

# Grande Cache Coal Corporation

## Management's Discussion & Analysis

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the period ended September 30, 2011, and the audited consolidated financial statements, notes and related MD&A thereto of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the fiscal year ended March 31, 2011. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 November 7, 2011.

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

Specifically, this MD&A contains forward-looking statements relating to: anticipated sales volumes of metallurgical coal in fiscal 2012; anticipated sales prices of metallurgical coal in fiscal 2012; anticipated average cost of sales for fiscal 2012, management of coal production in fiscal 2012; future development activities and related capital expenditures; the capital expenditure program for fiscal 2012; funding sources for the capital expenditure program; the anticipated benefits of the Arrangement to Grande Cache Coal and its shareholders, the timing and anticipated receipt of required regulatory, court, and shareholder approvals for the Arrangement; the ability of Grande Cache Coal and AcquisitionCo to satisfy the other conditions to, and to complete, the Arrangement; and the anticipated timing of the mailing of the information circular regarding the Arrangement and the closing of the Arrangement.

These forward-looking statements are based on certain key assumptions regarding, among other things: that the Corporation will be able to attract and retain the necessary workforce personnel to support the expansion of its operation; no material change in the geological and operating conditions in No. 8 pit; no material disruption in production from the No. 8 pit or the No. 7 underground operation; no material disruption in development of, or production from, the No. 12 South B2 underground; 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 disruptions in rail service and port facilities other than anticipated; no material delays in the current timing for completion of ongoing projects; financing will be available on terms favourable to the Corporation; no material variation in historical coal purchasing practices of customers; coal sales contracts will be entered into with new customers; parties execute and deliver contracts currently under negotiation; and no material variations in the current regulatory environment. The reader is cautioned that such assumptions, although considered reasonable by Grande Cache Coal at the time of preparation, may prove to be incorrect.

In respect of the forward-looking statements concerning the anticipated completion of the proposed Arrangement and the anticipated timing for completion of the Arrangement, Grande Cache Coal has provided such in reliance on certain assumptions that it believes are reasonable at this time, including assumptions as to the time required to prepare and mail Grande Cache Coal shareholder meeting materials, including the required information circular; the ability of the parties to receive, in a timely manner, the necessary regulatory, court, shareholder and other third party approvals, including but not limited to Investment Canada Act approval; and the ability of the parties to satisfy, in a timely manner, the other conditions to the closing of the Arrangement. These dates may change for a number of reasons, including unforeseen delays in preparing meeting materials, inability to secure necessary shareholder, regulatory, court or other third party approvals in the time assumed or the need for additional time to satisfy the

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other conditions to the completion of the Arrangement. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release concerning these times.

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: uncertainties associated with geological and operating conditions in the new No. 8 pit and the new No. 12 South B2 underground operation; uncertainties associated with production levels during development of the new No. 8 mining area and No. 12 South B2 underground operation; 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; dependence on a single port facility for export sales; 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 regulations; 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 for the fiscal year ended March 31, 2011, Grande Cache Coal's MD&A, and other documents Grande Cache Coal files with the Canadian securities regulatory authorities.

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

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

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**Financial Overview**

<i>(millions of dollars)</i>	<b>As at September 30 2011</b>	<b>As at March 31 2011</b>
<b>Balance Sheet</b>		
Cash and cash equivalents	<b>38.8</b>	17.1
Total assets	<b>474.9</b>	433.2
Long-term liabilities	<b>113.9</b>	106.8
Shareholders' equity	<b>310.1</b>	282.5

<i>(millions of dollars, except per share amounts)</i>	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Statement of Income and Comprehensive Income</b>				
Revenue	<b>102.6</b>	81.2	<b>182.3</b>	150.2
Gross profit	<b>36.2</b>	18.7	<b>50.3</b>	29.7
Income and comprehensive income	<b>18.2</b>	13.2	<b>25.4</b>	17.4
Basic earnings per share	<b>0.19</b>	0.14	<b>0.26</b>	0.18
Diluted earnings per share	<b>0.18</b>	0.13	<b>0.25</b>	0.17

	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Operating results</b>				
Clean coal production (million of tonnes)	<b>0.45</b>	0.33	<b>0.86</b>	0.70
Coal sales (million of tonnes)	<b>0.45</b>	0.44	<b>0.84</b>	0.89
<b>Average sales price</b>				
Metallurgical coal (US\$/tonne)	<b>252</b>	186	<b>240</b>	169
All coal products (\$/tonne)	<b>232</b>	185	<b>218</b>	168
<b>Average cost of sales (\$/tonne)</b>				
Cost of product sold	<b>110</b>	100	<b>117</b>	93
Distribution costs	<b>25</b>	27	<b>26</b>	27
Depreciation	<b>15</b>	15	<b>15</b>	15

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#### **Revenue**

Fiscal 2012 second quarter revenue was \$102.6 million, representing a 26% increase over revenue of \$81.2 million in the same period last fiscal year. Higher sales prices were the main contributor to the increase in revenue as the current quarter's average selling price for all coal products was \$232 per tonne, up from \$185 per tonne in the comparable period. The average selling price of metallurgical coal, which accounted for 87% of total sales volumes, was \$244 per tonne (US\$252 per tonne). The average selling price of metallurgical coal in the second quarter of fiscal 2011 was \$193 per tonne (US\$186 per tonne).

Revenue for the first six months of the fiscal year was \$182.3 million on sales of 0.84 million tonnes compared to revenue of \$150.2 million on sales of 0.89 million tonnes in the same period last year. The average sales price for the fiscal year to date for all coal products was \$218 per tonne, 30% higher than \$168 per tonne in the first half of fiscal 2011. The higher price during the current fiscal year reflects an increase in quarterly contract price settlements due to higher demand partially offset by a portion of lower priced thermal coal and lower priced carryover tonnage from fiscal 2011. The average Canadian dollar sales price on US dollar denominated sales was impacted by a stronger Canadian dollar in relation to the US dollar as the average exchange rate for converting US dollars into Canadian dollars was 0.97 during the first half of fiscal 2012, compared to 1.03 in the first half of fiscal 2011.

#### **Cost of Sales**

The cost of sales during the second quarter of fiscal 2012 was \$66.5 million, or \$150 per tonne, compared to \$62.5 million, or \$142 per tonne in the same period last year. The cash cost of sales during the quarter, which includes cost of product sold and distribution costs, was \$135 per tonne compared to \$127 per tonne in same period last fiscal year.

The cost of product sold during the current quarter was \$110 per tonne, up from \$100 per tonne in the same period last year, and was affected by a higher surface mine strip ratio as well as a lower plant yield. The Corporation also incurred higher operating costs, including internal labour, contractor services, supplies and consumables, which further contributed to the increase in the cost of product sold. There was a substantial increase in the price of diesel fuel compared to last year as well as a significant increase in the volume of diesel fuel consumed due to the higher strip ratio and the additional overburden waste removal required.

Cost of sales for the fiscal year to date was \$132.0 million, or \$158 per tonne, compared to \$120.5 million, or \$135 per tonne in the first six months of last year.

The unit cost of product sold during the first half of fiscal 2012 was \$117 per tonne (fiscal 2011 - \$93 per tonne) and was impacted by the early stages of mining in No. 8 pit where conditions were difficult due to tight mining areas. The unit cost was also affected by a lower plant yield and a higher surface mine strip ratio which led to lower than anticipated clean coal production volumes. Higher operating costs in the first six months of the current fiscal year, including labour, external contractor services, supplies and consumables, most notably a significant increase in the price of diesel fuel, also led to an increase in the unit cost of product sold.

#### **Other Income and Expenses**

General and administrative expenses for the second quarter were \$4.5 million compared to \$3.7 million in the same period last year, which included head office administrative and marketing charges of \$3.8 million (fiscal 2011 - \$2.0 million) and share-based payment expense of \$0.7 million (fiscal 2011 - \$1.7 million). For the six months ended September 30, 2011, the Corporation's general and administrative expenses were \$8.4 million against \$6.3 million in the same period of last fiscal year, which consisted of head office administrative and marketing charges of \$6.3 million (fiscal 2011 - \$4.0 million) and share-based payment expense of \$2.1 million (fiscal 2011 - \$2.3 million).

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Finance income primarily consisted of interest earned on cash and restricted cash. Finance expenses for the three and six months ended September 30, 2011 were \$1.2 million and \$2.0 million, respectively, compared to \$0.8 million for both comparable periods of fiscal 2011. Finance expenses mainly include accretion on restoration provisions and interest paid on finance lease obligations.

During the second quarter the Corporation had a net foreign exchange loss of \$6.0 million, in contrast to a \$4.0 million net foreign exchange gain during the same period last fiscal year. In the second quarter the Corporation recorded an unrealized foreign exchange loss of \$5.1 million related to the US dollar denominated finance lease obligations and an unrealized foreign exchange loss of \$3.2 million from foreign exchange forward contracts. In the same period of fiscal 2011, the Corporation recognized unrealized foreign exchange gains of \$1.9 million on finance lease obligations and \$3.0 million related to foreign exchange forward contracts. For the fiscal year to date, the Corporation's net foreign exchange loss was \$5.7 million versus a \$1.3 million net foreign exchange gain in the first six months of the prior fiscal year. The net foreign exchange loss in fiscal 2012 was the result of a significant weakening of the Canadian dollar against the US dollar in the latter part of the period.

### **Taxes**

Income tax expense was \$6.5 million and \$9.3 million for the current quarter and first half of fiscal 2012, respectively, compared to \$5.1 million and \$6.6 million in the same periods of last year. The increase in income tax expense in the current fiscal year was related to higher profit before tax.

### **Liquidity and Capital Resources**

Grande Cache Coal held cash and cash equivalents of \$38.8 million at September 30, 2011. During the second quarter cash and cash equivalents increased by \$17.7 million in comparison to a decrease of \$17.3 million during the same period last fiscal year. The Corporation's cash position increased by \$21.7 million during the first six months of fiscal 2012 compared to a decrease of \$32.6 million in the same period last fiscal year.

Second quarter operating activities generated \$40.8 million in cash compared to \$11.2 million in the same period last year. Cash generated prior to changes in non-cash working capital was \$39.9 million, compared to \$23.5 million in the same period last year. The variance was primarily a result of higher net income in the second quarter as well as the impact of unrealized foreign exchange losses in the current period versus unrealized foreign exchange gains in the comparable period of fiscal 2011. For the first half of fiscal 2012, cash generated by operating activities before changes in non-cash working capital was \$60.4 million compared to \$41.1 million in the comparable period.

Fiscal 2012 financing activities resulted in a cash decrease of \$4.7 million and \$9.4 million during the second quarter and the year to date, respectively, compared to a decrease of \$6.9 million and \$11.0 million for the three and six months ended September 30, 2010. Included in financing activities were payments towards finance lease obligations of \$3.6 million in the second quarter (fiscal 2011 - \$6.6 million) and \$7.2 million for the fiscal year to date (fiscal 2011 - \$10.2 million). Also included in second quarter financing activities were interest payments on finance lease obligations and a capital loan of \$1.1 million (fiscal 2011 - \$0.7 million) and \$2.3 million (fiscal 2011 - \$1.3 million) for year to date.

Investing activities for the three and six months ended September 30, 2011 led to a cash decrease of \$20.3 million and \$36.6 million, respectively, compared to \$21.3 million and \$52.3 million in the same periods last fiscal year. Investing activities during fiscal 2012 year to date included capital asset additions to land and buildings (\$3.4 million), plant and equipment (\$5.5 million) and mineral assets (\$25.2 million). There was also an addition to restricted cash of \$2.5 million during the second quarter of fiscal 2012.

Grande Cache Coal has an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to \$29 million and the ability to enter into foreign exchange hedging arrangements. On September 9, 2011, the Corporation entered into a series of foreign exchange forward contracts to sell a total of US\$70 million at an average

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rate of 0.996 Canadian dollars. At September 30, 2011, foreign exchange forward contracts of US\$60 million remained outstanding. These contracts settle in monthly installments of US\$10 million per month, the last of which will mature by March 2012. The balance owing on the operating credit facility at September 30, 2011 was nil. The availability on the credit facility was reduced by approximately \$15.6 million due to the Corporation entering into foreign exchange forward contracts.

The Corporation believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements. The Corporation expects that capital expenditures during fiscal 2012 will be funded by existing cash and cash flow from operations.

Grande Cache Coal expects that coal inventory and coal production will be sufficient to meet anticipated coal sales volumes for fiscal 2012. At September 30, 2011, the Corporation had \$40.1 million in coal inventory, compared to \$29.7 million at June 30, 2011.

The Corporation did not have any off-balance sheet financing structures in place at September 30, 2011. At September 30, 2011, the Corporation had long term liabilities for restoration provision with a present value of \$15.7 million, deferred income tax liabilities of \$37.2 million and finance lease obligations of \$61.0 million. Grande Cache Coal's restoration provision is covered by letters of credit totaling \$15.3 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 and office space.

Future minimum undiscounted amounts payable by the Corporation under contracts existing at September 30, 2011, were:

<i>(millions of Canadian dollars)</i>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
<b>Contractual Obligations</b>					
Operating Leases	3.1	0.9	1.4	0.6	0.2
Finance Leases	88.1	20.6	37.9	28.6	1.0
Total Contractual Obligations	91.2	21.5	39.3	29.2	1.2

### International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") replaced Canadian generally accepted accounting principles ("GAAP") effective January 1, 2011 for publicly accountable enterprises. As such, the Corporation adopted IFRS on April 1, 2011, which is the beginning of the Corporation's fiscal year. However, because the Corporation's comparative financial information for the prior fiscal year (twelve months ended March 31, 2011) must also be prepared in accordance with IFRS, the effective transition date was April 1, 2010. The three months ended June 30, 2011 was the Corporation's first filing of IFRS compliant financial statements.

The Corporation's conversion approach consisted of three phases: 1) Diagnostic, 2) Evaluation and Development, and 3) Implementation. The Corporation has completed all three phases of the conversion project and will continue to monitor any new or proposed changes to IFRS.

IFRS employs a conceptual framework, composed of accounting principles, that is similar to Canadian GAAP. The adoption of IFRS has resulted in changes to the Corporation's reported consolidated statements of financial position and consolidated statements of income and comprehensive income. The transition to IFRS did not have a significant effect on the Corporation's business activities, key performance measures or information systems.

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a) Reconciliation of equity

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at March 31, 2011 and September 30, 2010:

<i>(in thousand of Canadian dollars)</i>	<b>Notes</b>	<b>As at March 31 2011</b>	<b>As at September 30 2010</b>
<b>As reported under Canadian GAAP</b>		\$ 283,619	\$ 270,702
Differences increasing (decreasing) reported amount:			
Restoration provision	<i>(i)</i>	501	237
Property, plant and equipment	<i>(iii)</i>	<u>(1,626)</u>	<u>(1,113)</u>
		<u>(1,125)</u>	<u>(876)</u>
<b>As reported under IFRS</b>		<u>\$ 282,494</u>	<u>\$ 269,826</u>

b) Reconciliation of income and comprehensive income

The following is a reconciliation of the Corporation's income and comprehensive income in accordance with Canadian GAAP to its income and comprehensive income in accordance with IFRS for the three and six months ended September 30, 2010:

<i>(in thousand of Canadian dollars)</i>	<b>Notes</b>	<b>Three months ended September 30 2010</b>	<b>Six months ended September 30 2010</b>
<b>As reported under Canadian GAAP</b>		\$ 14,119	\$ 18,070
Increase (decrease) in reported amount:			
Restoration provision	<i>(i)</i>	(62)	(124)
Share-based payment	<i>(ii)</i>	(777)	(980)
Depreciation	<i>(iii)</i>	(853)	(766)
Income tax expense	<i>(iv)</i>	752	1,175
		<u>(940)</u>	<u>(695)</u>
<b>As reported under IFRS</b>		<u>\$ 13,179</u>	<u>\$ 17,375</u>

c) Explanatory notes

The following explanatory notes describe the adjustments to the Corporation's equity and income and comprehensive income arising from the adoption of IFRS.

*(i) Restoration provision*

IFRS does not have a specific accounting standard for restoration provisions. Under IFRS these provisions are included in IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IFRS is more encompassing in

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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, as at March 31, 2011, the IFRS adjustments include an increase in restoration provision asset of \$1,004 thousand and an increase in the restoration provision liability of \$336 thousand resulting in a net of tax increase in equity of \$501 thousand. As at September 30, 2010, the Corporation recorded an increase in the restoration provision asset and liability of \$1,898 thousand and \$1,584 thousand, respectively, with a corresponding net of tax increase in equity of \$237 thousand. For the three and six months ended September 30, 2010, the Corporation recorded an increase in restoration provision of \$62 thousand and \$124 thousand, correspondingly.

#### *(ii) Share-Based Payment*

Under previous Canadian GAAP, the Corporation expensed stock option awards granted to employees in an amount equal to the fair value of the equity instrument amortized on a straight-line basis over the respective vesting period. IFRS 2 *Share-based Payment* ("IFRS 2") requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS 2 requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has elected the IFRS 1 exemption and has not applied IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before April 1, 2010. The Corporation continues to use the Black-Scholes option pricing model to fair value its equity instruments.

The effect of the change to IFRS resulted in an increase to contributed surplus and a reduction to retained earnings at March 31, 2011 of \$3,087 thousand and at September 30, 2010 of \$1,716 thousand. In addition, the Corporation recorded an increase in share-based payments expense of \$777 thousand and \$980 thousand for the three and six months ended September 30, 2010, respectively.

#### *(iii) Property, plant and equipment*

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were expected from their use. The Corporation recorded the significant parts or components of its PP&E and depreciated them separately, which resulted in a net of tax decrease in equity of \$1,626 thousand as at March 31, 2011 and \$1,113 thousand as at September 30, 2010. For the three and six months ended September 30, 2010, the Corporation increased its depreciation expense by \$500 thousand and \$616 thousand, respectively.

#### *(iv) Income tax expense*

The Corporation recorded the tax impact on the IFRS adjustments for the restoration provision and property, plant and equipment disclosed above, which resulted to a decrease in deferred income tax liabilities of \$376 thousand as at March 31, 2011 and \$293 thousand as at September 30, 2010. For the three and six months ended September 30, 2010, the Corporation recorded a decrease in income tax expense of \$55 and an increase in income tax expense of \$94, respectively.

#### d) Changes to financial statement presentation

At the transition date, the Corporation made changes to the presentation of its financial statements. Below is the summary of the changes to the Corporation's consolidated statements of income and comprehensive income and consolidated statements of financial position.

*Coal royalties* - under Canadian GAAP the Corporation presented the Alberta Coal Royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government

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are considered a resource tax expense as payments to government should be classified in accordance with the substance of the transaction. The Corporation has determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales.

*Cost of sales* - under IFRS, the Corporation must present expenses on the consolidated statement of income by either function or nature. The Corporation has chosen to present expenses by function, as a result, the cost of sales includes cost of product sold, distribution costs and depreciation on its consolidated statements of income and comprehensive income.

*Finance expense* - under IFRS, finance costs include interest expense on finance leases, accretion expense for restoration provisions and other finance expenses. Accretion expense was previously included in depreciation, depletion and accretion while interest expense on finance leases was presented as interest and other expenses.

*Deferred income tax assets and deferred income tax liabilities* - under Canadian GAAP, deferred income tax assets and deferred income tax liabilities were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified its current deferred income tax assets to deferred income tax assets (non-current) and its deferred income tax liabilities (current) to deferred income tax liabilities (non-current).

#### e) Adjustments to the statement of cash flows

The transition from previous Canadian GAAP to IFRS had no significant impact on the statement of cash flows generated by the Corporation except that, under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period. Under Canadian GAAP, cash flows relating to interest payments were classified as an operation activity. The Corporation has elected to reclassify interest expenses on finance leases under financing activities.

The notes to the Corporation's interim consolidated financial statements provide additional details on the key Canadian GAAP to IFRS differences, First-Time Adoption of International Financial Reporting Standards, optional exemptions elected, and the Corporation's accounting policy choices under IFRS.

### **Accounting standards issued but not yet applied**

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20") was issued in October 2011, which sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. It may also require mining entities that has been expensing all production period stripping to begin capitalizing from the date of adoption of the interpretation. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013, earlier application is permitted if disclosed. The Corporation has not yet assessed the impact of the adoption of IFRIC 20 on its financial statements.

IAS 1 *Presentation of items of other comprehensive income* ("IAS 1") was amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. The standard is effective for annual periods beginning on or after July 1, 2012. The Corporation has not yet assessed the impact of the adoption of IAS 1 on its financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9"), as issued reflects the first phase of the IASB's work on the replacement

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of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The Corporation has not yet assessed the impact of the adoption of IFRS 9 on its financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Corporation: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") and IFRS 13, *Fair Value Measurement* ("IFRS 13"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet assessed the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

A brief summary of the new standards is as follows.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation-Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities, Non-Monetary Contributions by Venturers*.

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures.

### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Corporation's CEO and CFO have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial

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reporting and the preparation of financial statements for external purposes in accordance with the IFRS. 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 July 1, 2011 and ended on September 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. No material changes in the Corporation's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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

### Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	Fiscal 2012		Fiscal 2011				Fiscal 2010 (1)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Clean coal production (tonnes)	0.45	0.41	0.39	0.32	0.33	0.37	0.54	0.42
Coal sales (tonnes)	0.45	0.39	0.37	0.29	0.44	0.45	0.43	0.47
Average sales price:								
Metallurgical coal (US\$/tonne)	252	227	192	189	186	154	120	131
All coal products (CDN\$/tonne)	232	203	180	174	185	152	118	134
Cost of product sold (\$/tonne)	110	125	115	114	100	87	116	123
Distribution costs (\$/tonne)	25	27	27	21	27	26	28	30
Depreciation (\$/tonne)	15	15	17	17	15	15	15	9
Revenue (\$)	102.6	79.7	67.3	50.6	81.2	69.0	50.7	62.4
Gross profit (\$)	36.2	14.2	8.4	6.3	18.7	11.0	0.1	5.1
Income (\$)	18.2	7.2	4.4	3.7	13.2	4.2	1.4	4.3
Basic earnings per share (\$)	0.19	0.07	0.04	0.04	0.14	0.04	0.01	0.04
Diluted earnings per share (\$)	0.18	0.07	0.04	0.04	0.13	0.04	0.01	0.04

(1) Fiscal 2010 financial information is presented in accordance with Canadian GAAP as it was not required to be restated to IFRS.

Clean coal production improved quarter over quarter in part due to higher coal release from the No. 7 underground operation. The strip ratio in the No. 8 surface pit increased in the current quarter however the impact on coal mined was partially mitigated by an improvement in the waste movement productivity. Coal sales in the second quarter were higher than the previous quarters increasing 15% over the first quarter of fiscal 2012. The metallurgical coal sales price was significantly higher than previous quarters as price settlements were negotiated during a period of strong market demand. The unit cost of product sold was lower compared to previous quarters, as the Corporation achieved certain productivity improvements and had higher sales volumes during the current quarter.

### Outlook

Recent softening of steel markets has led to an easing in the demand and price for metallurgical coal. As a result, the Corporation is reducing its annual sales volume outlook for fiscal 2012 to approximately 2.0 to 2.2 million tonnes. Achieving the revised sales volumes is contingent upon adequate rail and port services as well as the fulfillment of

## **Grande Cache Coal Corporation**

### **Management's Discussion & Analysis**

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existing contracts and realization of projected spot sales. The Corporation had previously expected annual sales volumes to be on the low end of its anticipated range of 2.2 to 2.4 million tonnes.

Industry benchmark pricing for the quarter beginning October 1, 2011 was settled at US\$285 per tonne for the highest quality coking coal. Grande Cache Coal anticipates that its average metallurgical coal sales price for the third quarter will be in the range of US\$225 to US\$235 per tonne, which includes quarterly contracts, shipments contracted at annual prices and spot sales.

The Corporation currently anticipates that the average unit cash cost of sales will be \$132 to \$137 per tonne during fiscal 2012. The Corporation had previously anticipated the average unit cash cost of sales would be on the high end of its projected range of \$125 to \$130 per tonne. The increase in unit cost is due to the reduction of anticipated annual sales volumes as well as higher strip ratios in No. 8 pit and a lower plant yield.

### **Subsequent Event**

On October 31, 2011, the Corporation entered into a definitive agreement (the "Arrangement Agreement") with 1629835 Alberta Ltd. ("AcquisitionCo") for the purchase of all of the issued and outstanding common shares of the Corporation (the "Common Shares") at a cash price of \$10.00 per Common Share. The transaction is to be completed by way of a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement").

AcquisitionCo, formed for the purpose of completing the Arrangement, is wholly owned by Winsway Coking Coal Holdings Limited ("Winsway") and Marubeni Corporation ("Marubeni"). Winsway is a Hong Kong listed public company and its core business involves the supply of imported coking coal from around the world to the Chinese steel industry. Marubeni is one of the largest trading houses in Japan involved in the handling of products and the provision of services across a broad range of sectors such as metals and mineral resources, transportation machinery, energy related commodities, food, textiles, materials, pulp and paper and chemicals.

The Arrangement is subject to customary conditions for a transaction of this nature, which include court and regulatory approvals, and the approval of 66 2/3% of the votes cast by Grande Cache Coal shareholders represented in person or by proxy at a special meeting of Grande Cache Coal shareholders to be called to consider the Arrangement. The Arrangement also requires majority approval of Winsway's shareholders and the approval of the Hong Kong Stock Exchange. Certain shareholders of Winsway, who beneficially own or exercise control or direction over approximately 51% of the ordinary shares of Winsway, have entered into voting agreements with Grande Cache Coal pursuant to which they have irrevocably agreed to, among other things, vote their Winsway shares in favour of the Arrangement at the extraordinary meeting of Winsway shareholders to be called to consider the Arrangement.

An information circular regarding the Arrangement is expected to be mailed to shareholders of Grande Cache Coal in December 2011 for a special meeting of the holders of Common Shares scheduled to take place in January 2012, with closing expected to occur in February.

The Corporation has agreed in the Arrangement Agreement that it will not solicit or initiate discussions regarding any other business combination or sale of material assets. The Corporation has also granted AcquisitionCo a right to match competing unsolicited proposals. The Arrangement Agreement contains a non-completion fee of \$50 million and a cost reimbursement fee of \$10 million, payable by the Corporation to AcquisitionCo in certain circumstances if the Arrangement is not completed. The Arrangement Agreement also contains a reverse non-completion fee of \$100 million and a cost reimbursement fee of \$10 million, payable by AcquisitionCo to the Corporation in certain circumstances if the Arrangement is not completed.

## Grande Cache Coal Corporation

### Management's Discussion & Analysis

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#### Other Information

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

As at November 7, 2011, there were 98,314,928 common shares issued and outstanding, and the following share options were also outstanding:

<b>Range of Exercise Prices</b>	<b>Share options outstanding</b>	<b>Exercisable share options</b>
\$0.77 - \$1.00	315,002	281,669
\$1.01 - \$5.00	1,767,012	1,500,011
\$5.01 - \$5.95	2,258,338	745,000
	<u>4,340,352</u>	<u>2,526,680</u>

#### Additional Information

Additional information regarding the Corporation and its business operations, including the Corporation's annual information form for the fiscal year ended March 31, 2011, is available on the Corporation's SEDAR company profile at [www.sedar.com](http://www.sedar.com).

**Grande Cache Coal Corporation**  
**Consolidated Statements of Financial Position**  
(Unaudited)

<i>(in thousands of Canadian dollars, as at)</i>	<b>September 30 2011</b>	<b>March 31 2011</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 38,839	\$ 17,136
Restricted cash (note 5)	15,483	12,908
Trade and other receivables (note 6)	12,395	31,287
Inventories (note 7)	48,796	34,244
Prepaid expenses and deposits	1,076	399
	<u>116,589</u>	<u>95,974</u>
<b>Property, plant and equipment</b> (note 8)	<u>358,355</u>	<u>337,240</u>
	<u>\$ 474,944</u>	<u>\$ 433,214</u>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	\$ 34,453	\$ 29,496
Current portion of finance lease obligations (note 11)	16,507	14,447
	<u>50,960</u>	<u>43,943</u>
<b>Restoration provision</b> (note 10)	15,728	14,553
<b>Finance lease obligations</b> (note 11)	61,027	64,390
<b>Deferred income tax liabilities</b> (note 12)	37,171	27,834
	<u>164,886</u>	<u>150,720</u>
<b>Equity</b>		
Share capital (note 13)	199,930	199,810
Contributed surplus	10,614	8,524
Retained earnings	99,514	74,160
	<u>310,058</u>	<u>282,494</u>
	<u>\$ 474,944</u>	<u>\$ 433,214</u>
<b>Commitments</b> (note 14)		
<b>Subsequent event</b> (note 23)		

*The accompanying notes are an integral part of these financial statements.*

**Grande Cache Coal Corporation**  
**Consolidated Statements of Income and Comprehensive Income**  
(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
<i>(in thousands of Canadian dollars, except for per share data)</i>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenue	\$ 102,611	\$ 81,183	\$ 182,342	\$ 150,216
Cost of sales (note 15)	<u>(66,457)</u>	<u>(62,466)</u>	<u>(132,020)</u>	<u>(120,501)</u>
<b>Gross profit</b>	<b>36,154</b>	18,717	<b>50,322</b>	29,715
General and administrative expenses	<b>(4,461)</b>	(3,737)	<b>(8,364)</b>	(6,341)
Other operating income	<u>118</u>	<u>65</u>	<u>236</u>	<u>93</u>
<b>Profit from operations</b>	<b>31,811</b>	15,045	<b>42,194</b>	23,467
Finance income	71	37	129	70
Finance expense (note 16)	<b>(1,178)</b>	(806)	<b>(1,973)</b>	(771)
Foreign exchange (loss) gain	<u>(6,021)</u>	<u>3,988</u>	<u>(5,659)</u>	<u>1,256</u>
<b>Profit before tax</b>	<b>24,683</b>	18,264	<b>34,691</b>	24,022
Income tax expense	<u>(6,485)</u>	<u>(5,085)</u>	<u>(9,337)</u>	<u>(6,647)</u>
<b>Income and comprehensive income</b>	<b>\$ 18,198</b>	<b>\$ 13,179</b>	<b>\$ 25,354</b>	<b>\$ 17,375</b>
 <b>Earnings per share (note 17)</b>				
Basic	\$ 0.19	\$ 0.14	\$ 0.26	\$ 0.18
Diluted	\$ 0.18	\$ 0.13	\$ 0.25	\$ 0.17

*The accompanying notes are an integral part of these consolidated financial statements.*

**Grande Cache Coal Corporation**  
**Consolidated Statements of Changes in Equity**  
(Unaudited)

<i>(in thousands of Canadian dollars)</i>	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance - April 1, 2011</b>	\$ 199,810	\$ 8,524	\$ 74,160	\$ 282,494
Income for the period	-	-	25,354	25,354
Share-based payment expense (note 18)	-	2,143	-	2,143
Shares issued on exercise of options	120	(53)	-	67
<b>Balance - September 30, 2011</b>	<u>\$ 199,930</u>	<u>\$ 10,614</u>	<u>\$ 99,514</u>	<u>\$ 310,058</u>
<b>Balance - April 1, 2010</b>	\$ 196,232	\$ 4,681	\$ 48,746	\$ 249,659
Income for the period	-	-	17,375	17,375
Share-based payment expense (note 18)	-	2,252	-	2,252
Shares issued on exercise of options	924	(384)	-	540
<b>Balance - September 30, 2010</b>	<u>\$ 197,156</u>	<u>\$ 6,549</u>	<u>\$ 66,121</u>	<u>\$ 269,826</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Grande Cache Coal Corporation**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<u>Three months ended</u> <u>September 30</u>		<u>Six months ended</u> <u>September 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<i>(in thousands of Canadian dollars)</i>				
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Income for the period	\$ 18,198	\$ 13,179	\$ 25,354	\$ 17,375
Adjustments for:				
Depreciation (note 15)	6,547	6,570	12,421	13,110
Unrealized foreign exchange loss (gain)	6,728	(3,729)	9,230	1,024
Share-based payment expense (note 18)	747	1,680	2,143	2,252
Finance expense (note 16)	1,178	806	1,973	771
Deferred income tax	6,485	5,085	9,337	6,647
Gain on sale of property, plant and equipment	-	-	(10)	-
Net changes in non-cash working capital (note 19)	962	(12,311)	5,540	(10,919)
Settlement of restoration provision (note 10)	-	(81)	(9)	(81)
<b>Net cash flows from operating activities</b>	<u>40,845</u>	<u>11,199</u>	<u>65,979</u>	<u>30,179</u>
<b>Financing activities</b>				
Proceeds on exercise of options	67	436	67	540
Payment on finance lease obligations	(3,626)	(6,637)	(7,152)	(10,213)
Repayment of capital loan	(20)	-	(39)	-
Interest paid on finance leases and capital loan	(1,137)	(744)	(2,295)	(1,298)
<b>Net cash used in financing activities</b>	<u>(4,716)</u>	<u>(6,945)</u>	<u>(9,419)</u>	<u>(10,971)</u>
<b>Investing activities</b>				
Additions to property, plant and equipment	(17,750)	(21,311)	(34,107)	(52,298)
Proceeds on sale of property, plant and equipment	-	-	88	-
Restricted cash	(2,575)	-	(2,575)	-
<b>Net cash used in investing activities</b>	<u>(20,325)</u>	<u>(21,311)</u>	<u>(36,594)</u>	<u>(52,298)</u>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<u>1,911</u>	<u>(226)</u>	<u>1,737</u>	<u>531</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	17,715	(17,283)	21,703	(32,559)
Cash and cash equivalents, beginning of period	<u>21,124</u>	<u>72,160</u>	<u>17,136</u>	<u>87,436</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 38,839</u>	<u>\$ 54,877</u>	<u>\$ 38,839</u>	<u>\$ 54,877</u>

*The accompanying notes are an integral part of these consolidated financial statements*

**Grande Cache Coal Corporation**  
**Notes to the Consolidated Financial Statements**  
(Unaudited)  
*(in thousands of Canadian dollars, except per share data)*

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**1. Corporate information**

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

The Corporation is a public company which is listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada. The Corporation's head office is located in Calgary, Alberta, Canada.

**2. Basis of preparation and First-time adoption of IFRS**

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation is reporting on this basis in these condensed interim consolidated financial statements. In these condensed interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of condensed interim consolidated financial statements, including IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). Subject to certain transition elections disclosed in note 22, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at April 1, 2010 ("transition date") and throughout all periods presented, as if these policies had always been in effect. Note 22 discloses the impact of the transition to IFRS on the Corporation's reported consolidated statements of financial position, statements of income and comprehensive income and statements of cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's consolidated financial statements for the fiscal year ended March 31, 2011. Comparative figures for fiscal 2011 in these financial statements have been restated to give effect to these changes.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as at November 7, 2011, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS, that are given effect in the Corporation's annual consolidated financial statements for the fiscal year ending March 31, 2012 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual financial statements for the fiscal year ended March 31, 2011. Note 22 discloses IFRS information for the year ended March 31, 2011 that is material to an understanding of these condensed interim consolidated financial statements.

**3. Summary of significant accounting policies**

**Basis of measurement**

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain risk management contracts and the restoration provision. The risk management contracts are measured at fair value and the restoration provisions are discounted using a risk-free interest rate.

**Grande Cache Coal Corporation**  
**Notes to the Consolidated Financial Statements**  
(Unaudited)  
*(in thousands of Canadian dollars, except per share data)*

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**Basis of consolidation**

The condensed interim consolidated financial statements comprise the financial statements of the Corporation and its inactive wholly-owned subsidiary, Smoky River International Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which the Corporation controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are de-consolidated from the date that control ceases.

**Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the Corporation operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

**Cash and cash equivalents**

Cash and cash equivalents consist of amounts on deposit with banks and other highly liquid investments with a maturity at the time of purchase of three months or less.

**Restricted cash**

Restricted cash consists of cash set aside as security for letters of credit.

**Trade and other receivables**

Trade receivables are amounts due from customers for coal sold in the ordinary course of business. Other receivables consist primarily of goods and services tax receivable and unrealized gains on foreign exchange forward contracts. Collection is expected in one year or less, therefore they are classified as current assets.

**Inventories**

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. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

**Grande Cache Coal Corporation**  
**Notes to the Consolidated Financial Statements**  
(Unaudited)  
*(in thousands of Canadian dollars, except per share data)*

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**Exploration and evaluation expenditures**

Exploration and evaluation expenditures include researching and analyzing historic exploration data, conducting topographical, geological, geochemical and geophysical studies as well as exploratory drilling, trenching and sampling. In addition, costs incurred to prove the technical feasibility and commercial viability of resources found are included.

Exploration and evaluation expenditures incurred in areas without an existing mine or in areas outside the boundary of known mineral deposits are expensed as incurred.

Exploration and evaluation expenditures are capitalized when the activity occurs within an area of interest where it is considered likely to be recoverable by future exploitation or sale of resources. Capitalized exploration and evaluation expenditures are initially measured at historical cost and are subsequently measured at cost less accumulated impairment losses. Exploration and evaluation assets are assessed for impairment as part of the Corporation's cash generating unit as described below in 'Impairment of non-financial assets'. No depreciation is charged to assets during the exploration and evaluation phase.

Once the technical feasibility and commercial viability of the extraction of proven and probable mineral reserves in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and reclassified to 'Mineral assets' within property, plant and equipment.

**Property, plant and equipment**

Property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

Where an item of property, plant and equipment comprises significant parts with useful lives that are significantly different from that of the asset as a whole, the parts are accounted for as separate items of property, plant and equipment and depreciated accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognizing an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of income or loss.

Expenditures incurred that renew or refurbish plant and equipment to extend its useful life or increase its productive capacity are capitalized when it is determined that a future benefit will flow to the Corporation as a result of the renewal or reconditioning expenditures. Repairs that do not extend an asset's useful life or productive capacity are expensed in the period in which they are incurred.

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in income or loss on a straight-line basis over the estimated useful lives of each significant part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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The estimated useful lives for each of the classes of property, plant and equipment are as follows:

- Land not depreciated
- Buildings 10 to 20 years
- Equipment and machinery 3 to 20 years
- Furniture and fixtures 3 to 10 years
- Computer equipment 2 to 5 years
- Mineral assets unit of production based on proven and probable reserves

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

***Mineral assets***

**(i) Mines under construction**

Expenditures directly attributable to the development and construction of mineral assets, including amounts transferred from exploration and evaluation assets, are capitalized when the expenditures will provide a future benefit to the Corporation. Stripping costs incurred to remove overburden and other mine waste materials during the initial development phase of a mining area are capitalized. Borrowing costs and depreciation of plant and equipment used in the development of a mine are capitalized. No depreciation is charged to mineral assets during the development and construction phase.

**(ii) Producing mines**

Mining areas generally become producing mines when they are available for their intended use. Management considers various relevant criteria to assess when a mining area is ready for its intended use and is considered to be in the production phase. When a mine development project moves into the production stage, the capitalization of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalization relating to mining asset additions and improvements or mineable reserve development. Mineral assets in the production phase are depreciated based on proven and probable reserves using the unit of production method.

**Impairment of non-financial assets**

The Corporation assesses at each reporting date whether there is an indication that an asset or a cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash flows largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the consolidated statement of income or loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information

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available to reflect the amount the Corporation could receive for the cash generating unit in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Impairment losses are reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized.

**Accounts payable and accrued liabilities**

Trade payables are obligations to pay for goods and services that have been acquired during the normal course of business from suppliers. Accounts payable and accrued liabilities are classified as current liabilities if payment is due within one year.

**Provisions**

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, the amount can be reliably estimated and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects the current market assessment of risks specific to the liability and the time value of money. The unwinding of the discount is recognized as a finance cost.

***Restoration provision***

The Corporation's operations give rise to decommissioning, restoration and rehabilitation activities. Environmental costs arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The net present value of future restoration cost estimates arising from the decommissioning, restoration and rehabilitation is capitalized to mineral assets with a corresponding increase in the restoration provision in the period incurred. Discount rates using a risk-free rate that reflect the time value of money are used to calculate the net present value. The capitalized restoration costs are charged against income and loss over the economic life of the related asset, through depreciation on a unit of production method. The restoration provision is accreted to net present value each reporting period with the unwinding of the restoration provision being charged to finance expense in the consolidated statement of income. Actual costs incurred to settle the site restoration obligation are charged against the provision. Any difference between the actual costs incurred and the provision is recognized as a gain or loss in the consolidated statement of income in the period in which the settlement occurs.

The Corporation's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mineral assets with a corresponding entry to the restoration provision.

**Leases**

Leases where the Corporation assumes substantially all the risks and rewards of ownership are accounted for as finance leases. Finance leases are capitalized within property, plant and equipment at the commencement of the lease with an offsetting lease liability. The value of the leased asset is established as the lesser of its fair value at inception and the present value of the minimum lease payments. Lease payments are allocated between finance expenses and a reduction of the lease liability to achieve a constant periodic rate of interest on the financed balance outstanding. Finance expenses are charged against income or loss in the period they are incurred. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term, in which case the asset will be depreciated over its useful life.

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Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Payments made under operating leases are charged directly against income or loss on a straight-line basis over the respective lease term.

**Financial instruments**

Financial assets and liabilities are recognized when the Corporation becomes a party to a contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

At initial recognition, the Corporation classifies its financial instruments into the following categories depending on the purpose for which the instruments were acquired:

- (i) *Financial assets and liabilities at fair value through income or loss* are financial instruments acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are measured at fair value and subsequent changes are recognized in income or loss. Upon initial recognition, attributable transaction costs are recognized in income or loss as incurred.
- (ii) *Held-to-maturity investments* are non-derivative financial instruments with fixed payments and maturity for which the Corporation has the intention and ability to hold to maturity. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses.
- (iii) *Loans and receivables* are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Such instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.
- (iv) *Available-for-sale financial assets* are non-derivative financial instruments that are either designated in this category or are not designated in any of the preceding three categories. These financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss.
- (v) *Financial liabilities measured at amortized cost* are all other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

***Derivative financial instruments***

The Corporation may enter into certain derivative financial instruments to hedge its foreign currency risk. These derivative financial instruments are not used for trading or speculative purposes. The Corporation has not designated its derivative contracts as effective accounting hedges, and therefore not applied hedge accounting. All financial derivative contracts are classified as fair value through income and loss and recorded on the consolidated statement of financial position at fair value.

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***Impairment of financial assets***

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in income or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in income or loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in income or loss, is transferred from equity to income or loss.

**Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from share capital, net of any tax effects.

**Revenue**

Sales revenues are recognized when the risks and rewards of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable. These criteria are generally met at the time the product is delivered to the customer and, depending on delivery conditions, title and risk have passed to the customer. Seaborne coal sales revenue is generally recognized when the coal is loaded on to the vessel at the port. Direct sales revenue is generally recognized when coal is either loaded onto a truck or train or when it is unloaded at the final destination, depending on the terms of the contract.

Revenue is measured at the price specified in the sales contract, net of any penalties. Sales revenue excludes any applicable sales taxes.

**Cost of sales**

**(i) Cost of product sold**

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

**(ii) Distribution costs**

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

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**(iii) Depreciation**

Depreciation on property, plant and equipment allocate the cost of capital assets over their expected useful lives.

**Share-based payment**

The Corporation operates an equity-settled, share-based compensation plan, under which outstanding stock options of the Corporation granted prior to August 17, 2010 are governed. The Board of Directors of the Corporation granted stock options to certain employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The maximum number of shares authorized for option grants is limited to 10% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security based compensation arrangements. Stock options generally vest over three years and expire after five years.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

The exercise price for each option is the closing price for the Corporation's shares on the last trading day before the date of grant. When options are exercised, the Corporation issues new shares and the proceeds received, net of any transaction costs, together with the amount previously recognized in contributed surplus are credited to share capital.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

**Finance income and finance expense**

Finance income comprises interest income on funds invested and restricted cash.

Finance expenses comprise interest expense on borrowings, accretion on the restoration provision, and any impairment losses recognized on financial assets. Borrowing costs that relate to the acquisition, construction or development of a qualifying asset are capitalized up to the date the asset is ready for its intended use.

**Taxes**

**(i) Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the consolidated statement of financial position date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**(ii) Deferred income tax**

Deferred income tax is provided using the balance sheet method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences as well as unused tax losses and

## **Grande Cache Coal Corporation**

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tax credits carried forward from prior years. The carrying amount of deferred income tax assets is reviewed each period and is recognized only to the extent that sufficient taxable income will be available in the future for the assets to be utilized.

Tax on income in interim periods has been accrued using the tax rate that would be applicable to anticipated total annual income.

#### **Earnings per share**

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the income for the period attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding, for the effects of all potentially dilutive instruments, which may comprise share options granted to employees, convertible debentures, warrants and similar instruments.

#### **Accounting standards issued but not yet applied**

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20") was issued in October 2011, which sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. It may also require mining entities that has been expensing all production period stripping to begin capitalizing from the date of adoption of the interpretation. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013, earlier application is permitted if disclosed. The Corporation has not yet assessed the impact of the adoption of IFRIC 20 on its financial statements.

IAS 1 *Presentation of items of other comprehensive income* ("IAS 1") was amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. The standard is effective for annual periods beginning on or after July 1, 2012. The Corporation has not yet assessed the impact of the adoption of IAS 1 on its financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9"), as issued reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The Corporation has not yet assessed the impact of the adoption of IFRS 9 on its financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Corporation: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") and IFRS 13, *Fair Value Measurement* ("IFRS 13"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet assessed the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

A brief summary of the new standards is as follows:

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation-Special*

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*Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.*

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities, Non-Monetary Contributions by Venturers*.

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures.

#### **4. Significant accounting estimates, judgments and assumptions**

Preparation of the Corporation's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates should different assumptions and conditions arise.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

**(i) Property, plant and equipment**

Depreciation of property, plant and equipment is based on the expected useful lives at the time of acquisition. Management estimates the useful lives of property, plant and equipment based on the benefit that is expected to be derived from their use. Changes in the intended use of property, plant and equipment or changes in economic circumstances beyond management's control may impact the carrying value of property, plant and equipment. Management reviews the useful life, carrying value and residual value of property, plant and equipment at each reporting date. Changes to these estimates are accounted for prospectively.

**(ii) Mineral reserves and resources estimates**

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Corporation's mining properties. The Corporation estimates its coal reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, property, plant and

# Grande Cache Coal Corporation

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equipment, restoration provision and depreciation charges.

**(iii) Unit-of-production depreciation**

Estimated recoverable reserves are used in determining the depreciation of mineral assets. This results in a depreciation charge that is proportional to the depletion of the anticipated remaining life of mine production. Each asset's life, which is assessed annually, considers its physical life limitations and the present assessments of economically recoverable reserves of the mine property to which the asset relates. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditures. Changes are accounted for prospectively.

**(iv) Mine decommissioning and restoration**

The Corporation assesses its decommissioning and restoration liability associated with its mining properties annually. Significant estimates and assumptions are made in determining the provision for mine restoration as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of restoration activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the statement of financial position date represents management's best estimate of the present value of the future restoration costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the restoration asset and liability. Refer to note 9 for details of the restoration provision balance.

**(v) Production start date**

The Corporation assesses the stage of each mining area under construction to determine when a mining area moves into the production stage being when the mining area is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project. The Corporation considers various relevant criteria to assess when the production phase is considered to commence. Some of the criteria used will include, but are not limited to, the ability to produce coal in saleable form (within specifications) and the ability to sustain ongoing production of coal.

**(vi) Inventories**

Net realizable value tests are performed at least annually and represent the estimated future coal sales price based on prevailing coal prices at the reporting date, less estimated production costs and distribution costs. In addition, the Corporation assesses various factors that influence the inventory valuation including depreciation rates and future foreign exchange rates.

Stockpile tonnages are verified by periodic survey.

**(vii) Impairment of assets**

The Corporation's assessment of impairment requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value.

**(viii) Income tax**

Considerable judgment is required in determining the Corporation's liability for income tax. The Corporation recognizes liabilities for anticipated income tax audit issues based on estimates of whether

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additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**5. Restricted cash**

	As at September 30 2011	As at March 31 2011
Cash secured letters of credit - Alberta Government	\$ 15,283	\$ 12,708
Cash secured letters of credit - Service providers	200	200
	<u>\$ 15,483</u>	<u>\$ 12,908</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.

**6. Trade and other receivables**

	As at September 30 2011	As at March 31 2011
Trade accounts receivable	\$ 11,069	\$ 27,131
Goods and services tax receivable	911	285
Unrealized gain on foreign exchange forward contracts	-	2,857
Other	415	1,014
	<u>\$ 12,395</u>	<u>\$ 31,287</u>

Trade receivables are non-interest bearing and are generally on less than 30 days terms. At September 30, 2011, none of the trade receivables were past due or deemed impaired.

**7. Inventories**

	As at September 30 2011	As at March 31 2011
Coal inventory	\$ 40,144	\$ 27,628
Materials inventory	8,652	6,616
	<u>\$ 48,796</u>	<u>\$ 34,244</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

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including depreciation.

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value. The Corporation maintains an inventory of parts and supplies for day to day maintenance and operations. For the three and six months ended September 30, 2011, parts and supplies inventories of \$1,898 and \$4,325, respectively, were expensed to cost of product sold, compared to \$2,294 and \$4,683 in the same periods of last fiscal year.

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

**8. Property, plant and equipment**

	<b>As at September 30, 2011</b>			
	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Mineral assets</b>	<b>Total</b>
<b>Cost</b>				
Balance, beginning of the period	\$ 15,792	\$ 293,903	\$ 106,645	\$ 416,340
Additions	3,440	5,495	27,894	36,829
Disposals	-	(1,283)	-	(1,283)
Balance, end of the period	<u>\$ 19,232</u>	<u>\$ 298,115</u>	<u>\$ 134,539</u>	<u>\$ 451,886</u>
<b>Accumulated depreciation</b>				
Balance, beginning of the period	\$ (2,291)	\$ (47,593)	\$ (29,216)	\$ (79,100)
Depreciation	(494)	(12,577)	(2,568)	(15,639)
Disposals	-	1,208	-	1,208
Balance, end of the period	<u>\$ (2,785)</u>	<u>\$ (58,962)</u>	<u>\$ (31,784)</u>	<u>\$ (93,531)</u>
<b>Net book value</b>	<u>\$ 16,447</u>	<u>\$ 239,153</u>	<u>\$ 102,755</u>	<u>\$ 358,355</u>
	<b>As at March 31, 2011</b>			
	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Mineral assets</b>	<b>Total</b>
<b>Cost</b>				
Balance, beginning of the year	\$ 11,439	\$ 166,145	\$ 53,068	\$ 230,652
Additions	4,353	127,758	53,577	185,688
Balance, end of the year	<u>\$ 15,792</u>	<u>\$ 293,903</u>	<u>\$ 106,645</u>	<u>\$ 416,340</u>
<b>Accumulated depreciation</b>				
Balance, beginning of the year	\$ (1,377)	\$ (26,236)	\$ (22,582)	\$ (50,195)
Depreciation	(914)	(21,357)	(6,634)	(28,905)
Balance, end of the year	<u>\$ (2,291)</u>	<u>\$ (47,593)</u>	<u>\$ (29,216)</u>	<u>\$ (79,100)</u>
<b>Net book value</b>	<u>\$ 13,501</u>	<u>\$ 246,310</u>	<u>\$ 77,429</u>	<u>\$ 337,240</u>

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During fiscal 2012 year to date, the Corporation capitalized interest expense of \$455 incurred from mining equipment under finance lease agreements, which were directly used in the development of No. 8 pit. In addition, the Corporation capitalized depreciation expenses of \$1,441 and \$230 on mining equipment that was directly used in the development of No. 8 surface pit and No. 12 South B2 underground operations, respectively.

During fiscal 2011, the Corporation capitalized interest expense of \$1,529 incurred from mining equipment under finance lease agreements, which were directly used in the development of No. 8 surface mine. In addition, the Corporation capitalized depreciation expenses of \$5,484 on mining equipment that was directly used in the development of the No. 8 surface pit.

**9. Accounts payable and accrued liabilities**

	As at September 30 2011	As at March 31 2011
Trade payables	\$ 13,858	\$ 15,189
Accrued expenses	14,991	11,907
Accrued foreign exchange forward contracts	3,243	-
Capital loan	<u>2,361</u>	<u>2,400</u>
	<u>\$ 34,453</u>	<u>\$ 29,496</u>

Trade payables are non-interest bearing and are normally settled on 30-day terms.

The capital loan was utilized 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. Restoration provision**

At September 30, 2011, the Corporation estimated the net present value of its restoration provision to be \$15,728, based on a total future liability of \$20,058. The Corporation's discount rates range from 1.6% to 3.5% depending on the term of estimated years to reclamation.

The following table reconciles the Corporation's restoration provision:

Balance – March 31, 2010	\$ 9,871
Additions	4,399
Change in estimates	169
Settlement of liability	(135)
Accretion	<u>249</u>
Balance – March 31, 2011	\$ 14,553
Additions	27
Change in estimates	1,024
Settlement of liability	(9)
Accretion	<u>133</u>
Balance – September 30, 2011	<u>\$ 15,728</u>

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**11. Finance lease obligations**

The Corporation has certain mining equipment under finance lease agreements. The finance leases for the mining equipment are denominated in US dollars and bear interest at rates ranging from 0.9% to 6.7% per annum. These finance leases mature between 2012 and 2017, are secured by the related assets and are repayable by blended monthly payments of principal and interest.

The following table summarizes the Corporation's finance lease obligations:

Balance – March 31, 2010	\$	34,259
Fair value of initial finance leases		70,258
Payments made during the period		(24,949)
Interest portion of payments		3,110
Foreign exchange adjustment to US dollar obligation		(3,841)
Balance – March 31, 2011		78,837
Payments made during the period		(9,396)
Interest portion of payments		2,244
Foreign exchange adjustment to US dollar obligation		5,849
Balance – September 30, 2011		77,534
Current portion of finance lease obligations		(16,507)
Long term portion of finance lease obligations	\$	<u>61,027</u>

Future minimum payments under finance leases consist of the following:

	<b>As at September 30 2011</b>	<b>As at March 31 2011</b>
Within one year	\$ 20,594	\$ 18,658
After one year but not more than five years	66,482	70,115
More than five years	1,050	2,074
Total minimum lease payments	88,126	90,847
Amounts representing interest	(10,592)	(12,010)
Present value of minimum lease payments	77,534	78,837
Current portion of finance lease obligations	(16,507)	(14,447)
Long term portion of finance lease obligations	\$ <u>61,027</u>	\$ <u>64,390</u>

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**12. Income taxes**

At September 30, 2011, the Corporation had a deferred income tax liability of \$37,171. The components of the deferred income tax liabilities are as follows:

	<b>As at September 30 2011</b>	<b>As at March 31 2011</b>
Temporary differences related to:		
Buildings, equipment and mineral asset costs	\$ 43,119	\$ 31,861
Restoration provision	(3,932)	(3,638)
Finance lease obligation	(401)	(224)
Other	(1,615)	(165)
Deferred income tax liabilities	<u>\$ 37,171</u>	<u>\$ 27,834</u>

**13. Share capital**

Authorized

Unlimited common shares  
Unlimited preferred shares, issuable in series

Issued

Common shares	<b>Number (000's)</b>	<b>Stated Value</b>
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	98,300	199,810
Shares issued on exercise of options	<u>15</u>	<u>120</u>
Balance – September 30, 2011	<u>98,315</u>	<u>\$ 199,930</u>

During the second quarter of fiscal 2012, 15 thousand common share options were exercised for cash proceeds of \$67. On exercise of these common share options, \$53 was credited to share capital from contributed surplus.

There were no changes in share capital during the first quarter of fiscal 2012.

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.

**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, and office space.

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Under contracts existing at September 30, 2011, future minimum amounts payable under these agreements for each fiscal year are summarized below:

2012	\$	446
2013	\$	836
2014	\$	693
2015	\$	582
2016 and thereafter	\$	514

**15. Cost of sales**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Cost of product sold	\$ 48,926	\$ 43,921	\$ 98,127	\$ 83,435
Distribution costs	10,984	11,975	21,472	23,956
Depreciation	6,547	6,570	12,421	13,110
	<u>\$ 66,457</u>	<u>\$ 62,466</u>	<u>\$ 132,020</u>	<u>\$ 120,501</u>

**16. Finance expense**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Interest expense	\$ 1,136	\$ 744	\$ 2,295	\$ 1,298
Accretion on restoration provision	42	62	133	124
Less interest capitalized	-	-	(455)	(651)
	<u>\$ 1,178</u>	<u>\$ 806</u>	<u>\$ 1,973</u>	<u>\$ 771</u>

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**17. Earnings per share**

The following table reconciles the denominators for basic and diluted earnings per share calculations. The treasury stock method is used to determine the dilutive effect of outstanding options to purchase common shares.

<i>(thousands, except per share data)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Weighted average shares outstanding – basic	98,309	97,139	98,305	97,067
Dilutive effect of share options	2,316	2,433	2,451	2,629
Weighted average shares outstanding – diluted	100,625	99,572	100,756	99,696
Income for the period	\$ 18,198	\$ 13,179	\$ 25,354	\$ 17,375
Basic earnings per share	\$ 0.19	\$ 0.14	\$ 0.26	\$ 0.18
Diluted earnings per share	\$ 0.18	\$ 0.13	\$ 0.25	\$ 0.17

**18. Share-based payment**

The Corporation has a share option plan pursuant to which outstanding share options of the Corporation granted prior to August 17, 2010 are governed. The options have a five year term and are subject to a three year vesting period. Total share-based payment expense included in general and administrative expenses for the three and six months ended September 30, 2011 were \$747 and \$2,143, respectively, compared to \$1,680 and \$2,252 in the same periods of last fiscal year.

There were no share options granted during fiscal 2012.

During the first quarter of fiscal 2011, the Corporation granted share options to purchase 2,145 thousand common shares 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. The weighted average fair value of these share options was estimated at \$4.61 per share option at the grant date using the Black-Scholes option pricing model. The option valuations were based on an average expected option life of five years, a risk-free interest rate of 2.17%, a dividend yield of 0%, a forfeiture rate of 5% and an average expected volatility of 149%.

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Details of the common share options outstanding are as follows:

	Common Shares	
	Number of Options (000's)	Weighted Average Exercise Price
Outstanding - March 31, 2010	3,717	\$ 1.51
Granted	2,145	5.61
Forfeited	(148)	2.64
Exercised	(1,325)	1.54
Outstanding - March 31, 2011	4,389	\$ 3.46
Forfeited	(34)	3.77
Exercised	(15)	4.48
Outstanding - September 30, 2011	4,340	\$ 3.46

Details of the common share options outstanding and exercisable at September 30, 2011 are as follows:

Range of exercise prices	Outstanding share options ( 000's)	Weighted-average remaining contractual life (months)	Weighted- average exercise price	Exercisable share options ( 000's)	Exercisable weighted-average exercise price
\$0.77 – \$1.00	315	20	\$ 0.85	282	\$ 0.85
\$1.01 – \$5.00	1,767	21	1.16	1,500	1.19
\$5.01 – \$5.95	2,258	43	5.62	745	5.63
	4,340	31	\$ 3.46	2,527	\$ 2.46

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 September 30, 2011, the Corporation has not awarded any RSUs pursuant to the RSU Plan.

**19. Net changes in non-cash working capital**

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Trade and other receivables	\$ 5,814	\$ (14,032)	\$ 17,008	\$ (10,268)
Inventories	(10,494)	7,093	(13,005)	12,090
Prepaid expenses and deposits	1,175	(279)	(677)	(8,397)
Accounts payable and accrued liabilities	4,467	(5,093)	2,214	(4,344)
	\$ 962	\$ (12,311)	\$ 5,540	\$ (10,919)

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**20. 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 statement of financial position, consists of cash and cash equivalents, finance leases and shareholders' equity. The Corporation also has an unused operating credit facility and the ability to enter into foreign exchange hedging arrangements.

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

For the operating credit facility, the Corporation is subject to certain borrowing covenants that are monitored on a monthly basis. For the period ended September 30, 2011, the Corporation was in compliance with externally imposed requirements on its capital, including debt covenants and credit facilities.

**21. Financial instruments and risks management**

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

<b>Financial instrument</b>	<b>Classification</b>
Cash and cash equivalents	Loans and receivables
Restricted cash	Loans and receivables
Foreign exchange forward contracts	Financial assets at fair value through income or loss
Trade accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Finance 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 September 30, 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 statement of financial position 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:

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- 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:

	<b>As at September 30, 2011</b>			
<i>(thousands of Canadian dollars)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial liability</b>				
Foreign exchange forward contracts	-	3,243	-	3,243
	<b>As at March 31, 2011</b>			
<i>(thousands of Canadian dollars)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial asset</b>				
Foreign exchange forward contracts	-	2,857	-	2,857

**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 Corporation's Board of Directors.

**Credit Risk**

Grande Cache Coal carries a balance of cash and cash equivalents as disclosed on the statement of financial position at September 30, 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 statement of financial position at September 30, 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 restoration.

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.

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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 \$29,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at September 30, 2011 was nil. However, availability on the credit facility was reduced by approximately \$15,572 due to the Corporation entering into foreign exchange forward contracts. At September 30, 2011, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

<i>(thousands of Canadian dollars)</i>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Accounts payable and accrued liabilities	34,453	-	-	-
Operating leases	864	1,402	571	235
Finance leases	20,594	37,916	28,566	1,050
	<u>55,911</u>	<u>39,318</u>	<u>29,137</u>	<u>1,285</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 September 30, 2011, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$99, which would have been charged to income in the current period.

The Corporation has US dollar denominated finance lease obligations. At September 30, 2011, the outstanding commitment on the finance lease obligations was US\$73,968. Based on this balance, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$740, 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 finance 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 March 2012. At September 30, 2011, the Corporation had outstanding contracts to sell a total of US\$60,000 at an average rate of Canadian dollars 0.996 to the US dollar. At September 30, 2011, these contracts were marked to market resulting in an unrealized foreign exchange loss of \$3,242 that was recognized in the consolidated statement of income and has been classified on the balance sheet as an accrued liability. A decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease in the accrued liability of \$600, which would have been charged to income in the current period. Significant fluctuations in the US/Canadian dollar exchange rate could materially

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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 September 30, 2011.

**22. First time adoption of IFRS**

**(i) Transition elections**

IFRS 1 requires full retrospective application of IFRS at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions available under IFRS 1 are applied. The Corporation has elected to take the following IFRS 1 exemptions:

- IFRS 2 *Share-based Payment* has not been applied to any equity instruments granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before the transition date.
- The Corporation has elected to apply the exemption from full retrospective application of decommissioning and restoration provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Asset* ("IAS 37") and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. As a result, the Corporation has re-measured its asset retirement obligation as at April 1, 2010 in accordance with IAS 37 and re-measured the asset retirement cost included in property, plant and equipment by estimating the amount that would have been included in the cost of the related asset at the time the liability first arose, discounting the liability to date using the best estimate of the historical risk-free discount rate and calculating the accumulated depreciation on that amount up to the date of transition to IFRS.

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**(ii) Reconciliation of equity**

The Corporation's equity in accordance with Canadian GAAP has been reconciled to IFRS as follows:

	Notes	As at March 31, 2011			As at September 30, 2010		
		Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents		\$ 17,136	\$ -	\$ 17,136	\$ 54,878	\$ -	\$ 54,878
Restricted cash		12,908	-	12,908	13,499	-	13,499
Trade and other receivables		31,287	-	31,287	21,292	-	21,292
Inventories		34,244	-	34,244	20,627	-	20,627
Prepaid expenses and deposits		399	-	399	17,511	-	17,511
		<u>95,974</u>		<u>95,974</u>	<u>127,807</u>		<u>127,807</u>
Property, plant and equipment	a, c	<u>338,405</u>	<u>(1,165)</u>	<u>337,240</u>	<u>251,677</u>	<u>415</u>	<u>252,092</u>
		<u>\$ 434,379</u>	<u>\$ (1,165)</u>	<u>\$ 433,214</u>	<u>\$ 379,484</u>	<u>\$ 415</u>	<u>\$ 379,899</u>
<b>Liabilities and equity</b>							
<b>Current liabilities</b>							
Accounts payable and accrued liabilities		\$ 29,496	\$ -	\$ 29,496	\$ 21,423	\$ -	\$ 21,423
Deferred income tax liabilities	d	891	(891)	-	314	(314)	-
Current portion of finance lease obligations		14,447	-	14,447	9,665	-	9,665
		<u>44,834</u>	<u>(891)</u>	<u>43,943</u>	<u>31,402</u>	<u>(314)</u>	<u>31,088</u>
Restoration provision	a	14,217	336	14,553	11,971	1,584	13,555
Finance lease obligations		64,390	-	64,390	41,300	-	41,300
Deferred income tax liabilities	d	27,319	515	27,834	24,109	21	24,130
		<u>150,760</u>	<u>(40)</u>	<u>150,720</u>	<u>108,782</u>	<u>1,291</u>	<u>110,073</u>
<b>Equity</b>							
Share capital		199,810	-	199,810	197,156	-	197,156
Contributed surplus	b	5,437	3,087	8,524	4,833	1,716	6,549
Retained earnings		78,372	(4,212)	74,160	68,713	(2,592)	66,121
		<u>283,619</u>	<u>(1,125)</u>	<u>282,494</u>	<u>270,702</u>	<u>(876)</u>	<u>269,826</u>
		<u>\$ 434,379</u>	<u>\$ (1,165)</u>	<u>\$ 433,214</u>	<u>\$ 379,484</u>	<u>\$ 415</u>	<u>\$ 379,899</u>

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<i>(in thousand of Canadian dollars)</i>	<b>Notes</b>	<b>As at March 31 2011</b>	<b>As at September 30 2010</b>
<b>As reported under Canadian GAAP</b>		\$ 283,619	\$ 270,702
Differences increasing (decreasing) reported amount:			
Restoration provision	a	501	237
Property, plant and equipment	c	<u>(1,626)</u>	<u>(1,113)</u>
		<u>(1,125)</u>	<u>(876)</u>
<b>As reported under IFRS</b>		<u>\$ 282,494</u>	<u>\$ 269,826</u>

**(iii) Reconciliation of income and comprehensive income**

The Corporation's statements of income and comprehensive income under Canadian GAAP have been reconciled to IFRS as follows:

	<b>Notes</b>	<b>Three months ended September 30, 2010</b>			<b>Six months ended September 30, 2010</b>		
		<b>Cdn GAAP</b>	<b>Adj</b>	<b>IFRS</b>	<b>Cdn GAAP</b>	<b>Adj</b>	<b>IFRS</b>
Revenues		\$ 81,183	\$	\$ 81,183	\$ 150,216	\$	\$ 150,216
Cost of sales	c, e, f, g	<u>(61,613)</u>	<u>(853)</u>	<u>(62,466)</u>	<u>(119,735)</u>	<u>(766)</u>	<u>(120,501)</u>
<b>Gross profit</b>		19,570	(853)	18,717	30,481	(766)	29,715
General and administrative expenses	b	(2,960)	(777)	(3,737)	(5,361)	(980)	(6,341)
Other income		<u>65</u>	<u></u>	<u>65</u>	<u>93</u>	<u></u>	<u>93</u>
<b>Operating profit</b>		16,675	(1,630)	15,045	25,213	(1,746)	23,467
Finance income		37		37	70		70
Finance expense	a, g	(744)	(62)	(806)	(647)	(124)	(771)
Foreign exchange gain		<u>3,988</u>	<u></u>	<u>3,988</u>	<u>1,256</u>	<u></u>	<u>1,256</u>
<b>Profit before taxes</b>		19,956	(1,692)	18,264	25,892	(1,870)	24,022
Income tax expense	d, e	<u>(5,837)</u>	<u>752</u>	<u>(5,085)</u>	<u>(7,822)</u>	<u>1,175</u>	<u>(6,647)</u>
<b>Income and comprehensive income</b>		<u>\$ 14,119</u>	<u>\$ (940)</u>	<u>\$ 13,179</u>	<u>\$ 18,070</u>	<u>\$ (695)</u>	<u>\$ 17,375</u>

## Grande Cache Coal Corporation

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#### (iv) Explanatory notes

The following explanatory notes describe the adjustments and reclassification to the consolidated statements of financial position and statements of income and comprehensive income arising from the adoption of IFRS.

##### a) Restoration provision

IFRS does not have a specific accounting standard for 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, as at March 31, 2011, the IFRS adjustments include an increase in restoration provision asset of \$1,004 and an increase in the restoration provision liability of \$336 resulting in a net of tax increase in equity of \$501. As at September 30, 2010, the Corporation recorded an increase in the restoration provision asset and liability of \$1,898 and \$1,584, respectively, with a corresponding net of tax increase in equity of \$237. For the three and six months ended September 30, 2010, the Corporation recorded an increase in restoration provision of \$62 and \$124, correspondingly.

##### b) Share-based payment

Under previous Canadian GAAP, the Corporation expensed share option awards granted to employees in an amount equal to the fair value of the equity instrument amortized on a straight-line basis over the respective vesting period. IFRS 2 *Share-based Payment* ("IFRS 2") requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS 2 requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has elected the IFRS 1 exemption and has not applied IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before April 1, 2010. The Corporation continues to use the Black-Scholes option pricing model to fair value its equity instruments.

The effect of the change to IFRS resulted in an increase to contributed surplus and a reduction to retained earnings at March 31, 2011 of \$3,087 and at September 30, 2010 of \$1,716. In addition, the Corporation recorded an increase in share-based payments expense of \$777 and \$980 for the three and six months ended September 30, 2010, respectively.

##### c) Property, plant and equipment

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were expected from their use. Under IFRS, this derecognizing of assets occurs at the component level. The Corporation recorded the significant parts or components of its PP&E and depreciated them separately, which resulted in a net of tax decrease in equity of \$1,626 as at March 31, 2011 and \$1,113 as at September 30, 2010. For the three and six months ended September 30, 2010, the Corporation increased its depreciation expense by \$500 and \$616, respectively.

##### d) Deferred income taxes

Under Canadian GAAP, deferred tax assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or

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liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified the amount of \$891 from deferred income tax liabilities (current) to deferred income tax liabilities (non-current) as at March 31, 2011 and the amount of \$314 from deferred income tax liabilities (current) to deferred income tax liabilities (non-current) as at September 30, 2010.

In addition, the Corporation recorded the tax impact on the IFRS adjustments for the restoration provision and property, plant and equipment disclosed above, which resulted to a decrease in deferred income tax liabilities of \$376 as at March 31, 2011 and \$293 as at September 30, 2010. For the three and six months ended September 30, 2010, the Corporation recorded a decrease in income tax expense of \$55 and an increase in income tax expense of \$94, respectively.

*e) Coal royalties*

Under Canadian GAAP the Corporation presented 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 determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales. The change of the classification of coal royalties had no impact on shareholders' equity at March 31, 2011, however it changed the presentation of the consolidated statements of income and comprehensive income for the three and six months ended September 30, 2010, for the twelve months ended March 31, 2011 and for the future periods.

For the three and six months ended September 30, 2010, the Corporation reclassified coal royalties of \$697 and \$1,269, respectively, from income tax expense to cost of sales.

*f) Cost of sales*

Under IFRS, the Corporation must present expenses on the consolidated statement of income by either function or nature. The Corporation has chosen to present expenses by function, as a result, the cost of sales include cost of product sold, distribution costs and depreciation on its consolidated statements of income and comprehensive income.

*g) Finance expense*

Under IFRS, finance expense includes interest expense on finance leases, accretion expense for restoration provisions and other finance expenses. Accretion expense was previously included in depreciation, depletion and accretion while interest expense on finance leases was presented as interest and other expenses. These items have been reclassified accordingly.

The reclassifications in e, f and g above occur within the statement of income and comprehensive income and do not impact net income.

**(v) Adjustments to the statement of cash flows**

The transition from Canadian GAAP to IFRS had no significant impact on statement of cash flows generated by the Corporation except that, under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period. Under Canadian GAAP, cash flows relating to interest payments were classified as an operating activity. The Corporation has elected to reclassify interest expenses on finance leases under financing activities.

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**23. Subsequent event**

Subsequent to September 30, 2011, the Corporation entered into a definitive agreement (the "Arrangement Agreement") with 1629835 Alberta Ltd. ("AcquisitionCo") for the purchase of all of the issued and outstanding common shares of the Corporation (the "Common Shares") at a cash price of \$10.00 per Common Share. The transaction is to be completed by way of a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement").

AcquisitionCo, formed for the purpose of completing the Arrangement, is wholly owned by Winsway Coking Coal Holdings Limited ("Winsway") and Marubeni Corporation ("Marubeni"). Winsway is a Hong Kong listed public company and its core business involves the supply of imported coking coal from around the world to the Chinese steel industry. Marubeni is one of the largest trading houses in Japan involved in the handling of products and the provision of services across a broad range of sectors such as metals and mineral resources, transportation machinery, energy related commodities, food, textiles, materials, pulp and paper and chemicals.

The Arrangement is subject to customary conditions for a transaction of this nature, which include court and regulatory approvals, and the approval of 66 2/3% of the votes cast by Grande Cache Coal shareholders represented in person or by proxy at a special meeting of Grande Cache Coal shareholders to be called to consider the Arrangement. The Arrangement also requires majority approval of Winsway's shareholders and the approval of the Hong Kong Stock Exchange. Certain shareholders of Winsway, who beneficially own or exercise control or direction over approximately 51% of the ordinary shares of Winsway, have entered into voting agreements with Grande Cache Coal pursuant to which they have irrevocably agreed to, among other things, vote their Winsway shares in favour of the Arrangement at the extraordinary meeting of Winsway shareholders to be called to consider the Arrangement.

An information circular regarding the Arrangement is expected to be mailed to shareholders of Grande Cache Coal in December 2011 for a special meeting of the holders of Common Shares scheduled to take place in January 2012, with closing expected to occur in February.

The Corporation has agreed in the Arrangement Agreement that it will not solicit or initiate discussions regarding any other business combination or sale of material assets. The Corporation has also granted AcquisitionCo a right to match competing unsolicited proposals. The Arrangement Agreement contains a non-completion fee of \$50,000 and a cost reimbursement fee of \$10,000, payable by the Corporation to AcquisitionCo in certain circumstances if the Arrangement is not completed. The Arrangement Agreement also contains a reverse non-completion fee of \$100,000 and a cost reimbursement fee of \$10,000, payable by AcquisitionCo to the Corporation in certain circumstances if the Arrangement is not completed.