

8/25

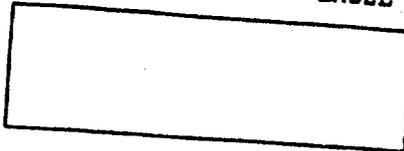


06016345

82- SUBMISSIONS FACING SHEET

**Follow-Up
Materials**

MICROFICHE CONTROL LABEL



REGISTRANT'S NAME

Grand Cache Coal Corp

*CURRENT ADDRESS

PROCESSED

AUG 28 2006

THOMSON
FINANCIAL

**FORMER NAME

**NEW ADDRESS

FILE NO. 82- 34802

FISCAL YEAR 2006

• Complete for initial submissions only •• Please note name and address changes

INDICATE FORM TYPE TO BE USED FOR WORKLOAD ENTRY:

12G3-2B (INITIAL FILING)

AR/S (ANNUAL REPORT)

12G32BR (REINSTATEMENT)

SUPPL (OTHER)

DEF 14A (PROXY)

OICF/BY:

[Signature]
8/28/06

DATE:

file No. 82-34802

RECEIVED

2006 AUG 25 P 12:49

OFFICE OF INTERNATIONAL
CORPORATE FINANCE

3-31-06
AR/S



GRANDE CACHE COAL CORPORATION

ANNUAL INFORMATION FORM
for the Fiscal Year Ended March 31, 2006

June 29, 2006

TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION ADVISORY	2
GENERAL GLOSSARY	3
CONVENTIONS	5
CURRENCY	5
CONVERSION FACTORS	5
GLOSSARY OF TECHNICAL TERMS	6
GRANDE CACHE COAL CORPORATION	10
GENERAL DEVELOPMENT OF THE BUSINESS	10
DESCRIPTION OF THE BUSINESS	12
GRANDE CACHE COAL PROJECT	18
INDUSTRY CONDITIONS	30
RISK FACTORS	32
DIVIDEND POLICY	38
DESCRIPTION OF SHARE CAPITAL	39
MARKET FOR SECURITIES	39
HUMAN RESOURCES	40
DIRECTORS AND EXECUTIVE OFFICERS	40
LEGAL PROCEEDINGS	42
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	42
TRANSFER AGENT AND REGISTRAR	42
MATERIAL CONTRACTS	43
INTERESTS OF EXPERTS	45
ESCROWED SECURITIES	45
PRIOR SALES	45
AUDIT COMMITTEE INFORMATION	45
ADDITIONAL INFORMATION	47

SCHEDULE "A" – MANDATE AND TERMS OF REFERENCE OF THE AUDIT COMMITTEE

FORWARD-LOOKING INFORMATION ADVISORY

This Annual Information Form contains forward-looking information relating, but not limited, to Grande Cache Coal Corporation's (the "**Corporation**" or "**Grande Cache Coal**") expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may", and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. This forward-looking information is given only as of the date of this Annual Information Form.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following: operating costs and coal production levels; capital expenditure programs; the recoverable quantity of coal reserves; projections of commodity prices and costs; supply and demand for coal; expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions, exploration and development; expectations regarding the Corporation's ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; and treatment under governmental regulatory regimes and tax laws.

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 inaccurate. These factors include, but are not limited to: liabilities inherent in coal mine development and production; geological, mining and processing technical problems; the Corporation's inability to obtain required mine licenses, mine permits and regulatory approvals required in connection with mining and coal processing operations; dependence on third party coal transportation systems; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; changes in commodity prices and exchange rates; changes in steel-making methods and other technological changes; the strength of various economies; difficulties inherent with selling in foreign countries; changes in the regulation in respect to the use of metallurgical coal; the effects of competition and pricing pressures in the metallurgical coal market; the oversupply of, or lack of demand for, metallurgical coal; currency and interest rate fluctuations; various events which could disrupt operations and/or the transportation of coal products, including labour stoppages and severe weather conditions; the demand for and availability of rail, port and other transportation services; the other factors discussed under "Risk Factors" in this Annual Information Form; and management's ability to anticipate and manage the foregoing factors and risks.

Information relating to the magnitude or quality of coal deposits is deemed to be forward-looking information. The reliability of such information is affected by, among other things: uncertainty involving geology of coal deposits; uncertainty of estimates of their size or composition; uncertainty of projections relating to costs of production, transportation or estimates of market prices for coal; the possibility of delays in mining activities; changes in plans with respect to exploration, development projects or capital expenditures; and various other risks including those relating to health, safety and environmental matters.

The Corporation cautions that the list of factors set forth above is not exhaustive. Some of the risks, uncertainties and other factors which negatively affect the reliability of forward-looking information are discussed in the Corporation's public filings with the Canadian securities regulatory authorities, including its most recent management information circular, annual report, quarterly reports, material change reports and news releases. Copies of the Corporation's Canadian public filings are available at www.sedar.com. The Corporation further cautions that information contained on, or accessible through, this website is current only as of the date of such information and may be superseded by subsequent events or filings. Except as required by applicable securities laws, the Corporation undertakes no obligation to update publicly or otherwise revise any information, including any forward-looking information, whether as a result of new information, future events or other such factors that affect this information.

GENERAL GLOSSARY

In this Annual Information Form, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

"**ABCA**" means the *Business Corporations Act* (Alberta), together with any amendments thereto and all regulations promulgated thereunder;

"**AEUB**" means the Alberta Energy and Utilities Board;

"**AMEC**" means AMEC Americas Ltd. of Calgary, Alberta;

"**AMEC Report**" means the independent technical report of AMEC quantifying the coal reserves and resources of the No. 12S B2 Mine area, the No. 8 Mine area, the No. 16 East Mine area and the No. 12 North Mine area dated effective June 21, 2006 and entitled "2006 NI 43-101 Technical Report for Open Pit Coal Mines, Grande Cache, Canada";

"**Common Shares**" means the common shares in the capital of Grande Cache Coal after giving effect to the Share Split and the reorganization of Grande Cache Coal's share capital on March 22, 2004;

"**Corporation**" or "**Grande Cache Coal**" means Grande Cache Coal Corporation;

"**EIA**" means an environmental impact assessment;

"**EPEA**" means the *Environmental Protection and Enhancement Act* (Alberta), together with any amendments thereto and all regulations promulgated thereunder;

"**GAAP**" means Canadian generally accepted accounting principles;

"**GSC 88-21**" means the Geological Survey of Canada Paper 88-21 "A Standardized Coal Resource/Reserve Reporting System for Canada", J.D. Hughes, L. Klatzel-Mudry and D. J. Nikols, 1989;

"**McIntyre**" means the former McIntyre Mines Ltd.;

"**NI 43-101**" means National Instrument 43-101 – Standards of Disclosure for Mineral Projects;

"**No. 7 Lease**" means Alberta Energy Coal Lease No. 1300090001, as amended, pursuant to which the Alberta Minister of Energy granted the Corporation the exclusive right to win, work and recover coal within No. 7 Lease Area, together with the right to remove from No. 7 Lease Area any coal recovered, until September 6, 2015 and renewable under and in accordance with the *Mines and Minerals Act* (Alberta), and subject to the terms and conditions prescribed by the Alberta Minister of Energy in relation to each renewal;

"**No. 8 Lease**" means Alberta Energy Coal Lease No. 1300090002, as amended, pursuant to which the Alberta Minister of Energy granted the Corporation the exclusive right to win, work and recover coal within No. 8 Lease Area, together with the right to remove from No. 8 Lease Area any coal recovered, until September 6, 2015 and renewable under and in accordance with the *Mines and Minerals Act* (Alberta), and subject to the terms and conditions prescribed by the Alberta Minister of Energy in relation to each renewal;

"**No. 12 Lease**" means Alberta Energy Coal Lease No. 1303010775, as amended, pursuant to which the Alberta Minister of Energy granted the Corporation the exclusive right to win, work and recover coal within No. 12S B2 Lease Area, together with the right to remove from No. 12S B2 Lease Area any coal recovered, until January 31, 2018 and renewable under and in accordance with the *Mines and Minerals Act* (Alberta), and subject to the terms and conditions prescribed by the Alberta Minister of Energy in relation to each renewal;

"**No. 12 North Lease**" means Alberta Energy Coal Lease No. 1306020565 pursuant to which the Alberta Minister of Energy granted the Corporation the exclusive right to win, work and recover coal within No. 12 North Lease Area, together with the right

to remove from No. 12 North Lease Area any coal recovered, until February 17, 2021 and renewable under and in accordance with the *Mines and Minerals Act* (Alberta), and subject to the terms and conditions prescribed by the Alberta Minister of Energy in relation to each renewal;

"**No. 16 Lease**" means Alberta Energy Coal Lease No. 1304020419, as amended, pursuant to which the Alberta Minister of Energy granted the Corporation the exclusive right to win, work and recover coal within No. 16 Lease Area, together with the right to remove from No. 16 Lease Area any coal recovered, until February 2, 2019 and renewable under and in accordance with the *Mines and Minerals Act* (Alberta), and subject to the terms and conditions prescribed by the Alberta Minister of Energy in relation to each renewal;

"**No. 7 Lease Area**" means the subsurface area or areas underlying the 608 hectares of the following land tracts: 6-08-057: 31N, SE, L3, L5, L6; 6-08-058: 6SW, L2; 6-09-057: 36NE, L8, L14, 6-09-058: 1S, L9-L12;

"**No. 8 Lease Area**" means the subsurface area or areas underlying the 496 hectares of the following land tracts: 6-08-058: 16L3, L4; 17S, NW; 18; 19L1;

"**No. 12 North Lease Area**" means the subsurface area or areas underlying the 2,736 hectares of the following land tracts: 6-10-058: 24L13; 25N, L4-L8; 26; 27; 33-35; 36SW, L1, L2, L7; 6-10-059: 2S, L11, L12; 3; 4; 8; 9S; 10SW;

"**No. 12S B2 Lease Area**" means the subsurface area or areas underlying the 224 hectares of the following land tracts: 6-09-058: 19NW; 30L3, L4; 6-10-058: 24NE, L14; 25L1-L3;

"**No. 16 Lease Area**" means the subsurface area or areas underlying the 2,576 hectares of the following land tracts: 6-09-058: 28L3-L5; 29N, L1, L8; 30NE, L14; 31; 32S; 6-09-059: 5SW; 6; 6-10-058: 36N, L8; 6-10-059: 1; 2NE, L13, L14; 9N; 10N, SE; 11; 12S; 15S; 16;

"**No. 7-4 Mine**" means the underground mine of the Corporation covered by No. 7 Lease;

"**No. 8 Mine**" means the proposed surface mine of the Corporation covered by No. 8 Lease;

"**No. 12 North Mine**" means the development area which has the potential for surface mining operations of low volatile coal covered by No. 12 North Lease;

"**No. 12S B2 Mine**" means the surface mine of the Corporation covered by No. 12 Lease;

"**No. 16 East Mine**" means the proposed surface mine of the Corporation covered by No. 16 Lease;

"**Norwest**" means Norwest Corporation, consulting mining engineers and geologists, of Calgary, Alberta;

"**Project**" means the Grande Cache Coal coal project covering the production of metallurgical coal from the development of mines on the Corporation's eleven coal leases covering an aggregate of 18,688 hectares in the Smoky River Coalfield;

"**Series 1 Preferred Shares**" means the exchangeable redeemable preferred shares in the capital of Grande Cache Coal after giving effect to the reorganization of Grande Cache Coal's share capital on March 22, 2004, which shares were converted into Common Shares on a 1.2307600339-for-one basis on May 12, 2004;

"**Share Split**" means the split of the class "A" voting common shares of the Corporation on a 25.937208-for-one basis effective March 22, 2004;

"**SRCL**" means the former Smoky River Coal Limited;

"**TSX**" means the Toronto Stock Exchange;

"**Units**" means the units of Grande Cache Coal which were sold to subscribers at a price of \$100.03 per unit pursuant to prospectus exemptions under applicable securities legislation, each unit being comprised of 78 Common Shares and 100 Series 1 Preferred Shares after giving effect to the Share Split and the reorganization of Grande Cache Coal's share capital;

"**Warrants**" means the common share purchase warrants of Grande Cache Coal issued pursuant to the terms of a warrant indenture dated April 5, 2006 between Grande Cache Coal and Computershare Trust Company of Canada, each whole Warrant entitling the holder thereof to purchase one Common Share, subject to adjustment in certain circumstances, at a price of \$3.40 per Common Share, subject to adjustment in certain circumstances, at any time up to 3:00 p.m. (Calgary time) on April 5, 2007;

"**WEIR**" means Weir International, Inc. of Downers Grove, Illinois, United States; and

"**WEIR Report**" means the independent mineral resource and mineral reserve technical report of WEIR dated June 20, 2006 in respect of the No. 7-4 Mine and entitled "Technical Report for the No. 7/4 Mine prepared for Grande Cache Coal Corporation June 2006 Project No. 5113".

CONVENTIONS

Certain terms used herein are defined in the "General Glossary" and the "Glossary of Technical Terms". All historical financial information with respect to the Corporation has been presented in Canadian dollars in accordance with GAAP.

CURRENCY

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

CONVERSION FACTORS

Measurements in this Annual Information Form are generally given in metric units. The following table sets forth standard conversions between metric units of measure and imperial units of measure.

To Convert From	To	Multiply By
Cubic metres	cubic yards	1.308
Metres	feet	3.281
Kilometres	miles	0.621
Hectares	acres	2.471
Kilograms	pounds	2.205
Tonnes	long tons	0.984
KJ/kg	Btu/lb	0.430

GLOSSARY OF TECHNICAL TERMS

The following are definitions of certain of the geological terms and references contained in this Annual Information Form.

"**adit**" means a horizontal opening to access a coal seam;

"**anticline**" means a fold, generally convex upward, whose core contains the stratigraphically older rocks;

"**ash**" means ash forming constituents which may be subdivided into two basic classes: those that are structurally a part of the coal and hence inseparably mixed with it and segregated impurities that can be eliminated to a greater or lesser extent by ordinary cleaning methods;

"**ASTM**" is the abbreviation for the American Society for Testing Materials;

"**BCM**" means bank cubic metre, which represents one cubic metre of material measured prior to disturbance;

"**bituminous coal**" means a class of coal having heat values, calculated on an ash-free basis, typically ranging from 24,400 to 32,600 KJ/kg, commonly used for utility and industrial steam purposes and, in the steel-making industry, for making coke or for pulverized coal injection into the blast furnace;

"**BTU**" means a British thermal unit; the amount of heat needed to raise the temperature of one pound of water by one degree Fahrenheit;

"**BTU/lb**" means BTUs per pound, an imperial unit of measure used to describe the amount of heat released on combustion of a pound of material, such as coal, under specific conditions;

"**coal processing plant**" means a facility for crushing, sizing, or washing coal to prepare it for sale;

"**coal rank**" means the qualitative classification of coal from lignite to anthracite based on calorific content and other qualitative and quantitative characteristics;

"**coal reserve**" means coal quantities that are anticipated to be mineable based upon the completion of feasibility studies, utilizing existing technology, under prevailing economic conditions and which have no legal impediment to mining;

"**coal washability**" means the analysis of the specific gravity distribution of chemical and physical characteristics of coal;

"**coke**" means a hard, dry carbon substance produced by heating coal to a very high temperature in the absence of air, used primarily in the manufacture of iron and steel;

"**coking coal**" is metallurgical coal that exhibits the physical and chemical properties that are necessary to form coke;

"**continuous miner**" means a mining machine designed to remove coal from the face and to load that coal into cars or conveyors without the use of cutting machines, drills or explosives;

"**depillar**" means the retreat mining of pillars left in place during development;

"**dip**" means the angle at which a stratum is inclined from the horizontal, measured perpendicular to the strike and in the vertical plane;

"**drill hole**" means a circular hole made by drilling either to explore for minerals or to obtain geological information;

"**dry basis**" means coal that has moisture removed by prescribed laboratory procedure or excluded by calculation;

"**fault**" means a fracture in rock along which the adjacent rock surfaces are differentially displaced;

"**fixed carbon**" means the solid residue, other than ash, remaining after the volatile matter has been liberated from coal during combustion;

"**float/sink**" means a laboratory procedure which measures the floating and sinking of particles of material of various size fractions in heavy liquids at various specific gravities;

"**free swelling index**" or "**FSI**" means a number assigned to particular coal used in determining its suitability for coke making or other uses. The index, from one to nine, is determined by tests established by ASTM standards;

"**front end loader**" means a tractor type loader with a digging bucket mounted on the front end that dumps;

"**froth flotation**" means a process for recovering particles of coal or other minerals, in which the particles adhere to bubbles and can be removed as part of the froth;

"**geophysical log**" means a graphic record of the measured or computed physical characteristics of the rock section encountered in a borehole, plotted as a continuous function of depth;

"**highwall**" means the unexcavated face of exposed overburden and coal or ore in an open-cast mine or the face or bank of the uphill side of a contour strip-mine excavation;

"**interburden**" means the waste material located between economically recoverable resources;

"**ISO**" means the International Organization for Standardization, a worldwide federation of national standards bodies;

"**isopach**" means the areal extent and thickness variation of a stratigraphic unit in geology;

"**KJ/kg**" means kilojoules per kilogram, a metric unit of measure used to describe the amount of heat released on combustion of a kilogram of combustible material, such as coal, under specific conditions;

"**lease**" means a contract between a landowner and a lessee, granting the lessee the right to search for and produce coal upon payment of an agreed rental, bonus and/or royalty;

"**MBCM**" means million BCM;

"**metallurgical coal**" means the various grades of coal suitable for making steel and includes coking coal and PCI coal;

"**mineable**" means capable of being mined under current mining technology and environmental and legal restrictions, rules and regulations;

"**out-of-seam dilution**" or "**OSD**" means the contamination of mined coal with rock outside of the coal seam being mined;

"**outcrop**" means coal which appears at or near the surface; the intersection of a coal seam with the surface;

"**overburden**" means materials that overlie a mineral deposit;

"**PCI**" means pulverized coal injection, a process in which coal is pulverized and injected into a blast furnace. Those grades of coal used in the PCI process are generally non-coking. However, since such grades are utilized by the metallurgical industry, they are considered to be a metallurgical coal. PCI grade coal is used primarily as a heat source in the steel making process in partial replacement of high quality coking coals which are typically more expensive;

"**pit**" means an open excavation from which the raw mineral being mined is extracted;

"**portal**" means the surface entrance to an underground mine;

"**processing plant**" means a facility where coal is prepared for market or other usage. It consists of equipment that separates coal from impurities. Coal is washed, thermally or mechanically dried, sized, stored and loaded for shipment or conveyed to use point;

"**proximate analysis**" means a laboratory analysis to determine the percentage by prescribed methods of moisture, volatile matter, fixed carbon and ash;

"**raw coal**" means coal from the breaker that has not been processed in a processing plant;

"**reclamation**" means the restoration of land at a mining site after the coal is extracted. Reclamation operations are usually conducted as production operations are taking place elsewhere at the site. This process commonly includes recontouring or reshaping the land to its approximate original appearance, restoring topsoil and planting native grasses, trees and ground covers;

"**resource**" means all in-situ coal tonnes meeting either underground or surface criteria specified in GSC 88-21. Those tonnes can be considered as technically extractable coal independent of economic criteria;

"**room-and-pillar mining**" means a system of mining in which the coal is mined in rooms separated by pillars, which are subsequently mined;

"**rotary drill**" means a drill machine that rotates a rigid, tubular string of rods to which is attached a bit for cutting rock to produce boreholes;

"**royalty**" means a share of the product or profit reserved by the owner for permitting another to use the property;

"**run-of-mine coal**" or "**ROM**" means the coal produced from the mine before it is processed;

"**saleable coal**" means the shippable product of a coal mine or processing plant. Depending on customer specifications, saleable coal may be ROM, crushed-and-screened (sized) coal, or the clean coal from a processing plant;

"**seaborne metallurgical coal**" means metallurgical coal that is exported by ocean going ship from the producing country to the consuming country;

"**shovel**" means a large electric or diesel powered machine used in the open pit mining process to remove and load overburden or coal;

"**shuttle car**" means self-discharging underground equipment used for receiving coal from the mining machine and transferring it to an underground loading point or belt conveyor system;

"**strike**" means the course or bearing of an inclined bed, vein or fault plane on a level surface; the direction of a horizontal line perpendicular to the direction of the dip;

"**strip ratio**" means the ratio of the volume of overburden moved to the tonnage of coal produced, measured in terms of BCM of overburden per tonne of coal produced. A lower strip ratio is an operational advantage because less overburden has to be removed in order to expose the raw coal;

"**surface mine**" means a mine in which the mineral deposit lies sufficiently near the surface to be extracted by removing the overburden;

"**syncline**" means a series of flat-lying rock strata that has been folded into a trough-like geological structure;

"**thrust fault**" means a fault with a dip of 45 degrees or less over much of its extent, on which the hanging wall appears to have moved upward relative to the footwall;

"**tonne**" means a metric tonne, which is approximately 2,205 pounds, as compared to a "short" ton, which is 2,000 pounds, or a "long" ton, which is 2,240 pounds. Unless expressly stated otherwise, the metric tonne is the unit of measure used in this Annual Information Form;

"**tunnelway**" means a long, narrow, horizontal or nearly horizontal underground passage that is open to the atmosphere at both ends;

"**underground mine**" means a mine that is located below the earth's surface. Coal is removed mechanically and transferred by shuttle car or conveyor to the surface;

"**volatile matter**" means those products, exclusive of moisture, given off by a material such as gas or vapour, determined by definite prescribed methods, which may vary according to the nature of the material; and

"**yield**" means the ratio of the clean coal product to the raw coal plant feed, expressed as a percentage.

GRANDE CACHE COAL CORPORATION

The Corporation was incorporated under the name Grande Cache Coal Company Inc. pursuant to the ABCA on July 24, 2000. On November 3, 2000, Grande Cache Coal filed Articles of Amendment to reorganize its share capital. On October 1, 2001, Grande Cache Coal filed Articles of Amendment to reorganize its share capital and revise certain "private company" provisions in its Articles. On January 4, 2002 and April 15, 2002, Grande Cache Coal filed Articles of Amendment to reorganize its share capital. On November 18, 2002, the Corporation filed Articles of Amendment to change its name to Grande Cache Coal Corporation, remove "private company" provisions from its Articles and reorganize its share capital. On March 22, 2004, the Corporation filed Articles of Amendment to effect the Share Split and to reorganize its share capital to consist of an unlimited number of Common Shares without nominal or par value and an unlimited of preferred shares, issuable in series. In addition, the Articles of Amendment authorized the creation of the Series 1 Preferred Shares. See "Share Capital". Unless otherwise stated, disclosure in this Annual Information Form of the share capital of Grande Cache Coal is presented after giving effect to the Share Split and the reorganization of Grande Cache Coal's share capital on March 22, 2004.

Grande Cache Coal's head office is located at Suite 1610, 800 – 5th Avenue S.W., Calgary, Alberta, T2P 3T6, and its registered office is located at Suite 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

Grande Cache Coal has one inactive wholly-owned subsidiary, Smoky River International Inc., which is incorporated under the ABCA.

GENERAL DEVELOPMENT OF THE BUSINESS

The Corporation was formed in July 2000 to reactivate metallurgical coal mining in the Smoky River Coalfield near Grande Cache, Alberta. Grande Cache Coal purchased the principal production infrastructure of the previous mine operator including mechanical and electrical components for coal processing, the raw and clean coal handling equipment, the rail loadout facilities and all of the geological, engineering and environmental data and records related to prior operations. Annual coal production from surface and underground mines in the Smoky River Coalfield operated by McIntyre and SRCL during the period 1969 to 2000 ranged up to more than three million tonnes and total metallurgical coal exports over this period exceeded 50 million tonnes. Most of the product was a high quality, hard coking coal that was exported to steel companies around the world. The coalfield also supplied fuel requirements to the HR Milner Generating Station located adjacent to the coal processing facilities.

The following is a summary of the significant events in the development of Grande Cache Coal's business over the last three completed financial years.

May 2003 – The Alberta Energy and Utilities Board (the "AEUB") issued Grande Cache Coal Mine Permit No. C2003-1A wherein it extended Mine Permit No. C2003-1 to include the No. 12S B2 Mine.

June 2003 – The AEUB approved the transfer to Grande Cache Coal of the mine licenses to operate the No. 12S B2 Mine and the associated external waste dumps which mine licenses were reissued to Grande Cache Coal as Mine License Nos. C 98-8B and C 98-9B.

December 2003 – Grande Cache Coal completed the private placement of 4,789 Units to its existing shareholders for gross proceeds of \$479,044.

January 2004 – Grande Cache Coal completed the private placement of 5,211 Units to its existing shareholders for gross proceeds of \$521,256.

February 2004 – The Alberta Minister of Energy issued Grande Cache Coal No. 16 Lease covering the surface mine designated No. 16 East Mine. The Alberta Minister of Energy also issued Grande Cache Coal coal lease nos. 1304020416, 1304020417 and 1304020418 covering an aggregate area of 11,376 hectares.

May 12, 2004 – Grande Cache Coal completed the initial public offering of 22,000,000 Common Shares at a price of \$2.60 per Common Share for gross proceeds of \$57 million. Upon completion of the initial public offering, Grande Cache Coal's Common Shares were listed and posted for trading on the Toronto Stock Exchange under the symbol "GCE".

August 2004 – Alberta Environment issued Grande Cache Coal an approval pursuant to the *Environmental Protection and Enhancement Act* (Alberta) (the "EPEA"), which approval was the final significant regulatory requirement for Grande Cache Coal to commence mining at the No. 12S B2 Mine. The first raw coal was mined from the No. 12S B2 Mine for processing at the coal processing plant. North American Enterprises Ltd., a subsidiary of North American Energy Partners Inc., began contract mining at the No. 12S B2 Mine and providing coal haulage to Grande Cache Coal's coal processing plant.

September 2004 – Alberta Energy granted Grande Cache Coal a coal lease covering the lands containing a coal conveyor tunnelway. The tunnelway is an underground passage that houses a conveyor system owned by Grande Cache Coal which historically has been used to transport raw coal to Grande Cache Coal's processing facilities.

October 2004 – Grande Cache Coal entered into a rail transportation agreement with Canadian National Railway Company ("CN") for coal production from the Project, which agreement is in effect through March 31, 2007 with competitive yearly contract rates. In addition, Grande Cache Coal entered into a port loading services agreement with Westshore Terminals Ltd. ("Westshore Terminals") at Roberts Bank, British Columbia, which agreement is valid through March 31, 2013, with yearly escalation clauses. With the completion of these agreements, Grande Cache Coal commenced transporting coal via Savage Alberta Railway Inc. ("Savage Alberta Railway") and CN to Westshore Terminals at Roberts Bank, British Columbia.

November 2004 – The first raw coal was mined from the No. 7-4 Mine. In addition, Grande Cache Coal completed its first export metallurgical coal shipment from Westshore Terminals.

December 2004 – Grande Cache Coal entered into agreements to supply approximately 1.3 million tonnes of hard coking coal for the coal year commencing April 1, 2005 at a price of U.S.\$125 per tonne to a Korean customer and a group of Japanese steel industry customers.

February 25, 2005 – Grande Cache Coal completed the underwritten private placement of 2,942,000 units of the Corporation at a price of \$13.60 per unit for gross proceeds of \$40 million. Each unit consisted of one Common Share and one-half of one common share purchase warrant of the Corporation, each whole common share purchase warrant entitling the holder to acquire one Common Share of the Corporation at a price of \$16.25 per share on or before February 27, 2006.

December 12, 2005 – Grande Cache Coal established a \$20 million secured credit facility with Brookfield Bridge Lending Fund ("Brookfield"). The credit facility consisted of a \$10 million term facility and a \$10 million revolving facility. Interest was payable monthly at a rate of prime plus 2% per annum. The facility was secured by a general security agreement and had a maturity date of April 8, 2006, subject to a two month extension option.

February 17, 2006 – Grande Cache Coal acquired an additional 3,216 hectares of coal leases in the Smoky River Coalfield. The majority of the acquired lease area is located in the new No. 12 North Mine development area which has the potential for surface mining operations of low volatile coal. The Corporation believes the majority of the coal in the new area will be coking coal with some significant areas of low ratio PCI coal also included. All of the land covered by the new leases area is zoned Category 4 under the Alberta Coal Policy and as such is designated for coal development provided the applicable regulatory approval process is completed.

March 2006 – Grande Cache Coal completed the shipment of one million tonnes of metallurgical coal to its steel industry customers since its operations began in November 2004. The one million tonnes of metallurgical coal does not include any thermal coal sold by Grande Cache Coal to an adjacent power facility.

March 29, 2006 – Grande Cache Coal amended and extended its secured credit facility with Brookfield, principally to increase the size of the revolving facility from \$10 million to \$15 million and to extend the maturity date of the facility to April 8, 2007, subject to a further one year extension option. The restated credit facility consists of a \$10 million term facility and a \$15 million revolving facility. Interest is payable monthly at a rate of prime plus 2% per annum. The facility is secured by a general security agreement and has a maturity date of April 8, 2007, subject to a further one year extension option.

April 5, 2006 – Grande Cache Coal completed the underwritten private placement of 10,000,000 units of the Corporation at a price of \$2.70 per unit for gross proceeds of \$27 million. Each unit consisted of one Common Share and one-half of one Warrant, each whole Warrant entitling the holder to acquire one Common Share of the Corporation at a price of \$3.40 per share on or

before April 5, 2007. Grande Cache Coal issued the underwriters 500,000 Warrants as part of the consideration for their services in connection with the private placement.

DESCRIPTION OF THE BUSINESS

Corporate Strategy

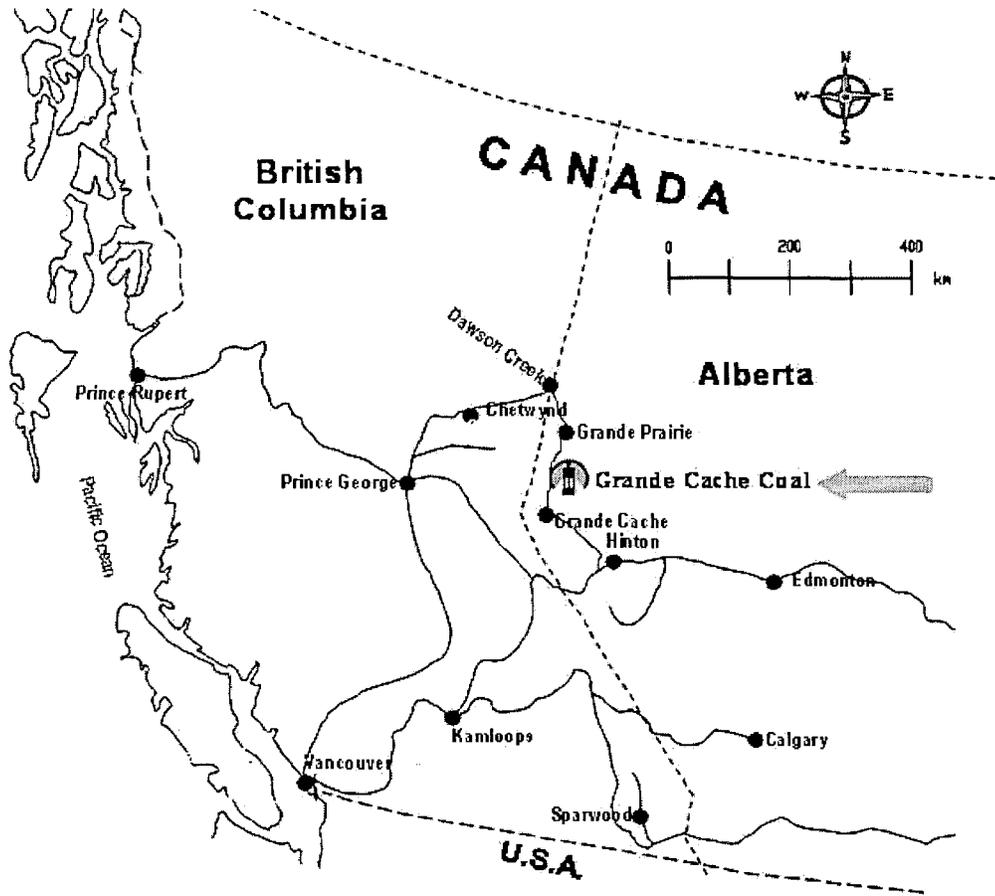
Grande Cache Coal is an Alberta-based metallurgical coal mining company whose experienced team of coal professionals has developed a long-term mining operation producing metallurgical coal for the steel industry from its coal leases covering over 18,600 hectares in the Smoky River Coalfield located in west central Alberta (see Figure 1). The coal project ("**Project**") includes the production of metallurgical coal from the development of the following mines:

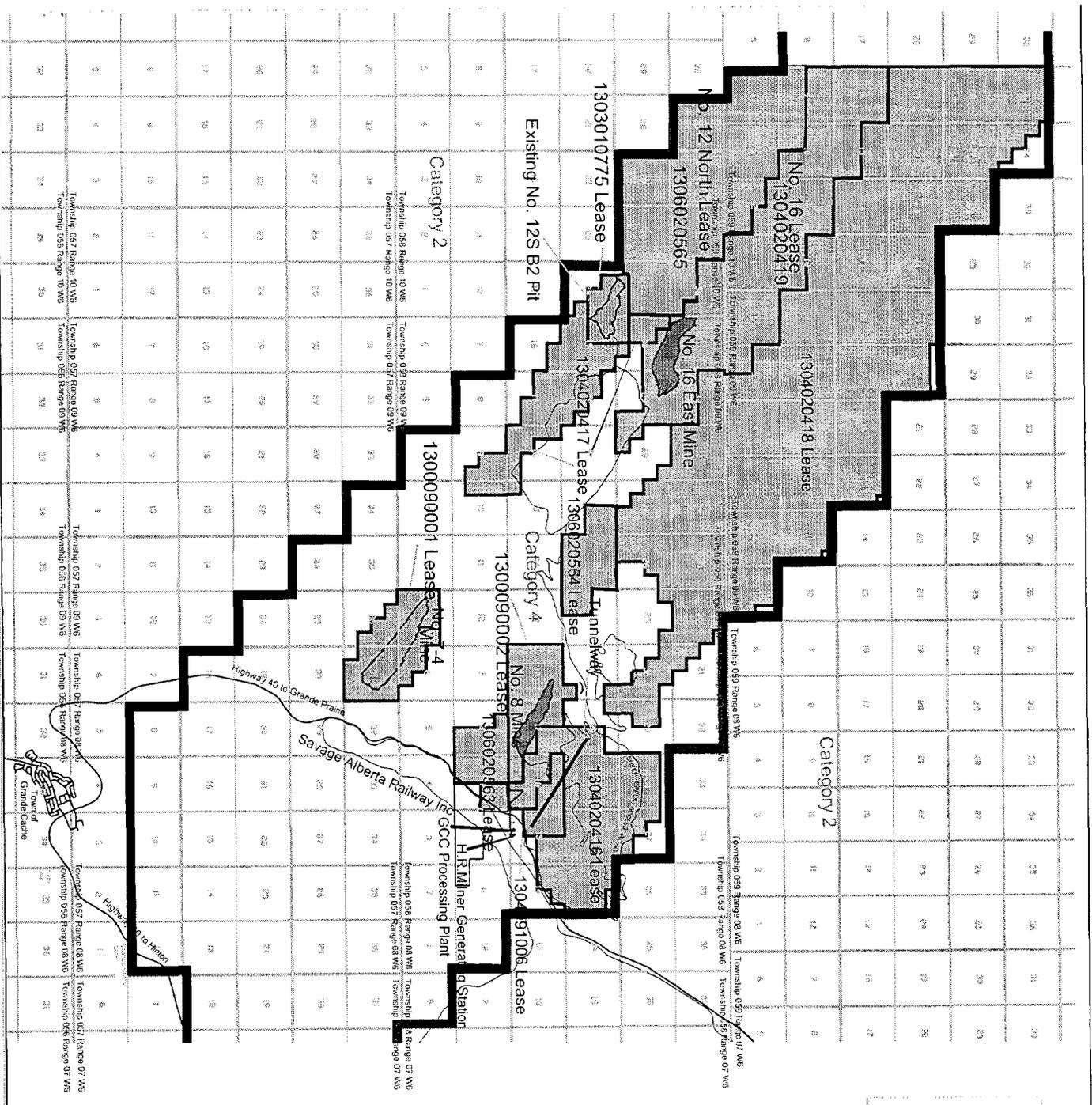
- No. 12S B2 Mine, a surface mine which commenced production in August 2004. This mine is expected to produce approximately 3.3 million tonnes of ROM coal (2.4 million tonnes of saleable coal) during the remaining life of the mine.
- No. 7-4 Mine, an underground mine which commenced production in November 2004. This mine is expected to produce approximately 5.2 million tonnes of ROM coal (3.9 million tonnes of saleable coal) during the remaining life of the mine.
- No. 8 Mine, a surface mine expected to commence production in fiscal 2009. This mine is expected to produce approximately 12.5 million tonnes of ROM coal (8.9 million tonnes of saleable coal) during the life of the mine.
- No. 16 East Mine, a surface mine expected to produce approximately 14.0 million tonnes of ROM coal (10.4 million tonnes of saleable coal) during the life of the mine.

The Corporation owns four coal leases covering the foregoing mines and owns seven additional coal leases which have exploration and development potential. The eleven coal leases owned by the Corporation cover an aggregate of 18,688 hectares in the Smoky River Coalfield. The Corporation plans to conduct extensive exploration and evaluation of the coal potential of the coal leases which it holds in the Smoky River Coalfield with a view to identifying additional development and production options. The coal leases owned by Grande Cache Coal and the principal designated mines of Grande Cache Coal are shown on Figure 2.

Grande Cache Coal is closely monitoring other opportunities for coal development both in western Canada and other geographic areas. While the primary focus of Grande Cache Coal will remain the development of a sustainable, long-term mining project based on the coal resources the Corporation has in the Grande Cache area, management believes there are other attractive opportunities that warrant consideration. These potential opportunities will continue to be monitored by management to assess the growth potential for Grande Cache Coal. Where appropriate, Grande Cache Coal is also committed to studying mining ventures involving other industrial minerals to take advantage of any strategic opportunities for growth that may arise.

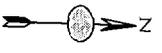
Figure 1: Location of Grande Cache Coal Corp.





LEGEND

- GCC Coal Leases
- GCC Existing Mines
- GCC Proposed Mines
- GCC Haul Roads
- Highway 40



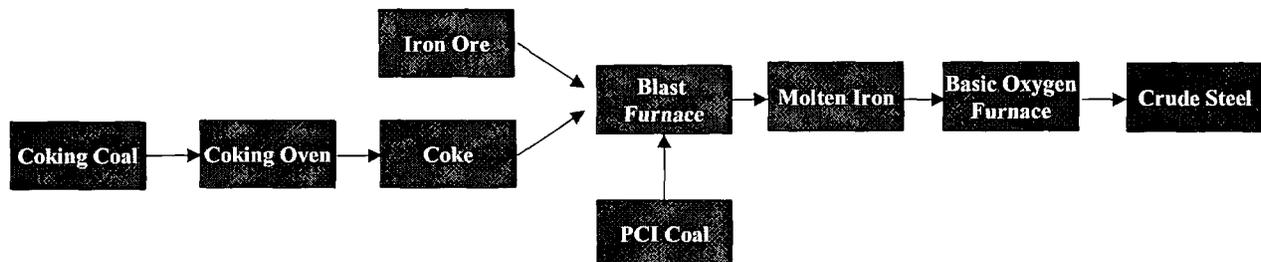
Grande Cache Coal Corporation
 Figure 2
 Smoky River Coal Field

Date: June 29 2006
 Scale: As Drawn
 Location: T059A-01

Principal Product and Markets

The principal product of the Project is hard coking coal. Hard coking coal is a type of metallurgical coal that is used primarily for making coke in integrated steel mills. When making steel, two of the key raw ingredients are iron ore and coke. Coke is used to convert the iron ore into molten iron. Coke is made by heating coking coal to about 2000°F (1100°C) in the absence of oxygen in a coke oven. The lack of oxygen prevents the coal from burning. The coking process drives off various liquids, gases and volatile matter. The remaining solid matter forms coke, a solid mass of nearly pure carbon. Approximately 1.5 tonnes of metallurgical coal are needed to produce one tonne of coke. Only certain types of bituminous coal have the necessary characteristics required to make coke. These characteristics include caking properties (the ability to melt, swell and re-solidify when heated) and low impurity (e.g. moisture, ash, sulphur, etc.).

Metallurgical coal is a term used to describe coal products suitable for making steel in the integrated steel mill process. There are three main categories of metallurgical coal: hard coking coal that forms high-strength coke; semi-soft coking coal that produces coke of lesser quality; and PCI coal that is used primarily for its heat value and is not typically considered a coking coal. Semi-soft and PCI coals have lower sales values compared to hard coking coal due to the relative availability of these products. Integrated steel mills will optimize the use of semi-soft and PCI coals in order to reduce overall costs. However, there are limits to the ability of integrated steel mills to substitute semi-soft and PCI coals for hard coking coal. Higher use of PCI coals reduces overall coking coal requirements but the coking coal used has to be of higher quality. Hard coking coal improves coke oven production yields and during periods of high coke demand the use of semi-soft coking coals is generally reduced. The following schematic outlines how steel is produced in an integrated steel mill.



The principal market for Grande Cache Coal's hard coking coal is the seaborne hard coking coal market. The seaborne hard coking coal market is defined by the global nature of international steel-making, the relative concentration of quality metallurgical coal deposits in Australia, Canada and the United States and the relative low cost of seaborne transportation. Total worldwide production of higher quality seaborne hard coking coal was estimated to be approximately 130 million tonnes in 2005. Australia is the largest source of seaborne hard coking coal while Canada is the second largest source. Australia, Canada and the United States account for approximately 80% of the world's seaborne hard coking coal production.

Trade in the seaborne hard coking coal market is influenced by crude steel production that, in turn, is largely dependent on the overall state of regional and global economic conditions. The global trade of steel products is very large and fluctuations in supply and demand in various regions throughout the world are common. Although there are fluctuations in the total amount of steel produced worldwide, the amount of steel produced by the integrated steel mill process has been relatively stable. In turn, the volume of hard coking coal used in this process has not experienced the same variability as total steel production. Canadian hard coking coal is competitive in the seaborne market due to its high quality, its suitability for blending with coking coals from other countries and the desire of steel producers to diversify their supplier base in order to create competition and security of supply. Grande Cache Coal's principal market is Asia, however, Grande Cache Coal has begun a market diversification program to expand its customers to steel companies in North America, South America and Europe. See "Coal Sales Contracts".

Principal Competition

The Corporation currently competes primarily with coal producers from Canada, Australia and the United States in the seaborne hard coking coal market. The supply of coal in the global markets and the demand for coal among the world's steel producers has historically provided for a competitive seaborne market. Coal pricing is generally established in U.S. dollars and the competitive positioning among producers can be significantly affected by exchange rates. In addition, a number of steel producers deal with multiple coal suppliers in order to promote security of supply and further competitiveness in this market, although this dynamic has been off-set somewhat by consolidation of producers. The competitive position of the Grande Cache Coal will be determined

primarily by its production and transportation costs compared to those of other producers throughout the world. Costs are influenced largely by the location and nature of coal deposits, mining and processing input costs, transportation and port costs, currency exchange rates, operating and management skill and government taxation and policy.

Cyclical Nature of Seaborne Hard Coking Coal Markets

The market for hard coking coal for the last two decades was characterized by a large number of producers, excess capacity and cyclical, but generally declining, prices. Between 1997 and 2000, the price of seaborne hard coking coal dropped by more than 30% due to over supply and a general economic downturn in a number of Asian countries. Over time, slow but steady growth in the demand for seaborne hard coking coal absorbed much of the remaining production capacity and with few new mines coming into production and some closing, supply and demand began to tighten in 2003. Demand for hard coking coal began to strengthen in the last half of 2003 and remained strong through 2004 and 2005.

This was due in part to a surge in demand by the worldwide steel industry, during a period when existing world coal production capacity was constrained because of various operational issues, and little additional coal supply was available. New demand for seaborne metallurgical coal imports by steel mills in China was also a contributing factor. Tight market conditions caused some integrated steel mills to over-buy coal in 2005 in anticipation of a continuation of supply disruptions experienced during 2004.

In response to high prices, the supply of hard coking coal increased marginally in 2005 and, together with lower than-expected imports by steel mills in China and no coal production or other supply disruptions of any consequence, eased the threat of a coal shortage in the near term. In addition, sharply higher prices for lower quality metallurgical coal served to increase the supply of these products. These factors contributed to delays by customers in scheduling vessels for coal deliveries and resulted in lower-than-expected sales for Grande Cache Coal in the second half of fiscal 2006. This trend has continued into the first quarter of fiscal 2007.

Coal Markets

Average coal prices in the 2006 coal year declined approximately 10% from 2005 coal year prices. Price differentials between hard coking coal and lower-quality metallurgical coals have widened significantly compared to historical levels, resulting in substitution by steel mills of lower-quality coals for hard coking coal. These factors contributed to lower-than-expected sales for Grande Cache Coal in the second half of 2006 and into the first quarter of 2007.

Current market conditions, along with normal variations in sales and operations, lead to uncertainty in Grande Cache Coal's sales volume estimates for the year. Rising steel prices and demand, or coal production or shipment interruptions in the global supply chain, could result in increased sales. However, a global oversupply of steel could result in a reduction in coal shipments, which would reflect Grande Cache Coal's existing customer base taking lower than expected volumes in 2006 and deferring shipments into 2007.

Over time, it is expected that continued economic expansion in China and India may require these nations to import additional seaborne hard coking coal. Some of China's current needs are being met internally and by overland imports, from Mongolia for example, due to the high prices in the seaborne market. India's large population and industrial growth, and lack of hard coking coal resources, may turn the country into a more significant importer of seaborne hard coking coal. On the supply side, while there were few and relatively minor disruptions of coal supply in 2005, production or shipment interruptions are a normal part of the business and should be anticipated. Higher hard coking coal prices may continue to attract new supply to the market. However, material quantities of new hard coking coal supply are not expected in the near term due to the lead time to develop mines, and infrastructure constraints in Australia.

These cyclical market conditions, taken together with normal variations in sales and operations, result in a high level uncertainty in Grande Cache Coal's year over year sales volumes and such variations should be anticipated.

Mining and Processing

Surface Mine Operations

The operations at the No. 12S B2 Mine employ conventional open-pit mining techniques using truck and shovel methods. Similar open-pit mining techniques will be employed by the Corporation at the No. 8 Mine and No. 16 East Mine. Overburden is drilled

and blasted with explosives and loaded onto large trucks by shovels and loaders and hauled to waste dumps outside of the pit. Once the overburden is removed, the coal is loaded onto trucks for transport to the coal processing plant. Crater Enterprises Ltd. of Grande Cache, Alberta, provides contract coal hauling transport from the mines to the coal processing plant. The coal processing plant employs rotary breakers to break the coal to a predetermined size and remove rock. The coal is then washed using a variety of techniques, dried and conveyed onto a clean coal stockpile.

North American Enterprises Ltd. ("**North American**"), a subsidiary of North American Energy Partners Inc., is contract mining at the No. 12S B2 Mine. The Corporation entered into a mining services agreement dated November 30, 2004 with North American for the provision of such mine services, however, North American is disputing the enforceability of certain provisions of such agreement. Production continues uninterrupted in the mine and the Corporation and North American have entered into good faith discussions to resolve their differences.

The Corporation is evaluating options for obtaining surface mining equipment for use at the No. 8 Mine. Upon receipt of all necessary regulatory approvals, the Corporation intends to undertake development in the No. 8 Mine.

Underground Mine Operations

The Corporation's underground operations at the No. 7-4 Mine employ the room-and-pillar mining method and the Seam 4 mineable reserves are being accessed from four in-seam surface portal entries. The portals are used for air intake ventilation, a supply and access portal, a conveyor beltway and return air portal. The mine has been developed using a set of seven main production headings which were developed on the way in and are being depillared. Shuttle cars are used to transport the coal from the continuous miners to the belt conveyor system. Roof bolting machines are utilized to install roof support. After a panel is developed, one continuous miner is utilized to depillar the panel. The second continuous miner, a roof bolter and a shuttle car are used to set up the next panel to be developed. Mining recovery of 70% is projected from the No. 7-4 Mine reserves.

Mining Costs

Mining and processing input costs such as fuel, steel, tires, labour and maintenance, parts and supplies can have a significant impact on the costs of producing metallurgical coal. During its fiscal year ended March 31, 2006, the Corporation experienced higher costs for operating supplies such as increased energy and material costs. In addition, the recent growth in global mining activities has created a demand for equipment and supplies that out paces supply. As a result, future operations could be impacted if the Corporation experiences difficulty obtaining equipment and supplies on a timely basis. Lastly, growth in the mining industry has created demand and competition for certain skilled services.

Production and Quality Control

All exposed coal seams are sampled and analyzed under the supervision of professional geologists and categorized by quality and coking potential. Run-of-mine coal and processed coal is continuously tested in the Corporation's onsite laboratory. This data is then used to determine stockpiling and blending strategies. As a result, the Corporation has an available inventory of coal sources of varying qualities, which can be combined, as required, to form blended products. In addition to sampling at source, coal is sampled at all stages of coal processing, at the rail loadout and at the port, to control quality. By blending coals of different qualities, the Corporation is able to create a consistent, high quality product.

Coal Transportation

The coal processing plant is located adjacent to the Savage Alberta Railway line, which connects to the CN main line at Swan Landing, between Hinton and Jasper. The loadout facilities are set up to load and weigh unit trains (each train carrying up to 12,000 tonnes). A spray system coats the coal and each railcar with a dust inhibitor to minimize the escape of coal dust during transportation. Grande Cache Coal has entered into a rail transportation agreement with CN for coal production from the Project, which agreement is in effect through March 31, 2007, with competitive yearly contract rates. CN provides rail transportation to Westshore Terminals at Roberts Bank, British Columbia and Thunder Bay Terminals Ltd. ("**Thunder Bay Terminals**") at Thunder Bay, Ontario. Westshore Terminals provides ship loading services pursuant to a port loading services agreement, which agreement is valid through March 31, 2013, with yearly escalation clauses. Thunder Bay Terminals provides loading services pursuant to an agreement which is valid through March 31, 2007.

Coal Sales Contracts

Over 50 million tonnes of metallurgical coal was supplied to international markets from the Smoky River Coalfield between 1970 and 2000. The coal has been used by many of the major steel producers in Asia, Europe and South America.

During fiscal 2005, Grande Cache Coal's marketing efforts concentrated on steel companies in Japan and Korea. In fiscal 2006, Grande Cache Coal began a market diversification program to expand its customers to steel companies in North America, South America and Europe. During fiscal 2007, Grande Cache Coal will continue to pursue its market diversification efforts. Grande Cache Coal intends to pursue evergreen coal sales contracts with all of its customers.

The Corporation is currently in negotiations for hard coking coal sales for its production for the coal year commencing April 1, 2006. The Corporation's production levels in fiscal 2007 will be managed to scheduled sales volumes. It is anticipated that production and sales in 2007 will be in the range of 1.0 to 1.4 million tonnes.

GRANDE CACHE COAL PROJECT

Independent Technical Reports

Grande Cache Coal retained AMEC to provide an independent technical report of Grande Cache Coal's resource and reserve estimates and the other elements of the No. 12S B2 Mine, No. 8 Mine and the No. 16 East Mine in accordance with the requirements of National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"). All disclosure of a technical nature in this Annual Information Form respecting the No. 12S B2 Mine, No. 8 Mine and the No. 16 East Mine is derived from the AMEC Report. The authors of the AMEC Report are Ross T. Griffiths, P.Eng., Principal Geologist of AMEC and Colin G. Weber, P.Eng., Senior Engineer of AMEC. Mr. Griffiths is a "Qualified Person" under NI 43-101. The AMEC Report has been prepared in accordance with the requirements of NI 43-101 using the classification methods prescribed by the Geological Survey of Canada Paper 88-21 "A Standardized Coal Resource/Reserve Reporting System for Canada", J. D. Hughes, L. Klatzel-Mudry and D. J. Nikols, 1989 (the "GSC 88-21").

Grande Cache Coal retained WEIR to prepare an independent technical report in accordance with NI 43-101 in respect of the No. 7-4 Mine. All disclosure of a technical nature in this Annual Information Form respecting the No. 7-4 Mine is derived from the WEIR Report. The author of the WEIR Report is Tom A. Tveten, CPG, Chief Geologist of WEIR, who is a "Qualified Person" under NI 43-101. The WEIR Report has been prepared in accordance with the requirements of NI 43-101 using the classification methods prescribed by GSC 88-21.

The AMEC Report and the WEIR Report have been posted on SEDAR at www.sedar.com and are available on the Corporation's website at www.gccoal.com. The AMEC Report and the WEIR Report are incorporated by reference in this Annual Information Form.

Property Description and Location

The Project area is located 20 kilometres north of the town of Grande Cache, in the Municipal District of Greenview in west central Alberta, Canada. Grande Cache Coal holds No. 12 Lease, No. 7 Lease, No. 8 Lease and No. 16 Lease which comprise the principal mineral properties forming the Project. No. 12 Lease, No. 8 Lease and No. 16 Lease cover the coal reserves to be mined from three surface mines designated No. 12S B2 Mine, No. 8 Mine and No. 16 East Mine. No. 7 Lease covers the coal reserve to be mined from the development of an underground mine designated No. 7-4 Mine. The leases are summarized below:

<u>Mine</u>	<u>Area (hectares)</u>	<u>Date Recorded</u>
No. 12S B2 Mine	224	January 31, 2003
No. 7-4 Mine	608	September 6, 2000
No. 8 Mine	496	September 6, 2000
No. 16 East Mine	2,576	February 2, 2004

In addition, Grande Cache Coal owns seven coal leases which have exploration and development potential and cover an aggregate of 14,784 hectares. These coal leases are summarized below:

<u>Lease No.</u>	<u>Area (hectares)</u>	<u>Date Recorded</u>
1304020416	1,744	February 2, 2004
1304020417	912	February 2, 2004
1304020418	8,720	February 2, 2004
1304091006	192	September 1, 2004
1306020563	64	February 17, 2006
1306020564	416	February 17, 2006
1306020565	2,736	February 17, 2006

Access and Infrastructure

Provincial Highway 40 is a paved, two-laned road that connects the Project area with the town of Grande Cache and with the communities of Grande Prairie to the north and Hinton to the southeast. The Project area is served by an existing line of Savage Alberta Railway, which connects with the main lines of the CN, allowing access to the three major coal export terminals in British Columbia, or to the Great Lakes.

The Project uses the existing coal processing, coal loading, rail and waste storage infrastructure previously owned and operated by SRCL and predecessor companies over a period of approximately 30 years.

Topography and Climate

The Project area is located in the eastern foothills of the Rocky Mountains. Folding and faulting have resulted in a general trend of northwest-southeast elongated ridges, which are cut by rivers and streams generally flowing in a northeasterly direction. The relief between stream valleys and ridge tops ranges from 300 to 1,100 metres. The area is forested land categorized as subalpine, serving general watershed, recreational and wildlife habitat uses. Approximately one-quarter of the Project area is above the elevation of the tree line.

The climate within the Project area is characterized by relatively long cold winters and moderate to warm summers. Average annual summer and winter temperatures are approximately 10 degrees Celsius and minus 15 degrees Celsius, respectively. Frost can occur throughout the year and the snow pack often persists from late October to May at higher elevations. Precipitation ranges between 800 to 1,100 millimetres annually.

History

The town of Grande Cache, Alberta including its transportation infrastructure and community services, was originally established to support coal mining in the Smoky River Coalfield. The Coal Development Policy for Alberta (Alberta Energy, 1976) and Eastern Slopes Policy (Alberta Energy and Natural Resources, 1984) established zoning favourable to coal, which has prevailed to the present day.

McIntyre began operations in the Smoky River Coalfield in 1969. The planned production rate was two million clean tonnes annually. In 1985, Dome Mines purchased McIntyre and established SRCL as an operating company. In March 1987, a private Canadian-controlled corporation owned by Kaieteur Investments Inc., an Alberta corporation, and Dong Jin Commercial Inc., a commodity trading company based in Korea, purchased SRCL from Dome Mines.

The McIntyre and SRCL operations in the Grande Cache area generally employed approximately 400 people, although the number of employees was as high as 1,200. Most of the mine employees lived in Grande Cache.

Annual coal production from surface and underground mines operated by McIntyre and SRCL during the period 1969 to 2000 ranged up to more than three million tonnes and total metallurgical coal exports over this period exceeded 50 million tonnes.

SRCL produced a prime quality, low-ash, low-volatile, hard-coking coal and a high quality, soft-coking coal.

SRCL established a customer base of approximately 12 companies in eight countries on four continents.

On March 31, 2000 SRCL was placed in receivership by a group of secured lenders at a time of depressed metallurgical coal markets. SRCL's assets were sold through a sealed-bid process conducted from May through October 2000.

Over its 30-year production history, the Smoky River Coalfield had a number of surface and underground mines which remain in various states of reclamation and decommissioning. At the time of receivership, SRCL was operating a surface mine, an underground mine and coal processing facilities. These operations were shut down on March 31, 2000.

The remaining in-place coal resources in the Smoky River Coalfield are estimated by Grande Cache Coal to be in excess of 145 million tonnes. The site is served by a network of coal haul roads for delivering ROM coal to the processing plant and by the Savage Alberta Railway and CN rail lines for delivering coal to export terminals.

The SRCL mine permit and coal leases covered approximately 37,475 hectares. In October 2000 Grande Cache Coal acquired title to the engineering and geological database, supporting files and documentation for all of these leases, as well as adjacent areas within the Smoky River Coalfield previously held by SRCL from the SRCL receiver. Grande Cache Coal also acquired the mechanical and electrical equipment in the existing coal processing plant and coal handling facilities from the SRCL receiver.

Regional Geology

The Inner Foothills of the Rocky Mountains near Grande Cache, Alberta are characterized by exposures of Upper Jurassic and Cretaceous clastic rocks. Stratigraphic units that outcrop in the vicinity are predominately from the Nikanassin Formation and the Luscar Group. The Fort St. John Group, which overlies the Luscar Group, is present in the northern and eastern parts of the Project area.

Within localized mine areas, coal seam thickness and character are not subject to rapid lateral changes. Across the Smoky River Coalfield, however, the seams change in thickness and character.

Structural Setting

The Smoky River Coalfield is deformed by tectonic events of the Laramide Orogeny which created the Rocky Mountains 60 million years ago. Strata in the coalfield are complexly folded and cut by numerous thrust faults. Structural shortening is estimated to be one-third.

Typical structures consist of a series of northeast verging thrust sheets bound by major faults with displacements varying from several hundred to several thousand metres. The strata contained within the thrust sheets are commonly folded and cut by subsidiary faults with displacements in the order of 10 to 100 metres. The thrust faults have folds produced by associated fault plane drag.

Surface traces of these complex folds and thrust faults trend northwest-southeast. The majority of the faults are southwest-dipping thrusts, displaying ramps that cut up stratigraphic section and flats that are parallel to bedding. From southwest to northeast there are four major thrust sheets in the area as follows: Cowlick Thrust, Syncline Hills Thrust, Mason Thrust and Muskeg Thrust.

Local and Property Geology

No. 12 Lease Area

The No. 12 Lease Area is located on the west side of the Sheep Creek with elevations ranging from 1,065 metres to 1,900 metres. The coal seams present in the No. 12 Lease Area include Seams 3, 4, 5, 6 and 7/8.

Seam 3 is located directly above the Torrens Member and is in turn overlain by a distinct fossiliferous "Clam Zone". Although Seam 3 maintains a thickness of only one metre throughout the No. 12S B2 Mine area, it is used as an important stratigraphic marker.

Seam 4 is the thickest seam in the No. 12S B2 Mine, where it has an average thickness of 6.8 metres. The average in-seam ash content is 10.6% (dry basis). There is a zone of higher ash (15% to 20%), 0.3 to 1.6 metres thick, near the top of the seam. Typical in-seam ash values below this high ash zone range between 4% and 8%. Above the high ash zone, typical in-seam ash values range between 8% and 11%. The immediate roof and floor of Seam 4 is shale. A marker seam, 0.3 metres to 0.5 metres thick, is located one metre below the bottom of Seam 4. Drill holes of the 1994 and 1998 exploration programs were drilled to the Torrens Member in this area. These holes confirm that Seam 4 is located about 22 metres above the Torrens Member.

Seam 5 varies from 1.1 metres to 1.9 metres, with an average thickness of 1.6 metres in the No. 12S B2 Mine area. Its stratigraphic position is an average of 36 metres above Seam 4. Geophysical logs indicate that a high ash band is often found in the lower half of the seam with other minor ash bands occasionally appearing at variable locations within it. In-seam ash content, estimated from four No. 12S B2 Mine area cores drilled in 1992, is 11.2%. Seam 5 as well as Seams 6 and 7/8 have soft mudstone footwalls and hanging walls.

The Seam 6 thickness range is from 0.7 metres to 1.5 metres. In the No. 12S B2 Mine area, it has an average thickness of 1.2 metres. Seam 6 generally consists of a lower clean portion and an upper higher ash zone. The clean portion of the seam is generally 0.9 metres thick and the higher ash zone is usually about 0.3 metres thick. The average in-seam ash content of Seam 6 is estimated to be 16.8%. The interburden thickness between Seams 5 and 6 average five metres and consists of shale with some interbedded siltstone.

The interval from the top of Seam 8 to the bottom of Seam 7 averages 4.5 metres. This interval generally consists of 0.6 metres of Seam 8 and 3.3 metres of Seam 7 separated by 0.6 metres of carbonaceous mudstone. In-seam ash content of this entire interval is 22.1%. The lower half of Seam 7 typically contains a high ash zone 0.3 metres thick. The interburden between Seams 6 and 7 averages 1.2 metres thick and consists of carbonaceous mudstone and a 0.2 metre thick coal market seam.

The No. 12S B2 Mine is contained in the Syncline Hills Thrust Sheet and lies on the south limb of the Two Camp Creek Anticline. The Two Camp Creek Anticline is a regional structure with a fold axis trending southwest/northeast for 10 kilometres on either side of the mine area. In the No. 12S B2 Mine, the fold axis has a plunge of about 5° towards 269° azimuth. The amplitude of the Two Camp Creek Anticline is approximately 800 metres. The seams are folded into two syncline-anticline pairs. These are parasitic folds on the south limb of the Two Camp Creek Anticline. The extension pit is situated in strata of the southern syncline, with pit bottom following the axes of the folds. The axis of the southern syncline has a trend and plunge of approximately 85° and 5°, respectively, within the area.

The footwall dips range from horizontal to over-turned in the No. 12S B2 Mine area. Dips up to 65° are present in the western portion of the pit in the south limb of the south syncline. They increase to near 80° in the vicinity of the pit bottom along the south limb of the anticline in the central part of the pit. In the eastern part of the pit the footwall strata are overturned. Most strata dip at less than 15° within northern highwall part of the pit area. Coal seams generally retain their normal stratigraphic thickness throughout most of the mine area, except where thickened pods of coal occur in the hinge area of the south syncline.

A number of thrust faults have been identified within the extension pit. The two major thrusts are interpreted as north verging. The first fault is a steeply dipping fault, while the second fault is a shallow dipping. Structures have throws of two metres to 20 metres.

Figure 2 shows the location and outline of the No. 12S B2 Mine.

No. 7 Lease Area

The No. 7 Lease Area is located between the Smoky River and Sheep Creek on the north slope of Mt. Hamell. The coal seams present are Seams 3, 4, 6, 7, 8 and 10. Only Seam 4 has the requisite thickness and quality to be considered economically mineable for export metallurgical coal at this time.

The thickness of Seam 4 in the No. 7 Lease Area ranges from 0.7 to 5.7 metres and averages 4.3 metres. The ash is highest (15 percent) in the upper quarter of the seam. The lower three-quarters of the seam is lower in ash (9 percent). The roof consists of approximately 1.0 metre of carbonaceous shale overlain by thick, bedded to massive, silty sandstone and siltstones. The carbonaceous shale thickens to the west.

The northeast and southwest boundaries of the No. 7 Lease Area are marked by the surface traces of two northeasterly verging thrust faults: Cowlick Thrust Fault to the southwest and Syncline Hills Thrust Fault to the northeast.

The major structural feature within the No. 7 Lease Area is the Campbell Flats Anticlinorium, which consists of a box fold with the following smaller anticlines on the corners of the structure: Stern Creek Anticline to the southwest and Two Camp Creek Anticline to the northeast.

Between these two anticlines is the relatively flat-bottomed Campbell Flats Syncline, with dips of 0 to 10 degrees and a maximum width of 800 metres. The width of the Campbell Flats Syncline decreases to the northwest and is 200 metres where Seam 4 subcrops above the Sheep Creek. The strike length of the Campbell Flats Syncline within the No. 7 Lease Area is 3,300 metres, gently plunging to the northwest.

Mining of Seam 4 is limited by seam subcrop to the east, west and northwest. To the north and south it is bounded by thrust faults and/or steep dips. Figure 2 shows the location and outline of the No. 7-4 Mine.

No. 8 Lease Area

The No. 8 Lease Area is located in an area of rugged topography on the Sheep Creek side of a ridge between the Smoky River and Sheep Creek, between 120 and 550 metres above the Sheep Creek valley floor. Within the No. 8 Lease Area there are eight coal seams of which three, Seams 4, 10 and 11, are of economic interest.

Seam 4 occurs approximately 20 metres above the Torrens Member and varies in thickness and geometry along and across strike, but primarily across the strike. The coal seam thins along the limbs of folds and thickens through the hinges of folds. The tighter the fold, the greater the thickening. Seam 4 thickness ranges from 4.9 to 7.6 metres with an average of 5.8 metres. In the structured hinge zones, the thickness of Seam 4 is up to 40 metres. Seam 4 can be divided into an upper high ash zone and a lower low ash zone. A shaley horizon approximately 0.6 to 1.0 metre thick occurs 1.5 to 1.8 metres above the base of Seam 4. Seam 4 has the largest aerial extent of the three seams for mining and will carry the large majority of coal resources for the No. 8 Mine area.

Seam 10 occurs an average of approximately 100 metres above Seam 4. In the No. 8 Mine area, Seam 10 consists of 1.2 metres of very high ash coal (approximately 45 percent) above 2.2 metres of low ash coal (approximately 11 percent). The average thickness of Seam 10 is 3.4 metres. Seam 10 also varies in thickness across strike, although not as pronounced as for Seam 4.

Seam 11 occurs approximately 34 metres above Seam 10. The average thickness of Seam 11 is approximately 2.5 metres in the No. 8 Mine area. The aerial extent available for mining is the least of the three mineable seams.

Structurally, the No. 8 Lease Area is bounded to the southwest and northeast by two major northeast verging faults: Syncline Hills Thrust Fault to the southwest and Mason Thrust Fault to the northeast.

Within the No. 8 Lease Area, folding is the dominant mode of shortening, resulting in northeast-southwest anticline/syncline pairs. The folds range in style from tight chevron to open parallel folds. The wavelength of the major folds is between 275 and 1,500 metres with corresponding amplitudes of 185 metres and 490 metres. The anticlines are asymmetric with longer southwesterly limbs. The limbs of the synclines have dips of 30 to 80 degrees (average 55 degrees) on the northeast limbs and 40 to 80 degrees (average 70 degrees) on the southwest limbs. The fold hinges plunge to the northwest at 11 degrees. The proposed No. 8 Mine is in the northeastern most syncline, known as the Westridge North Syncline.

Mining is limited to the north by a previous surface mine open pit, to the east by the outcrop of Seam 4, and to the west and south by high strip ratios. Figure 2 shows the location and outline of the proposed No. 8 Mine.

No. 16 Lease Area

The No. 16 Lease Area lies northeast of the No. 12S B2 Mine. The No. 16 Lease Area lies on the northeast limb of the Two Camp Creek Anticline. To the southeast of the No. 16 Lease Area, SRCL mined out the coal from the northeast limb of the Two Camp Creek Anticline.

The No. 16 Lease Area is divided in two by a northeast drainage which joins Beaverdam Creek. Southeast of the drainage is No. 16 East Mine and northwest of the drainage is the potential No. 16 West Mine. The coal seams that are of economic interest are Seams 4, 5, 6, 7 and 8. Combined coal thickness of these five seams is 14.4 metres in No. 16 East Mine. Further exploration is required to develop plans for the No. 16 West Mine.

Seam 4 occurs 22 metres above the Torrens Member and is the thickest seam in the No. 16 East Mine. Seam 4 thickness ranges between 4.6 and 7.2 metres. Seam 4 is generally characterized by an upper low ash zone, a middle medium ash zone and a lower low ash zone. These zones generally comprise 30 percent, 20 percent and 50 percent of the seam, respectively. All three zones are consistent in their geophysical log signature throughout the No. 16 East Mine. Directly overlying Seam 4 is approximately 3.0 metres of interbedded carbonaceous shale and siltstone. The strata below Seam 4 consists of 1.0 metre of shale overlying a 1.0 metre to 1.5 metres sandstone interval.

Seam 5 maintains a consistent stratigraphic thickness of 1.5 to 1.9 metres and occurs approximately 39.0 metres above Seam 4. A shale parting between 0.2 and 0.3 metre in thickness is typically encountered in the bottom of Seam 5. The immediate roof and floor of Seam 5 are comprised primarily of shale.

The average thickness of Seam 6 is more variable than Seam 5, ranging between 1.0 metre and 2.0 metres. Seam 6 occurs approximately 8.0 metres above Seam 5. Seam 6 consists of a lower low ash zone, and an upper, high-ash zone, and typically has a carbonaceous shale roof and floor.

The thickness of Seam 7 is between 1.8 and 3.3 metres. Seam 7 contains a band of higher ash coal near the middle of the seam. The interval between Seam 6 and Seam 7 is approximately 1.7 metres and consists of carbonaceous shale and coal partings. Seam 7 is overlain by 0.6 to 1.0 metre of carbonaceous shale.

Seam 8 averages 1.7 metres in thickness. Seam 8 occurs 0.4 to 2.2 metres above Seam 7 and, where thinner, the interval is very carbonaceous.

In the No. 16 East Mine, the dip of the northeast limb of the Two Camp Creek Anticline ranges from 35 to 60 degrees. The slope of topography closely follows the dip of the bedding, resulting in a dipslope mining configuration. The local structure is a relatively simple monocline. The coal measures are truncated at depth by the Syncline Hills Thrust Fault, which marks the northeast boundary of No. 16 East Mine.

Figure 2 shows the location and outline of the proposed No. 16 East Mine.

Exploration

Since exploration drilling commenced in the Smoky River Coalfield in the late 1950s, a substantial exploration database has been created. This includes more than 3,300 drill holes of which approximately 1,700 are within the proposed mining areas.

In addition to the drill holes, a total of 79 adits have been driven across the Smoky River Coalfield to provide bulk samples for coal washability test work. Of these, 22 adits are located within areas proposed to be mined by the Corporation. The bulk samples provide data for estimating coal processing yield and product quality by seam across the property.

Exploration data by mine area for the Project are summarized as follows:

Mine Area	Total Number of Drill Holes	Total Metres Drilled	Average Metres Per Hole	Number of Adits
No. 12S B2 Mine	342	42,549	124	1
No. 7-4 Mine	79	14,030	178	3
No. 8 Mine	224	24,131	108	-
No. 16 East Mine	96	11,383	119	3
Total/Average	741	92,093	124	7

WEIR audited the drill hole database in respect of the No. 7-4 Mine area that Grande Cache Coal obtained from SRCL to verify data entry. Original records were examined for approximately 20 percent of the drill holes in each of the two proposed mine areas. No problems or errors were found in the data entry for any of the records examined by WEIR.

Where possible, AMEC independently checked the exploration data in respect of the No. 12S B2 Mine area and the No. 8 Mine area, respectively, available from the historic and current records. The most important activity of this type was a verification of the drillhole depth and seam thickness data. This check was made by determining the depth and thickness of seams recorded on the geophysical logs. AMEC also checked the data transferred to cross sections for interpretation work. The results were then compared with the database report records. The results, with minor insignificant variations, were the same, and AMEC concluded that the geological records with respect to seam thickness and depth as drilled are accurate.

No. 12S B2 Mine Area

All of the drilling in the No. 12S B2 Mine area was completed by companies that held coal leases in this area in the past. All of the drilling that has been undertaken by non-government entities is consistent with the requirements of coal exploration, and includes diamond core drilling and rotary core drilling. In the first case, applicable to the early to mid-1970s, coal seams that were intersected were sent for laboratory testing. Laboratory analyses were also performed on the coal core samples collected from the subsequent rotary drill holes. Reverse circulation rotary drilling was used in 1974 and 1975 and coal outlines sampled from these samples were tested for ash and sulphur content.

More than 90% of the drill holes were produced by rotary drilling while the remainder are diamond core holes. In the case of the rotary drill holes, cores were obtained generally by using wire line core barrel methods. Cores for rotary holes thus only apply to coal and immediate roof and floor sections of the seams.

The following summarizes the drilling within the No. 12S B2 Mine area:

Year	Number of Drill Holes	Number of Holes Cored	Total Metres
1971	10	4	1,489
1974	13	0	1,285
1975	8	8	803
1976	4	4	321
1993	13	12	1,144
1995	49	3	6,046
1996	70	1	7,345
1997	109	13	15,422
1998	66	0	8,694
Total	342	45	42,549

Drilling in the No. 12S B2 Mine area was completed in three phases, beginning in 1971. The remaining holes were completed from 1974 to 1976 and from 1993 through 1998.

No. 7-4 Mine Area

Exploration within the No. 7-4 Mine area was conducted in five phases beginning in 1961. The following summarizes the drilling within the No. 7-4 Mine area:

Year	Number of Drill Holes	Number of Holes Cored	Total Metres
1961	7	6	1,366
1972	11	11	1,789
1981	10	5	2,087
1993	15	3	2,069
1999	35	6	6,449
2001	1	1	271
Total	79	32	14,031

The 1961 exploration consisted of diamond core holes drilled by Columbian Iron Ore Company. The next phase in 1972 consisted of 11 rotary drill holes drilled by McIntyre. In 1981, McIntyre completed a program of 10 rotary drill holes and three adits. In 1993 and 1999, more rotary drilling was conducted by SRCL adding 15 drill holes in 1993 and 35 holes in 1999. Norwest drilled one test hole near the centre of the No. 7-4 Mine as part of a feasibility study conducted in 2001. Except for the 1961 drilling, all drill holes were geophysically logged for density, gamma and resistivity. The 1993 and 1999 SRCL drilling programs also included wireline logging for other parameters, including sonic and dipmeter data.

Outcrop mapping in the No. 7-4 Mine area conducted in the 1970s and 1980s resulted in approximately 300 rock outcrops being logged for lithology and bedding orientation. In addition, there is a substantial amount of exploration data available immediately outside the lease area, which aids in stratigraphic and coal quality interpretation.

No. 8 Mine Area

Exploration has been conducted periodically in the No. 8 Mine area since 1961. The current No. 8 Mine plan is the logical completion of a coal resource that was mined in the original No. 8 Mine in the 1970's. The original No. 8 Mine area encompassed a number of underground and surface mines south of Sheep Creek that produced 16 million tonnes of coal from Seams 4 and 10 between 1969 and 1982.

Exploration drilling in the proposed No. 8 Mine area is summarized as follows:

Year	Number of Drill Holes	Number of Holes Cored	Total Metres
1961	2	-	206
1971	16	-	1,165
1972	30	19	2,054
1973	16	-	489
1982	11	-	1,066
1984	23	-	2,633
1985	24	9	1,628
1987	7	4	390
2004	39	-	5,822
2005	56	1	8,678
Total	224	33	24,131

In addition to the drill hole data in the No. 8 Mine area, there is a substantial amount of information from mine maps of the original No. 8 Mine works from the 1970's, especially regarding the structures of the coal seams. There are also many drill holes from the mined-out area and from immediately adjacent areas that aid in the stratigraphic and coal quality interpretation. Exploration was continued starting in 2004 with a major drilling program to better define the coal seams and bring more of the resource into the reserve classification.

No. 16 East Mine Area

Within the proposed No. 16 East Mine area, exploration has been conducted in two major phases. In 1971, McIntyre drilled 23 rotary drill holes of which six were cored. In 1997 and 1998, SRCL completed an extensive exploration program consisting of 49 holes in 1997 and 24 in 1998, of which nine were cored. Exploration drilling in the No. 16 East Mine area is summarized as follows:

Year	Number of Drill Holes	Number of Holes Cored	Total Metres
1971	23	6	3,314
1997	49	5	4,788
1998	24	4	3,282
Total	96	15	11,384

There are additional drill holes immediately outside the proposed No. 16 East Mine area, especially to the northwest in the potential No. 16 West Mine area that aid in the stratigraphic and coal quality interpretation. There are also three adits and numerous outcrop measurements available within the area.

Drilling

All exploration drill holes, except those prior to 1970, have been geophysically logged with gamma, density, resistivity and hole deviation tools. Holes drilled since 1990 were also logged with dipmeter tools where hole conditions permitted. In addition, since 1990 selected holes have been sonic logged to assist in rock strength estimation. Cores of the coal seams and immediate roof sections were recovered from approximately 10 percent of the pre-2004 drill holes.

The information obtained on the resources of the Smoky River Coalfield by former mine operators used industry standard, or better, data acquisition techniques. Drill holes provide the majority of the data.

In 2004, the Corporation undertook a major fill in drilling program on the No. 8 Mine area. A total of 95 holes were drilled, most penetrating to the basal sandstone below Seam 3. All were geophysically logged. Chip samples (drill cuttings) were logged on site and recorded. The major purpose of this program was to establish seam position and thickness. Therefore, conventional rotary drill rigs were selected as the most effective way to drill the holes and obtain down hole geophysical logs. No samples were taken of the coal in this program. The Corporation plans to continue drilling at No. 8 Mine area in 2006 with the goal of obtaining representative seam samples through coring or, through reverse circulation. The later method is the more common method of obtaining coal samples at other western Canadian coal operations.

Sample Preparation and Analysis

The coal quality variation is much more gradual than the structural variation of the coal seams, especially in the surface mine areas. Accordingly, approximately one in 15 drill holes were cored in surface mine areas and one in 10 drill holes were cored in the underground mine areas.

Typically, the cores were analyzed for in-place ash and free swelling index ("FSI"). Composites of cores were analyzed by seam for sulphur, ash chemistry, proximate analysis and petrographic data. In some cases, the full suite of testing was applied to subsections of coal seams (for example high ash or low ash zones) where it was considered possible to mine and blend such subsections separately.

Washability analyses of cores typically consisted of float/sink tests at one specific gravity, between 1.40 to 1.50 specific gravity, depending on the seam. Adit samples were subjected to extensive float/sink testing of the plus 28 mesh (0.5 millimetre) coal fraction. In general, this float/sink testing was applied to three or four size fractions using four or five specific gravities for floating each size fraction. The minus 28 mesh fraction was subjected to froth testing, typically for three time intervals.

SRCL and predecessors assembled an extensive database on the coking properties and washability characteristics of the different coal seams in the Smoky River Coalfield from tests conducted on production samples between 1969 and 2000. Most coking tests were conducted by CANMET, the federal government laboratory in Ottawa.

Mineral Processing and Metallurgical Testing

Coal quality trends within the Smoky River Coalfield have been modelled from an extensive database of exploration drill hole cores, reverse circulation drill samples and adits. Processing plant yields have been adjusted for OSD, processing plant efficiency and coal losses at each stage of production, including mining, breaker separation, screening and plant processing.

The coal quality estimates for each mine area and seam are summarized as follows:

Mine Area	Seam	Dry Basis ⁽¹⁾		
		In-Place Coal Quality		
		Ash (%)	Volatile Matter (%)	Sulphur (%)
No. 12S B2 Mine	7/8	14.9	19.1	0.46
	6	16.0	19.0	0.58
	5	13.8	18.5	0.57
	4	11.5	17.9	0.29
No. 7-4 Mine	4	11.5	19.0	0.50
No. 8 Mine	11	21.8	26.0	0.50
	10	24.0	23.0	0.39
	4	16.0	20.4	0.43
No. 16 East Mine	8	41.4	23.0	0.41
	7	20.0	19.3	0.45
	6	22.2	20.4	0.78
	5	24.0	20.6	0.64
	4	11.3	18.5	0.40

Note:

(1) All of the percentages are presented on a dry basis except for the Volatile Matter on the In-Place Coal Quality which is presented on a dry ash free basis.

Within the Smoky River Coalfield, coal rank has the greatest impact on the value of the product. Coal rank is indicated by the volatile matter and FSI tests, which both show decreasing values as coal rank increases. While product ash can be controlled by processing, coal rank can only be controlled by blending coals from different mine areas. Coal rank is the primary determinant of the coking properties and coke yield of the product. These properties are rated by customers based on the volatile matter and FSI. In general, the coal rank follows the same trend across the Project area for all seams. The overall trend is an increase in coal rank to the northwest.

Modelling of volatile matter in the Smoky River Coalfield has established predictable Project-wide trends. In general, there is a consistent increase in volatile matter up the stratigraphic section from Seam 4 to Seam 11. This is consistent with the trend of increasing rank with increasing depth of burial in coal bearing strata. The lateral change in volatile matter within the Smoky River Coalfield can be summarized in general as increasing volatile matter or decreasing rank to the southeast.

Ash is the most variable of the key in-situ coal quality parameters. In general, the thicker coal seams are lower ash, reflecting that a more stable depositional environment is required for larger accumulations of organic material. Lower variability of ash is also apparent in thicker coal seams. Seam 4 has the overall lowest average ash and also the lowest variability in ash. Seam 4 ash is lowest in lease areas to the southwest.

Most of the sulphur in the coal seams of the Smoky River Coalfield is organically bound as opposed to pyritic or mineral bound. Washing the coal generally results in a marginal increase in the sulphur content from the in-situ level. The coal seams which typically have the highest sulphur are the thinnest coal seams (Seams 5 and 6). The thickest coal seam, Seam 4, generally has the lowest average in-situ sulphur. Unlike volatile matter, sulphur does not follow regional trends but varies mine by mine and within mining areas.

Mineral Resource and Reserve Estimates

Grande Cache Coal developed coal seam models using primarily sectional interpretation techniques for the surface mine areas and a combination of sectional and plan based interpretation techniques for the underground areas. Three-dimensional models of the coal seams and other pertinent stratigraphic units were generated from interpreted cross-sections using 3-D solids linking computer methods in surface mine areas and thickness-mapped triangulated irregular networks ("TINs") in underground mine areas. Faults were interpreted using dipmeter logs and coal seam/interburden isopach interpretation.

Grande Cache Coal determined the technical and economic limits for underground mines based on engineering analysis using seam isopach and seam iso-dip maps. Economic pit limits for surface mining were based on the determination of cut-off strip ratios on a pit by pit basis using estimates for coal and waste haul costs, by seam ROM yields, and processing and product transport costs. Lerch-Grossman pit optimization was used to determine the final design highwall location.

Grande Cache Coal's resource and reserve estimates for the No. 12S B2 Mine, No. 8 Mine and No. 16 East Mine were prepared under the supervision of Ross Griffiths, Principal Geologist of AMEC, acting as an independent qualified person. Grande Cache Coal's resource and reserve estimates for the No. 7-4 Mine were prepared under the supervision of Tom A. Tveten, Chief Geologist of WEIR, acting as an independent qualified person. The method for resource and reserve estimation follows the requirements of NI 43-101 which defines what constitutes a mineral resource or mineral reserve and the levels of assurance by which they are categorized. NI 43-101 stipulates that the definitions and criteria of resource and reserve estimation and classification for Canadian coal properties adhere to the method of GSC 88-21. Grande Cache Coal's method for reserve and resource estimation incorporated the following steps for both underground and surface areas:

- Construct geology maps identifying the coal limits by seam (subcrop, fault truncation and previously mined boundaries) and coal seam models of thickness and structure.
- Determine the geology type for each mining area, per GSC 88-21.
- Define deposit type for each mine area, per GSC 88-21.
- Construct the appropriate iso-value maps identifying limits to reserves and resources (seam thickness, depth of cover, seam dip and stripping ratio) based on deposit type.
- Based on geology type and coal seam data points, construct maps showing the area of each category of assurance (measured, indicated, inferred and in the case of resources, speculative) per GSC 88-21 and within the reserve/resource limits defined by the previous step and step number one.
- Calculate the geological reserve or resource volume by seam within each category of assurance, using the net area map created in the previous step for each assurance category and a computer model of the coal seam created in step number one.
- Convert the coal volume for each of the resource and reserve areas using appropriate densities based on the ash content of the coal to obtain resource and reserve tonnes for each of the measured, indicated and inferred categories.
- In the case of reserves, apply appropriate mining recoveries and processing yields, based on previous experience in the Smoky River Coalfield, to the in-place tonnes to generate the recoverable and saleable reserves.

Grande Cache Coal generated the strip ratio isopach maps for limiting surface reserves using either a calculated net tonne ROM value for each drill hole, or the Lerch-Grossman optimized 10:1 bank cubic metres ("**BCM**"): tonne ROM pit wall. The net tonne ROM per drill hole value was gridded onto a digital surface containing the net waste thickness between the base of Seam 4 and the surface, thus allowing the construction of an iso-strip ratio map.

Limits to resources as defined by NI 43-101 can be based on assumptions if not specifically established for a deposit. Grande Cache Coal established limits to resources for the Smoky River Coalfield based on previous mining experience on the property. Where different, these limits are more conservative than stipulated in GSC 88-21.

For surface deposits of moderate or complex type and immediate interest, GSC 88-21 stipulates a maximum incremental strip ratio of 20:1 BCM: tonne in-place. Grande Cache Coal has used a limiting strip ratio of 10:1 BCM: tonne ROM. For underground deposits of moderate geology type and immediate interest, GSC 88-21 stipulates a maximum depth of cover of 600 metres and a maximum dip of 30 degrees. Grande Cache Coal has used a maximum depth of cover of 600 metres and a maximum dip of 26 degrees.

GSC 88-21 limits the thickness of a coal seam that can be included in a reserve or resource estimate. Based on previous mining experience on the property, Grande Cache Coal used a minimum coal seam thickness slightly more conservative than the GSC 88-21 thickness for underground deposits. For underground deposits, GSC 88-21 specifies a minimum thickness of 1.5 metres for moderate geology in the immediate interest category. Grande Cache Coal used a minimum thickness of 2.5 metres for coal seams classified as underground deposits.

GSC 88-21 provides a density versus ash table for converting in-situ volumes to tonnes in the absence of detailed information. However, for the Smoky River Coalfield detailed information exists on in-situ coal density, based on in-situ ash. Below 10 percent ash, the density specified by GSC 88-21 is equivalent to the Grande Cache Coal empirically defined relationship. The

maximum difference between GSC 88-21 and the Grande Cache Coal density table is 1.3 percent, with Grande Cache Coal having the higher density estimation based on ash.

GSC 88-21 stipulates that areas of assurance be measured from a known data point. Grande Cache Coal used only those data points surveyed with equipment capable of a resolution of less than 1.0 metre in X, Y and Z measurements. In order to be included in the resource estimate, coal must be within a specified distance from a known data point. According to GSC 88-21, a known data point can be: a surveyed coal trench, an exploration drill hole (surveyed collar location), an exploration adit, or a point of observation in a coal seam where it has been mined.

For underground deposits in the moderate geology type, GSC 88-21 defines the measured assurance category as within 450 metres of a data point, and the indicated assurance category as between 450 and 900 metres of a data point.

For surface deposits in the complex geology type, GSC 88-21 defines the assurance categories as follows:

- Measured: average spacing along the cross-section must be no more than 100 metres, maximum spacing along the cross-section is 200 metres, and the area of influence is 75 metres on each side of the cross-section.
- Indicated: average spacing along the cross-section must be no more than 200 metres, maximum spacing along the cross-section is 400 metres, and the area of influence is 150 metres on each side of the cross-section.
- Inferred: average spacing along the cross-section must be no more than 400 metres, maximum spacing along the cross-section is 800 metres, and the area of influence is 300 metres on each side of the cross-section.

Resources

Based on the resource and reserve classification method specified in GSC 88-21, all Grande Cache Coal surface deposits are classified as complex geology type. Since this is an area with developed transportation and processing infrastructure, all resources can be classified as *Immediate Interest*.

The AMEC Report identified 14 million tonnes of measured, 6.4 million tonnes of indicated and 20.3 million tonnes of inferred resources of immediate interest in the No. 8 Mine area.

Feasibility and pre-feasibility studies have been performed on the resources for the No. 12S B2 Mine, No. 7-4 Mine, No. 8 Mine and No. 16 East Mine.

Reserves

The table below summarizes Grande Cache Coal's metallurgical coal reserves as of April 1, 2006 (i) in respect of the No. 12S B2 Mine, the No. 8 Mine and the No. 16 East Mine areas, as evaluated in the AMEC Report; and (ii) in respect of the No. 7-4 Mine area, as evaluated in the WEIR Report. Based on the resource and reserve classification method specified in GSC 88-21, the No. 7-4 Mine reserves are classified as moderate geology type reserves and the No. 12S B2 Mine, No. 8 Mine and No. 16 East Mine reserves are classified as complex geology type reserves. All of the coal reserves are low volatile bituminous in rank and are primarily of metallurgical quality with minor amounts of oxidized metallurgical coal along the seam outcrops.

<u>Deposit Type</u>	<u>Mine Area</u>	<u>Reserves ⁽¹⁾</u> <u>(Million Tonnes)</u>	
		<u>Recoverable ⁽²⁾</u>	<u>Saleable ⁽³⁾</u>
Surface	No. 12S B2 Mine	3.32	2.42
Underground	No. 7-4 Mine	5.22	3.91
Surface	No. 8 Mine ⁽⁴⁾	12.50	8.90
Surface	No. 16 East Mine	13.92	10.44
Total		<u>34.96</u>	<u>25.67</u>

Notes:

- (1) "Reserves" means coal quantities that are anticipated to be mineable utilizing existing technology, under prevailing economic conditions, and which have no legal impediments to mining. The reserves for the No. 8 Mine area and No. 16 East Mine area are in the "Not in Active Mines" category.
- (2) "Reserves Recoverable" means that portion of the Reserves In-Place plus OSD that can be extracted by conventional underground or surface mining technology.
- (3) "Reserves Saleable" means that portion of the Reserves Recoverable that remains after processing operations.
- (4) Excludes 0.7 million tonnes of oxidized coal in No. 8 Mine that was included in previous independent technical reports prepared for Grande Cache Coal.

INDUSTRY CONDITIONS

Grande Cache Coal is regulated by federal, provincial and local laws regarding such diverse matters as employee health and safety, permitting and licensing, and protection of the environment. In addition, future consumers of Grande Cache Coal's products are subject to regulation regarding the manner in which they use certain of Grande Cache Coal's products and changes in these regulations could affect the demand for such products.

Alberta and the Canadian federal government have established approval processes, environmental standards and reclamation guidelines specific to the coal industry. Mining activities in Alberta are monitored by regulatory authorities, including the AEUB and Alberta Environment. Examples of federal and provincial legislation that govern Grande Cache Coal's operations include the *Fisheries Act* (Canada), the *Canadian Environmental Protection Act, 1999*, the *Coal Conservation Act* (Alberta), the EPEA and the *Water Act* (Alberta).

Grande Cache Coal's policy is to minimize the impact of its operations on the environment through its policies and practices, and to comply with applicable laws and regulations.

Outlined below are some of the principal aspects of legislation and regulations governing Grande Cache Coal's coal mining operations in Alberta.

Real Property and Mining Taxes

The real property holdings of Grande Cache Coal are held through Alberta Crown coal leases. Alberta Crown coal leases are granted, under the *Mines & Minerals Act* (Alberta), for a term of 15 years and are renewable, subject to, the regulations in force at the time of renewal, terms and conditions prescribed by order of the Alberta Minister of Energy and consideration of remaining coal reserves. Annual lease rental rates are \$3.50 per hectare. Bituminous coal under Crown coal lease is subject to royalties which are levied based on mine-mouth value of marketable coal produced and revenue generated by the sale of the coal resource. Royalties are based on a two-tiered system with an initial rate of one percent of the mine-mouth value of marketable coal produced from the Crown coal leases per month. Following the date when the cumulative mine-mouth revenue of the coal mine equals or exceeds the aggregate of the allowed cumulative project costs and a 10 percent return allowance of the project, an additional royalty on bituminous coal is payable to the Crown, the value of which is equivalent to 13 percent of the mine-mouth value of marketable coal net of allowed operating and capital costs earned from Crown leases for a calendar year.

Permits, Licenses and Approvals

Mine sites require numerous permits, licenses and approvals in order to operate, and various regulatory authorities supervise mining operations to ensure that the conditions and standards which apply to mining activities are adhered to. Operation of Grande Cache Coal's properties will require regular and open communication between management and regulatory authorities as existing permits, licenses and approvals require periodic updating and renewal. New applications will be filed from time to time in order to commence and expand mining operations. In this regard, Grande Cache Coal will be required to submit detailed mining and environmental data in order to commence, renew and extend mining activities.

Grande Cache Coal's area of operations will be contained within the boundaries of the mine permit designated by AEUB. The main mine operating approval required by the AEUB is a mine license issued under the *Coal Conservation Act* (Alberta). The mine license establishes conformance with an engineered mine plan.

Mining operations also require a number of approvals issued pursuant to the EPEA, which regulates the environmental aspects of mine and coal handling operations, the reclamation of mine land, the deposit of waste and the discharge of various substances resulting from mining operations, and the *Water Act* (Alberta), which regulates water use, and the diversion or alteration of watercourses. The EPEA approval will require that land disturbed in connection with mining operations be reclaimed by Grande Cache Coal.

Grande Cache Coal's operations in Alberta are also subject to the *Fisheries Act* (Canada) which prohibits the deposit of a toxic substance into waters that are inhabited by fish and the destruction of fish habitat. Provisions of the *Fisheries Act* (Canada) require that a permit be obtained to allow new activities or discharges that may impact aquatic habitats, including new operations at river and stream crossings. Further, new operations at rivers, streams or other bodies of water may require an approval under the *Navigable Waters Protection Act* (Canada). Other federal statutes that apply to Grande Cache Coal's operations include the *Canadian Environmental Protection Act, 1999*, which regulates the use of substances that are considered to be toxic, and the *Explosives Act* (Canada), which regulates the use of explosives.

Other than as set forth in "Risk Factors", Grande Cache Coal is not aware of any matters which would hinder its ability to obtain or renew the permits, licenses and approvals which it requires.

Environmental Assessment

Under both Canadian federal and provincial laws, new mining projects and significant expansions to existing mines are subject to environmental assessment legislation that establishes a formal regulatory structure for assessing existing environmental conditions, identifying potential environmental impacts from the proposed mining operation and developing extensive environmental management programs to mitigate significant impacts. Approvals of new projects and the expansion of existing approvals often are not granted until an environmental assessment is completed, including consultation with members of the public and other affected stakeholders.

The approval of a new mine or the modification of an existing coal mine in Alberta is subject to the environmental assessment procedures set out under the EPEA and the regulations made thereunder. Pursuant to this legislation, any project that may have a significant adverse effect upon the environment can be required to undergo an environmental assessment if it is in the public interest to do so.

Under the *Canadian Environmental Assessment Act*, the requirement for an environmental assessment can be triggered if the mining project involves federal lands, aboriginal reservations, federal monies or requires a federal license, permit or approval.

Occasionally, a mining project will fall under both the provincial and federal environmental assessment regimes. Bilateral cooperation agreements between the federal government and certain provinces, including Alberta, provide a framework for coordinating and streamlining the environmental assessment process for projects that require an environmental assessment by both levels of government. As a result, a project will undergo a single environmental assessment that meets the legal requirements of both the provincial and federal government.

Releases

Federal and provincial environmental legislation regulates the discharge or release of substances into the environment. Generally, these regulations prohibit unauthorized releases that have an adverse effect or potentially adverse effect on or otherwise impair the environment. Grande Cache Coal has provision for an Environmental Management System ("EMS") that incorporates measures to prevent unauthorized releases and appropriate emergency response procedures and training programs to minimize any environmental impact from its operations. The EMS will be formalized in accordance with the terms and conditions of the EPEA approval. The EMS will be an integral part of Grande Cache Coal's mining operations and aid in the continual improvement of environmental performance. Grande Cache Coal will identify regulatory and environmental aspects of its business, implement standard practices and procedures, train employees and maintain adequate emergency response capabilities for environmental matters. Grande Cache Coal's corporate EMS will incorporate major elements of the ISO 14001 program such as tracking its record of environmental compliance. Grande Cache Coal's corporate goal is to achieve environmentally responsible operations and full compliance with all applicable environmental laws.

Reclamation Activities

Many of the mining approvals that Grande Cache Coal needs in order to undertake mining activities require that Grande Cache Coal reclaim the land disturbed as a result of mining. Reclamation of mined land is a priority for Grande Cache Coal.

In Alberta, reclamation activities are governed by the approval issued under the EPEA. Mine operators are required to submit an annual report to the AEUB and Alberta Environment that includes a report on reclamation activities. Inspectors from Alberta Environment regularly inspect sites to confirm compliance with approved reclamation plans.

The Alberta Government requires security to be posted for reclamation obligations based on forecasted costs to reclaim mined sites. This requirement for security is often satisfied by posting letters of credit issued by a Canadian chartered bank.

Aboriginal Rights Claims

Canadian courts have recognized that aboriginal peoples may continue to have certain rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded which extinguish those rights. These rights may vary from limited rights of use for traditional purposes to a right of aboriginal title and will depend upon, among other things, the nature and extent of prior aboriginal use and occupation. The courts have encouraged the federal and provincial governments and aboriginal peoples to resolve rights claims through negotiation of treaties.

The Aseniwuche Winewak Nation of Canada has identified a traditional land use area that encompasses a broad area of west central Alberta, including Grande Cache Coal's lease areas. The Aseniwuche Winewak Nation of Canada strives to achieve economic enhancement for its constituents. The Corporation and the Aseniwuche Winewak Nation signed a joint agreement in January 2004 covering areas of mutual support and environmental monitoring. The Corporation has also engaged in discussions with the Local Council #1994 of the Metis Nation of Alberta in respect of a joint agreement regarding mutual support and environmental monitoring.

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 reserves. 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 Annual Information Form before making an investment decision.

Exploration, Development and Production Risks

Coal mining operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Grande Cache Coal depends on its ability to find, acquire, develop and commercially produce coal. A future increase in Grande Cache Coal's reserves will depend not only on its ability to explore and

develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Grande Cache Coal will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Grande Cache Coal may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of coal will be discovered or acquired by Grande Cache Coal.

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 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.

Coal exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as environmental hazards and industrial accidents, each of which could result in substantial damage to mines, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Grande Cache Coal is not fully insured against all of these risks, nor are all such risks insurable. Although Grande Cache Coal maintains liability insurance in an amount that it considers consistent with industry practice for a company in the exploration and development stage, the nature of these risks is such that liabilities could exceed policy limits, in which event Grande Cache Coal could incur significant costs that could have a material adverse effect upon its financial condition. Coal mining operations are also subject to all the risks typically associated with such operations, including encountering unexpected mining conditions, pit wall slides and pit flooding. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Stage of Development

Grande Cache Coal does not have a significant operating history. Grande Cache Coal is not currently operating profitably and Grande Cache Coal has never earned a profit. As a result, there can be no assurance that Grande Cache Coal will be able to develop and operate its properties, or any one of them, profitably, or that its activities will generate positive cash flow. As a result of Grande Cache Coal's lack of operating history, it faces many of the risks inherent in starting a new business.

Coal exploration and mining involves a high degree of risk. The amounts attributed to Grande Cache Coal's interest in its properties reflected in its financial statements represent acquisition and exploration and development expenses and should not be taken to represent realizable value. Hazards such as unusual or unexpected mining conditions are involved.

Fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the operation of mines. Unknowns with respect to market demand, coal pricing and mining conditions are involved. Existing and future environmental laws may cause additional expenses and delays in Grande Cache Coal's activities, and they may render Grande Cache Coal's properties uneconomic. Grande Cache Coal has limited liability insurance, and Grande Cache Coal may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a material adverse effect on Grande Cache Coal's financial position.

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. 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. Competitive factors in the distribution and marketing of coal include price and methods and reliability of delivery.

Coal Price and Volume Volatility

Grande Cache Coal's financial condition will be directly related to the volume and price of coal and coal products sold. Coal demand and price are determined by numerous factors beyond the control of Grande Cache Coal including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates and political and economic conditions, and production costs in major coal producing regions. In the past, there have been periods of oversupply of metallurgical coal in the market, which have resulted in price decreases. An oversupply of metallurgical coal in world markets or a general downturn in the economies of any of Grande Cache Coal's significant markets would have a material adverse effect on the financial condition of Grande Cache Coal. Grande Cache Coal's dependence on foreign markets may result in instability due to political and economic factors in those foreign jurisdictions which is beyond the control of Grande Cache Coal. The combined effects of any or all of these factors on coal price or volume is impossible for Grande Cache Coal to predict. If realized coal prices fall below the full cost of production of any of Grande Cache Coal's operations and remain at such level for any sustained period, Grande Cache Coal will experience losses and may decide to discontinue that operation forcing Grande Cache Coal to incur closure and/or care and maintenance costs, as the case may be.

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 and adversely affect Grande Cache Coal.

Coal Transportation

The majority of coal that is produced by Grande Cache Coal is exported outside of North America. Grande Cache Coal's mines are located more than 1,000 kilometres from seaports and are all serviced by a single rail system. Accordingly, operations are highly dependent on both rail and port services. As a result, a significant portion of total transportation and other costs are attributable to rail and port costs, which includes demurrage charges for vessel waiting times. All of the metallurgical coal production from Grande Cache Coal is transported to port facilities by Savage Alberta Railway and CN and loaded on to vessels in either Vancouver at Westshore Terminals or Thunder Bay at Thunder Bay Terminals. Contractual disputes, rail and port capacity issues, prolonged labour stoppages, availability of vessels, weather problems or other factors that prevent Savage Alberta Railway, CN, Westshore Terminals or Thunder Bay Terminals from providing their services could seriously impact Grande Cache Coal's financial condition. In addition, significant cost escalation for these services will serve to reduce profitability, possibly increasing the full cost of production above realized coal prices. To the extent such increases are sustained, Grande Cache Coal could experience losses and may decide to discontinue production, forcing Grande Cache Coal to incur closure and/or care and maintenance costs, as the case may be.

Shortage of Mining Equipment

The recent growth in global mining activities has created a demand for mining equipment and related supplies that outpaces supply. As a result, future operations could be adversely affected if Grande Cache Coal encounters 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.

Foreign Currency Exchange

Grande Cache Coal's operating results and cash flows are affected by foreign currency exchange rates. Exchange rate movements can have a significant impact on results since the vast majority of Grande Cache Coal's operating costs are incurred in Canadian dollars and most of its revenues are denominated in U.S. dollars. An increase in the value of the Canadian dollar relative to the U.S. dollar would reduce Grande Cache Coal's realized Canadian dollar-selling price thereby reducing the profitability of Grande Cache Coal and such reduction could be material. 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 coal products to compete in foreign markets.

Additional Funding Requirements

Grande Cache Coal anticipates making substantial capital expenditures for the acquisition, exploration, development, production and acquisition of coal reserves in the future. Grande Cache Coal will have to obtain additional debt or equity financing to the extent that the capital expenditures are not funded by internally generated cash flow. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Grande Cache Coal. The inability of Grande Cache Coal to access sufficient capital for its operations could have a material adverse effect on Grande Cache Coal's financial condition, results of operations or prospects.

Credit Facility

Grande Cache Coal's secured credit facility with Brookfield 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 may limit Grande Cache Coal from paying dividends to shareholders.

Dependence on Major Customers

The metallurgical coal industry is characterized by a relatively small number of customers worldwide. A loss of, or a significant reduction in, purchases by any of Grande Cache Coal's largest customers could adversely affect Grande Cache Coal's revenue.

Personnel

None of Grande Cache Coal's personnel are currently unionized, however, some or all of such personnel may become unionized. In addition, the contract miner at the No. 12S B2 Mine and the rail carriers 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 its contract miner at the No. 12S B2 Mine or those of its key service suppliers could have a material adverse effect upon Grande Cache Coal's revenues.

In addition, 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. In addition, the competition for qualified personnel in the coal mining industry 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. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Grande Cache Coal.

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.

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 Estimates

While the estimates of reserves included in this Annual Information Form have been prepared in accordance with industry standards and applicable law based on information which Grande Cache Coal believes to be reliable, there are numerous uncertainties inherent in the estimation of mineral reserves. For example, the estimation of reserves in accordance with applicable standards involves a determination of economic recovery of minerals, which in turn requires Grande Cache Coal to make assumptions regarding the future price of Grande Cache Coal's products and the cost of recovery, as well as other factors that are beyond Grande Cache Coal's control. Market price fluctuations for coal as well as increased production costs or reduced recovery rates, may render a portion or all of the reserves uneconomic and may ultimately result in a restatement of reserves. Short-term operating factors relating to the coal reserves, such as the need for sequential development of coal bodies, varying stripping ratios and the processing of new or different coal qualities, may adversely affect Grande Cache Coal's future results of operations and financial condition.

For these reasons, the actual mineral tonnage recovered from identified reserve areas or properties, and revenues and expenditures related to the exploitation of Grande Cache Coal's reserves, may vary materially from estimates. The estimates of reserves described in this Annual Information Form therefore may not accurately reflect Grande Cache Coal's actual reserves and may need to be restated in the future.

Grande Cache Coal's profitability will depend substantially on Grande Cache Coal's ability to mine coal deposits that have the geological characteristics that enable them to be mined at competitive costs. Replacement deposits may not be available when required or may not be capable of being mined at costs comparable to those of the depleting mines. Grande Cache Coal will seek to replace its economic mineral holdings through exploration and development of currently owned properties and the acquisition of properties from third parties. However, management may not be able to fully assess the geological characteristics of any properties that it acquires until after the acquisition, which may adversely affect the profitability and financial condition of Grande Cache Coal.

Grande Cache Coal has extensive coal properties that are undeveloped. Authorization from federal or provincial governments may be required before these properties can be brought into production. Access to such lands for mining purposes may be restricted by future legislation. Accordingly, there can be no assurance that Grande Cache Coal will be able to obtain the necessary authorizations to develop resource properties in the future and this may adversely affect Grande Cache Coal's future results of operations and financial condition.

Mining Risks and Insurance

Grande Cache Coal's exploration, development and mining operations are subject to conditions beyond Grande Cache Coal's control which can affect the cost of exploration, development and mining at particular sites for varying lengths of time. Such conditions include environmental hazards, industrial accidents, explosions, unusual or unexpected geological formations or pressures, pit wall slides, pit flooding and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or production facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability. In this regard, Grande Cache Coal maintains insurance against risks that are typical in the mining industry. In addition, Grande Cache Coal has insured its physical assets on a replacement cost basis and purchased liability insurance at levels it believes to be reasonable. However, there is no guarantee that such insurance coverages will be adequate in all cases. The payment of uninsured liabilities would reduce the funds available to Grande Cache Coal. The occurrence of a significant event that Grande Cache Coal is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Grande Cache Coal's financial position, results of operations or prospects.

Insurance against environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not available at reasonable economic rates to Grande Cache Coal or to other companies within the industry. To the extent that Grande Cache Coal is subject to environmental liabilities, the payment of such liabilities would reduce the funds available to Grande Cache Coal. Should Grande Cache Coal be unable to fully fund the cost of remedying an environmental problem, Grande Cache Coal may be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

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. 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 Regulation

Government authorities regulate the coal mining industry to a significant degree, in connection with, among other things, employee health and safety, air quality standards, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties and the discharge of materials into the environment. This legislation has had and will continue to have a significant effect on Grande Cache Coal's operations and competitive position. Future legislation may also adversely impact Grande Cache Coal's operations by hindering the Corporation's mining operations or by increasing its costs. Grande Cache Coal's lands and activities are subject to extensive federal and provincial laws and regulations controlling not only the mining of and exploration of mineral properties, but also the possible effects of such activities upon the environment. Future legislation and regulations could cause additional expense, capital expenditures, reclamation obligations, restrictions and delays in the development of Grande Cache Coal's properties, the extent of which cannot be predicted. In the context of environmental permitting, including the approval of reclamation plans, Grande Cache Coal must comply with legislated or regulated standards and existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. See "Industry Conditions".

Permits and Permitting Process

Mining companies 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 Grande Cache Coal 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.

Kyoto Protocol

The Kyoto Protocol is an international agreement that sets limits on greenhouse gas emissions from certain signatory countries. While the United States government has announced that it will not ratify the Kyoto Protocol, the Canadian Parliament has voted to ratify its participation in this agreement. The Kyoto Protocol came into force in Canada on February, 16, 2005 after being ratified by enough signatory countries. The Kyoto agreement commits Canada to limit its net greenhouse gas emissions to 6% below the levels emitted in 1990. Canada's current level of greenhouse gas emissions significantly exceeds the agreed-upon limit.

The government of Canada has initiated the development of regulations for greenhouse gas emissions through a formal notice of intent to regulate greenhouse gas emissions by Large Final Emitters ("**LFEs**") under parts five and 11 of the *Canadian Environmental Protection Act, 1999*. The timetable for development indicated with the notice was to have at least part of the regulatory package ready for the first part of 2006. The operations of Grande Cache Coal are not currently classified as LFEs under this regulatory initiative, but this may change in the future.

The primary source of greenhouse gas emissions in Canada is the use of hydrocarbon energy. The operations of Grande Cache Coal depend significantly on hydrocarbon energy sources to conduct daily operations, and there are currently no economic substitutes for these forms of energy. A significant proportion of Canada's industrial sector faces a similar situation. The federal and provincial governments have not finalized any formal regulatory programs to control greenhouse gases, and it is not yet possible to reasonably estimate the nature, extent, timing and cost of any programs contemplated or their potential effects on the operations of Grande Cache Coal. Most of Grande Cache Coal's products are sold outside of Canada, and sales are not expected to be significantly affected by Canada's Kyoto ratification decision. However, the broad adoption of emission limitations or other

regulatory efforts to control greenhouse gas emissions could negatively affect in a material adverse way the demand for coal as well as increase production and transportation costs.

Environmental

All phases of the coal mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with coal mining operations. The legislation also requires that mines and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Grande Cache Coal to incur costs to remedy such discharge. Although Grande Cache Coal believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Grande Cache Coal's financial condition, results of operations or prospects. See "Industry Conditions".

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.

Conflicts of Interest

Certain directors of Grande Cache Coal are also directors of other mineral resource companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "Directors and Executive Officers – Conflicts of Interest".

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.

Additional information on the risks, assumptions and uncertainties are found under the heading "Forward-Looking Information Advisory" of this Annual Information Form.

DIVIDEND POLICY

The Corporation's current policy is to retain future profits for growth. As a result, no dividends have been paid on the Corporation's shares during the three most recently completed financial years. The Corporation's dividend policy is reviewed periodically by the board of directors and is subject to change, depending on earnings of the Corporation, financial requirements and other factors, as appropriate. As at the date hereof, the Corporation does not intend to change its dividend policy. Grande Cache Coal's secured credit facility with Brookfield contains restrictions which may limit the Corporation from paying dividends.

DESCRIPTION OF SHARE CAPITAL

The following is a summary of the rights, privileges, restrictions and conditions attaching to the shares in Grande Cache Coal's share capital.

Common Shares

Grande Cache Coal is authorized to issue an unlimited number of Common Shares without nominal or par value. Holders of Common Shares are entitled to one vote per share at meetings of shareholders of Grande Cache Coal. Subject to the rights of the holders of Preferred Shares and any other shares having priority over the Common Shares, holders of Common Shares are entitled to dividends if, as and when declared by the board of directors and upon liquidation, dissolution or winding-up to receive the remaining property of Grande Cache Coal.

Preferred Shares

Grande Cache Coal is authorized to issue an unlimited number of preferred shares issuable in series, each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the board of directors of Grande Cache Coal prior to the issuance thereof. With respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding up of Grande Cache Coal, whether voluntary or involuntary, the preferred shares are entitled to preference over the Common Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over the Common Shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series.

MARKET FOR SECURITIES

Grande Cache Coal's Common Shares are listed on the TSX under the symbol "GCE". The following table sets forth the high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Common Shares on the TSX as reported by the TSX for each month or, if applicable, partial month, since the beginning of Grande Cache Coal's most recently completed financial year.

	Price Range (\$)		Trading Volume
	High	Low	
2005			
April.....	11.85	9.53	3,614,961
May.....	10.46	8.50	3,631,145
June.....	10.22	8.60	2,582,897
July.....	11.45	8.76	4,584,007
August.....	11.20	8.50	2,959,733
September.....	9.49	6.30	5,503,874
October.....	7.50	3.03	10,660,572
November.....	3.80	1.90	9,282,408
December.....	3.95	1.92	13,259,527
2006			
January.....	3.55	2.61	3,947,634
February.....	3.45	2.40	4,154,383
March.....	3.14	2.39	4,137,037
April.....	2.82	2.48	3,264,856
May.....	2.51	2.01	4,181,945
June (1 - 28).....	1.72	1.12	4,921,892

Grande Cache Coal's Warrants are listed on the TSX under the symbol "GCE.W". The following table sets forth the high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Warrants on the TSX as reported by the TSX for the periods indicated, commencing with the date upon which the Warrants began trading on the TSX.

	Price Range (\$)		Trading Volume
	High	Low	
2006			
April (5 - 30) ⁽¹⁾	0.40	0.29	482,600
May	0.55	0.19	170,480
June (1 - 28)	0.20	0.08	184,950

Note:

(1) The Warrants began trading on the TSX on April 5, 2006.

HUMAN RESOURCES

Grande Cache Coal had 171 full-time employees at March 31, 2006, eight of which were located at the Corporation's head office in Calgary.

The Corporation requires extensive knowledge in the areas of mine development and mineral processing. Mine development includes all functions necessary to economically develop the mine, extract the coal from the earth and deliver it to the coal processing plant. Mineral processing includes all functions that result in cleaning and preparing the coal for delivery after extracting it from the mine.

The Corporation's senior management personnel possess the necessary skills and experience to efficiently perform these functions. Through their leadership, practical training is provided to employees to supplement their formal technical training to ensure qualified candidates exist to fill future management positions. In order to attract individuals who possess the necessary technical training, the Corporation actively participates in university work programs and recruitment initiatives.

DIRECTORS AND EXECUTIVE OFFICERS

Name, Occupation and Security Holding

The following table sets forth certain information in respect of Grande Cache Coal's directors and executive officers.

<u>Name and Province and Country of Residence</u>	<u>Positions and Offices Held with Grande Cache Coal ⁽¹⁾</u>	<u>Principal Occupations During the Five Preceding Years</u>	<u>Period of Service as Director</u>
Robert H. Stan Alberta, Canada	President, Chief Executive Officer and Director	President (since February 2001) and Chief Executive Officer (since September 2002) of Grande Cache Coal. From April 1, 2000 to February 2001, Vice President of Westpine Inc. (a private mining investment company). Prior to March 31, 2000, Vice-President, Marketing and Business Development of SRCL (a private metallurgical coal producer).	July 2000 to present

<u>Name and Province and Country of Residence</u>	<u>Positions and Offices Held with Grande Cache Coal ⁽¹⁾</u>	<u>Principal Occupations During the Five Preceding Years</u>	<u>Period of Service as Director</u>
Robert G. Brawn ⁽²⁾⁽³⁾ Alberta, Canada	Chairman and Director	President of 738831 Alberta Ltd. (a private investment company) since May 20, 2003. From April 20, 2001 until May 30, 2003, Chairman of Acclaim Energy Inc., a wholly owned subsidiary of Acclaim Energy Trust (now Canetic Resources Trust). Prior thereto, Chairman of Danoil Energy Ltd. (a predecessor of Acclaim Energy Inc.).	March 2001 to present
Barry T. Davies Alberta, Canada	Director	President of Rudgear Inc. (a private investment company) since March 2004. From April 2000 to March 2004, President of Westpine Inc. (a private mining investment company). From June 1997 to March 31, 2000, President and Chief Operating Officer of SRCL.	July 2000 to present
Donald J. Douglas ⁽²⁾⁽³⁾ Alberta, Canada	Director	President and Chief Executive Officer of United Inc. (a private property development company).	March 2001 to present
Donald R. Seaman ⁽²⁾⁽³⁾ Alberta, Canada	Director	President of D.R.S. Resource Investments Inc. (a private investment company).	March 2001 to present
Anita L. Roncin Calgary, Alberta	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of Grande Cache Coal since October 1, 2005 and from July 1, 2004 to October 1, 2005, Controller of Grande Cache Coal. From April 2002 to June 2004, Manager, Financial Reporting and Accounting as well as other financial positions at Fording Inc. and Elk Valley Coal Corporation. Prior thereto, Chartered Accountant with PricewaterhouseCoopers LLP.	-
David J. Passfield Grande Cache, Alberta	Vice President and General Manager, Grande Cache Operations	General Manager, Grande Cache Operations of Grande Cache Coal since April 1, 2005 and also Vice President of Grande Cache Coal since May 1, 2006. From June 30, 2000 to April 1, 2005, Manager, Mining of Diavik Diamond Mines Inc. (a diamond mine joint venture).	-
Fred D. Davidson Alberta, Canada	Corporate Secretary	Partner (since January 2002), and prior thereto, Associate, Burnet, Duckworth & Palmer LLP (a law firm).	-

Notes:

- (1) All of the directors of Grande Cache Coal have been appointed to hold office until the next annual general meeting of shareholders or until their successor is duly elected or appointed, unless their office is earlier vacated. Messrs. Stan and Davies have been directors of Grande Cache Coal sine July 2000 and Messrs. Brawn, Douglas and Seaman have been directors of Grande Cache Coal since March 2001.
- (2) Member of the Audit Committee.

- (3) Member of the Compensation, Nominating and Corporate Governance Committee.

As at June 29, 2006, the directors and executive officers of Grande Cache Coal as a group, beneficially owned, directly or indirectly, or exercised control or direction over, in the aggregate, approximately 2,622,352 Common Shares, representing approximately 5.2% of the outstanding Common Shares.

Robert H. Stan, the President, Chief Executive Officer and a director of the Corporation, was the Vice-President, Marketing and Business Development of SRCL from July 1997 to March 31, 2000. On March 31, 2000 SRCL was placed in receivership by a group of secured lenders at a time of depressed metallurgical coal markets. PricewaterhouseCoopers Inc. was appointed the receiver of SRCL. SRCL's assets were sold through a sealed-bid process conducted from May through October 2000. Barry T. Davies, a director of the Corporation, was the President and Chief Operating Officer of SRCL from June 1997 to March 31, 2000.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of Grande Cache Coal will be subject in connection with the operations of Grande Cache Coal. In particular, certain of the directors and officers of Grande Cache Coal are involved in managerial or director positions with other resource companies whose operations may, from time to time, be in direct competition with those of Grande Cache Coal or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Grande Cache Coal. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

LEGAL PROCEEDINGS

There are no material legal proceedings to which Grande Cache Coal is a party or of which any of its property is the subject, nor are any such proceedings known to Grande Cache Coal to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of Grande Cache Coal, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of any class or series of Grande Cache Coal's outstanding voting securities, and no associate or affiliate of any of the persons or companies referred to above, has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect Grande Cache Coal except as disclosed elsewhere in this Annual Information Form and as follows:

1. On March 22, 2004, \$378,750 of contingent management fees owing to Westpine Inc., a company one-half indirectly owned by Robert H. Stan (the President, Chief Executive Officer and a director of Grande Cache Coal) and his spouse and one-half indirectly owned by Mr. Davies (a director of Grande Cache Coal) and his spouse, was converted into 366,334 Common Shares of Grande Cache Coal.
2. Fred Davidson, the Corporate Secretary of Grande Cache Coal, is a Partner of Burnet, Duckworth & Palmer LLP, which firm receives fees for legal services provided to Grande Cache Coal.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada is Grande Cache Coal's transfer agent and registrar and Grande Cache Coal's warrant agent. The registers of transfers of Grande Cache Coal's Common Shares and Warrants are located in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the only contracts that are material to Grande Cache Coal and that were entered into within the most recently completed financial year, or before the most recently completed financial year, and which are still in effect are the following:

1. a shareholder protection rights plan agreement dated May 27, 2005 between the Corporation and Computershare Trust Company of Canada (the "**Plan**"), which Plan is similar to existing shareholder protection rights plans adopted by other Canadian public companies. The Plan was ratified by the shareholders of Grande Cache Coal at the annual and special meeting of shareholders held on August 17, 2005. The objectives of the Plan are to ensure, to the extent possible, that all shareholders of the Corporation are treated equally and equitably in connection with any takeover bid for the Corporation. The Plan discourages discriminatory, coercive or unfair takeovers of the Corporation and gives the board of directors time if, in the circumstances, the board of directors determines it is appropriate to take such time, to pursue alternatives to maximize shareholder value in the event an unsolicited takeover bid is made for all or a portion of the outstanding Common Shares of the Corporation.

In order to implement the Plan, the board of directors of the Corporation authorized the issuance of one right (a "**Right**") in respect of each Common Share of the Corporation outstanding at the close of business on May 27, 2005 (the "**Record Time**"). In addition, the Board authorized the issuance of one Right in respect of each additional Common Share issued after the Record Time. The Rights trade with and are represented by the Common Share certificates, including certificates issued prior to the Record Time. Until such time as the Rights separate from the Common Shares and become exercisable, rights certificates will not be distributed to shareholders.

Rights will expire on the earlier of redemption or termination, as hereinafter described, or following the close of the annual general meeting of shareholders of the Corporation in 2008, unless shareholders at that meeting reconfirm the Plan for additional time.

If a person or a group acting in concert (an "**Acquiring Person**") acquires (other than pursuant to an exemption available under the Plan) beneficial ownership of 20% or more of the Common Shares (a "**Flip-in Event**") otherwise than pursuant to a takeover bid permitted by the Plan (a "**Permitted Bid**"), Rights (other than those held by such Acquiring Person which will become void) will separate from the Common Shares and permit the holder thereof to purchase Common Shares at a 50% discount to their market price.

The requirements of a "Permitted Bid" include the following:

- (a) the takeover bid must be made by means of a takeover bid circular;
- (b) the takeover bid is made to all holders of voting shares as registered on the books of the Corporation, other than the offeror;
- (c) the takeover bid contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no voting shares will be taken up or paid for pursuant to the takeover bid prior to the close of business on the date which is not less than 50 days following the date of the takeover bid and only if at such date more than 50% of the voting shares held by independent shareholders shall have been deposited or tendered pursuant to the takeover bid and not withdrawn;
- (d) the takeover bid contains an irrevocable and unqualified provision that unless the takeover bid is withdrawn, voting shares may be deposited pursuant to such takeover bid at any time during the period of time between the date of the takeover bid and the date on which voting shares may be taken up and paid for and that any voting shares deposited pursuant to the takeover bid may be withdrawn until taken up and paid for; and
- (e) the takeover bid contains an irrevocable and unqualified provision that if, on the date on which voting shares may be taken up and paid for, more than 50% of the voting shares held by independent shareholders shall have been deposited pursuant to the takeover bid and not withdrawn, the offeror will make a public announcement of that fact and the takeover bid will remain open for deposits and tenders of voting shares for not less than ten business days from the date of such public announcement.

The Plan allows for a competing Permitted Bid (a "**Competing Permitted Bid**") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all of the requirements of a Permitted Bid except that it may expire

on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days in accordance with applicable securities legislation.

A person, or a group acting in concert, who is the beneficial owner of 20% or more of outstanding Common Shares as of the Record Time is exempt from the dilutive effects of the Plan provided such person (or persons) does not increase its beneficial ownership by more than 1% (other than in accordance with the terms of the Plan). A person does not become an Acquiring Person by virtue of having entered into an agreement (a "**Permitted Lock-Up Agreement**") with a shareholder whereby the shareholder agrees to deposit or tender voting shares to a takeover bid made by such person, provided that the agreement meets certain requirements including:

- (a) the terms of the agreement are publicly disclosed and a copy of the agreement is publicly available;
- (b) the shareholder who has agreed to tender voting shares to the takeover bid (the "**Lock-Up Bid**") made by the other party to the agreement is permitted to terminate its obligation under the agreement in order to tender voting shares to another takeover bid or transaction where the offer price or value of the consideration payable under the other takeover bid or transaction is for higher consideration per share than that at which the shareholder has agreed to deposit or tender voting shares to the Lock-Up Bid or is equal to or greater than a specified minimum which is not more than 5% higher than the offer price under the Lock-Up Bid; and
- (c) no break-up fees or other penalties that exceed in the aggregate the greater of 2.5% of the consideration payable under the Lock-Up Bid and 50% of the increase in consideration payable under another takeover bid or transaction shall be payable by the shareholder if the shareholder fails to deposit or tender voting shares to the Lock-Up Bid.

At any time prior to the Rights becoming exercisable, the board of directors may waive the operation of the Plan with respect to certain events before they occur, including in connection with a takeover bid. If a potential offeror does not desire to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the board of directors to make a takeover bid by way of a takeover bid circular sent to all holders of voting shares on the terms which the board of directors considers fair to all shareholders. Any waiver of the application of the Plan in respect of a particular takeover bid shall also constitute a waiver of any other takeover bid which is made by means of a takeover bid circular to all holders of voting shares while the initial takeover bid is outstanding. The board of directors may also waive the application of the Plan in respect of a particular Flip-in Event that has occurred through inadvertence, provided that the Acquiring Person that inadvertently triggered such Flip-in Event reduces its beneficial holdings to less than 20% of the outstanding voting shares of the Corporation within 10 days or such earlier or later date as may be specified by the Board. With the prior consent of the holders of voting shares, the board of directors may, prior to the occurrence of a Flip-in Event that would occur by reason of an acquisition of voting shares otherwise than pursuant to the foregoing, waive the application of the Plan to such Flip-in Event.

The board of directors may at any time prior to the occurrence of a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of \$0.00001 per Right. Rights are deemed to be redeemed following completion of a Permitted Bid, a Competing Permitted Bid or a takeover bid in respect of which the board of directors has waived the application of the Plan.

The issuance of Rights is not dilutive and will not affect reported earnings or cash flow per share until the rights separate from the underlying Common Shares and become exercisable or until the exercise of the rights. The issuance of the rights will not change the manner in which shareholders currently trade their Common Shares.

The Corporation may, with the prior approval of shareholders (or the holders of Rights if the Separation Time has occurred), supplement, amend, vary or delete any of the provisions of the Plan.

2. the warrant indenture dated April 5, 2006 between the Corporation and Computershare Trust Company of Canada, as warrant agent, pursuant to which an aggregate of 5,500,000 Warrants were issued. See "General Development of the Business".

INTERESTS OF EXPERTS

Names of Experts

The only persons or companies who are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or relating to, the Corporation's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or company, are Collins Barrow Calgary LLP, the Corporation's independent auditors and WEIR and AMEC, the Corporation's independent mining consultants.

Interests of Experts

To the Corporation's knowledge, no registered or beneficial interests, direct or indirect, in any securities or other property of the Corporation or of one of the Corporation's associates or affiliates (i) were held by Collins Barrow Calgary LLP, WEIR or AMEC when Collins Barrow Calgary LLP, WEIR or AMEC prepared the statement, report or valuation in question, (ii) were received by Collins Barrow Calgary LLP, WEIR or AMEC after Collins Barrow Calgary LLP, WEIR or AMEC prepared the statement, report or valuation in question, or (iii) is to be received by Collins Barrow Calgary LLP, WEIR or AMEC.

Neither Collins Barrow Calgary LLP, WEIR or AMEC, nor any director, officer or employee of Collins Barrow Calgary LLP, WEIR or AMEC, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

ESCROWED SECURITIES

To the knowledge of Grande Cache Coal, none of the securities of Grande Cache Coal are held in escrow.

PRIOR SALES

There is no class of securities of Grande Cache Coal that is outstanding but not listed or quoted on a marketplace.

AUDIT COMMITTEE INFORMATION

Composition of the Audit Committee

The Audit Committee of the Corporation is comprised of Donald J. Douglas (Chair), Robert G. Brawn and Donald R. Seaman. The following table sets out the assessment of each Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name and Municipality of Residence	Independent	Financially Literate	Relevant Education and Experience
Donald J. Douglas Calgary, Alberta	Yes	Yes	Mr. Douglas is the President of United Inc., a private property development company, a position which he has held since it commenced operations in July 1993. Mr. Douglas has been, and continues to be, a director of numerous investment and management companies in Alberta, and serves as a director of certain non-profit and charitable organizations. In addition, Mr. Douglas serves as a director of a number of publicly listed companies. Mr. Douglas holds a Masters of Business Administration from IMEDE Management Development Institute in Lausanne, Switzerland and a Bachelor of Commerce from the University of Alberta.

<u>Name and Municipality of Residence</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
Robert Brawn Calgary, Alberta	Yes	Yes	Mr. Brawn has over 42 years experience in the oil and gas industry. Mr. Brawn has served as a director of a number of publicly listed entities and currently serves as a director of Canetic Resources Inc. (a subsidiary of Canetic Resources Trust), Parkland Income Trust and Zapata Energy Corporation, all of which are listed on the TSX. Mr. Brawn has been the President of 738831 Alberta Ltd., a private investment company, since May 30, 2003. From April 20, 2001 until May 30, 2003, Mr. Brawn was the Chairman of Acclaim Energy Inc., a wholly-owned subsidiary of Acclaim Energy Trust (now Canetic Resources Trust). Prior thereto Mr. Brawn was the Chairman of Danoil Energy Ltd., a predecessor of Acclaim Energy Inc. Mr. Brawn received a Bachelor of Science, Engineering from the University of Alberta in 1958.
Donald R. Seaman Calgary, Alberta	Yes	Yes	Mr. Seaman has over 50 years experience in the oil and gas industry. Mr. Seaman is the President of D.R.S. Resource Investments Inc., a private investment company. Mr. Seaman has served as a director of a number of publicly listed entities and currently serves as a director of CCR Technologies Ltd. and Western Lakota Energy Services Inc., companies listed on the TSX, and Titan Digital Corporation, a TSX Venture Exchange listed company. Mr. Seaman received a Bachelor of Science, Mechanical Engineering from the University of Saskatchewan in 1947.

Audit Committee Mandate and Terms of Reference

The text of the Mandate and Terms of Reference of the Audit Committee is appended as Schedule "A" to this Annual Information Form.

Pre-Approval of Policies and Procedures

Under the Mandate and Terms of Reference of the Audit Committee, the Audit Committee is required to review and pre-approve any non-audit services to be provided to the Corporation or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member report to the Audit Committee at the next scheduled meeting such pre-approval and the member comply with such other procedures as may be established by the Audit Committee from time to time.

The Audit Committee has determined that in order to ensure the continued independence of the auditors, only limited non-audit related services would be provided to the Corporation by its auditors and in such case, only with the prior approval of the Audit Committee.

External Auditor Service Fees

The following table sets forth the audit service fees billed by Grande Cache Coal's external auditor, Collins Barrow Calgary LLP, for the periods indicated:

<u>Type of Fees and Fiscal Year Ended</u>	<u>Aggregate Fees Billed</u>	<u>Description of Services</u>
Audit Fees		
Fiscal Year Ended March 31, 2006	\$69,000	Audit of consolidated financial statements
Fiscal Year Ended March 31, 2005	\$68,000	Audit of consolidated financial statements
Audit – Related Fees		
Fiscal Year Ended March 31, 2006	\$28,500	Review of interim consolidated financial statements
Fiscal Year Ended March 31, 2005	\$20,000	Review of interim consolidated financial statements
Tax Fees		
Fiscal Year Ended March 31, 2006	\$7,900	Various taxation matters
Fiscal Year Ended March 31, 2005	\$Nil	
All Other Fees		
Fiscal Year Ended March 31, 2006	\$12,000	Various matters related to a public offering of units and other issues
Fiscal Year Ended March 31, 2005	\$12,543	Various matters related to the initial public offering, a private placement and other issues

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Grande Cache Coal's securities and securities authorized for issuance under equity compensation plans is contained in Grande Cache Coal's information circular – proxy statement dated June 30, 2006 relating to the annual general meeting of shareholders to be held on July 31, 2006. Additional financial information is provided in Grande Cache Coal's audited consolidated financial statements and management's discussion and analysis for the financial year ended March 31, 2006.

Additional information relating to Grande Cache Coal including the materials listed in the preceding paragraphs may be found on SEDAR at www.sedar.com or through the Corporation's website at www.gccoal.com.

SCHEDULE "A"
GRANDE CACHE COAL CORPORATION
AUDIT COMMITTEE
MANDATE AND TERMS OF REFERENCE

Role and Objective

The Audit Committee (the "**Committee**") is a committee of the board of directors (the "**Board**") of Grande Cache Coal Corporation ("**Grande Cache Coal**" or the "**Corporation**") to which the Board has delegated its responsibility for the oversight of the nature and scope of the annual audit, the oversight of management's reporting on internal accounting standards and practices, the review of financial information, accounting systems and procedures, financial reporting and financial statements and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

1. to assist directors in meeting their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of Grande Cache Coal and related matters;
2. to provide better communication between directors and external auditors;
3. to enhance the external auditor's independence;
4. to increase the credibility and objectivity of financial reports; and
5. to strengthen the role of the independent directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

Membership of Committee

1. The Committee will be comprised of at least three (3) directors of Grande Cache Coal or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in Multilateral Instrument 52-110 – Audit Committees ("**MI 52-110**") unless the Board determines that the exemption contained in MI 52-110 is available and determines to rely thereon.
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.
3. All of the members of the Committee must be "financially literate" (as defined in MI 52-110) unless the Board determines that an exemption under MI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of MI 52-110.

Mandate and Responsibilities of Committee

It is the responsibility of the Committee to:

1. Oversee the work of the external auditors, including the resolution of any disagreements between management and the external auditors regarding financial reporting.
2. Satisfy itself on behalf of the Board with respect to Grande Cache Coal's internal control systems:
 - identifying, monitoring and mitigating business risks; and

- ensuring compliance with legal, ethical and regulatory requirements.
3. Review the annual and interim financial statements of Grande Cache Coal and related management's discussion and analysis ("MD&A") prior to their submission to the Board for approval. The process should include but not be limited to:
- reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
 - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - reviewing accounting treatment of unusual or non-recurring transactions;
 - ascertaining compliance with covenants under loan agreements;
 - reviewing disclosure requirements for commitments and contingencies;
 - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - reviewing unresolved differences between management and the external auditors; and
 - obtain explanations of significant variances with comparative reporting periods.
4. Review the financial statements, prospectuses and other offering documents, MD&A, annual information forms ("AIF") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of Grande Cache Coal's disclosure of all other financial information and will periodically assess the accuracy of those procedures.
5. Review and approve the disclosure of audit committee information required to be included in the AIF of the Corporation prior to its filing with regulatory authorities.
6. With respect to the appointment of external auditors by the Board:
- recommend to the Board the external auditors to be nominated;
 - recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;
 - on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with the Corporation to determine the auditors' independence;
 - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
 - review and pre-approve any non-audit services to be provided to Grande Cache Coal or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time.
7. Review with external auditors (and internal auditor if one is appointed by Grande Cache Coal) their assessment of the internal controls of Grande Cache Coal, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee will also review annually with the

external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Grande Cache Coal and its subsidiaries.

8. Review risk management policies and procedures of Grande Cache Coal (i.e. hedging, litigation and insurance).
9. Establish a procedure for:
 - the receipt, retention and treatment of complaints received by Grande Cache Coal regarding accounting, internal accounting controls or auditing matters; and
 - the confidential, anonymous submission by employees of Grande Cache Coal of concerns regarding questionable accounting or auditing matters.
10. Review and approve Grande Cache Coal's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of Grande Cache Coal.

The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of the Corporation. The external auditors shall be required to report directly to the Committee. The Committee will also have the authority to investigate any financial activity of Grande Cache Coal. All employees of Grande Cache Coal are to cooperate as requested by the Committee.

The Committee may also retain persons having special expertise and/or obtain independent professional advise to assist in filling their responsibilities at such compensation as established by the Committee and at the expense of Grande Cache Coal without any further approval of the Board.

Meetings and Administrative Matters

1. At all meetings of the Committee every question shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall be entitled to a second or casting vote.
2. The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.
3. A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.
5. The Committee will meet with the external auditor at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Committee consider appropriate.
6. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
7. The Committee may invite such officers, directors and employees of the Corporation as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
8. Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.

9. The Committee may retain persons having special expertise and may obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.
10. Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee, each member will hold such office until the Committee is reconstituted.
11. Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chairman of the Board by the Committee Chair.

Management's Report

The accompanying consolidated financial statements and related financial information in the annual report are the responsibility of management, have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgment 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.

Collins Barrow Calgary 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) Anita L. Roncin
Vice-President, Finance and Chief Financial Officer

May 15, 2006

Auditors' Report

To the Shareholders
Grande Cache Coal Corporation

We have audited the consolidated balance sheets of Grande Cache Coal Corporation as at March 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years ended March 31, 2006 and 2005. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Collins Barrow Calgary LLP
Chartered Accountants

Calgary, Alberta
May 15, 2006

RECEIVED
2006 AUG 25 P 12:00
OFFICE OF THE REGISTRAR
CORPORATE FINANCE

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

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 973	\$ 35,455
Restricted cash (note 3)	6,138	9,666
Accounts receivable	2,836	4,755
Inventory (note 4)	26,509	10,838
Prepaid expenses	1,490	199
	<u>37,946</u>	<u>60,913</u>
Deposit for future reclamation expenditures	82	82
Property and equipment (note 5)	<u>52,720</u>	<u>39,225</u>
	<u>\$ 90,748</u>	<u>\$ 100,220</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,653	\$ 14,302
Notes payable (note 6)	-	3,647
Revolving debt (note 7)	11,500	-
	<u>27,153</u>	<u>17,949</u>
Long term debt (note 7)	10,000	-
Asset retirement obligations (note 8)	<u>3,470</u>	<u>2,338</u>
	<u>40,623</u>	<u>20,287</u>
Shareholders' equity		
Share capital (note 9)	101,715	99,751
Contributed surplus	1,621	1,275
Deficit	<u>(53,211)</u>	<u>(21,093)</u>
	<u>50,125</u>	<u>79,933</u>
	<u>\$ 90,748</u>	<u>\$ 100,220</u>

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Donald J. Douglas
Director

Grande Cache Coal Corporation
Consolidated Statements of Loss and Deficit
Years Ended March 31

(thousands of Canadian dollars, except per share amounts)

	2006	2005
Revenue		
Sales	\$ 90,106	\$ 16,822
Interest and other	<u>578</u>	<u>827</u>
	<u>90,684</u>	<u>17,649</u>
Expenses		
Cost of product sold	91,385	26,222
Distribution	20,888	4,259
General and administrative (note 10)	5,335	4,908
Interest and other	747	125
Depreciation, depletion and accretion	<u>3,686</u>	<u>895</u>
	<u>122,041</u>	<u>36,409</u>
Net loss before taxes	(31,357)	(18,760)
Taxes (note 13)	<u>(761)</u>	<u>(179)</u>
Net loss	(32,118)	(18,939)
Deficit, beginning of year	<u>(21,093)</u>	<u>(2,154)</u>
Deficit, end of year	<u>\$ (53,211)</u>	<u>\$ (21,093)</u>
Net loss per share (note 11)		
Basic and diluted	<u>\$ (0.79)</u>	<u>\$ (0.56)</u>

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)

	2006	2005
Cash provided by (used for)		
Operating activities		
Net loss	\$ (32,118)	\$ (18,939)
Items not affecting cash		
Stock-based compensation (note 12)	767	1,004
Unrealized foreign exchange loss (gain)	277	(253)
Depreciation, depletion and accretion	3,686	895
	<u>(27,388)</u>	<u>(17,293)</u>
Net change in non-cash working capital relating to operating activities	<u>(11,345)</u>	<u>(3,314)</u>
	<u>(38,733)</u>	<u>(20,607)</u>
Financing activities		
Proceeds on revolving and term debt (note 7)	21,500	-
Proceeds on issuance of share capital (note 9)	1,545	99,097
Proceeds on issuance of note payable (note 6)	-	5,335
Repayment of notes payable (note 6)	(3,752)	(1,186)
Share issuance costs (note 9)	(1)	(5,959)
Net change in non-cash working capital relating to financing activities	<u>-</u>	<u>(197)</u>
	<u>19,292</u>	<u>97,090</u>
Investing activities		
Additions to mineral properties and development costs	(4,456)	(12,535)
Additions to buildings and equipment	(12,350)	(20,527)
Restricted cash (note 3)	3,501	(9,872)
Net change in non-cash working capital relating to investing activities	<u>(1,592)</u>	<u>1,612</u>
	<u>(14,897)</u>	<u>(41,322)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(144)</u>	<u>(43)</u>
(Decrease) increase in cash and cash equivalents	(34,482)	35,118
Cash and cash equivalents, beginning of year	<u>35,455</u>	<u>337</u>
Cash and cash equivalents, end of year	<u>\$ 973</u>	<u>\$ 35,455</u>
Supplemental cash flow information:		
Interest paid	\$ 740	\$ 125
Taxes paid	777	104

See accompanying notes to the consolidated financial statements

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005
(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 developing a long-term mining operation that produces metallurgical coal for the export market from Grande Cache Coal's coal leases covering over 18,000 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, depletion, depreciation, and an asset impairment test calculation for mineral properties and deferred development. 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 market value.

Restricted Cash

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

Inventory

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include contract 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 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.

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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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 4 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 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 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 month-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.

Revenue Recognition

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

Cost of product sold

Cost of product sold represents the cost of coal production including contract 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

Taxes include Alberta crown royalties and federal large corporation tax. The Alberta crown royalty is based on a portion of product revenue, net of distribution expenses incurred. The large corporation tax is calculated based on a percentage of eligible capital.

Future income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

arising from the recovery or settlement of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets and liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on substantially enacted tax rates that are anticipated to apply in the period of realization.

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. Restricted Cash

Cash secured letters of credit in the amount of \$5,438 (2005-\$4,204) have been provided to the Alberta Minister of Finance for abandonment 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 \$700 (2005-\$512) have been made available to service providers. As well, at March 31, 2005 a cash secured letter of credit of U.S.\$4,100 was provided as security for the notes payable.

4. Inventory

	March 31 2006	March 31 2005
Coal inventory	\$ 25,041	\$ 10,478
Materials inventory	<u>1,468</u>	<u>360</u>
Total	<u>\$ 26,509</u>	<u>\$ 10,838</u>

5. Property and Equipment

	As at March 31, 2006		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 33,426	\$ 1,780	\$ 31,646
Mineral properties and development	<u>24,374</u>	<u>3,300</u>	<u>21,074</u>
	<u>\$ 57,800</u>	<u>\$ 5,080</u>	<u>\$ 52,720</u>

	As at March 31, 2005		
	Cost	Accumulated depreciation	Net Book Value
Buildings and equipment	\$ 21,078	\$ 303	\$ 20,775
Mineral properties and development	<u>18,982</u>	<u>532</u>	<u>18,450</u>
	<u>\$ 40,060</u>	<u>\$ 835</u>	<u>\$ 39,225</u>

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

At March 31, 2006, \$7,738 (2005-\$4,464) was capitalized for reserves, buildings, equipment, leasehold improvements, computer hardware and software that were not in use during the year. No depreciation has been taken on these assets.

The Corporation has acquired several crown coal leases ("Leases") in the Grande Cache, Alberta area, each for a term of 15 years. The Corporation is committed, under the Lease terms, to paying an annual lease rental and a royalty on all coal recovered from these Leases during their respective terms

6. Notes Payable

The Corporation entered into a coal sale agreement dated April 13, 2004 with a Japanese trading company (the "Trading Co.") for the sale of approximately 250,000 tonnes of metallurgical coal to the Trading Co. by September 30, 2005. In conjunction with the coal sale agreement, the parties entered into an advance payment agreement pursuant to which the Trading Co. agreed to advance U.S.\$4,000 to the Corporation to be used by the Corporation for certain development activities and operations of its mining properties near Grande Cache, Alberta. As the advance was denominated in U.S. dollars, changes in the U.S./Canadian dollar exchange rate impacted the carrying value of the note. Interest was payable on the outstanding balance at LIBOR plus 2% per annum, but in any event, was not to exceed U.S. \$100 over the term of the advance.

As security for this advance, the Corporation granted the Trading Co. a letter of credit in the amount of U.S.\$4,100 in the second quarter of 2005, replacing the demand debenture on all present and after-acquired property of the Corporation that had initially been granted. The Corporation was required to repay the advance not later than September 30, 2005 and had the option to repay, without penalty, the outstanding balance of the advance at any time and thereafter obtain discharge of the letter of credit.

Interest expense on the note of \$125 was recorded in the prior year.

Repayment of the advance occurred through a reduction in the price per tonne otherwise payable by the Trading Co. for coal delivered under the coal sale agreement. During the prior year, U.S.\$985 of principal and U.S.\$100 of interest charges were repaid. During the current year, the remainder of the coal under the agreement was shipped and the balance owing was repaid.

7. Revolving and Term Debt

During the third quarter of 2006, the Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term facility and a \$10 million revolving facility. Interest was payable monthly at a rate of prime plus 2% per annum.

The Corporation amended and extended its secured credit facility on March 28, 2006. The restated credit facility consists of a \$10 million term facility and a \$15 million revolving facility. Interest is payable monthly at a rate of prime plus 2% per annum. The facilities are secured by a general security agreement and have a maturity date of April 8, 2007, subject to a one year extension option.

Interest expense on the revolving and term debt of \$428 was recorded in the current year.

The credit facilities are being used to finance the Corporation's working capital and allowed for the retirement of a \$5 million loan the Corporation received from a related party.

8. Asset Retirement Obligations

Future asset retirement obligations were estimated by management based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. The Corporation has estimated the net present value of its asset retirement obligations to be \$3,470 (2005-\$2,338), based on a total future liability of \$7,123 (2005-\$5,695). The Corporation's credit adjusted risk free rates range from 5.5% to 7.6% depending on the term of estimated years to reclamation.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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

	2006	2005
Balance, beginning of year	\$ 2,338	\$ 77
Increase in liability	935	2,180
Accretion expense	197	81
Balance, end of year	<u>\$ 3,470</u>	<u>\$ 2,338</u>

9. Share Capital

Authorized

Unlimited common shares

Issued

	2006		2005	
	Number (thousands)	Stated Value	Number (thousands)	Stated Value
Common shares				
Balance, beginning of year	40,134	\$ 106,798	6,067	\$ 485
Shares issued on initial public offering	-	-	22,000	57,200
Conversion of Series 1 preferred shares	-	-	8,400	6,825
Shares issued on private placement	-	-	2,942	40,011
Shares issued on exercise of warrants	485	1,521	725	2,277
Shares issued on exercise of options	150	444	-	-
Balance, end of year	<u>40,769</u>	<u>\$ 108,763</u>	<u>40,134</u>	<u>\$ 106,798</u>
Series 1 preferred shares				
Balance, beginning of year	-	\$ -	6,825	\$ 6,825
Conversion of series 1 preferred shares to common shares	-	-	(6,825)	(6,825)
Balance, end of year	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
		108,763		106,798
Less: Share issuance costs		<u>7,048</u>		<u>7,047</u>
		<u>\$ 101,715</u>		<u>\$ 99,751</u>

In the first quarter of 2006, 485 thousand agents' warrants were exercised for cash proceeds of \$1,260. On exercise of these warrants, \$261 was credited to share capital from contributed surplus.

During the second quarter of 2006, 133 thousand share options were exercised for cash proceeds of \$268. On exercise of these options, \$147 was credited to the share capital from contributed surplus.

During the third quarter of 2006, 16 thousand share options were exercised for cash proceeds of \$17. On exercise of these options, \$12 was credited to share capital from contributed surplus.

The following transactions occurred during the year ended March 31, 2005:

On May 12, 2004, the Corporation completed its initial public offering of 22.0 million common shares at a price of \$2.60 per common share for gross proceeds of \$57,200. This included the full exercise by the agents of their over-allotment option to sell an additional 2.0 million common shares. Net proceeds to the Corporation, after deducting the agents' fee of \$3,146 and cash costs of the offering of \$769 were \$53,285.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Following the completion of the offering, all issued and outstanding Series 1 preferred shares were exchanged into common shares at a conversion factor of 1.23 common shares for each preferred share. Holders of Series 1 preferred shares were not entitled to any accrued and unpaid cumulative dividends up to the date of exchange.

On February 25, 2005, the Corporation completed the private placement of 2.9 million units at an issue price of \$13.60 per unit for gross proceeds of \$40,011. This included the full exercise by the underwriters of their over-allotment option to purchase an additional 0.4 million units. Each unit consisted of one common share and one half of one common share purchase warrant of the Corporation, each whole common share purchase warrant entitling the holder to acquire one common share of the Corporation at a price of \$16.25 per share on or before February 27, 2006. Net proceeds to the Corporation were \$37,654, after deducting the agents' fee of \$2,201 and cash costs of the offering of \$156.

Warrants

On May 12, 2004, the Corporation issued agents' warrants to purchase 1.21 million common shares at an exercise price of \$2.60 per share for a period of 12 months from the closing date of the initial public offering. The fair value of each warrant issued is estimated on the date of the issuance using the Black Scholes pricing model, using an estimated volatility at the time of the grant of 50%, risk free interest rate of 3% and expected life of one year. The non-cash stock based compensation expense of the agents' warrants of \$653, was recorded as a share issuance cost.

During the year 485 thousand (2005-725 thousand) agents' warrants were exercised for cash proceeds of \$1,260 (2005-\$1,886). On exercise of these warrants, \$261 (2005-\$391) was credited to share capital from contributed surplus.

Upon closing of the private placement on February 25, 2005, the Corporation issued warrants to purchase 1,471 million common shares at an exercise price of \$16.25 per share on or before February 27, 2006. No value was attributed to the warrants.

10. General and Administrative

General and administrative expenses in the current year consist of customary overhead charges. General and administrative expenses in the prior year consist of customary overhead charges as well as non-recurring charges related to the initial start-up of operations including internal labour, equipment rental and miscellaneous supplies that were not capitalized. Also included are non-cash charges of \$767 (2005-\$1,004) for stock-based compensation and a \$219 (2005-\$101) loss for foreign exchange.

11. Net Loss per Share

The following reconciles the denominators for basic and diluted net loss per share calculations. The treasury stock method is used to determine the dilutive effect of the share options. The effect of all option and warrant exercises would be anti-dilutive to the net loss per share amount.

(thousands, except per share information)

	2006	2005
Weighted average shares outstanding – basic and diluted	<u>40,658</u>	<u>33,697</u>
Net loss	\$ <u>(32,118)</u>	\$ <u>(18,939)</u>
Net loss per share:		
Basic and diluted	\$ <u>(0.79)</u>	\$ <u>(0.56)</u>

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

12. Stock-based Compensation

The Corporation has a share option plan, 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 number of shares authorized for option grants is limited to 3.6 million options.

Total stock-based compensation expense included in general and administrative expenses for the year was \$767 (2005-\$1,004) and was a result of the Corporation's share option plan.

Share options to purchase 55 thousand common shares at an exercise price of \$9.08 were granted to employees of the Corporation under the Corporation's share option plan on June 10, 2005. The share options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Share options to purchase 30 thousand of the common shares vested immediately and options to purchase 25 thousand of the common shares are subject to a two year vesting period.

On September 30, 2005, 131 thousand options to purchase common shares were cancelled.

Options to purchase 125 thousand common shares at an exercise price of \$4.50 were granted to employees of the Corporation under the Corporation's share option plan on October 17, 2005. The options have a five year term and are subject to a two year vesting period.

On October 15, 2005, 108 thousand options to purchase common shares were cancelled, on December 2, 2005, 23 thousand options to purchase common shares were cancelled, on December 29, 2005, 10 thousand options to purchase common shares were cancelled and on January 13, 2006, 10 thousand options to purchase common shares were cancelled.

The following transactions occurred during the year ended March 31, 2005:

At March 31, 2004, 1.40 million options to purchase common shares at an exercise price of \$1.00 per share were outstanding. The options have a term of five years and vest in equal amounts over three years. On July 30, 2004, 75 thousand of these options were cancelled.

Options to purchase 200 thousand common shares at an exercise price of \$3.70 per share were granted to directors and employees of the Corporation under the Corporation's share option plan on July 22, 2004. The options have a five year term and were priced at the trading price of the Common Shares on the date of the grant. Options to purchase 125 thousand of the common shares vested immediately and options to purchase 75 thousand of the common shares are subject to a two year vesting period.

Options to purchase 75 thousand common shares at an exercise price of \$3.70 per share were granted to employees and an officer of the Corporation under the Corporation's share option plan on August 9, 2004. The options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Options to purchase 25 thousand of the common shares vested immediately and options to purchase 50 thousand of the common shares are subject to a two year vesting period.

Options to purchase 205 thousand common shares at an exercise price of \$11.56 per share were granted to directors, an officer and employees of the Corporation under the Corporation's share option plan on March 14, 2005. The options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Options to purchase 75 thousand of the common shares vested immediately and options to purchase 130 thousand of the common shares are subject to a two year vesting period.

The fair value of each 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 61%, risk-free interest rates of 3% and expected lives of five years.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Details of the options outstanding are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
Outstanding – March 31, 2004	1,400	\$ 1.00
Granted	480	7.06
Cancelled	(75)	1.00
Exercised	-	-
Outstanding – March 31, 2005	1,805	\$ 2.61
Granted	180	5.90
Cancelled	(282)	4.44
Exercised	(149)	1.90
Outstanding – March 31, 2006	1,554	2.73

Details of the options exercisable at March 31, 2006 are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	700	\$ 1.00
	162	3.70
	105	11.56
	10	9.08
	977	\$ 2.67

Of the options outstanding, 1,259 thousand options expire in 2009 and the remaining 295 thousand share options expire in 2010.

13. Taxes

The Corporation is required to pay Alberta crown royalties on net product revenues. The royalty expense for the year ended March 31, 2006 was \$692 (2005-\$126). Also included is large corporation tax of \$69 for the year (2005-\$53).

The Corporation has a future income tax asset of \$18,486 (2005-\$ 8,632) that has not been recognized. The components of the future tax asset are as follows:

	2006	2005
Temporary differences related to buildings and equipment and mineral properties and development costs	\$ (2,780)	\$ (1,621)
Asset retirement obligations	1,151	773
Share issuance costs	1,484	2,065
Non-capital loss carryforwards	18,631	7,415
Valuation allowance	(18,486)	(8,632)
	\$ -	\$ -

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 35.62% (2005-37.12%) to the net loss before taxes, as follows:

	2006	2005
Expected income tax recovery	\$ 11,169	\$ 6,964
Decrease resulting from:		
Resource allowance	(1,061)	(1,136)
Stock based compensation	(273)	(373)
Tax rate reductions	(307)	(74)
Other	(7)	(6)
Non deductible crown payments	160	27
Future income tax recovery not recognized	(9,681)	(5,402)
	<u>\$ -</u>	<u>\$ -</u>

The Corporation has non-capital losses for income tax purposes totaling approximately \$52,306 (2005-\$26,180) which may be carried forward and applied against taxable income of future years, expiring as to \$479 in 2008, \$981 in 2009, \$1,081 in 2010, \$1,872 in 2014, \$21,768 in 2015 and \$26,125 in 2016.

14. Financial Instruments

Fair Values

The fair values of accounts receivable, accounts payable and accrued liabilities, revolving debt and notes payable approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of long term debt approximates its carrying value as it bears interest based on a variable market rate.

15. Commitments

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, vehicles and office space as well as a provision of rail transportation. Under contracts existing at March 31, 2006, future minimum amounts payable under these agreements are summarized below:

2007	\$1,445
2008	\$ 298
2009	\$ 232
2010	\$ 224
2011 and thereafter	\$ 928

The Corporation has commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment is U.S.\$16 million, with progress payments required over the course of the manufacturing process. To March 31, 2006, U.S.\$4.7 million in progress payments have been paid.

16. Related Party Transactions

In October 2005, due to a temporary build-up of inventory, the Corporation received short-term financing from a member of the Board of Directors in the amount of \$5 million. The loan was secured by coal inventory at the port and bore interest at 8% per annum and was repayable 2 months from the date of receipt. The loan was repaid in December 2005 and interest expense of \$98 was recorded.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

During the year ended March 31, 2005, prior to the Corporation's initial public offering, management fees of \$23, which have been included in general and administrative expenses, were paid to companies owned by two directors of the Corporation. This transaction was in the normal course of business and was measured at the exchange amount, which was the consideration agreed to by the parties

17. Economic Dependence

All of the Corporation's metallurgical coal is transported by Canadian National Railway Company and Savage Alberta Railway Inc. 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.

18. Subsequent Events

On April 5, 2006, the Corporation closed a bought deal equity financing. At closing, a total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$3.40 per share until April 5, 2007.

On April 7, 2006, the Corporation provided a cash secured letter of credit of \$300 to a service provider.

On April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation under the Corporation's share option plan at an exercise price of \$2.44 per share. The options have a five year term and are subject to an 18 month vesting period.

Management's Report

The accompanying consolidated financial statements and related financial information in the annual report are the responsibility of management, have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgment 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.

Collins Barrow Calgary 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) Anita L. Roncin
Vice-President, Finance and Chief Financial Officer

May 15, 2006

Auditors' Report

To the Shareholders
Grande Cache Coal Corporation

We have audited the consolidated balance sheets of Grande Cache Coal Corporation as at March 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years ended March 31, 2006 and 2005. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Collins Barrow Calgary LLP
Chartered Accountants

Calgary, Alberta
May 15, 2006

RECEIVED
2006 AUG 25 P 12:29
OFFICE OF THE REGISTRAR
CORPORATE FINANCE

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

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 973	\$ 35,455
Restricted cash (note 3)	6,138	9,666
Accounts receivable	2,836	4,755
Inventory (note 4)	26,509	10,838
Prepaid expenses	<u>1,490</u>	<u>199</u>
	37,946	60,913
Deposit for future reclamation expenditures	82	82
Property and equipment (note 5)	<u>52,720</u>	<u>39,225</u>
	<u>\$ 90,748</u>	<u>\$ 100,220</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,653	\$ 14,302
Notes payable (note 6)	-	3,647
Revolving debt (note 7)	<u>11,500</u>	<u>-</u>
	27,153	17,949
Long term debt (note 7)	10,000	-
Asset retirement obligations (note 8)	<u>3,470</u>	<u>2,338</u>
	<u>40,623</u>	<u>20,287</u>
Shareholders' equity		
Share capital (note 9)	101,715	99,751
Contributed surplus	1,621	1,275
Deficit	<u>(53,211)</u>	<u>(21,093)</u>
	<u>50,125</u>	<u>79,933</u>
	<u>\$ 90,748</u>	<u>\$ 100,220</u>

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Donald J. Douglas
Director

Grande Cache Coal Corporation
Consolidated Statements of Loss and Deficit
Years Ended March 31

(thousands of Canadian dollars, except per share amounts)

	2006	2005
Revenue		
Sales	\$ 90,106	\$ 16,822
Interest and other	<u>578</u>	<u>827</u>
	<u>90,684</u>	<u>17,649</u>
Expenses		
Cost of product sold	91,385	26,222
Distribution	20,888	4,259
General and administrative (note 10)	5,335	4,908
Interest and other	747	125
Depreciation, depletion and accretion	<u>3,686</u>	<u>895</u>
	<u>122,041</u>	<u>36,409</u>
Net loss before taxes	(31,357)	(18,760)
Taxes (note 13)	<u>(761)</u>	<u>(179)</u>
Net loss	(32,118)	(18,939)
Deficit, beginning of year	<u>(21,093)</u>	<u>(2,154)</u>
Deficit, end of year	<u>\$ (53,211)</u>	<u>\$ (21,093)</u>
Net loss per share (note 11)		
Basic and diluted	<u>\$ (0.79)</u>	<u>\$ (0.56)</u>

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)

	2006	2005
Cash provided by (used for)		
Operating activities		
Net loss	\$ (32,118)	\$ (18,939)
Items not affecting cash		
Stock-based compensation (note 12)	767	1,000
Unrealized foreign exchange loss (gain)	277	(253)
Depreciation, depletion and accretion	<u>3,686</u>	<u>895</u>
	(27,388)	(17,293)
Net change in non-cash working capital relating to operating activities	<u>(11,345)</u>	<u>(3,314)</u>
	<u>(38,733)</u>	<u>(20,607)</u>
Financing activities		
Proceeds on revolving and term debt (note 7)	21,500	
Proceeds on issuance of share capital (note 9)	1,545	99,090
Proceeds on issuance of note payable (note 6)		5,330
Repayment of notes payable (note 6)	(3,752)	(1,186)
Share issuance costs (note 9)	(1)	(5,959)
Net change in non-cash working capital relating to financing activities	<u>19,292</u>	<u>97,090</u>
Investing activities		
Additions to mineral properties and development costs	(4,456)	(12,535)
Additions to buildings and equipment	(12,350)	(20,527)
Restricted cash (note 3)	3,501	(9,872)
Net change in non-cash working capital relating to investing activities	<u>(1,592)</u>	<u>1,612</u>
	<u>(14,897)</u>	<u>(41,322)</u>
Effect of foreign exchange on cash and cash equivalents	<u>(144)</u>	<u>(43)</u>
(Decrease) increase in cash and cash equivalents	(34,482)	35,110
Cash and cash equivalents, beginning of year	<u>35,450</u>	<u>330</u>
Cash and cash equivalents, end of year	<u>\$ 970</u>	<u>\$ 35,450</u>
Supplemental cash flow information:		
Interest paid	\$ 740	\$ 125
Taxes paid	777	104

See accompanying notes to the consolidated financial statements

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(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 developing a long-term mining operation that produces metallurgical coal for the export market from Grande Cache Coal's coal leases covering over 18,000 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, depletion, depreciation, and an asset impairment test calculation for mineral properties and deferred development. 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 market value.

Restricted Cash

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

Inventory

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include contract 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 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.

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

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

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 4 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 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 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 month-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.

Revenue Recognition

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

Cost of product sold

Cost of product sold represents the cost of coal production including contract 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

Taxes include Alberta crown royalties and federal large corporation tax. The Alberta crown royalty is based on a portion of product revenue, net of distribution expenses incurred. The large corporation tax is calculated based on a percentage of eligible capital.

Future income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

arising from the recovery or settlement of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets and liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on substantially enacted tax rates that are anticipated to apply in the period of realization.

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. Restricted Cash

Cash secured letters of credit in the amount of \$5,438 (2005-\$4,204) have been provided to the Alberta Minister of Finance for abandonment 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 \$700 (2005-\$512) have been made available to service providers. As well, at March 31, 2005 a cash secured letter of credit of U.S.\$4,100 was provided as security for the notes payable.

4. Inventory

	March 31 2006	March 31 2005
Coal inventory	\$ 25,041	\$ 10,478
Materials inventory	<u>1,468</u>	<u>360</u>
Total	<u>\$ 26,509</u>	<u>\$ 10,838</u>

5. Property and Equipment

	<u>As at March 31, 2006</u>		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	\$ 33,426	\$ 1,780	\$ 31,646
Mineral properties and development	<u>24,374</u>	<u>3,300</u>	<u>21,074</u>
	<u>\$ 57,800</u>	<u>\$ 5,080</u>	<u>\$ 52,720</u>

	<u>As at March 31, 2005</u>		
	Cost	Accumulated depreciation	Net Book Value
Buildings and equipment	\$ 21,078	\$ 303	\$ 20,775
Mineral properties and development	<u>18,982</u>	<u>532</u>	<u>18,450</u>
	<u>\$ 40,060</u>	<u>\$ 835</u>	<u>\$ 39,225</u>

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

At March 31, 2006, \$7,738 (2005-\$4,464) was capitalized for reserves, buildings, equipment, leasehold improvements, computer hardware and software that were not in use during the year. No depreciation has been taken on these assets.

The Corporation has acquired several crown coal leases ("Leases") in the Grande Cache, Alberta area, each for a term of 15 years. The Corporation is committed, under the Lease terms, to paying an annual lease rental and a royalty on all coal recovered from these Leases during their respective terms

6. Notes Payable

The Corporation entered into a coal sale agreement dated April 13, 2004 with a Japanese trading company (the "Trading Co.") for the sale of approximately 250,000 tonnes of metallurgical coal to the Trading Co. by September 30, 2005. In conjunction with the coal sale agreement, the parties entered into an advance payment agreement pursuant to which the Trading Co. agreed to advance U.S.\$4,000 to the Corporation to be used by the Corporation for certain development activities and operations of its mining properties near Grande Cache, Alberta. As the advance was denominated in U.S. dollars, changes in the U.S./Canadian dollar exchange rate impacted the carrying value of the note. Interest was payable on the outstanding balance at LIBOR plus 2% per annum, but in any event, was not to exceed U.S. \$100 over the term of the advance.

As security for this advance, the Corporation granted the Trading Co. a letter of credit in the amount of U.S.\$4,100 in the second quarter of 2005, replacing the demand debenture on all present and after-acquired property of the Corporation that had initially been granted. The Corporation was required to repay the advance not later than September 30, 2005 and had the option to repay, without penalty, the outstanding balance of the advance at any time and thereafter obtain discharge of the letter of credit.

Interest expense on the note of \$125 was recorded in the prior year.

Repayment of the advance occurred through a reduction in the price per tonne otherwise payable by the Trading Co. for coal delivered under the coal sale agreement. During the prior year, U.S.\$985 of principal and U.S.\$100 of interest charges were repaid. During the current year, the remainder of the coal under the agreement was shipped and the balance owing was repaid.

7. Revolving and Term Debt

During the third quarter of 2006, the Corporation entered into a \$20 million secured credit facility consisting of a \$10 million term facility and a \$10 million revolving facility. Interest was payable monthly at a rate of prime plus 2% per annum.

The Corporation amended and extended its secured credit facility on March 28, 2006. The restated credit facility consists of a \$10 million term facility and a \$15 million revolving facility. Interest is payable monthly at a rate of prime plus 2% per annum. The facilities are secured by a general security agreement and have a maturity date of April 8, 2007, subject to a one year extension option.

Interest expense on the revolving and term debt of \$428 was recorded in the current year.

The credit facilities are being used to finance the Corporation's working capital and allowed for the retirement of a \$5 million loan the Corporation received from a related party.

8. Asset Retirement Obligations

Future asset retirement obligations were estimated by management based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. The Corporation has estimated the net present value of its asset retirement obligations to be \$3,470 (2005-\$2,338), based on a total future liability of \$7,123 (2005-\$5,695). The Corporation's credit adjusted risk free rates range from 5.5% to 7.6% depending on the term of estimated years to reclamation.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005
(thousands of Canadian dollars, except per share amounts)

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

	2006	2005
Balance, beginning of year	\$ 2,338	\$ 77
Increase in liability	935	2,180
Accretion expense	197	81
Balance, end of year	<u>\$ 3,470</u>	<u>\$ 2,338</u>

9. Share Capital

Authorized

Unlimited common shares

Issued

	2006		2005	
	Number <i>(thousands)</i>	Stated Value	Number <i>(thousands)</i>	Stated Value
Common shares				
Balance, beginning of year	40,134	\$ 106,798	6,067	\$ 485
Shares issued on initial public offering	-	-	22,000	57,200
Conversion of Series 1 preferred shares	-	-	8,400	6,825
Shares issued on private placement	-	-	2,942	40,011
Shares issued on exercise of warrants	485	1,521	725	2,277
Shares issued on exercise of options	150	444	-	-
Balance, end of year	<u>40,769</u>	<u>\$ 108,763</u>	<u>40,134</u>	<u>\$ 106,798</u>
Series 1 preferred shares				
Balance, beginning of year	-	\$ -	6,825	\$ 6,825
Conversion of series 1 preferred shares to common shares	-	-	(6,825)	(6,825)
Balance, end of year	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
		108,763		106,798
Less: Share issuance costs		7,048		7,047
		<u>\$ 101,715</u>		<u>\$ 99,751</u>

In the first quarter of 2006, 485 thousand agents' warrants were exercised for cash proceeds of \$1,260. On exercise of these warrants, \$261 was credited to share capital from contributed surplus.

During the second quarter of 2006, 133 thousand share options were exercised for cash proceeds of \$268. On exercise of these options, \$147 was credited to the share capital from contributed surplus.

During the third quarter of 2006, 16 thousand share options were exercised for cash proceeds of \$17. On exercise of these options, \$12 was credited to share capital from contributed surplus.

The following transactions occurred during the year ended March 31, 2005:

On May 12, 2004, the Corporation completed its initial public offering of 22.0 million common shares at a price of \$2.60 per common share for gross proceeds of \$57,200. This included the full exercise by the agents of their over-allotment option to sell an additional 2.0 million common shares. Net proceeds to the Corporation, after deducting the agents' fee of \$3,146 and cash costs of the offering of \$769 were \$53,285.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Following the completion of the offering, all issued and outstanding Series 1 preferred shares were exchanged into common shares at a conversion factor of 1.23 common shares for each preferred share. Holders of Series 1 preferred shares were not entitled to any accrued and unpaid cumulative dividends up to the date of exchange.

On February 25, 2005, the Corporation completed the private placement of 2.9 million units at an issue price of \$13.60 per unit for gross proceeds of \$40,011. This included the full exercise by the underwriters of their over-allotment option to purchase an additional 0.4 million units. Each unit consisted of one common share and one half of one common share purchase warrant of the Corporation, each whole common share purchase warrant entitling the holder to acquire one common share of the Corporation at a price of \$16.25 per share on or before February 27, 2006. Net proceeds to the Corporation were \$37,654, after deducting the agents' fee of \$2,201 and cash costs of the offering of \$156.

Warrants

On May 12, 2004, the Corporation issued agents' warrants to purchase 1.21 million common shares at an exercise price of \$2.60 per share for a period of 12 months from the closing date of the initial public offering. The fair value of each warrant issued is estimated on the date of the issuance using the Black Scholes pricing model, using an estimated volatility at the time of the grant of 50%, risk free interest rate of 3% and expected life of one year. The non-cash stock based compensation expense of the agents' warrants of \$653, was recorded as a share issuance cost.

During the year 485 thousand (2005-725 thousand) agents' warrants were exercised for cash proceeds of \$1,260 (2005-\$1,886). On exercise of these warrants, \$261 (2005-\$391) was credited to share capital from contributed surplus.

Upon closing of the private placement on February 25, 2005, the Corporation issued warrants to purchase 1,471 million common shares at an exercise price of \$16.25 per share on or before February 27, 2006. No value was attributed to the warrants.

10. General and Administrative

General and administrative expenses in the current year consist of customary overhead charges. General and administrative expenses in the prior year consist of customary overhead charges as well as non-recurring charges related to the initial start-up of operations including internal labour, equipment rental and miscellaneous supplies that were not capitalized. Also included are non-cash charges of \$767 (2005-\$1,004) for stock-based compensation and a \$219 (2005-\$101) loss for foreign exchange.

11. Net Loss per Share

The following reconciles the denominators for basic and diluted net loss per share calculations. The treasury stock method is used to determine the dilutive effect of the share options. The effect of all option and warrant exercises would be anti-dilutive to the net loss per share amount.

(thousands, except per share information)

	2006	2005
Weighted average shares outstanding – basic and diluted	<u>40,658</u>	<u>33,697</u>
Net loss	\$ <u>(32,118)</u>	\$ <u>(18,939)</u>
Net loss per share:		
Basic and diluted	\$ <u>(0.79)</u>	\$ <u>(0.56)</u>

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005
(thousands of Canadian dollars, except per share amounts)

12. Stock-based Compensation

The Corporation has a share option plan, 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 number of shares authorized for option grants is limited to 3.6 million options.

Total stock-based compensation expense included in general and administrative expenses for the year was \$767 (2005-\$1,004) and was a result of the Corporation's share option plan.

Share options to purchase 55 thousand common shares at an exercise price of \$9.08 were granted to employees of the Corporation under the Corporation's share option plan on June 10, 2005. The share options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Share options to purchase 30 thousand of the common shares vested immediately and options to purchase 25 thousand of the common shares are subject to a two year vesting period.

On September 30, 2005, 131 thousand options to purchase common shares were cancelled.

Options to purchase 125 thousand common shares at an exercise price of \$4.50 were granted to employees of the Corporation under the Corporation's share option plan on October 17, 2005. The options have a five year term and are subject to a two year vesting period.

On October 15, 2005, 108 thousand options to purchase common shares were cancelled, on December 2, 2005, 23 thousand options to purchase common shares were cancelled, on December 29, 2005, 10 thousand options to purchase common shares were cancelled and on January 13, 2006, 10 thousand options to purchase common shares were cancelled.

The following transactions occurred during the year ended March 31, 2005:

At March 31, 2004, 1.40 million options to purchase common shares at an exercise price of \$1.00 per share were outstanding. The options have a term of five years and vest in equal amounts over three years. On July 30, 2004, 75 thousand of these options were cancelled.

Options to purchase 200 thousand common shares at an exercise price of \$3.70 per share were granted to directors and employees of the Corporation under the Corporation's share option plan on July 22, 2004. The options have a five year term and were priced at the trading price of the Common Shares on the date of the grant. Options to purchase 125 thousand of the common shares vested immediately and options to purchase 75 thousand of the common shares are subject to a two year vesting period.

Options to purchase 75 thousand common shares at an exercise price of \$3.70 per share were granted to employees and an officer of the Corporation under the Corporation's share option plan on August 9, 2004. The options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Options to purchase 25 thousand of the common shares vested immediately and options to purchase 50 thousand of the common shares are subject to a two year vesting period.

Options to purchase 205 thousand common shares at an exercise price of \$11.56 per share were granted to directors, an officer and employees of the Corporation under the Corporation's share option plan on March 14, 2005. The options were priced at the trading price of the Common Shares on the date of the grant and have a five year term. Options to purchase 75 thousand of the common shares vested immediately and options to purchase 130 thousand of the common shares are subject to a two year vesting period.

The fair value of each 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 61%, risk-free interest rates of 3% and expected lives of five years.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Details of the options outstanding are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
Outstanding – March 31, 2004	1,400	\$ 1.00
Granted	480	7.06
Cancelled	(75)	1.00
Exercised	-	-
Outstanding – March 31, 2005	1,805	\$ 2.61
Granted	180	5.90
Cancelled	(282)	4.44
Exercised	(149)	1.90
Outstanding – March 31, 2006	1,554	2.73

Details of the options exercisable at March 31, 2006 are as follows:

<i>(thousands of shares)</i>	Common Shares	
	Number	Weighted Average Exercise Price
	700	\$ 1.00
	162	3.70
	105	11.56
	10	9.08
	977	\$ 2.67

Of the options outstanding, 1,259 thousand options expire in 2009 and the remaining 295 thousand share options expire in 2010.

13. Taxes

The Corporation is required to pay Alberta crown royalties on net product revenues. The royalty expense for the year ended March 31, 2006 was \$692 (2005-\$126). Also included is large corporation tax of \$69 for the year (2005-\$53).

The Corporation has a future income tax asset of \$18,486 (2005-\$ 8,632) that has not been recognized. The components of the future tax asset are as follows:

	2006	2005
Temporary differences related to buildings and equipment and mineral properties and development costs	\$ (2,780)	\$ (1,621)
Asset retirement obligations	1,151	773
Share issuance costs	1,484	2,065
Non-capital loss carryforwards	18,631	7,415
Valuation allowance	(18,486)	(8,632)
	\$ -	\$ -

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 35.62% (2005-37.12%) to the net loss before taxes, as follows:

	2006	2005
Expected income tax recovery	\$ 11,169	\$ 6,964
Decrease resulting from:		
Resource allowance	(1,061)	(1,136)
Stock based compensation	(273)	(373)
Tax rate reductions	(307)	(74)
Other	(7)	(6)
Non deductible crown payments	160	27
Future income tax recovery not recognized	(9,681)	(5,402)
	<u>\$ -</u>	<u>\$ -</u>

The Corporation has non-capital losses for income tax purposes totaling approximately \$52,306 (2005-\$26,180) which may be carried forward and applied against taxable income of future years, expiring as to \$479 in 2008, \$981 in 2009, \$1,081 in 2010, \$1,872 in 2014, \$21,768 in 2015 and \$26,125 in 2016.

14. Financial Instruments

Fair Values

The fair values of accounts receivable, accounts payable and accrued liabilities, revolving debt and notes payable approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of long term debt approximates its carrying value as it bears interest based on a variable market rate.

15. Commitments

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Corporation has entered into multi-year agreements for the lease of coal properties, vehicles and office space as well as a provision of rail transportation. Under contracts existing at March 31, 2006, future minimum amounts payable under these agreements are summarized below:

2007	\$1,445
2008	\$ 298
2009	\$ 232
2010	\$ 224
2011 and thereafter	\$ 928

The Corporation has commitments to purchase a mining shovel and a drill from a major mining equipment manufacturer. The estimated total cost of the equipment is U.S.\$16 million, with progress payments required over the course of the manufacturing process. To March 31, 2006, U.S.\$4.7 million in progress payments have been paid.

16. Related Party Transactions

In October 2005, due to a temporary build-up of inventory, the Corporation received short-term financing from a member of the Board of Directors in the amount of \$5 million. The loan was secured by coal inventory at the port and bore interest at 8% per annum and was repayable 2 months from the date of receipt. The loan was repaid in December 2005 and interest expense of \$98 was recorded.

Grande Cache Coal Corporation
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

(thousands of Canadian dollars, except per share amounts)

During the year ended March 31, 2005, prior to the Corporation's initial public offering, management fees of \$23, which have been included in general and administrative expenses, were paid to companies owned by two directors of the Corporation. This transaction was in the normal course of business and was measured at the exchange amount, which was the consideration agreed to by the parties

17. Economic Dependence

All of the Corporation's metallurgical coal is transported by Canadian National Railway Company and Savage Alberta Railway Inc. 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.

18. Subsequent Events

On April 5, 2006, the Corporation closed a bought deal equity financing. At closing, a total of 10.0 million units ("Units") of the Corporation were issued at a price of \$2.70 per Unit for gross proceeds of \$27 million. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Corporation, each whole warrant entitling the holder thereof to acquire one common share at a price of \$3.40 per share until April 5, 2007.

On April 7, 2006, the Corporation provided a cash secured letter of credit of \$300 to a service provider.

On April 12, 2006, 900 thousand options to purchase common shares were granted to employees and directors of the Corporation under the Corporation's share option plan at an exercise price of \$2.44 per share. The options have a five year term and are subject to an 18 month vesting period.