

Grande Cache Coal Corporation

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") for the year ended March 31, 2010. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This discussion provides management's analysis of the Corporation's historical financial and operating results and provides estimates of the Corporation's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. All references are to Canadian dollars unless otherwise indicated.

This MD&A was prepared using information that is current as of June 8, 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 2011; management of coal production in fiscal 2011; future development activities and related capital expenditures; the capital expenditure program for fiscal 2011; and funding sources for the capital expenditure program.

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

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

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

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

Financial Overview

<i>(\$ millions)</i>	As at March 31 2010	As at March 31 2009	As at March 31 2008
Balance Sheet			
Cash and cash equivalents	87.4	68.0	4.2
Total assets	337.7	259.2	123.5
Long-term liabilities	54.4	16.7	21.5
Shareholders' equity	250.8	228.4	83.6
<i>(\$ millions, except per share, for the years ended March 31)</i>	2010	2009	2008
Statement of Net Income (Loss) and Comprehensive Income (Loss)			
Revenue	232.5	248.6	146.6
Cost of sales	176.9	126.0	141.3
Income (loss) from operations	26.7	106.3	(12.0)
Net income (loss) and comprehensive income (loss)	20.1	106.2	(15.5)
Basic net income (loss) per share	0.21	1.18	(0.24)
Diluted net income (loss) per share	0.20	1.15	(0.24)
<i>(millions of tonnes, except per tonne amounts)</i>	2010	2009	2008
Statistics			
Clean coal production	1.74	1.31	1.42
Coal sales	1.77	1.06	1.65
Average sales price (US\$/tonne)	125	210	86
Average sales price (\$/tonne)	132	234	89
Average cost product sold (\$/tonne)	72	85	59
Average distribution costs (\$/tonne)	28	34	27
Average cost of sales (\$/tonne)	100	119	86

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Fiscal 2010 Compared with Fiscal 2009

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

Revenue

The Corporation's fiscal 2010 revenue was \$232.5 million compared to \$248.6 million in the prior year. The 6% decrease is primarily a result of lower sales prices, offset to a large extent by significantly higher sales volumes.

Fiscal 2010 sales volumes were 1.77 million tonnes, a 67% increase from 1.06 million tonnes sold in the prior fiscal year. The increase in sales was driven by a recovery in the global economy which led to an increase in steel production, and consequently an increase in the demand for metallurgical coal. Sales to new customers in China accounted for virtually all of the increase in sales volume during the year. Overall, there was also a moderate increase in demand from traditional Asian customers following a slow start to the year. Due to the large volume of sales into China the Corporation's sales by geographic region shifted to a much higher proportion in Asia.

<u>Sales Volumes</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Coal sales (millions of tonnes)	1.77	1.06	1.65
Sales by Geographic Region (%)			
Asia	81	42	53
Europe	5	32	38
North America	14	26	9

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

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

<u>Sales Prices</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Average metallurgical coal sales price (US\$/tonne)	125	210	86
Average exchange rate (1 USD = Canadian)	1.09	1.11	1.03
Average metallurgical coal sales price (\$/tonne)	137	234	89
Average thermal coal sales price (\$/tonne)	51	-	-
Average total sales price (\$/tonne)	132	234	89

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Cost of Sales

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

The Corporation's fiscal 2010 unit cost of product sold decreased 16% from fiscal 2009. The improvement was partially related to higher sales volumes due to the fixed cost component included in operating costs. There was also a reduction of costs incurred on external contractor services, equipment maintenance and diesel fuel. Improved productivities throughout various areas of the operations further contributed to a lower unit cost of product sold.

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

Other Operating Expenses

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

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

Other Income (Expenses)

The Corporation had a foreign exchange loss of \$0.5 million during the current fiscal year compared to a gain of \$12.5 million in fiscal 2009. Last year's foreign exchange gain was the result of a significant weakening of the Canadian dollar against the US dollar.

The Corporation recorded an unrealized foreign exchange gain of \$3.0 million (fiscal 2009 - \$nil) in the current fiscal year relating to foreign exchange forward contracts.

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

Taxes

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

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Liquidity and Capital Resources

The Corporation had cash and cash equivalents of \$87.4 million at March 31, 2010, an increase of \$19.4 million from March 31, 2009. In fiscal 2009 the Corporation's cash position increased \$63.8 million.

Operating activities during fiscal 2010 generated cash of \$73.7 million, compared to \$86.0 million in fiscal 2009. The decrease in cash generation in the current year was mainly due to a decrease in net income resulting from a decrease in the price of coal, offset by an increase in depreciation and depletion expense and non-cash working capital.

Financing activities resulted in a cash increase of \$3.3 million during fiscal 2010. In the third 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 \$8.4 million during the fiscal year and cash proceeds of \$1.0 million were received from the exercise of stock options. In fiscal 2009, warrants were exercised for cash proceeds of \$17.4 million and common share options were exercised for cash proceeds of \$3.0 million. The Corporation also made net repayments of \$5.0 million towards a revolving debt facility, which expired on April 1, 2009, bringing the balance to nil.

In March 2010, the Corporation amended its agreement with HSBC Bank Canada to provide the Corporation with an operating credit facility up to \$28 million and the ability to enter into foreign exchange forward contracts. At March 31, 2010, the balance on the operating credit facility was nil and US\$53 million of foreign exchange forward contracts were outstanding. (See also Note 20 - Subsequent Events)

Investing activities led to a cash decrease of \$53.2 million in fiscal 2010, compared to \$45.1 million in the prior fiscal year. Capital additions totaled \$47.3 million compared to \$45.2 million in fiscal 2009. Buildings and equipment additions accounted for \$35.3 million (fiscal 2009 - \$36.9 million) and included a new Hitachi EX5500 hydraulic excavator at a cost of \$11.0 million. Mineral properties development during the year totaled \$12.0 million (fiscal 2009 - \$8.3 million) and was primarily for the development of the No. 8 pit (\$8.9 million). The Corporation also had an increase in restricted cash of \$5.1 million (fiscal 2009 - \$1.9 million) in the form of letters of credit as it provided an additional \$3.6 million to the Alberta Government for security to cover anticipated costs of reclamation and \$1.5 million to a service provider.

During the current year, the Corporation acquired mining equipment at a cost of \$47.2 million through capital lease arrangements, which included a fleet of eight Komatsu AC 830E haul trucks.

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

Grande Cache Coal expects that coal inventory and coal production will be sufficient to meet customer requirements during fiscal 2010. At March 31, 2010, the Corporation had \$28.0 million in coal inventory, compared to \$44.3 million at the end of the previous fiscal year.

The Corporation did not have any off-balance sheet financing structures in place at March 31, 2010. Long term liabilities of the Corporation include asset retirement obligations with a present value of \$8.8 million, capital lease obligation of \$27.5 million and future income tax liabilities of \$18.1 million. Grande Cache Coal's asset retirement obligations are covered by 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.

The Corporation entered into various purchase commitments for mining equipment. At March 31, 2010, remaining payments owing on the mining equipment totalled \$36.4 million, which included USD commitments of US\$28.3 million.

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Under contracts existing at March 31, 2010, future minimum undiscounted amounts payable under these agreements were:

(\$ millions)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Operating Leases	3.9	0.8	1.4	1.2	0.5
Capital Leases	39.5	8.7	17.4	13.4	-
Purchase Obligations	36.4	36.4	-	-	-
Total Contractual Obligations	79.8	45.9	18.8	14.6	0.5

Fiscal 2009 Compared with Fiscal 2008

Net income in fiscal 2009 was \$106.2 million, or \$1.18 per basic share (\$1.15 per diluted share), compared to a net loss of \$15.5 million, or \$0.24 per basic and diluted share, in fiscal 2008. Income from operations was \$106.3 million in fiscal 2009 versus a loss from operations of \$12.0 million in the comparable period.

Net income in the fiscal 2009 was significantly higher than fiscal 2008 as coal prices for the coal year commencing April 1, 2008 were settled at record high levels due to supply constraints and a robust economy. However due to production issues during the first part of fiscal 2009, the Corporation had lower than expected clean coal production which led to lower than planned sales volumes. Production improved as the fiscal year progressed however the economy slowed dramatically during the third quarter and lower sales volumes forced the Corporation to reduce production. Despite the lower sales volumes, the sales price remained high due to the contractual agreements that were in place for the coal year. The strength of the economy during the first portion of fiscal 2009 led to higher costs for the Corporation as there were significant increases in mining input costs. Certain mining costs stabilized or subsided late in the fiscal year and some productivity improvements were achieved.

Fiscal 2009 sales volumes were 1.06 million tonnes, a 36% decrease from 1.65 million tonnes sold in fiscal 2008. The decline in sales volume was primarily caused by a slowdown in the global economy during the latter part of the fiscal year which caused a decrease in the demand for steel, and subsequently a reduced demand for metallurgical coal. Also contributing to the lower sales volumes was lower than planned production during the first part of the fiscal year due to an extended period of development in the underground mine and issues with the deployment of people and equipment in the surface mine. The lower than planned production resulted in a decrease in sales during this period as there was a temporary shortage of available coal.

The average sales price achieved in fiscal 2009 was US\$210 per tonne representing a 144% increase over US\$86 per tonne in fiscal 2008. The increase in price was primarily due to higher contractual sales prices for the coal year commencing April 1, 2008. At the time of negotiations, the global economy was strong and there was a high demand for steel and subsequently metallurgical coal. At the same time, there were concerns about the supply of metallurgical coal as other coal producers around the world encountered production issues primarily caused by flooding in Australia. In fiscal 2009, the stronger US dollar (USD) in relation to the Canadian dollar had a positive impact on the Corporation's financial results. On average, US\$1 equaled Cdn\$1.11 in fiscal year 2009 compared to fiscal 2008 during which US\$1 equaled Cdn\$1.03. The average Canadian sales price for USD denominated sales was \$234 per tonne in 2009 compared to \$89 per tonne in the comparable period.

Revenue in fiscal 2009 increased 70% to \$248.6 million (fiscal 2008 - \$146.6 million). The increase in revenue was predominantly a result of higher USD sales prices, marginally aided by the stronger USD, partially offset by lower sales volumes.

In fiscal 2009, cost of sales were \$126.0 million (\$119 per tonne), versus \$141.3 million (\$86 per tonne) in the prior year. The cost of sales consisted of cost of product sold of \$90.4 million (\$85 per tonne) and distribution costs of \$35.6

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million (\$34 per tonne). In fiscal 2008, cost of product sold was \$96.2 million (\$59 per tonne) and the distribution costs were \$45.1 million (\$27 per tonne). The increase in the unit cost of product sold in fiscal 2009 was a result of lower sales volumes combined with lower productivity in the underground mine, a lower plant yield and a higher surface mine strip ratio. In addition, mining costs were considerably higher during fiscal 2009. The increase in distribution costs in fiscal 2009 was primarily caused by the inclusion of fuel surcharges in the rail rates due to higher diesel fuel prices. Additionally, there were a higher proportion of shipments to eastern Canada, which carry higher rail rates than shipments to the west coast.

General and administrative expenses during fiscal 2009 were \$7.1 million, down from \$7.2 million in fiscal 2008. Included in these expenses were head office administrative and marketing charges of \$6.1 million (fiscal 2008 - \$5.6 million) and non-cash charges for stock-based compensation of \$1.0 million (fiscal 2008 - \$1.6 million).

Depreciation, depletion and accretion expenses for fiscal 2009 were \$9.3 million, compared to \$10.1 million in fiscal 2008. The decrease was a result of lower coal production levels, as well as the change in the value of depreciation and depletion included in inventory, offset by the addition of productive capital assets.

The Corporation recorded a foreign exchange gain of \$12.5 million in fiscal 2009 due to a significant weakening of the Canadian dollar against the US dollar. In fiscal 2008, there was a foreign exchange loss of \$1.9 million as the Canadian dollar strengthened in relation to the US dollar.

The Corporation's interest and other income in fiscal 2009 was \$1.3 million versus \$1.1 million in fiscal 2008 and consisted primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads belonging to the Corporation. Interest and other expenses were \$0.6 million in fiscal 2009, down from \$1.7 million in fiscal 2008 due to a reduction of interest being paid on the revolving and long term debt.

The Corporation incurred tax expenses of \$13.3 million during fiscal 2009, compared to \$1.0 million in fiscal 2008. Taxes were comprised of a current tax expense of \$2.1 million for provincial Crown royalties as well as a future income tax expense of \$11.2 million. In fiscal 2008 the Corporation did not incur any income taxes as it was not profitable, therefore the entire tax expense related to provincial Crown royalties, which was comparably lower due to the lower sales price during the year.

Fiscal 2010 Fourth Quarter

<i>(\$ millions, except per share amounts)</i>	Three months ended March 31	
	2010	2009
Statement of Net Income and Comprehensive Income		
Revenue	50.7	38.7
Cost of sales	40.7	10.2
Income from operations	1.0	24.5
Net income and comprehensive income	1.4	18.9
Basic and diluted net income per share	0.01	0.20

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<i>(millions of tonnes, except per tonne amounts)</i>	Three months ended March 31	
	2010	2009
Statistics		
Clean coal production (tonnes)	0.54	0.26
Coal sales (tonnes)	0.43	0.11
Average sales price (US\$/tonne)	120	292
Average sales price (\$/tonne)	118	364
Average cost of product sold (\$/tonne)	66	72
Average distribution cost (\$/tonne)	28	24
Average cost of sales (\$/tonne)	94	96

Grande Cache Coal earned net income of \$1.4 million during the fourth quarter compared to net income of \$18.9 million in the same period last fiscal year. Income from operations was \$1.0 million during the quarter, down from \$24.5 million in the fourth quarter last fiscal year.

Coal sold during the three months ended March 31, 2010 was 0.43 million tonnes at an average price of \$118 per tonne, generating revenue of \$50.8 million. In the fourth quarter of fiscal 2009 the Corporation sold 0.11 million tonnes of coal at an average price of \$364 per tonne generating revenue of \$38.7 million. Despite the significant reduction in the price of coal, fourth quarter revenue was 31% higher than last fiscal year because of the 0.32 million tonne increase in sales volume. Sales volumes in the fourth quarter of fiscal 2009 were low due to the downturn in the global markets which led to a decrease in the demand for steel and a resulting decrease in the demand for metallurgical coal.

Fourth quarter cost of sales were \$94 per tonne, down from \$96 per tonne in the same period of fiscal 2009. Included in the cost of sales was cost of product sold of \$66 per tonne (fiscal 2009 - \$72 per tonne) and distribution costs of \$28 per tonne (fiscal 2009 - \$24 per tonne). The cost of product sold decreased largely due to an increase in sales volumes, higher productivity and an increase in the plant yield. Distribution costs were lower in the fourth quarter of 2009 primarily because previously accrued demurrage charges were settled at lesser amounts.

Depreciation, depletion and accretion expenses were \$6.5 million in the fourth quarter, compared to \$2.0 million in the same period last year. The increase was primarily caused by higher coal production in the current quarter. There were also additional capital assets, primarily in the surface mine, and a revision to the remaining useful a certain fixed assets, which accelerated the depreciation expenses.

Summary of Quarterly Results

<i>(millions, except per unit amounts)</i>	2010	Q4	Q3	Q2	Q1
Clean coal production (tonnes)	1.74	0.54	0.42	0.43	0.34
Coal sales (tonnes)	1.77	0.43	0.47	0.36	0.51
Average sales price (US\$/tonne)	125	120	131	120	129
Average sales price (\$/tonne)	132	118	134	124	147
Average cost of sales (\$/tonne)	100	94	106	84	111
Revenue (\$)	232.5	50.7	62.4	44.8	74.6
Income from operations (\$)	26.7	1.0	5.5	9.5	10.7
Net income (\$)	20.1	1.4	4.3	9.3	5.1
Basic net income per share (\$)	0.21	0.01	0.04	0.10	0.05
Diluted net income per share (\$)	0.20	0.01	0.04	0.09	0.05

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<i>(millions, except per unit amounts)</i>	2009	Q4	Q3	Q2	Q1
Clean coal production (tonnes)	1.31	0.26	0.35	0.43	0.27
Coal sales (tonnes)	1.06	0.11	0.36	0.34	0.25
Average sales price (US\$/tonne)	210	292	213	214	165
Average sales price (\$/tonne)	234	364	254	223	166
Average cost of sales (\$/tonne)	119	96	128	104	135
Revenue (\$)	248.6	38.7	91.9	76.6	41.4
Income from operations (\$)	106.3	24.5	41.3	36.4	4.1
Net income (\$)	106.2	18.9	36.8	47.1	3.4
Basic net income per share (\$)	1.18	0.20	0.38	0.52	0.04
Diluted net income per share (\$)	1.15	0.20	0.38	0.51	0.04

Net income in fiscal 2009 was significantly higher than the current fiscal year as coal prices for the coal year commencing April 1, 2008 were settled at record high levels due to supply constraints and a robust economy. Due to production issues during the first part of fiscal 2009, the Corporation had lower than expected clean coal production which led to lower than planned sales volumes and consequently a higher cost of sales. Production improved as fiscal 2009 progressed however the economy slowed dramatically during the third quarter and lower sales volumes forced the Corporation to reduce production. Because of the economic downturn, prices for the coal year commencing April 1, 2009 were settled at much lower levels than the preceding coal year. Demand for metallurgical coal recovered dramatically during the first quarter of fiscal 2010 allowing the Corporation to record its highest quarterly sales volumes to date during that period. Metallurgical coal sales remained strong throughout fiscal 2010 due to a significant increase in demand from China, as well as a recovery from traditional customers. Despite the increase in demand, prices remained lower than the fiscal 2009 because of the annual contract settlements that were in place. The average cost of sales was lower than fiscal 2009 due in part to higher sales volumes as well as a reduction in contractor usage and lower mining input costs.

Outlook

Metallurgical Coal Markets

The Corporation anticipates sales volumes of 2.0 to 2.2 million tonnes in fiscal 2011, the majority of which has already been contracted. For fiscal 2011, a significant portion of the annual sales volumes will be contracted for sale under quarterly pricing arrangements as opposed to the traditional coal year pricing. This change to shorter term pricing is consistent with other metallurgical coal suppliers and will create quarterly negotiations to establish contract sales prices. Contract price settlements for the first quarter of fiscal 2011 are approximately US\$195 per tonne, however, the average selling price of metallurgical coal for the first quarter of fiscal 2011 is expected to be US\$150 to US\$160 per tonne due to the shipment of lower priced carryover tonnage during April.

Negotiations are currently ongoing with customers for second quarter 2011 pricing. Benchmark pricing has been settled at US\$225 per tonne and the Corporation expects to achieve prices in line with the benchmark settlement.

Operations

Grande Cache Coal has announced plans to further increase annual production to 3.5 million tonnes by the end of fiscal 2013. The Corporation is currently developing the No. 8 pit surface operations and is progressing the licensing and permitting process for two additional mining areas.

While it is expected that the average cost of sales will vary from quarter to quarter, the average cost of sales for fiscal 2011 is anticipated to be approximately \$100 per tonne. The Corporation continues to focus on productivity improvements and cost control measures throughout the operations while expanding production. An escalation of mining input costs or lower than expected production levels would have a negative impact on the anticipated cost of sales.

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Capital Expenditures

The Corporation anticipates capital expenditures of approximately \$225 million over the three year period ending in fiscal 2013, with an estimated \$165 million of this capital being spent in fiscal 2011. The capital spending will include:

- New surface mine equipment for the No. 8 pit at a cost of approximately \$46 million, including a P&H 2800 electric shovel, a P&H 320 electric drill, a P&H 250 XP diesel hydraulic drill and a fleet of six Komatsu 830E haul trucks.
- Development and infrastructure costs of approximately \$63 million. This includes approximately \$27 million for road construction, pre-stripping and development of the No. 8 pit, as well as approximately \$36 million for the initial cost of a new maintenance facility and a coal conveyor system.

Capital expenditures are expected to be funded by existing cash balances, cash flow from operations and equipment leases. Grande Cache Coal has received commitments to finance US\$45 million of new equipment through US dollar denominated capital leases and is currently in the process of finalizing these agreements.

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 June 8, 2010, there were 96,975,206 common shares issued and outstanding, and the following share options were also outstanding:

<u>Share Options Outstanding</u>	<u>Number Granted</u>	<u>Number Vested</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	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
	25,000	25,000	\$1.05	November 16, 2011
	201,668	201,668	\$0.88	May 23, 2012
	950,005	950,005	\$1.04	January 8, 2013
	150,000	49,998	\$5.02	August 20, 2013
	1,626,736	336,729	\$1.01	November 12, 2013
	100,000	33,333	\$0.88	January 10, 2014
	83,334	-	\$0.77	February 10, 2014
	50,000	-	\$3.57	August 18, 2014
	125,000	-	\$5.95	February 10, 2015
Total	<u>3,716,743</u>	<u>2,001,733</u>		

Subsequent Events

Subsequent to March 31, 2010, the following events occurred.

The Corporation entered into foreign exchange forward contracts to sell US\$48 million at an exchange rate of Canadian dollars 1.0494 to the US dollar over the period October 2010 to March 2011.

Payments of US\$9.1 million were made towards purchase commitments on mining equipment.

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A new five-year collective agreement was ratified by employees at the mine site represented by the United Mine Workers of America ("UMWA"). This is the first collective agreement between the Corporation and the UMWA.

Additional Information

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

Critical Accounting Estimates

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

Capital Assets, Depletion and Impairment

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

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

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

Inventory Valuation

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

Asset Retirement Obligations

The Canadian Institute of Chartered Accountants ("CICA") Handbook section 3110 requires recognition of an asset and a liability for asset retirement obligations determined by estimating the fair value of the obligation at the balance sheet date. The total asset retirement obligation, calculated using estimates of the timing and amount of third party cash flows

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required for restoration, is discounted to its present value using the Corporation's credit adjusted risk-free rate and the corresponding amount is recognized by increasing the carrying amount of mineral properties. The carrying amount is depleted on units of production based on the proven and probable reserves of the coal leases. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to accretion expense in the period. Any change in the timing or amount of the cash flows subsequent to initial recognition results in a change in the asset and liability, which then impacts depletion and accretion charges.

Stock-based Compensation

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

Recent and Upcoming Changes in Accounting Policies

All accounting policies adopted by the Corporation are in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the year except as described below.

Mining Exploration Costs

EIC-174 – Mining Exploration Costs, was issued by the Canadian Institute of Chartered Accountants ("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 consolidated financial statements.

Goodwill and Intangible Assets

CICA Handbook section 3064 – Goodwill and Intangible Assets, was adopted by the Corporation on April 1, 2009. Section 3064 replaced 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 consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

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 consolidated financial statements.

Financial Instruments – Disclosures

CICA Handbook section 3862 – Financial Instruments – Disclosures, was amended in June 2009 to include additional disclosure requirements about fair value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments require a three-level hierarchy in determining the inputs used in making fair value measurements. Additional disclosures have been provided in the March 31, 2010, notes to the consolidated financial statements.

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") in 2011 for publicly accountable

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enterprises. As such, the Corporation will be required to adopt IFRS for the fiscal year beginning April 1, 2011, including comparative data from the prior fiscal year. The Corporation's first filing of IFRS compliant financial statements will be the first quarter of fiscal 2012 (June 30, 2011).

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation 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 made significant progress in the evaluation and development phase including the following:

- Completed an assessment on the effects of adoption on key financial statement components;
- Made choices regarding alternatives available under first time adoption (IFRS 1);
- Componentization of property, plant and equipment has been substantially completed;
- Prepared an assessment of changes to stock based compensation provisions and asset retirement obligations;
- Prepared draft financial statements that included IFRS presentation and disclosure requirements and conducted a review of these statements with the Audit Committee of the Board of Directors;
- Continued assessments of less critical IFRS transition issues;
- Continued training of key personnel and stakeholders;
- Maintained communication with the Corporation's independent external auditors.

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

- Finalize the development of IFRS accounting policies;
- Revise internal control procedures and documentation and implement controls as required;
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2011, including reconciliation to previously reported GAAP;
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2012.

The full extent of adopting IFRS and the impact on the Corporation's financial position and future results of operations is not reliably determinable at this time. The Corporation will continue to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Corporation's adoption of IFRS and will update its plan as necessary.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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Internal Control over Financial Reporting

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

The Corporation is required to disclose herein any change in the Corporation's internal control over financial reporting that occurred during the period ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. No material changes in the Corporation's internal control over financial reporting were identified during 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.

RISK FACTORS

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

Market Risks

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader United States of America and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved toward the latter portion of 2009 and into 2010, these factors have negatively impacted company valuations and may impact the performance of the global economy going forward.

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Competition

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

Marketability

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

Volatility of Coal Prices

The market price of coal is volatile and is affected by numerous factors that are beyond the Corporation's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events, as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration and development activities to be undertaken by the Corporation.

Dependence Upon the Steel Industry

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

Operational Risks

Exploration, Development and Operating Risks

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

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

The Corporation's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, rock falls, seismic

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activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Project Development, Expansion Targets and Operational Delays

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

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

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

Dependence on Suppliers of Services and Products

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

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

Currency Risk

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

Health and Safety

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

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Title to Assets

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

Reserve and Resource Estimates

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

Uninsured Risks

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

Litigation

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

Dividends

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

Work Stoppages and Dependence on Key Personnel

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

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

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Government Regulations

Changes in Legislation

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

Government Regulations and Processing Licenses and Permits

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

Permits and Permitting Process

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

Regulatory Efforts to Control Greenhouse Gas Emissions

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

In early 2010, the Government of Canada announced revised targets for reducing greenhouse gas emissions as it had committed to do as a signatory to the Copenhagen Accord. Canada's new aim is to reduce absolute emissions by 17 per cent from 2005 levels by 2020 - numbers that mirror those in a bill that is currently before the U.S. Senate. In the meantime, regulations to reduce greenhouse-gas emissions that the Canadian government initially indicated would be developed in 2008 have been put on hold. Additional policy measures are anticipated over the coming years under this federal policy.

In Alberta, the *Climate Change and Emissions Management Act* and the Specified Gas Emitters Regulation require certain existing large emitters (facilities, including coal processing facilities, that are releasing 100,000 tonnes or more of greenhouse gas emissions in any calendar year after and including 2003) to reduce their emissions intensity by 12% starting July 1, 2007. The Government of Alberta is contemplating reducing the reporting threshold from 100,000 tonnes of greenhouse gas emissions in any calendar year to 50,000 tonnes per year, subject to discussion of harmonization with the Government of Canada reporting requirement. The regulation also outlines options for meeting reduction targets. If reducing emissions intensity by 12% is not initially possible, large emitters will be able to invest in an Alberta-based technology fund to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. Large emitters will be required to pay \$15 per tonne to the technology fund for every tonne of emissions above the 12% reduction target. Alternatively, large emitters could also invest in Alberta-based projects

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

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

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

Environmental Regulation and Liability

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

Credit Risk

Debt Instruments

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

Additional Funding Requirements

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

Grande Cache Coal Corporation

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Directors' and Officers' Conflicts of Interest

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

Forward-Looking Information May Prove Inaccurate

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

Management's Report

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

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

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

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

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

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

June 8, 2010

Auditors' Report

To the Shareholders of
Grande Cache Coal Corporation

We have audited the consolidated balance sheets of Grande Cache Coal Corporation as at March 31, 2010 and 2009 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
June 8, 2010

Grande Cache Coal Corporation
Consolidated Balance Sheets
As at March 31
(thousands of Canadian dollars)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 87,436	\$ 68,035
Restricted cash (note 4)	13,499	8,440
Accounts receivable (note 5)	12,483	15,153
Inventory (note 6)	33,999	49,800
Prepaid expenses	9,114	965
Future income taxes (note 8)	232	-
	<u>156,763</u>	<u>142,393</u>
Deposit for future reclamation expenditures	-	82
Capital assets (note 7)	<u>180,935</u>	<u>116,707</u>
	<u>\$ 337,698</u>	<u>\$ 259,182</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 25,716	\$ 13,078
Future income taxes (note 8)	-	886
Current portion of capital lease obligations (note 9)	<u>6,744</u>	<u>52</u>
	32,460	14,016
Asset retirement obligations (note 10)	8,801	6,429
Capital lease obligations (note 9)	27,515	-
Future income taxes (note 8)	<u>18,102</u>	<u>10,298</u>
	<u>86,878</u>	<u>30,743</u>
Shareholders' equity		
Share capital (note 11)	196,232	194,541
Contributed surplus	3,945	3,362
Retained earnings	<u>50,643</u>	<u>30,536</u>
	<u>250,820</u>	<u>228,439</u>
	<u>\$ 337,698</u>	<u>\$ 259,182</u>
Commitments (note 12)		

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Nicholas G. Kirton
Director

Grande Cache Coal Corporation
Consolidated Statements of Net Income, Comprehensive Income and Retained Earnings
Years Ended March 31
(thousands of Canadian dollars, except per share amounts)

	2010	2009
Revenue	\$ 232,530	\$ 248,628
Expenses		
Cost of product sold	127,198	90,428
Distribution	49,736	35,548
General and administrative (note 13)	9,960	7,086
Depreciation, depletion and accretion	18,980	9,281
	<u>205,874</u>	<u>142,343</u>
Income from operations	26,656	106,285
Other income (expenses)		
Foreign exchange (losses) gains	(514)	12,535
Unrealized gains on foreign exchange forward contracts	3,024	-
Interest and other income	491	1,290
Interest and other expenses	(1,017)	(574)
	<u>28,640</u>	<u>119,536</u>
Income before taxes	28,640	119,536
Taxes (note 8)		
Current tax expense	(1,847)	(2,133)
Future income taxes expense	(6,686)	(11,184)
	<u>20,107</u>	<u>106,219</u>
Net income and comprehensive income	20,107	106,219
Retained earnings (deficit), beginning of year	<u>30,536</u>	<u>(75,683)</u>
Retained earnings, end of year	<u>\$ 50,643</u>	<u>\$ 30,536</u>
Net income per share (note 14)		
Basic	\$ 0.21	\$ 1.18
Diluted	\$ 0.20	\$ 1.15

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation
Consolidated Statements of Cash Flows
Years Ended March 31
(thousands of Canadian dollars)

	2010	2009
Cash provided by (used for)		
Operating activities		
Net income and comprehensive income	\$ 20,107	\$ 106,219
Items not affecting cash		
Stock-based compensation (note 15)	1,312	952
Unrealized foreign exchange losses (gains)	2,517	(7,646)
Unrealized gains on foreign exchange forward contracts	(3,024)	-
Future income taxes (note 8)	6,686	11,184
Depreciation, depletion and accretion	18,980	9,281
Settlement of asset retirement obligations (note 10)	-	(147)
	<u>46,578</u>	<u>119,843</u>
Net change in non-cash working capital relating to operating activities	<u>27,087</u>	<u>(33,834)</u>
	<u>73,665</u>	<u>86,009</u>
Financing activities		
Net proceeds from capital lease financings (note 7)	10,729	-
Payment on capital lease obligations (note 9)	(8,361)	(71)
Proceeds on exercise of warrants (note 11)	-	17,354
Proceeds on exercise of options (note 11)	962	2,955
Share issuance costs (note 11)	-	(2)
Repayment on revolving debt (note 16)	-	(5,000)
	<u>3,330</u>	<u>15,236</u>
Investing activities		
Additions to mineral properties and development	(11,961)	(8,319)
Additions to buildings and equipment	(35,279)	(36,894)
Restricted cash (note 4)	(5,059)	(1,912)
Net change in non-cash working capital relating to investing activities	<u>(885)</u>	<u>2,031</u>
	<u>(53,184)</u>	<u>(45,094)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(4,410)</u>	<u>7,646</u>
Increase in cash and cash equivalents	19,401	63,797
Cash and cash equivalents, beginning of year	<u>68,035</u>	<u>4,238</u>
Cash and cash equivalents, end of year	<u>\$ 87,436</u>	<u>\$ 68,035</u>
Supplemental cash flow information:		
Interest paid	\$ 1,017	\$ 574
Taxes paid	\$ 1,842	\$ 2,123

See accompanying notes to the consolidated financial statements.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

1. Nature of Operations

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

2. Significant Accounting Policies

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

Principles of Consolidation

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

Management Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

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

Inventory

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

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

Mineral Properties and Development

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

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

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

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

Depreciation and Depletion

Depreciation of computer equipment and software is provided for using the declining balance method at rates ranging from 30% to 100% per annum. Depreciation of buildings and equipment is straight-line based on the useful life of the asset ranging from 2 to 20 years. Depletion on producing properties is calculated using a unit of production method based on proven and probable reserves of the respective coal leases. Development costs are charged to depletion expense on a unit of production method based on proven and probable reserves of the respective coal leases.

Asset Retirement Obligations

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

Foreign Currency Translation

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

Financial Instruments

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

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

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

Revenue Recognition

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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

Cost of Product Sold

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

Distribution

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

Taxes

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

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

Stock-based Compensation

The Corporation uses the fair value method of accounting for stock-based compensation related to share options for all awards granted, modified or settled. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the share options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation has not incorporated an estimated forfeiture rate of share options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

Reclassification

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

3. Recent and Upcoming Changes in Accounting Policies

Mining Exploration Costs

EIC-174 – Mining Exploration Costs, was issued by the Canadian Institute of Chartered Accountants (“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 consolidated financial statements.

Goodwill and Intangible Assets

CICA Handbook section 3064 – Goodwill and Intangible Assets, was adopted by the Corporation on April 1, 2009. Section 3064 replaced 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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

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 consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

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 consolidated financial statements.

Financial Instruments – Disclosures

CICA Handbook section 3862 – Financial Instruments – Disclosures, was amended in June 2009 to include additional disclosure requirements about fair value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments require a three-level hierarchy in determining the inputs used in making fair value measurements. Additional disclosures have been provided in the March 31, 2010, notes to the consolidated financial statements.

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) confirmed that International Financial Reporting Standards (“IFRS”) will replace Canadian generally accepted accounting principles (“GAAP”) in 2011 for publicly accountable enterprises. As such, the Corporation will be required to adopt IFRS for the fiscal year beginning April 1, 2011, including comparative data from the prior fiscal year. The Corporation’s first filing of IFRS compliant financial statements will be the first quarter of fiscal 2012 (June 30, 2011).

The Corporation’s conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation 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 made significant progress in the evaluation and development phase including the following:

- Completed an assessment on the effects of adoption on key financial statement components;
- Made choices regarding alternatives available under first time adoption (IFRS 1);
- Componentization of property, plant and equipment has been substantially completed;
- Prepared an assessment of changes to stock based compensation provisions and asset retirement obligations;
- Prepared draft financial statements that included IFRS presentation and disclosure requirements and conducted a review of these statements with the Audit Committee of the Board of Directors;
- Continued assessments of less critical IFRS transition issues;
- Continued training of key personnel and stakeholders;
- Maintained communication with the Corporation’s independent external auditors.

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

- Finalize the development of IFRS accounting policies;
- Revise internal control procedures and documentation and implement controls as required;
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2011, including reconciliation to previously reported GAAP;
- Prepare IFRS compliant interim and annual financial statements for the fiscal year ended March 31, 2012.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

The full extent of adopting IFRS and the impact on the Corporation's financial position and future results of operations is not reliably determinable at this time. 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.

4. Restricted Cash

Cash secured letters of credit in the amount of \$11,799 (2009 - \$8,240) have been provided to the Alberta Government for security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit of \$1,700 (2009 - \$200) have been made available to service providers.

5. Accounts Receivable

	As at March 31 2010	As at March 31 2009
Trade accounts receivable	\$ 7,384	\$ 13,899
Goods and services tax receivable	1,440	876
Unrealized gain on foreign exchange forward contracts	3,024	-
Other	635	378
	<u>\$ 12,483</u>	<u>\$ 15,153</u>

6. Inventory

	As at March 31 2010	As at March 31 2009
Coal inventory	\$ 27,986	\$ 44,332
Materials inventory	6,013	5,468
Total	<u>\$ 33,999</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. During fiscal 2010, parts and supplies inventories of \$8,154 were expensed to cost of product sold compared to \$7,364 in fiscal 2009.

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

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

7. Capital Assets

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

	As at March 31, 2009		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 107,954	\$ 14,171	\$ 93,783
Mineral properties and development	38,534	15,816	22,718
Capital leases	230	24	206
	<u>\$ 146,718</u>	<u>\$ 30,011</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.

At March 31, 2010, \$20,123 (2009 - \$11,539) was capitalized for mineral properties and development that were not producing and equipment that was not in use during the year. No depreciation or depletion has been taken on these assets.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

8. Taxes

The Corporation had a net future income tax liability of \$17,870, of which \$232 was classified as a current asset. The components of the future income tax (liability) asset are as follows:

	As at March 31 2010	As at March 31 2009
Temporary differences related to:		
Buildings and equipment and mineral properties and development costs	\$ (20,611)	\$ (12,428)
Asset retirement obligations	2,200	1,607
Share issuance costs	309	523
Other	232	(886)
Future income tax liability	<u>\$ (17,870)</u>	<u>\$ (11,184)</u>

Tax expenses differ from that which would be expected from applying the statutory Canadian federal and provincial income tax rates of 28.8% (2009 – 29.4%) to the income before taxes, as follows:

	2010	2009
Expected income tax expense	\$ 8,234	\$ 35,120
Change resulting from:		
Stock based compensation	377	280
Other	(435)	38
Change in tax rates	(1,145)	(1,841)
Investment tax credits	(345)	-
Change in valuation allowance	-	(22,413)
Income tax expense	<u>6,686</u>	<u>11,184</u>
Provincial crown royalties	1,847	2,133
	<u>\$ 8,533</u>	<u>\$ 13,317</u>

9. 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.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

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

Balance – March 31, 2008	\$	123
Payments made during the period		(82)
Interest portion of payments		11
Balance – March 31, 2009		52
Fair value of initial capital leases		44,311
Payments made during the period		(9,328)
Interest portion of payments		967
Foreign exchange adjustment to US dollar obligation		(1,743)
Balance – March 31, 2010		34,259
Current portion of capital lease obligations		(6,744)
Long term portion of capital lease obligations	\$	<u>27,515</u>

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

Less than 1 year	\$	8,744
2-3 years		17,388
4-5 years		13,395
Total minimum lease payments		39,527
Amounts representing interest		(5,268)
Present value of minimum lease payments		34,259
Current portion of capital lease obligations		(6,744)
Long term portion of capital lease obligations	\$	<u>27,515</u>

10. Asset Retirement Obligations

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. At fiscal year end, the Corporation has estimated the net present value of its asset retirement obligations to be \$8,801 (2009 - \$6,429), based on a total future liability of \$14,926 (2009 - \$10,952). The Corporation's credit adjusted risk-free rates range from 4.5% to 7.6% depending on the period when the provision originated and the term of estimated years to reclamation.

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

	2010	2009
Balance, beginning of year	\$ 6,429	\$ 4,020
Increase in liability	1,865	2,170
Settlement of liability	-	(147)
Accretion	507	386
Balance, end of year	<u>\$ 8,801</u>	<u>\$ 6,429</u>

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

11. 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	899	1,691
Balance – March 31, 2010	96,975	\$ 196,232

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

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

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

During the fourth quarter of fiscal 2010, 455 thousand common share options were exercised for cash proceeds of \$445. On exercise of these common share options, \$378 was credited to share capital from contributed surplus.

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.

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.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

12. Commitments

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

The Corporation entered into various purchase commitments for mining equipment. At March 31, 2010, commitments owing on these equipment totalled approximately \$36,356, which included US dollar commitments of US\$28,323.

Under contracts existing at March 31, 2010, future minimum amounts payable under these agreements for each fiscal year are summarized below:

2011	\$	37,133
2012	\$	722
2013	\$	662
2014	\$	579
2015 and thereafter	\$	1,091

13. General and Administrative

	2010	2009
Head office administrative and marketing charges	\$ 8,648	\$ 6,134
Non-cash stock-based compensation charges	<u>1,312</u>	<u>952</u>
	<u>\$ 9,960</u>	<u>\$ 7,086</u>

14. Net Income per Share

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

(thousands, except per share information)	2010	2009
Weighted average shares outstanding – basic	96,321	89,677
Dilutive effect of share options	<u>2,414</u>	<u>3,043</u>
Weighted average shares outstanding – diluted	98,735	92,720
Net income	<u>\$ 20,107</u>	<u>\$ 106,219</u>
Net income per share – basic	\$ 0.21	\$ 1.18
Net income per share – diluted	\$ 0.20	\$ 1.15

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

15. 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. Share options granted under the plan may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors. 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.

Total stock-based compensation expense included in general and administrative expenses for the fiscal year was \$1,312 (2009 - \$952) and was a result of options granted pursuant to the Corporation's share option plan.

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.

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

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

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

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

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 150%, risk-free interest rates of 1.3% to 4.5% and an expected term of five years.

Grande Cache Coal Corporation

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(thousands of Canadian dollars, except per share amounts)

Details of the share options outstanding are as follows:

<i>(thousands of shares)</i>	Number of Options	Weighted Average Exercise Price
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	175	5.27
Cancelled	(175)	7.29
Exercised	<u>(899)</u>	<u>1.07</u>
Outstanding – March 31, 2010	<u>3,717</u>	<u>\$ 1.51</u>

Of the share options outstanding at March 31, 2010, 35 thousand options expire in fiscal 2011, 395 thousand options expire in fiscal 2012, 1,152 thousand options expire in fiscal 2013, 1,960 thousand options expire in fiscal 2014, 175 thousand options expire in fiscal 2015.

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

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	10	\$ 9.08
	25	4.50
	245	2.44
	125	1.05
	25	1.05
	202	0.88
	950	1.04
	50	5.02
	337	1.01
	<u>33</u>	<u>0.88</u>
	<u>2,002</u>	<u>\$ 1.37</u>

16. 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 was 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

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revolving and term debt was \$486 during the first quarter of fiscal 2009. The revolving credit facility with Brookfield expired on April 1, 2009.

17. Capital Management

Grande Cache Coal's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure, as disclosed on the balance sheet, consists of cash and cash equivalents, capital leases and shareholders' equity. The Corporation also has an unused operating credit facility of up to \$28,000 and the ability to enter into foreign exchange hedging arrangements.

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

18. Financial Instruments and Risk Management

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

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

Fair value of financial instruments

The Corporation has certain financial instruments that are measured at fair value on a recurring basis as summarized in the table below.

Financial instrument	As at March 31 2010	
	Carrying amount	Fair value
Financial asset		
Cash and cash equivalents	\$ 87,436	\$ 87,436
Restricted cash	\$ 13,499	\$ 13,499
Foreign exchange forward contracts	\$ 3,024	\$ 3,024

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.

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

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

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

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

Risk Management

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

Credit Risk

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

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

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of trade accounts receivable. The maximum credit risk exposure is equal to the carrying amount of trade accounts receivable as disclosed in the notes to the 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 \$28,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at March 31, 2010 was nil, however availability on the facility was reduced by approximately \$2,332 due to the Corporation entering into foreign exchange forward contracts. At March 31, 2010, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

<i>(thousands of Canadian dollars)</i>	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	25,716	-	-	-
Operating leases	776	1,383	1,156	514
Capital leases	8,744	17,388	13,393	-
Purchase obligations	36,356	-	-	-
	<u>71,592</u>	<u>18,771</u>	<u>14,549</u>	<u>514</u>

Market Risk

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

Foreign exchange rates

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

Based on the US dollar denominated trade accounts receivable balance at March 31, 2010, each decrease of US\$0.01 relative to the Canadian dollar would have resulted in a decrease of \$68, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At March 31, 2010, the outstanding commitment on the capital lease obligations was US\$33,725. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the capital lease payments. The Corporation entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

The Corporation entered into a series of foreign exchange forward contracts that will mature by September 2010. At March 31, 2010, the Corporation had outstanding contracts to sell a total of US\$5,000 at an average rate of Canadian dollars 1.155 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 March 31, 2010, these contracts were marked to market resulting in an unrealized foreign exchange gain of \$3,024 that was recognized in the income statement and has been classified on the balance sheet as accounts receivable. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

The Corporation entered into US dollar purchase commitments for mining equipment. At March 31, 2010, US\$28,323 remained owing on these commitments. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these commitments.

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Interest rates

Interest accrues on the Corporation's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 percent per annum, calculated daily. The Corporation did not have a balance owing on the operating credit facility at March 31, 2010.

19. Economic Dependence

All of the Corporation's metallurgical coal production is transported by CN Rail and loaded onto vessels at Vancouver by Westshore Terminals Ltd. or at Thunder Bay by Thunder Bay Terminals Ltd. There are limited alternatives for these services and securing alternatives could increase distribution costs. Interruption of rail services would limit the Corporation's ability to operate.

20. Subsequent Events

Subsequent to March 31, 2010, the following events occurred.

The Corporation entered into foreign exchange forward contracts to sell US\$48,000 at an exchange rate of Canadian dollars 1.049 to the US dollar over the period October 2010 to March 2011.

Payments of US\$9,113 were made towards purchase commitments on mining equipment.