Revenue Recognition

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

Cost of Product Sold

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

Distribution

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

Taxes

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

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

Stock-based Compensation

The Corporation uses the fair value method of accounting for stock-based compensation related to share options for all awards granted, modified or settled. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the share options, consideration received together with the

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation has not incorporated an estimated forfeiture rate of share options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

Reclassification

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

3. Recent and Upcoming Changes in Accounting Policies

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 is 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 (June 30, 2011).

4. Restricted Cash

	As at March 31 2011	As at March 31 2010
Cash secured letters of credit - Alberta Government	\$ 12,708	\$ 11,799
Cash secured letters of credit - Service providers	<u>200</u>	<u>1,700</u>
	<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 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.

5. Accounts Receivable

	As at March 31 2011	As at March 31 2010
Trade accounts receivable	\$ 27,131	\$ 7,384
Goods and services tax receivable	285	1,440
Unrealized gain on foreign exchange forward contracts	2,857	3,024
Other	<u>1,014</u>	<u>635</u>
	<u>\$ 31,287</u>	<u>\$ 12,483</u>

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

6. Inventory

	As at March 31 2011	As at March 31 2010
Coal inventory	\$ 27,628	\$ 27,986
Materials inventory	<u>6,616</u>	<u>6,013</u>
Total	<u>\$ 34,244</u>	<u>\$ 33,999</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. During fiscal 2011, parts and supplies inventories of \$8,550 were expensed to cost of product sold compared to \$8,154 in fiscal 2010.

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

7. Prepaid expenses and deposits

	As at March 31 2011	As at March 31 2010
Prepaid expenses and other deposits	\$ 399	\$ 289
Deposits on mining equipment	<u>-</u>	<u>8,825</u>
	<u>\$ 399</u>	<u>\$ 9,114</u>

In fiscal 2010, the Corporation had made deposits on mining equipment that was subsequently financed through capital lease arrangements prior to the equipment being commissioned, at which time the deposit amounts were returned to the Corporation in cash.

8. Capital Assets

	As at March 31, 2011		
	Cost	Accumulated depreciation and depletion	Net Book Value
Land, buildings and equipment	\$ 181,722	\$ 39,659	\$ 142,063
Mineral properties and development	106,503	29,793	76,710
Assets under capital lease	<u>125,953</u>	<u>6,321</u>	<u>119,632</u>
	<u>\$ 414,178</u>	<u>\$ 75,773</u>	<u>\$ 338,405</u>

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

	As at March 31, 2010		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 125,078	\$ 23,789	\$ 101,289
Mineral properties and development	52,351	22,953	29,398
Assets under capital lease	47,241	1,728	45,513
Assets held for sale	4,735	-	4,735
	<u>\$ 229,405</u>	<u>\$ 48,470</u>	<u>\$ 180,935</u>

In fiscal 2011, the Corporation acquired mining equipment through capital lease agreements which included haul trucks, drills, a loader, dozers and a shovel for a total amount of \$70,258 (US\$69,086).

During fiscal 2011, the Corporation capitalized interest expense of \$1,529 incurred from mining equipment under capital lease agreements, which were directly used in the development of No. 8 mine. In addition, the Corporation capitalized depreciation expenses of \$4,243 on mining equipment that was directly used in the development of No. 8 pit.

During fiscal 2010, the Corporation purchased condominium units that it intended to sell 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.

During the third quarter of fiscal 2010, the Corporation entered into a US\$10,420 sale leaseback agreement for a Hitachi EX5500 hydraulic excavator that was purchased during the second quarter of fiscal 2010.

At March 31, 2011, \$17,098 (2010 - \$20,123) was capitalized for mineral properties and development that were not producing and equipment that was not in use during the year. No depreciation or depletion has been taken on these assets.

9. Accounts payable and accrued liabilities

	As at March 31 2011	As at March 31 2010
Trade payables	\$ 15,189	\$ 13,587
Accrued expenses	11,907	12,129
Mortgage loan	2,400	-
	<u>\$ 29,496</u>	<u>\$ 25,716</u>

The mortgage loan has been used to fund the acquisition of land and buildings to be used as housing for employees. It has a rate of 4.25% per annum, a term of 20 years, is secured by the asset and is payable on demand, and therefore has been classified as a current liability.

10. Taxes

The Corporation's net future income tax liability was \$28,210, of which \$891 was classified as a current liability. The components of the future income tax liability are as follows:

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

	As at March 31 2011	As at March 31 2010
Temporary differences related to:		
Buildings and equipment and mineral properties and development costs	\$ 31,929	\$ 20,611
Asset retirement obligations	(3,554)	(2,200)
Share issuance costs	(104)	(309)
Other	(61)	(232)
Net future income taxes	<u>\$ 28,210</u>	<u>\$ 17,870</u>

Tax expenses differ from that which would be expected from applying the statutory Canadian federal and provincial income tax rates of 27.6% (2010 – 28.8%) to the income before taxes, as follows:

	2011	2010
Expected income tax expense	\$ 11,147	\$ 8,234
Change resulting from:		
Stock based compensation	838	377
Other	(577)	(435)
Change in tax rates	(1,025)	(1,145)
Investment tax credits	(43)	(345)
Income tax expense	<u>10,340</u>	<u>6,686</u>
Provincial crown royalties	<u>2,283</u>	<u>1,847</u>
	<u>\$ 12,623</u>	<u>\$ 8,533</u>

11. Capital Lease Obligations

The Corporation has certain mining equipment and buildings under capital lease 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 summarizes the Corporation's capital lease obligations:

Balance – March 31, 2009	\$ 52
Fair value of initial capital leases	44,311
Payments made during the period	(9,328)
Interest portion of payments	967
Foreign exchange adjustment to US dollar obligation	<u>(1,743)</u>
Balance – March 31, 2010	34,259
Fair value of initial capital leases	70,258
Payments made during the period	(24,949)
Interest portion of payments	3,110
Foreign exchange adjustment to US dollar obligation	<u>(3,841)</u>
Balance – March 31, 2011	78,837
Current portion of capital lease obligations	<u>(14,447)</u>
Long term portion of capital lease obligations	<u>\$ 64,390</u>

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

Future minimum payments under capital leases at March 31, 2011 consist of the following:

Less than 1 year	\$	18,658
2-3 years		38,622
4-5 years		31,493
After 5 years		<u>2,074</u>
Total minimum lease payments		90,847
Amounts representing interest		<u>(12,010)</u>
Present value of minimum lease payments		78,837
Current portion of capital lease obligations		<u>(14,447)</u>
Long term portion of capital lease obligations	\$	<u>64,390</u>

12. Asset Retirement Obligations

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. At fiscal year end, the Corporation has estimated the net present value of its asset retirement obligations to be \$14,217 (2010 - \$8,801), based on a total future liability of \$20,171 (2010 - \$14,926). The Corporation's credit adjusted risk-free rates range from 4.2% 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:

	2011	2010
Balance, beginning of year	\$ 8,801	\$ 6,429
Increase in liability	4,894	1,865
Settlement of liability	(135)	-
Accretion	<u>657</u>	<u>507</u>
Balance, end of year	<u>\$ 14,217</u>	<u>\$ 8,801</u>

13. Share Capital

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

(thousands)	Number	Stated Value
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>1,325</u>	<u>3,578</u>
Balance – March 31, 2011	<u>98,300</u>	<u>\$ 199,810</u>

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

During fiscal 2011, 1,325 thousand common share options were exercised for cash proceeds of \$2,037. On exercise of these common share options, \$1,541 was credited to share capital from contributed surplus.

During fiscal 2010, 899 thousand common share options were exercised for cash proceeds of \$962. On exercise of these common share options, \$729 was credited to share capital from contributed surplus.

14. 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.

Under contracts existing at March 31, 2011, future minimum amounts payable under these agreements for each fiscal year are summarized below:

2012	\$	861
2013	\$	802
2014	\$	659
2015	\$	577
2016 and thereafter	\$	514

15. General and Administrative

	2011	2010
Head office administrative and marketing charges	\$ 8,729	\$ 8,648
Non-cash stock-based compensation charges	3,033	1,312
	<u>\$ 11,762</u>	<u>\$ 9,960</u>

16. 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.

(thousands, except per share information)	2011	2010
Weighted average shares outstanding – basic	97,537	96,321
Dilutive effect of share options	2,416	2,414
Weighted average shares outstanding – diluted	99,953	98,735
Net income	<u>\$ 27,729</u>	<u>\$ 20,107</u>
Net income per share – basic	\$ 0.28	\$ 0.21
Net income per share – diluted	\$ 0.28	\$ 0.20

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(thousands of Canadian dollars, except per share amounts)

17. 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 current fiscal year was \$3,033 compared to \$1,312 in the prior year.

During the fiscal year ended March 31, 2011, 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 fiscal year ended March 31, 2010, pursuant to the Corporation's share option plan, options to purchase 50 thousand common shares were granted at an exercise price of \$3.57 per share and options to purchase 125 thousand common shares were granted 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.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions as follows:

	2011	2010
Assumptions:		
Risk free interest rate (%)	2.17	1.72
Expected volatility ¹ (%)	79.01	122.73
Expected life (years)	5	5
Dividend yield	Nil	Nil
Weighted average grant date fair value (per option)	\$3.61	\$4.01

¹ Expected volatility estimated based on historical volatility

During fiscal 2011, options to purchase 100 thousand common shares were exercised at a weighted average price of \$1.04 per share, options to purchase 320 thousand common shares were exercised at a weighted average price of \$1.37 per share, options to purchase 865 thousand common shares were exercised at a weighted average price of \$1.68 per share and options to purchase 40 thousand common shares were exercised at a weighted average price of \$1.01 per share.

During fiscal 2010, options to purchase 274 thousand common shares were exercised at a weighted average price of \$1.26 per share, options to purchase 170 thousand common shares were exercised at a weighted average price of \$1.01 per share and options to purchase 455 thousand common share options were exercised at a weighted average price of \$0.98 per share.

Details of the common share options outstanding are as follows:

	2011		2010	
	Number of Options (000's)	Weighted Average Exercise Price	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of year	3,717	\$ 1.51	4,616	\$ 1.50
Granted	2,145	5.61	175	5.27
Forfeited	(148)	2.64	(175)	7.29
Exercised	(1,325)	1.54	(899)	1.07
Outstanding, end of year	4,389	\$ 3.46	3,717	\$ 1.51
Vested and exercisable, end of year	1,452	\$ 1.27	2,002	\$ 1.37

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Details of the common share options outstanding and exercisable at March 31, 2011 are as follows:

Outstanding Share Options (000's)	Exercisable Share Options (000's)	Weighted Average Exercise Price on Outstanding Options	Weighted Average Exercise Price on Exercisable Options	Weighted Average Remaining Life of Outstanding Options (months)
135	135	\$ 2.44	\$ 2.44	*
132	132	0.88	0.88	14
458	458	1.04	1.04	21
50	-	5.02	-	29
1,162	577	1.01	1.01	31
100	67	0.88	0.88	33
83	42	0.77	0.77	34
34	-	3.57	-	41
125	41	5.95	5.95	46
2,110	-	5.61	-	50
4,389	1,452	\$ 3.46	\$ 1.27	39

* Expire in April 2011

The Corporation has a restricted share unit plan (the "RSU Plan") that is a discretionary incentive compensation plan to provide officers, directors, employees and other eligible service providers of the Corporation and any subsidiary thereof who provide services to the Corporation with the opportunity to acquire common shares of the Corporation through an award of restricted share units ("RSUs"). Each RSU represents a right to receive one common share. As at March 31, 2011, the Corporation has not awarded any RSUs pursuant to the RSU Plan.

18. Supplemental Cash Flow Information

	2011	2010
Net change in non-cash working capital items		
Accounts receivable	\$ (19,218)	\$ 5,633
Inventory	(908)	15,786
Prepaid expenses and deposits	8,715	(8,066)
Accounts payable and accrued liabilities	1,061	13,734
	\$ (10,350)	\$ 27,087
Interest and taxes paid		
Interest paid	\$ 3,171	\$ 1,017
Taxes paid	\$ 2,015	\$ 1,842

19. 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 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

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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. For the year ended March 31, 2011, the Corporation was in compliance with externally imposed requirements on its capital, including debt covenants and credit facilities.

20. Financial Instruments and Risk Management

The Corporation has identified all financial instruments that are recognized in the financial statements and has presented the financial instruments by category 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
Capital lease obligations	Other financial liabilities

Fair value of financial instruments

The Corporation has certain financial instruments that are measured at fair value on a recurring basis. At March 31, 2011, 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).

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

<i>(thousands of Canadian dollars)</i>	As at March 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial asset				
Cash and cash equivalents	17,136	-	-	17,136
Restricted cash	12,908	-	-	12,908
Foreign exchange forward contracts	-	2,857	-	2,857

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(thousands of Canadian dollars)	As at March 31 2010			
	Level 1	Level 2	Level 3	Total
Financial asset				
Cash and cash equivalents	87,436	-	-	87,436
Restricted cash	13,499	-	-	13,499
Foreign exchange forward contracts	-	3,024	-	3,024

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 March 31, 2011. 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 March 31, 2011. 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 consolidated financial statements. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider any of the trade 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 March 31, 2011 was nil, however availability on the facility was reduced by approximately \$555 due to the Corporation entering into foreign exchange forward contracts. At March 31, 2011, 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	29,496	-	-	-
Operating leases	861	1,461	819	272
Capital leases	18,658	38,622	31,493	2,074
	<u>49,015</u>	<u>40,083</u>	<u>32,312</u>	<u>2,346</u>

Market Risk

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

Foreign exchange rates

The majority of 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 March 31, 2011, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$74, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At March 31, 2011, the outstanding commitment on the capital lease obligations was US\$81,309. Based on this balance, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$813, which would have been credited to income in the current period. 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 March 31, 2011, the Corporation had outstanding contracts to sell a total of US\$32,000 at an average rate of Canadian dollars 1.06 to the US dollar. At March 31, 2011, these contracts were marked to market resulting in an unrealized foreign exchange gain of \$2,857 that was recognized in the income statement and has been classified on the balance sheet as accounts receivable. A decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease in accounts receivable of \$320, which would have been charged to income in the current period. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

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 March 31, 2011.

21. Economic Dependence

All of the Corporation's metallurgical coal production is transported by CN Rail and loaded onto vessels at

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Vancouver by Westshore Terminals Ltd. or at Thunder Bay by Thunder Bay Terminals Ltd. There are limited alternatives for these services and securing alternatives could increase distribution costs. Interruption of rail or port services would impair the Corporation's ability to operate.