

# Grande Cache Coal Corporation

## Management's Discussion & Analysis

---

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

This MD&A was prepared using information that is current as of February 9, 2010.

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

Specifically, this MD&A contains forward-looking statements relating to: anticipated sales volumes of metallurgical coal in fiscal 2010 and fiscal 2011; anticipated sales prices in fiscal 2010; anticipated cost of product sold in fiscal 2010; management of coal production in fiscal 2010; future development activities and related capital expenditures; the capital expenditure program for fiscal 2010; funding sources for the capital expenditure program; and future coal production levels.

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

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

**Grande Cache Coal Corporation**  
**Management's Discussion & Analysis**

---

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 the fiscal year ended March 31, 2009 for factors which could potentially impact the Corporation's financial performance and its ability to meet its targets.

**Grande Cache Coal Corporation**  
**Management's Discussion & Analysis**

---

**Financial Overview**

<i>(millions of dollars)</i>	<b>As at December 31 2009</b>	<b>As at March 31 2009</b>
<b>Balance Sheet</b>		
Cash and cash equivalents	<b>100.5</b>	68.0
Total assets	<b>326.7</b>	259.2
Long-term liabilities	<b>54.2</b>	16.7
Shareholders' equity	<b>248.6</b>	228.4

<i>(millions of dollars, except per share amounts)</i>	<b>Three months ended December 31</b>		<b>Nine months ended December 31</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Statement of Net Income and Comprehensive Income</b>				
Revenue	<b>62.4</b>	91.9	<b>181.8</b>	209.9
Cost of sales	<b>49.5</b>	46.3	<b>136.3</b>	115.8
Income from operations	<b>5.5</b>	41.3	<b>25.7</b>	81.8
Net income and comprehensive income	<b>4.3</b>	36.8	<b>18.7</b>	87.2
Basic net income per share	<b>0.04</b>	0.38	<b>0.19</b>	1.00
Diluted net income per share	<b>0.04</b>	0.38	<b>0.19</b>	0.96

<i>(millions of tonnes, except per tonne amounts)</i>	<b>Three months ended December 31</b>		<b>Nine months ended December 31</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Statistics</b>				
Clean coal production (tonnes)	<b>0.42</b>	0.35	<b>1.19</b>	1.05
Coal sales (tonnes)	<b>0.47</b>	0.36	<b>1.34</b>	0.95
Average sales price (US\$/tonne)	<b>131</b>	213	<b>128</b>	201
Average sales price (CDN\$/tonne)	<b>134</b>	254	<b>136</b>	220
Cost of product sold (\$/tonne)	<b>76</b>	96	<b>74</b>	87
Distribution costs (\$/tonne)	<b>30</b>	32	<b>28</b>	34
Cost of sales (\$/tonne)	<b>106</b>	128	<b>102</b>	121

## **Grande Cache Coal Corporation**

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

---

#### **Revenue**

The Corporation's third quarter revenue was \$62.4 million compared to \$91.9 million in the same period last year. Current quarterly sales volumes of 0.47 million tonnes were 31% higher than the comparable quarter, mainly because of sales into China. The decrease in revenue was due largely to lower coal price contracts for the current coal year, which commenced April 1, 2009. For the fiscal year to date, revenue was \$181.8 million, down from \$209.9 million in the first nine months of fiscal 2009. Coal sales in the current fiscal year to date were 1.34 million tonnes (fiscal 2009 – 0.95 million tonnes) driven by a recovery in demand from traditional customers and sales to new customers in China.

The average sales price in the third quarter was \$134 per tonne, down from \$254 per tonne in the comparable period. Metallurgical coal sales accounted for 95% of the third quarter sales volumes and realized an average price of \$138 per tonne (US\$130 per tonne). The remaining sales volumes related to thermal coal sales. For the fiscal year to date, the average sales price was \$136 per tonne, down from \$220 per tonne in the same period last fiscal year. The decrease in price relates primarily to lower hard coking coal contract price settlements in the current coal year.

#### **Cost of Sales**

Cost of sales was \$49.5 million, or \$106 per tonne, in the current quarter compared to \$46.3 million, or \$128 per tonne in the same period last year. The cost of sales in the third quarter consisted of cost of product sold of \$35.3 million (\$76 per tonne) and distribution costs of \$14.2 million (\$30 per tonne). In the comparable quarter of fiscal 2009, the cost of product sold was \$34.7 million (\$96 per tonne) and distribution costs were \$11.6 million (\$32 per tonne).

The decrease in the unit cost of product sold related to reduced use of contractor services, lower maintenance costs and a decrease in the price of diesel fuel. Also contributing to the improvement was higher operating productivities and a lower strip ratio in the surface mine. The unit cost of distribution was lower in the third quarter compared to last year because of lower rail costs due to a reduction of fuel surcharges included in the rail rates.

For the first nine months of the fiscal year, cost of sales was \$136.3 million, or \$102 per tonne, compared to \$115.8 million, or \$121 per tonne, in the first nine months of last year. Included in the current year was cost of product sold of \$98.4 million (\$74 per tonne) and distribution costs of \$37.9 million (\$28 per tonne). In the comparable period of fiscal 2009, the cost of product sold was \$82.8 million (\$87 per tonne) and distribution costs were \$33.0 million (\$34 per tonne).

The unit cost of product sold was lower during the first nine months of the fiscal year, compared to the same period last year, due to a reduction of costs incurred on external contractor services, equipment maintenance, and diesel fuel. There were also improved productivities throughout various areas of the operations, further contributing to a lower unit cost of product sold. The unit cost of distribution for the year to date was down from the comparable period due to a lower proportion of shipments going to eastern Canada, which carry higher rail rates than shipments to the west coast, as well as a reduction of fuel surcharges included in the rail rates. In addition, demurrage charges were lower in the first nine months of the current fiscal year, compared to the same period last year.

#### **Other Operating Expenses**

General and administrative expenses were \$3.1 million during the third quarter, up from \$1.5 million in the same period last year. General and administrative expenses included head office administrative and marketing charges of \$1.8 million (fiscal 2009 - \$1.3 million), non-cash charges for stock-based compensation of \$0.3 million (fiscal 2009 - \$0.2 million) and a \$1.0 million donation to the town of Grande Cache to redevelop the local recreation centre. Fiscal year to date general and administrative expenses were \$7.3 million, compared to \$5.1 million in the first nine months of last fiscal year.

## **Grande Cache Coal Corporation**

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

---

Depreciation, depletion and accretion was \$4.4 million in the third quarter (fiscal 2009 – \$2.8 million) and \$12.5 million for the fiscal year to date (fiscal 2009 - \$7.3 million). The increase was caused by higher coal production, the addition of capital assets and the change in value of depreciation and depletion included in coal inventory.

#### **Other Income (Expenses)**

The Corporation had a foreign exchange gain of \$1.6 million during the third quarter compared to a gain of \$10.4 million in the comparable period of last year. The foreign exchange gain in last year's third quarter was caused by a significant weakening of the Canadian dollar against the US dollar. For the fiscal year to date, the Corporation's foreign exchange loss was \$2.9 million in contrast to an \$11.3 million gain in the first nine months of the prior fiscal year.

The Corporation recorded an unrealized foreign exchange loss of \$0.3 million in the third quarter relating to foreign exchange forward contracts. For the fiscal year to date, the unrealized foreign exchange gain on the forward contracts was \$2.7 million.

Interest and other income were \$0.1 million in the third quarter (fiscal 2009 - \$0.2 million) and \$0.3 million for the fiscal year to date (fiscal 2009 - \$0.6 million). Interest and other income consists primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads and bridges belonging to the Corporation.

Interest and other expenses were \$0.4 million during the three and nine months ended December 31, 2009, and related mainly to interest charges on capital leases. In fiscal 2009 interest and other expenses were nil in the third quarter and \$0.5 million for the fiscal year to date, and consisted primarily of interest paid on the revolving and long term debt.

#### **Taxes**

Third quarter tax expenses were \$2.2 million and included a current tax expense of \$0.5 million for provincial Crown royalties and a future income tax expense of \$1.7 million. During the third quarter of fiscal 2009, the Corporation incurred tax expenses \$15.2 million, which included \$0.8 million for provincial Crown royalties and income tax expenses of \$14.4 million. Fiscal year to date tax expenses were \$6.7 million compared to \$5.9 million during the first nine months of the previous fiscal year.

#### **Liquidity and Capital Resources**

At December 31, 2009, Grande Cache Coal had cash and cash equivalents of \$100.5 million. The Corporation's cash position increased \$20.4 million during the third quarter and \$32.4 million during the first nine months of the fiscal year. In the comparable periods of fiscal 2009, the Corporation's cash position increased \$65.6 million in the third quarter and \$83.4 million during the year to date.

Operating activities during the third quarter generated \$22.5 million in cash compared to \$77.1 million in the same period last year. Cash generated prior to changes in non-cash working capital was \$10.7 million in the current quarter and \$39.6 million during the comparable period. During the first nine months of the fiscal year, cash generated by operating activities before changes in non-cash working capital was \$38.0 million down from \$83.6 million last year. Higher coal prices in the prior fiscal year led to greater net income, which was a major contributor to the higher cash generation in the previous fiscal year.

Financing activities resulted in a cash increase of \$6.6 million during the third quarter and \$4.6 million for the year to date. During the current quarter, the Corporation entered into a sale leaseback agreement for an Hitachi EX5500 hydraulic excavator that was purchased during the second quarter of fiscal 2010, resulting in cash proceeds of \$10.7 million. Payments towards capital lease obligations were \$4.3 million in the third quarter and \$6.7 million for the

## Grande Cache Coal Corporation

### Management's Discussion & Analysis

---

fiscal year to date. Financing activities in the first nine months of the prior fiscal year generated cash of \$15.3 million and included cash proceeds of \$17.4 million from the exercise of warrants, cash proceeds of \$2.9 million related to the exercise of share options and cash payments of \$5.0 million towards a revolving debt facility.

Investing activities in the third quarter resulted in a cash decrease of \$9.0 million, which included building and equipment additions (\$4.2 million) and development of mineral properties (\$1.2 million). In addition, the Corporation provided cash secured letters of credit in the amount of \$3.6 million to the Alberta Government for security to cover future anticipated costs of reclamation relating to the new No. 8 surface mine, which was approved during the quarter. Year to date investing activities led to a cash decrease of \$38.3 million (fiscal 2009 - \$35.5 million) and consisted of the addition of buildings and equipment totaling \$30.3 million (fiscal 2009 - \$29.7 million), the development of mineral properties totaling \$2.8 million (fiscal 2009 - \$4.2 million) and restricted cash of \$3.6 million (fiscal 2009 - \$1.9 million). Included in the additions to buildings and equipment during fiscal 2010 was the purchase of a new Hitachi EX5500 hydraulic excavator at a cost of \$11.0 million.

In June 2009, the Corporation entered into an agreement with HSBC Bank Canada to provide the Corporation with a credit facility up to \$25 million and the ability to enter into foreign exchange hedging arrangements. During the first quarter the Corporation entered into a series of foreign exchange forward contracts to sell a total of US\$45 million at an average rate of Canadian dollars 1.157 to the US dollar. During the third quarter the Corporation entered into a series of foreign exchange forward contracts to sell a total of US\$48 million at an average rate of Canadian dollars 1.065 to the US dollar. At December 31, 2009, US\$68 million of the foreign exchange forward contracts were outstanding, all of which will mature by September 2010.

The Corporation believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements. The Corporation expects that capital expenditures for the remainder of fiscal 2010 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 2010. At December 31, 2009, the Corporation had \$20.2 million in coal inventory, compared to \$24.7 million at September 30, 2009.

The Corporation did not have any off-balance sheet financing structures in place at December 31, 2009. At December 31, 2009, the Corporation had long term liabilities for asset retirement obligations with a present value of \$8.2 million, future income tax liabilities of \$15.8 million and capital lease obligations of \$30.3 million. Grande Cache Coal's asset retirement obligations are covered by a cash deposit of \$0.1 million and letters of credit totaling \$11.8 million provided to the Alberta Government, which are presently secured by restricted cash.

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

At December 31, 2009, the Corporation had commitments to purchase a new P&H Electric Mining Shovel and a new P&H Electric Blasthole Drill. Commitments owing on this equipment totalled approximately \$23.4 million, which included US dollar commitments of US\$19.2 million.

Under contracts existing at December 31, 2009, future minimum undiscounted amounts payable were as follows:

<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>					
Leases	46.9	9.7	19.5	17.0	0.7
Purchase Obligations	23.4	23.4	-	-	-
<b>Total Contractual Obligations</b>	<b>70.3</b>	<b>33.1</b>	<b>19.5</b>	<b>17.0</b>	<b>0.7</b>

## **Grande Cache Coal Corporation**

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

---

#### **Recent and Upcoming Changes in Accounting Policies**

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

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

EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, became applicable to the Corporation on April 1, 2009. EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The impact of applying EIC-173 did not have a material impact on the interim consolidated financial statements.

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

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation has completed the diagnostic phase which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation has moved into phase two and continues to assess the effects of adoption on key financial statement components and finalize its conversion plan. The Corporation has determined that a considerable portion of its conversion effort will relate to accounting for property, plant and equipment. Initial assessments of other financial statement components completed to date include stock based compensation provisions and asset retirement obligations. During the second quarter of 2010, the Corporation also commenced analysis of IFRS financial statement presentation and disclosure requirements. Where applicable, key IFRS transition alternatives available upon first time adoption of IFRS are being considered and evaluated. The Corporation continues to focus on analyzing and developing implementation strategies and processes for the key IFRS transition issues identified. The Corporation continues to perform preliminary accounting assessments on less critical IFRS transition issues that will be further analyzed and evaluated throughout the implementation phase of the Corporation's project.

The transition to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. Because the Corporation is still in the Evaluation and Development phase and has not yet selected its accounting policy choices and exemptions available to it under IFRS 1, the impact on the Corporation's financial position and future results of operations is not reliably determinable or estimable at this time.

The Corporation will continue to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS and will update its plan as necessary.

## Grande Cache Coal Corporation

### Management's Discussion & Analysis

---

#### Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	Fiscal 2010			Fiscal 2009				Fiscal 2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Clean coal production (tonnes)	0.42	0.43	0.34	0.26	0.35	0.43	0.27	0.37
Coal sales (tonnes)	0.47	0.36	0.51	0.11	0.36	0.34	0.25	0.42
Average sales price (US\$/tonne)	131	120	129	292	213	214	165	94
Average sales price (CDN\$/tonne)	134	124	147	364	254	223	166	95
Cost of product sold (\$/tonne)	76	57	84	72	96	69	97	59
Distribution costs (\$/tonne)	30	27	27	24	32	35	38	27
Cost of sales (\$/tonne)	106	84	111	96	128	104	135	86
Revenue	62.4	44.8	74.6	38.7	91.9	76.6	41.3	39.9
Income (loss) from operations	5.5	9.5	10.7	24.5	41.3	36.4	4.0	(0.8)
Net income (loss)	4.3	9.3	5.1	18.9	36.8	47.1	3.4	(1.2)
Basic net income (loss) per share	0.04	0.10	0.05	0.20	0.38	0.52	0.04	(0.02)
Diluted net income (loss) per share	0.04	0.09	0.05	0.20	0.38	0.51	0.04	(0.02)

The Corporation's average sales price was down from fiscal 2009 as current coal year contracts were settled at lower levels than record high prices negotiated during the previous coal year. The cost of product sold was up from the previous quarter due to an increase in mining input costs and higher maintenance expenses. Distribution costs in the current quarter increased from the previous three quarters because of demurrage charges, however they were lower than the first three quarters of fiscal 2009 during which time costs were higher than normal largely because of the inclusion of fuel surcharges in rail rates.

#### Outlook

##### Metallurgical Coal Markets

For fiscal 2010, the Corporation anticipates that sales volumes will be in the range of 1.6 to 1.8 million tonnes, up from the previous expectation of 1.5 to 1.7 million tonnes. The increase is due to a continuing recovery in demand from traditional customers and sales to new customers in China. The projected increase is contingent upon continuing demand from China as well as adequate clean coal production, rail service and vessel arrivals. The average US dollar denominated sales price for fiscal 2010 is projected to be in the range of US\$115 to US\$125 per tonne, which will include carryover shipments from the prior coal year, spot sales and contract sales for the coal year that commenced April 1, 2009.

The Corporation anticipates that sales volumes for fiscal 2011 will be in the range of 2.0 to 2.2 million tonnes. Price discussions have commenced with customers for fiscal 2011 but agreements have not yet been reached.

##### Operations

The Corporation has achieved certain productivity improvements and cost reductions during the first nine months of the fiscal year. There will continue to be a focus on these initiatives over the remainder of the current fiscal year and into the fiscal year commencing April 1, 2010. The average cost of sales for fiscal 2010 is anticipated to be approximately \$105 per tonne, down from previous guidance of \$110 to \$115 per tonne.

## Grande Cache Coal Corporation

### Management's Discussion & Analysis

---

#### Capital Expenditures

Capital additions are expected to total approximately \$85 million during fiscal 2010. In addition, the Corporation anticipates making approximately \$9.0 million in deposits on equipment that will be delivered during fiscal 2011. Remaining fiscal 2010 capital expenditures are expected to be funded by existing cash and cash flow from operations.

#### Other Information

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

As at February 9, 2010, there were 96,520,142 common shares issued and outstanding, and the following share options were also outstanding:

<b>Share Options Outstanding</b>	<b>Number Granted</b>	<b>Number Vested</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	95,000	95,000	\$11.56	March 15, 2010
	10,000	10,000	\$9.08	June 9, 2010
	25,000	25,000	\$4.50	October 18, 2010
	245,000	245,000	\$2.44	April 11, 2011
	125,000	125,000	\$1.05	October 11, 2011
	50,000	50,000	\$1.05	November 16, 2011
	273,336	273,336	\$0.88	May 23, 2012
	1,075,137	516,794	\$1.04	January 8, 2013
	150,000	49,998	\$5.02	August 20, 2013
	1,861,669	544,995	\$1.01	November 12, 2013
	100,000	33,333	\$0.88	January 10, 2014
	125,000	-	\$0.77	February 10, 2014
	50,000	-	\$3.57	August 18, 2014
Total	<u>4,185,142</u>	<u>1,968,456</u>		

#### Additional Information

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

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

(unaudited)	As at December 31 2009	As at March 31 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 100,471	\$ 68,035
Restricted cash (note 3)	12,010	8,440
Accounts receivable (note 4)	13,703	15,153
Inventory (note 5)	26,547	49,800
Prepaid expenses	319	965
	<u>153,050</u>	<u>142,393</u>
Deposit for future reclamation expenditures	82	82
Capital assets (note 6)	<u>173,567</u>	<u>116,707</u>
	<u>\$ 326,699</u>	<u>\$ 259,182</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 16,375	\$ 13,078
Future income taxes (note 7)	643	886
Current portion of capital lease obligations (note 8)	6,869	52
	<u>23,887</u>	<u>14,016</u>
Asset retirement obligations (note 9)	8,183	6,429
Future income taxes (note 7)	15,775	10,298
Capital lease obligations (note 8)	30,253	-
	<u>78,098</u>	<u>30,743</u>
<b>Shareholders' Equity</b>		
Share capital (note 10)	195,409	194,541
Contributed surplus	3,968	3,362
Retained earnings	49,224	30,536
	<u>248,601</u>	<u>228,439</u>
	<u>\$ 326,699</u>	<u>\$ 259,182</u>
Commitments (note 11)		

*See accompanying notes to the consolidated financial statements.*

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

(unaudited)	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
<b>Revenue</b>	\$ 62,388	\$ 91,944	\$ 181,766	\$ 209,924
<b>Expenses</b>				
Cost of product sold	35,259	34,762	98,411	82,753
Distribution	14,196	11,582	37,847	33,033
General and administrative	3,096	1,481	7,344	5,076
Depreciation, depletion and accretion	4,367	2,802	12,484	7,269
	<u>56,918</u>	<u>50,627</u>	<u>156,086</u>	<u>128,131</u>
<b>Income from operations</b>	<b>5,470</b>	<b>41,317</b>	<b>25,680</b>	<b>81,793</b>
<b>Other income (expenses)</b>				
Foreign exchange gains (losses)	1,646	10,421	(2,934)	11,286
Unrealized (losses) gains on foreign exchange forward contracts	(266)	-	2,739	-
Interest and other income	89	243	319	611
Interest and other expenses	(403)	(19)	(431)	(529)
	<u>6,536</u>	<u>51,962</u>	<u>25,373</u>	<u>93,161</u>
<b>Income before taxes</b>	<b>6,536</b>	<b>51,962</b>	<b>25,373</b>	<b>93,161</b>
<b>Taxes</b>				
Current tax expense	(484)	(9,610)	(1,451)	(10,602)
Future income taxes expense	(1,736)	(5,545)	(5,234)	4,666
	<u>4,316</u>	<u>36,807</u>	<u>18,688</u>	<u>87,225</u>
<b>Net income and comprehensive income</b>	<b>4,316</b>	<b>36,807</b>	<b>18,688</b>	<b>87,225</b>
Retained earnings (deficit), beginning of period	<u>44,908</u>	<u>(25,265)</u>	<u>30,536</u>	<u>(75,683)</u>
<b>Retained earnings, end of period</b>	<b>\$ 49,224</b>	<b>\$ 11,542</b>	<b>\$ 49,224</b>	<b>\$ 11,542</b>
<b>Net income per share (note 12)</b>				
Basic	\$ 0.04	\$ 0.38	\$ 0.19	\$ 1.00
Diluted	\$ 0.04	\$ 0.38	\$ 0.19	\$ 0.96

See accompanying notes to the consolidated financial statements.

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

(unaudited)	Three months ended		Nine months ended	
	December 31		December 31	
	2009	2008	2009	2008
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net income and comprehensive income	\$ 4,316	\$ 36,807	\$ 18,688	\$ 87,225
Items not affecting cash				
Stock-based compensation (note 13)	326	244	957	659
Unrealized foreign exchange (gains) losses	(354)	(5,816)	3,378	(6,709)
Unrealized losses (gains) on foreign exchange forward contracts	266	-	(2,739)	-
Future income taxes	1,736	5,545	5,234	(4,666)
Depreciation, depletion and accretion	4,367	2,802	12,484	7,269
Settlement of asset retirement obligations (note 9)	-	-	-	(146)
	<u>10,657</u>	<u>39,582</u>	<u>38,002</u>	<u>83,632</u>
Net change in non-cash working capital relating to operating activities	<u>11,832</u>	<u>37,500</u>	<u>32,175</u>	<u>13,353</u>
	<u>22,489</u>	<u>77,082</u>	<u>70,177</u>	<u>96,985</u>
<b>Financing activities</b>				
Proceeds on exercise of options (note 10)	171	-	517	2,948
Payments on capital lease obligations	(4,294)	(13)	(6,696)	(47)
Net proceeds from capital lease financing (note 6)	10,729	-	10,729	-
Repayment on revolving debt (note 14)	-	-	-	(5,000)
Proceeds on exercise of warrants (note 10)	-	-	-	17,354
Share issuance costs	-	-	-	(2)
	<u>6,606</u>	<u>(13)</u>	<u>4,550</u>	<u>15,253</u>
<b>Investing activities</b>				
Additions to mineral properties and development	(1,181)	(2,144)	(2,821)	(4,192)
Additions to buildings and equipment	(4,240)	(14,752)	(30,340)	(29,723)
Restricted cash (note 3)	(3,570)	-	(3,570)	(1,912)
Net change in non-cash working capital relating to investing activities	<u>(23)</u>	<u>(410)</u>	<u>(1,552)</u>	<u>313</u>
	<u>(9,014)</u>	<u>(17,306)</u>	<u>(38,283)</u>	<u>(35,514)</u>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<u>272</u>	<u>5,816</u>	<u>(4,008)</u>	<u>6,709</u>
<b>Increase in cash and cash equivalents</b>	<u>20,353</u>	<u>65,579</u>	<u>32,436</u>	<u>83,433</u>
Cash and cash equivalents, beginning of period	<u>80,118</u>	<u>22,092</u>	<u>68,035</u>	<u>4,238</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 100,471</u>	<u>\$ 87,671</u>	<u>\$ 100,471</u>	<u>\$ 87,671</u>

See accompanying notes to the consolidated financial statements.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**

**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

---

**1. Basis of Presentation**

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

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

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

**2. Recent and Upcoming Changes in Accounting Policies**

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

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

EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, became applicable to the Corporation on April 1, 2009. EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The impact of applying EIC-173 did not have a material impact on the interim consolidated financial statements.

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

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation has completed the diagnostic phase which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation has moved into phase two and continues to assess the effects of adoption on key financial statement components and finalize its conversion plan. The Corporation has determined that a considerable portion of its conversion effort will relate to accounting for property, plant and equipment. Initial assessments of other financial statement components completed to date include stock based compensation, provisions and asset retirement obligations. During the second quarter of 2010, the Corporation also commenced analysis of IFRS financial statement presentation and disclosure requirements. Where applicable, key IFRS transition alternatives available upon first time adoption of IFRS are being considered and evaluated. The Corporation continues to focus on analyzing and developing implementation strategies and processes for the key IFRS transition issues identified. The Corporation continues to perform preliminary accounting assessments on less critical IFRS transition issues that will be further analyzed and evaluated throughout the implementation phase of the Corporation's project.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

The transition to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. Because the Corporation is still in the Evaluation and Development phase and has not yet selected its accounting policy choices and exemptions available to it under IFRS 1, the impact on the Corporation's financial position and future results of operations is not reliably determinable or estimable at this time.

The Corporation will continue to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS and will update its plan as necessary.

**3. Restricted Cash**

Cash secured letters of credit in the amount of \$11,810 have been provided to the Alberta Government for security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure, including \$3,570 during the third quarter of fiscal 2010 and \$2,712 during the first quarter of fiscal 2009. In addition, cash secured letters of credit of \$200 have been made available to service providers. During the first quarter of the previous fiscal year, the Corporation received \$800 in cash due to the return of restricted cash that had been used as security for a letter of credit that was made available to a service provider.

**4. Accounts Receivable**

	<b>As at December 31 2009</b>	<b>As at March 31 2009</b>
Trade accounts receivable	\$ 10,141	\$ 13,899
Goods and services tax receivable	365	876
Unrealized gain on foreign exchange forward contracts	2,739	-
Other	458	378
	<u>\$ 13,703</u>	<u>\$ 15,153</u>

**5. Inventory**

	<b>As at December 31 2009</b>	<b>As at March 31 2009</b>
Coal inventory	\$ 20,179	\$ 44,332
Materials inventory	<u>6,368</u>	<u>5,468</u>
	<u>\$ 26,547</u>	<u>\$ 49,800</u>

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

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value. The Corporation maintains an inventory of parts and supplies for day to day maintenance and operations. For the three months ended December 31, 2009, parts and supplies inventories of \$2,187 were

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

expensed to cost of product sold, compared to \$1,799 in the same period last fiscal year. For the nine months ended December 31, 2009, parts and supplies inventories of \$5,602 were expensed to cost of product sold, compared to \$5,081 in the same period last fiscal year

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

**6. Capital Assets**

	<b>As at December 31 2009</b>	<b>As at March 31 2009</b>
Mineral properties and development	\$ 23,042	\$ 22,718
Buildings and equipment	99,211	93,783
Buildings and equipment under capital leases	46,579	206
Assets held for sale	4,735	-
	<u>\$ 173,567</u>	<u>\$ 116,707</u>

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

During the second quarter of fiscal 2010, the Corporation acquired mining equipment at a cost of US\$17,127 through capital lease agreements.

During the third quarter of fiscal 2010, the Corporation entered into a US\$10,420 sale leaseback agreement for an Hitachi EX5500 hydraulic excavator that was purchased during the second quarter of fiscal 2010. In addition, the Corporation acquired mining equipment at a cost of US\$13,961 through capital lease agreements.

**7. Taxes**

At December 31, 2009, the Corporation had a future income tax liability of \$16,418, of which \$643 was classified as a current liability. The components of the future income tax liability were as follows:

	<b>As at December 31 2009</b>	<b>As at March 31 2009</b>
Temporary differences related to:		
Buildings and equipment and mineral properties and development costs	\$ 21,437	\$ 12,428
Asset retirement obligations	(2,046)	(1,607)
Share issuance costs	(366)	(523)
Non-capital loss carry forwards	(2,574)	-
Investment tax credits	(289)	-
Other	256	886
Future income tax liability	<u>\$ 16,418</u>	<u>\$ 11,184</u>

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**

**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

**8. Capital Lease Obligations**

The Corporation has certain mining equipment and buildings under capital lease agreements. The capital leases for the mining equipment are denominated in US dollars at interest rates up to a maximum of 6.7% per annum, expire by fiscal 2015 and are secured by the related assets.

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

Balance – March 31, 2009	\$	52
Fair value of initial capital leases		44,311
Payments made during the period		(7,084)
Interest portion of payments		388
Foreign exchange adjustment to US dollar obligation		(545)
Balance – December 31, 2009		37,122
Current portion of capital lease obligations		(6,869)
Long term portion of capital lease obligations	\$	<u>30,253</u>

Future minimum payments under capital leases at December 31, 2009 consist of the following:

Less than 1 year	\$	9,047
2-3 years		18,255
4-5 years		15,855
After 5 years		-
Total minimum lease payments		43,157
Amounts representing interest		(6,035)
Present value of minimum lease payments		37,122
Current portion of capital lease obligations		(6,869)
Long term portion of capital lease obligations	\$	<u>30,253</u>

**9. Asset Retirement Obligations**

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. The Corporation has estimated the net present value of its asset retirement obligations to be \$8,183 as at December 31, 2009, based on a total future liability of \$14,004. The Corporation's credit adjusted risk free rates range from 5.0% to 7.6% depending on the period when the provision originated and the term of estimated years to reclamation.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

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

Balance – March 31, 2008	\$	4,020
Increase in liability		2,170
Settlement of liability		(147)
Accretion expense		386
Balance – March 31, 2009		6,429
Increase in liability		1,392
Accretion expense		362
Balance – December 31, 2009	\$	<u>8,183</u>

**10. Share Capital**

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

<i>(thousands)</i>	Number	Stated Value
Common shares		
Balance – March 31, 2008	73,361	\$ 154,676
Shares issued on exercise of warrants	10,846	17,354
Shares issued on exercise of options	2,280	5,013
Shares issued on conversion of convertible debenture	9,589	17,500
Share issuance costs	-	(2)
Balance – March 31, 2009	96,076	194,541
Shares issued on exercise of options	444	868
Balance – December 31, 2009	<u>96,520</u>	<u>\$ 195,409</u>

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

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

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

The following transactions occurred during fiscal 2009.

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

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

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

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

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

**11. Commitments**

At December 31, 2009, the Corporation had commitments to purchase a new P&H Electric Mining Shovel and a new P&H Electric Blasthole Drill. Commitments owing on this equipment totalled approximately \$23,397, which included US dollar commitments of US\$19,196. (refer to note 17 – Subsequent Events).

**12. Net Income per Share**

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

<i>(thousands, except per share amounts)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Weighted average shares outstanding – basic	96,403	96,070	96,216	87,584
Dilutive effect of share options	<u>2,892</u>	<u>750</u>	<u>2,464</u>	<u>3,400</u>
Weighted average shares outstanding – diluted	99,295	96,820	98,680	90,984
Net income	\$ <u>4,316</u>	\$ <u>36,807</u>	\$ <u>18,688</u>	\$ <u>87,225</u>
Net income per share - basic	\$ 0.04	\$ 0.38	\$ 0.19	\$ 1.00
Net income per share - diluted	\$ 0.04	\$ 0.38	\$ 0.19	\$ 0.96

**13. Stock-Based Compensation**

The Corporation has a share option plan for the benefit of directors, officers, employees and consultants, pursuant to which the Board of Directors or a committee thereof may from time to time grant options to purchase common shares. Total stock-based compensation expense included in general and administrative expenses for the third quarter was \$326, compared to \$244 in the same quarter last year and was a result of options granted pursuant to the Corporation's share option plan. The fiscal year to date stock-based compensation was \$957, compared to \$659 in the prior year.

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

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

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

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

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

During fiscal 2009, options to purchase 2,280 thousand common shares were exercised at a weighted average price of \$1.30 per share and options to purchase 672 thousand common shares were cancelled.

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

Details of the share options outstanding are as follows:

<i>(thousands of shares)</i>	<b>Common Shares</b>	
	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Outstanding – March 31, 2008	5,218	\$ 1.57
Granted	2,350	1.25
Cancelled	(672)	1.86
Exercised	<u>(2,280)</u>	<u>1.30</u>
Outstanding – March 31, 2009	4,616	1.50
Granted	50	3.57
Cancelled	(37)	3.70
Exercised	<u>(444)</u>	<u>1.17</u>
Outstanding – December 31, 2009	<u>4,185</u>	<u>\$ 1.54</u>

Of the share options outstanding at December 31, 2009, 95 thousand options expire in fiscal 2010, 35 thousand options expire in fiscal 2011, 420 thousand options expire in fiscal 2012, 1,348 thousand options expire in fiscal 2013, 2,237 thousand options expire in fiscal 2014, and 50 thousand options expire in fiscal 2015.

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**  
**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

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

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	95	\$ 11.56
	10	9.08
	25	4.50
	245	2.44
	175	1.05
	273	0.88
	517	1.04
	50	5.02
	545	1.01
	<u>1,935</u>	<u>\$ 1.89</u>

**14. Revolving and Term Debt**

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

Pursuant to the terms of the convertible debenture, Brookfield converted \$17,500 into 9,589 thousand common shares during fiscal 2009, including \$7,650 (4,192 thousand common shares) during the first quarter and \$9,850 (5,397 thousand common shares) during the second quarter. In addition, net repayments of \$5,000 were made on the revolving facility during the first quarter of fiscal 2009 bringing the balance to nil. Interest expense on the revolving and term debt was \$486 during the first quarter of fiscal 2009. The revolving credit facility with Brookfield expired on April 1, 2009.

**15. Capital Management**

Grande Cache Coal's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure, as disclosed on the balance sheet, consists of cash and cash equivalents, capital leases and shareholders' equity. The Corporation also has an unused operating credit facility of up to \$25,000 and the ability to enter into foreign exchange hedging arrangements.

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

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

**16. Financial Instruments**

Grande Cache Coal's financial instruments include cash and cash equivalents, restricted cash, accounts

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**

**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

---

receivable, accounts payable and accrued liabilities and an operating credit facility. The fair value of these financial instruments approximates their carrying amounts on the balance sheet due to the short periods to maturity and the terms of the financial instruments.

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

<b>Financial instrument</b>	<b>Classification</b>
Cash and cash equivalents	Held-for-trading
Restricted cash	Held-to-maturity
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Operating credit facility	Other financial liabilities

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

Credit Risk

Grande Cache Coal carries a balance of cash and cash equivalents as disclosed on the balance sheet at December 31, 2009. The Corporation invests conservatively a portion of its cash in short-term, low risk term deposits with credit worthy financial institutions. The remainder of the cash balance is held with major financial institutions and is available for immediate use.

The Corporation has a balance of restricted cash as disclosed on the balance sheet at December 31, 2009. Restricted cash is held with major financial institutions for the purpose of securing letters of credit and is invested in short-term guaranteed investment certificates. The Corporation is exposed to credit risk in the event that the financial institutions were to redeem the letter of credit to the beneficiary. The Corporation considers this risk as low as the majority of the letters of credit have been provided to the Alberta Government for security to cover future anticipated costs of reclamation.

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of accounts receivable. The maximum credit risk exposure is equal to the carrying amount of accounts receivable as disclosed on the balance sheet at December 31, 2009. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider the accounts receivable to be impaired or past due.

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

Liquidity Risk

The Corporation is exposed to liquidity risk in the event that it would be unable to meet obligations associated with financial liabilities. The Corporation has a \$25,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at December 31, 2009 was nil, however availability on the facility was reduced by approximately \$6,432 due to the Corporation entering into foreign exchange forward contracts. At December 31, 2009, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

**Grande Cache Coal Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009**

**(Unaudited)**

*(thousands of Canadian dollars, except per share amounts)*

<i>(thousands of Canadian dollars)</i>	<b>Less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Accounts payable and accrued liabilities	16,375	-	-	-
Leases	9,659	19,459	17,013	659
Purchase obligations	23,397	-	-	-
	49,431	19,459	17,013	659

Market Risk

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

*Foreign currency exchange rates*

The majority of the Corporation's sales are denominated in US dollars. As such, trade accounts receivable are exposed to changes in the US/Canadian dollar exchange rate. Based on the US dollar denominated trade accounts receivable balance at December 31, 2009, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$75, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At December 31, 2009, the outstanding commitment on the capital lease obligations was US\$35,321. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the capital lease payments. The Corporation entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

The Corporation entered into a series of foreign exchange forward contracts to sell a total of US\$45,000 at an average rate of Canadian dollars 1.157 to the US dollar and a total of US\$48,000 at an average rate of Canadian dollars 1.065 to the US dollar. At December 31, 2009, US\$68,000 of the foreign exchange forward contracts were outstanding, all of which will mature by September 2010. The Corporation recorded an unrealized foreign exchange loss of \$266 during the third quarter and an unrealized foreign exchange gain of \$2,739 for the fiscal year to date, relating to these foreign exchange forward contracts.

The Corporation entered into a US dollar purchase commitment for mining equipment. At December 31, 2009, US\$19,196 remained owing on this commitment. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of this commitment.

*Interest rates*

Interest accrues on the Corporation's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 percent per annum, calculated daily. The Corporation did not have a balance owing on the operating credit facility at December 31, 2009.

**17. Subsequent Events**

Subsequent to December 31, 2009, the Corporation made payments of US\$5,048 towards purchase commitments on a new P&H Electric Mining Shovel and a new P&H Electric Blasthole Drill.