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If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Winsway Coking Coal Holdings Limited you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

WINSWAY COKING COAL HOLDINGS LIMITED

永暉焦煤股份有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1733)

MAJOR TRANSACTION

ENTRY INTO A JOINT VENTURE WITH MARUBENI CORPORATION TO ACQUIRE THE ENTIRE ISSUED SHARE CAPITAL OF GRANDE CACHE COAL CORPORATION AND NOTICE OF EGM

A letter from the board of directors of the Company is set out on pages 7 to 28 of this circular. A notice convening the extraordinary general meeting of the Company to be held at Grand Ballroom — Granville, Lobby level, Conrad, Pacific Place, 88 Queensway, Hong Kong on 28 February 2012 at 9.00 a.m. is set out on pages N-1 to N-2 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting of the Company or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the extraordinary general meeting of the Company or any adjournment of it should you so wish.

13 February 2012

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For the purpose of this circular, the following expressions have the following meanings unless the context requires otherwise:

"Acquisition Price"	C$10.00 per Target Share in cash
"Announcement"	the announcement of the Company dated 1 November 2011 in relation to, among other things, the Arrangement Agreement and the transactions contemplated thereunder
"Arrangement"	an arrangement under the *Business Corporations Act* (Alberta) pursuant to which the Purchaser will acquire all of the outstanding Target Shares. Under the Arrangement, the Target Shareholders will receive the Acquisition Price for each of their Target Shares
"Arrangement Agreement"	the agreement entered into on 31 October 2011 between the Target and the Purchaser in relation to the Arrangement
"Arrangement Execution Agreement"	an arrangement execution agreement entered into on 31 October 2011 and amended and restated on 8 February 2012 between the Company and Marubeni in connection with the establishment and organization of the Purchaser as a consortium vehicle to enter into the Arrangement Agreement, and to confirm their respective obligations to enter into and cause their respective subsidiaries to enter into the Shareholders Agreement
"Banks"	China Minsheng Banking Corp., Ltd, Hong Kong Branch and China Minsheng Banking Corp., Ltd, Shanghai Branch
"Board"	the board of Directors
"Business Day"	a day other than a Saturday, Sunday or other day when banks in the City of Calgary, Alberta, Hong Kong or Tokyo, Japan are not generally open for business
"BVI"	the British Virgin Islands
"C$"	Canadian dollars, the lawful currency of Canada
"Canadian GAAP"	Canadian generally accepted accounting principles
"China" or "PRC"	the People's Republic of China, but for the purpose of this circular and for geographical reference only and except where the context requires, references in this circular to "China" and the "PRC" do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong
"coal reserve"	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

"coke"	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"	metallurgical coal that exhibits the physical and chemical properties that are necessary to form coke
"Color Future"	Color Future International Limited, a company incorporated under the laws of the BVI with limited liability on 5 January 2005 and an indirectly wholly-owned subsidiary of the Company
"Company" or "Winsway"	Winsway Coking Coal Holdings Limited (永暉焦煤股份有限公司), a company incorporated in the BVI with limited liability, the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 1733)
"Competent Person"	Mr. Thaddeus J. Sobek of John T. Boyd Company, who prepared the Competent Person's Report
"Competent Person's Report"	has the meaning as defined in Chapter 18 of the Listing Rules and set out in Appendix V to this circular
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 9.00 a.m. on 28 February 2012 at Grand Ballroom — Granville, Lobby level, Conrad, Pacific Place, 88 Queensway, Hong Kong to consider and, if thought fit, to approve the Arrangement Agreement and transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Target upon completion of the Arrangement
"Facilities Agreement"	the agreement dated 9 February 2012 entered into between the Banks and the Purchaser, pursuant to which the Banks will provide facilities of up to US$350 million to the Purchaser towards funding the Acquisition Price under the Arrangement and US$50 million for working capital
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS"	International Financial Reporting Standards
"Indenture"	the written agreement dated 8 April 2011 between the Company, the Subsidiary Guarantors (as defined therein) and Deutsche Bank Trust Company Americas that specifies the terms and conditions of the Notes

"Independent Third Party(ies)"	a person(s) or company(ies) who/which is/are independent of and not connected with the Company or its connected persons
"Inner Mongolia"	Inner Mongolia Autonomous Region
"Inner Mongolia Haotong"	內蒙古浩通能源股份有限公司 (Inner Mongolia Haotong Energy Joint Stock Co., Ltd.*), a joint stock company established under the laws of the PRC on 18 November 2005 and an indirectly wholly-owned subsidiary of the Company
"Latest Practicable Date"	6 February 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information therein
"LIBOR"	the London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Lucky Colour"	Lucky Colour Limited, a company established under the laws of the BVI with limited liability on 11 March 2008 and a wholly-owned subsidiary of the Company
"Marubeni"	Marubeni Corporation
"metallurgical coal"	the various grades of coal suitable for making steel and includes coking coal and PCI coal
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Mongolia Hutie"	內蒙古呼鐵對外經濟技術合作集團有限責任公司 (Inner Mongolia Hutie Foreign Economic and Technological Cooperation Group Co., Ltd.*), a company established under the laws of the PRC with limited liability on 24 February 2003 and an Independent Third Party
"Moveday"	Moveday Enterprises Ltd, a company established under the laws of the BVI and an Independent Third Party
"Mr. Wang"	王興春先生 (Wang Xingchun), our chairman, Chief Executive Officer and the ultimate controlling shareholder of the Company
"Notes"	the US$500,000,000 8.5% Senior Notes due 2016 issued by the Company and listed on the Singapore Exchange Securities Trading Limited in April 2011

"PCI"	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
"Peabody Energy"	Peabody Energy Corporation (NYSE: BTU), a leading listed international coal company and one of the Group's suppliers of seaborne coal
"Peabody Holland"	Peabody Holland B.V., a private company with limited liability incorporated under the laws of Netherlands and a subsidiary of Peabody Energy
"Peabody-Winsway JV"	Peabody-Winsway Resources B.V. (formerly known as Peabody-Polo Resources B.V.), a private company incorporated under the laws of Netherlands
"Polo Resources"	Polo Resources Limited (AIM: POL and TSX: POL), a listed mining and exploration group focused on investing in or acquiring and developing advanced stage coal and uranium projects
"Polo Resources Coóperatief"	Polo Resources Coóperatief U.A., a co-operative incorporated under the laws of Netherlands and a subsidiary of Polo Resources
"Prospectus"	the prospectus of the Company dated 27 September 2010 issued in connection with the initial public offering and listing of Shares of the Company on the Main Board of the Hong Kong Stock Exchange on 11 October 2010
"Purchaser"	1629835 Alberta Ltd, a company incorporated in the Province of Alberta, Canada with limited liability
"run-of-mine coal" or "ROM"	the coal produced from the mine before it is processed
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Shares"	ordinary share(s) with no par value of the Company
"Shareholders"	holders of the Shares
"Shareholders Agreement"	the shareholders agreement in respect of the Purchaser entered into between Winsway and Marubeni on 15 November 2011 and amended and restated on 8 February 2012

"Target" or "Grande Cache"	Grande Cache Coal Corporation, a corporation incorporated under the laws of the Province of Alberta, Canada, the shares of which are listed on the TSX under the trading symbol "GCE"
"Target Shareholders"	holders of the Target Shares
"Target Shares"	common shares in the capital of the Target
"Target Voting Agreements"	voting support agreements entered into between directors and officers of the Target and the Purchaser, pursuant to which such directors and officers of the Target have agreed to vote all the Target Shares held by them in favour of the Arrangement
"TSX"	the Toronto Stock Exchange
"US$"	United States dollars, the lawful currency of the United States of America
"Valuation Report"	has the meaning as defined in Chapter 18 of the Listing Rules and is set out in Appendix VI to this circular
"Valuer"	Mr. Ronald L. Lewis of John T. Boyd Company, an independent valuer who prepared the Valuation Report
"Winstar"	Winstar Capital Group Limited, a company incorporated under the laws of the BVI on 18 August 2009 with its registered office at Horizon Chambers, P.O. Box 4622, Road Town, Tortola, BVI
"Winsway International Petroleum & Chemicals"	Winsway International Petroleum & Chemicals Limited, a company incorporated under the laws of the BVI with limited liability on 18 August 2005 and indirectly wholly-owned by Mr. Wang
"Winsway Resources Holdings"	Winsway Resources Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 September 2008 and indirectly wholly-owned by Mr. Wang
"Winsway Shareholder Approval"	the approval of a simple majority of Shareholders of the Arrangement Agreement and the transactions contemplated thereunder

"Winsway Support Agreement"	an agreement entered into on 31 October 2011 between the Company and the Target pursuant to which, amongst other things, the Target agreed to use its reasonable commercial efforts to assist the Company in the preparation of this circular and to provide all requisite information, documentation, confirmation and assistance for the purposes of preparing this circular
"%"	per cent

For the purpose of illustration only, (a) the amount denominated in C$ has been translated into HK$ at the exchange rate of C$1 to HK$7.79 and (b) the amount denominated in US$ has been translated into HK$ at the exchange rate of US$1 to HK$7.8.

The English names of the PRC entities or organisations mentioned in this circular marked "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

WINSWAY®

WINSWAY COKING COAL HOLDINGS LIMITED
永暉焦煤股份有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1733)

Directors:
Executive Directors:
Wang Xingchun *(Chairman and Chief Executive Officer)*
Zhu Hongchan
Yasuhisa Yamamoto
Apolonius Struijk
Cui Yong

Non-executive Directors:
Delbert Lee Lobb, Jr.
Liu Qingchun
Lu Chuan

Independent Non-executive Directors:
James Downing
Ng Yuk Keung
Wang Wenfu
George Jay Hambro

Registered Office:
Akara Bldg.
24 De Castro Street
Wickhams Cay 1
Road Town, Tortola
British Virgin Islands

Principal Place of Business in Hong Kong:
Suite 4602A,
Cheung Kong Center
2 Queen's Road Central
Hong Kong

13 February 2012

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ENTRY INTO A JOINT VENTURE WITH MARUBENI CORPORATION TO ACQUIRE THE ENTIRE ISSUED SHARE CAPITAL OF GRANDE CACHE COAL CORPORATION
AND
NOTICE OF EGM

INTRODUCTION

Reference is made to the Announcement in relation to the Arrangement Agreement entered into by the Purchaser and the Target on 31 October 2011 pursuant to which the Purchaser agreed to acquire, by way of a plan of arrangement under the *Business Corporations Act* (Alberta), all of the outstanding Target Shares for C$10.00 (approximately HK$78) per share in cash, for total cash consideration of approximately C$984.7 million (approximately HK$7.7 billion), on the terms and subject to the conditions provided for in the Arrangement Agreement. The Arrangement constitutes a major transaction of the Company under the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) further information on the details of the Arrangement Agreement and the transactions contemplated thereunder; (ii) financial and other information of the Group; (iii) financial information of the Target; (iv) unaudited pro forma financial information of the Enlarged Group; (v) Competent Person's Report; (vi) Valuation Report; (vii) other information as required under the Listing Rules; and (viii) the Notice of EGM.

THE JOINT VENTURE AND THE PURCHASER

Arrangement Execution Agreement

The Company and Marubeni entered into the Arrangement Execution Agreement on 31 October 2011 (which was amended and restated on 8 February 2012) in connection with the establishment and organization of the Purchaser as a consortium vehicle to enter into the Arrangement Agreement, and to confirm their respective obligations to enter into and cause their respective subsidiaries to enter into the Shareholders Agreement. The Purchaser is indirectly owned as to 60% by the Company and 40% by Marubeni. The initial investment in the Purchaser by the Company and Marubeni are limited to C$6,000 and C$4,000, respectively. The Arrangement Execution Agreement also sets out, among other things, the allocation of risk for the performance of obligations by the Company and Marubeni under the Arrangement Agreement including liability to pay for the full amount of the Target Termination Fee (as defined below) in circumstances where either of the Company or Marubeni is solely responsible for the failure of the Purchaser to complete the Arrangement in circumstances where the Purchaser Termination Fee becomes payable.

Shareholders Agreement

The Company and Marubeni entered into the Shareholders Agreement on 15 November 2011 (which was amended and restated on 8 February 2012) to regulate the affairs of the Target upon and subject to completion of the Arrangement, including certain key matters relating to the Target or the Purchaser which will require the unanimous consent of the Company and Marubeni, including the decision to proceed to completion of the Arrangement, the issue of shares in the Target, any decision to liquidate or wind-up the Purchaser or any decision to commence an initial public offering of the Purchaser or the Target. The further capitalisation of the Purchaser by the Company and Marubeni is conditional upon satisfaction of certain conditions precedent in the Arrangement Agreement, including the mutual conditions precedent and the conditions to the obligations of the Purchaser to complete the Arrangement (including the condition that the Company shall have received all necessary approvals of the Hong Kong Stock Exchange and the Winsway Shareholder Approval) set out in the sub-section headed "Conditions" below. Such capitalisation would be for the Acquisition Price and be made by the Company and Marubeni, through subsidiary entities, in proportion to their indirect equity interests in the Purchaser. The Company will have the right to appoint three directors to the board of the Purchaser so long as the Company holds a majority of the issued shares of the Purchaser one of whom will be the chairman of the board, and Marubeni will have the right to appoint two directors.

The Arrangement Execution Agreement and the Shareholders Agreement were amended and restated on 8 February 2012 principally to reflect the anticipated arrangements for partial funding of the Acquisition Price pursuant to the Facilities Agreement and, for the Shareholders Agreement, for the Company and Marubeni to agree a schedule for capital contributions to the Purchaser.

THE ARRANGEMENT

The board of directors of the Target, after consulting with its financial and legal advisors, unanimously recommended entering into the Arrangement Agreement and recommends that all the Target Shareholders vote in favour of the Arrangement at a shareholders meeting to be called by the Target.

Concurrently with the execution of the Arrangement Agreement, directors and officers of the Target have entered into Target Voting Agreements with the Purchaser, pursuant to which they have agreed to vote all the Target Shares held by them in favour of the Arrangement, representing in the aggregate 1.6% of the issued Target Shares as at the date thereof. Further, certain Shareholders including Mr. Wang Xingchun, the Company's controlling shareholder, representing in the aggregate 51.71% of the issued Shares as at the Latest Practicable Date, have entered into voting support agreements with the Target, pursuant to which they have agreed to vote all the Shares held by them in favour of the Arrangement at the EGM to be held to approve the Arrangement.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target and its substantial shareholders (being shareholders who hold 10% or more of the Target Shares) are Independent Third Parties.

Terms

On 9 December 2011, the Target obtained an interim order from the Court of Queen's Bench of Alberta for the holding of a meeting of Target Shareholders on 12 January 2012. An information circular regarding the Arrangement was mailed to the Target Shareholders for a special meeting of Target Shareholders (the "Meeting"). On 12 January 2012, the Meeting was held and the Target shareholders approved the Arrangement. On 13 January 2012, the Arrangement was approved by the Court of Queen's Bench of Alberta.

The board of directors of the Target has determined to accelerate the vesting of all outstanding stock options (the "Target Options") to acquire Target Shares, conditional upon the closing of the transaction contemplated by the Arrangement Agreement. The acceleration of the Target Options will permit such Target Options to be exercised, surrendered or cancelled on or before the effective date of the Arrangement. It is a condition to the completion of the Arrangement that all of the Target Options be exercised, surrendered or terminated prior to the effective date of the Arrangement. All holders of the Target Options have entered into agreements providing for the exercise or surrender of Target Options immediately prior to the effective time of the Arrangement Agreement.

As at the Latest Practicable Date, there are issued and outstanding 98,473,228 Target Shares and Target Options to acquire up to 4,182,052 Target Shares.

Conditions

Completion of the Arrangement is subject to a number of mutual conditions precedent, including, among others, the following:

Target Shareholder Approval. To become effective, the Arrangement Resolution must be approved by at least two-thirds of the votes cast by the Target Shareholders present in person or represented by proxy at the Meeting.

Alberta Court Approval. The Court of Queen's Bench of Alberta shall have approved the Arrangement and granted the necessary court orders approving the Arrangement.

Competition Act (Canada) Approval. An advance ruling certificate or a no-action letter shall have been issued by the Commissioner of Competition pursuant to the Competition Act (Canada) in respect of the transactions contemplated by the Arrangement Agreement. A no-action letter from the Commissioner of Competition was obtained by the Purchaser on 9 December 2011.

Investment Canada Act Approval. The satisfaction or deemed satisfaction by the Minister of Industry under the Investment Canada Act that the Arrangement is likely to be of "net benefit to Canada" for purposes of the Investment Canada Act. On 8 February 2012, the Purchaser received notification from the Minister of Industry in Canada that he approves the Arrangement under the Investment Canada Act in that he is satisfied that the transaction is likely to be of net benefit to Canada.

The foregoing conditions may be waived, in whole or in part, jointly by the Purchaser and the Target. If any of the foregoing conditions are not satisfied or waived on or before 28 February 2012, either party may terminate the Arrangement Agreement.

Completion of the Arrangement is also subject to a number of conditions in favour of the Purchaser including, among others:

Third Party Approvals. The Purchaser shall have obtained all consents, waivers, permissions and approvals necessary to complete the Arrangement by or from relevant third parties and governmental authorities.

Winsway Approvals. Winsway shall have received all necessary approvals required by the Listing Rules, including the Winsway Shareholder Approval in order for the Purchaser and the Target to complete the Arrangement.

The foregoing conditions are for the exclusive benefit of the Purchaser and may be waived, in whole or in part, by the Purchaser. If any of the foregoing conditions are not satisfied or waived on or before 28 February 2012, the Purchaser may terminate the Arrangement Agreement.

Completion of the Arrangement is also subject to a number of conditions in favour of the Target, including, among others:

Letter of Credit. The Purchaser shall have furnished the Target with an irrevocable letter of credit in favour of the Target which provides for the payment of the Acquisition Price less the Escrow Amount (as defined below).

Funding. The Purchaser shall have arranged for payment of the Acquisition Price to the Target within a prescribed time of the satisfaction of specified conditions precedent.

The foregoing conditions are for the exclusive benefit of the Target and may be waived, in whole or in part, by the Target. If any of the foregoing conditions are not satisfied or waived on or before 28 February 2012, the Target may terminate the Arrangement Agreement.

Non-solicitation covenants and break fees

The Arrangement Agreement also provides for certain customary non-solicitation covenants in favour of the Purchaser, as well as mutual termination and expense reimbursement fees payable under certain circumstances if the Arrangement Agreement is terminated.

Under certain circumstances including if the Purchaser does not provide, or cause to be provided, the letter of credit to the Target or does not provide, or cause to be provided, the depositary under the Arrangement with sufficient funds to complete the Arrangement or the Winsway Shareholder Approval is not obtained by 28 February 2012, the Purchaser shall be liable to pay to the Target C$100,000,000 (approximately HK$779 million) either by way of liquidated damages or forfeiture of the Escrow Amount (as defined below) (**"**Target Termination Fee"). The Purchaser is also liable to pay the Target Termination Fee in the event that it intentionally breaches any of its representations, warranties or covenants.

The Arrangement Agreement also provides that in certain circumstances, including the board of directors of the Target failing to unanimously recommend that the Target Shareholders vote in favour of the Arrangement or the board of directors of the Target accepts or recommends a superior proposal or the

Target materially breaching its non-solicitation covenants, the Purchaser may terminate the Arrangement Agreement and the Target shall be liable to pay to the Purchaser C$50,000,000 (approximately HK$390 million) as liquidated damages ("Purchaser Termination Fee"). The Target is also liable to pay the Purchaser Termination Fee in the event that it intentionally breaches any of its covenants.

Escrow Payment

To guarantee the obligations of the Purchaser in circumstances when the Target Termination Fee becomes payable under the Arrangement Agreement, the Company has placed an amount of C$100,000,000 (approximately HK$779 million) into an escrow account ("Escrow Amount") by way of security against liability of the Purchaser to pay the Acquisition Price or the Target Termination Fee. The Escrow Amount is deductible from the Acquisition Price upon completion of the Arrangement. The liability between the Company and Marubeni for the Target Termination Fee is governed by the Arrangement Execution Agreement.

Value and basis of the Acquisition Price

On the basis of the Acquisition Price, the total cash consideration for acquiring all the outstanding Target Shares as at the Latest Practicable Date is approximately C$984.7 million (approximately HK$7.7 billion) (assuming cancellation of all outstanding Target Options). The Acquisition Price of C$10.00 per Target Shares represents a 70% premium to the Target's closing share price on 28 October 2011, the last trading day before the date of the Arrangement Agreement. Based on the Target's closing share price and shares outstanding on the relevant dates, the Target had a market capitalization of approximately C$577 million (approximately HK$4.5 billion) as at 28 October 2011 and C$925 million (approximately HK$7.2 billion) as at the Latest Practicable Date. The recent and historical trading price of the Target Shares, the premium represented by the Acquisition Price, and the Target's market capitalization were factors taken into account by the Board when considering the Acquisition Price, but the Board recognized that the trading price of the Target Shares was based on what public market investors were willing to pay for a non-controlling stake of the Target on a standalone basis at that time, based on public information alone. It is not an indication of the value of the Target to the Purchaser and does not take into account the benefits of the Arrangement for the Company, which are described in the section headed "Reasons for and Benefits of the Arrangement", and the factors set out below.

The Acquisition Price was arrived at after arm's length negotiations between the parties. In considering the Acquisition Price, the Board took into account various factors, including but not limited to the current and projected production rate of the Target, the amount and quality of the Target's coal reserves and resources, the recent and historical trading price of the Target Shares and the Target's market capitalization, research analyst reports regarding the Target, comparable metrics for transactions involving western Canadian coal producers (such as the recent transaction involving Walter Energy, Inc.'s acquisition of Western Coal Corporation which is more particularly described under Section 4.7 of the Valuation Report set out in Appendix VI to this circular), the historical and projected financial and operating information of the Target, the potential benefits of the Arrangement for the Company and the outlook for the metallurgical coal market.

The Board notes the difference between the total Acquisition Price and the valuation of the assets of the Target in the Valuation Report (C$860 million (preferred value) (approximately HK$6,699 million)). The Board considers the Target to be a significant first step in the vertical integration of the Company's business model, and views the Target in a more holistic manner than a simple standalone asset valuation. The Board also notes that Technical Value determination in the Valuation report does not take into account the value of the portion of the Target's resources in excess of In-Place Probable Reserves (In Place Probable Reserves of 129.6 million tonnes are included in a larger total In-Place Measured, Indicated and Inferred Resource of 206.9 million tonnes) or the significant potential for reserve and resource expansion through additional drilling and geological exploration on the Target's 14 coal leases in western Canada, a very mature mining region with 40 years of production history. For the reasons stated in this paragraph, the preceding paragraph, and in the section headed "Reasons for and Benefits of the Arrangement" below, the

Board believes that the terms of the Arrangement and the Acquisition Price are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON MARUBENI

Marubeni is a publicly traded company with a market capitalization in excess of US$10.7 billion as of 28 October 2011 and annual total revenues of US$44,384 million as of 31 March 2011. It is one of the largest trading houses in Japan and is involved in metal, minerals and energy resources, food products and materials, paper and pulp, chemicals, textiles, transportation machinery, electric power and other infrastructure projects, among others. It traded 14 million tonnes of coal in the 2010 Japanese fiscal year.

INFORMATION ON THE TARGET

The Target is a coal mining corporation incorporated in Alberta, Canada and whose shares are listed and traded on the TSX. The Target operates a mine that produces metallurgical coal for the steel industry from its 14 coal leases covering approximately 22,700 hectares in the Smoky River Coalfield located in West Central Alberta, Canada. The Target's coal project ("Project") includes and is expected to include the production of metallurgical coal from the development of the following pits and underground operations (as of 31 October 2011 as reported in the Competent Person's Report):

- No. 7 Underground Operations, an underground operation which commenced production in November 2004. This operation is expected to produce approximately 0.2 million tonnes of ROM coal (0.1 million tonnes of saleable coal) during the remaining life of the mine.

- No. 8 Pit, a surface pit which commenced production from the first phase of development in July 2010. This pit is expected to produce approximately 23.9 million tonnes of ROM coal (16.9 million tonnes of saleable coal) during the remaining life of the mine.

- No. 12 South B2 Underground Operations, an underground operation expected to produce approximately 8.3 million tonnes of ROM coal (5.8 million tonnes of saleable coal) during the life of the mine.

- No. 12 South A Pit, the southeast surface strike extension of the No. 12 South B2 Pit expected to produce approximately 10.5 million tonnes of ROM coal (7.8 million tonnes of saleable coal) during the life of the mine.

- No. 2 Pit, a surface pit expected to produce approximately 14.3 million tonnes of ROM coal (10.5 million tonnes of saleable coal) during the life of the mine.

- No. 16 Pit, a surface pit expected to produce approximately 24.0 million tonnes of ROM coal (16.2 million tonnes of saleable coal) during the life of the mine.

- No. 12 North Pit, a surface pit expected to produce approximately 43.7 million tonnes of ROM coal (30.8 million tonnes of saleable coal) during the life of the mine.

In the twelve months ended 31 March 2011, the Target produced 1.41 million tonnes of clean coal.

The abovementioned mining areas/pits are not defined by specific lease boundaries but are contained within the 14 leases (approximately 22,700 hectares) controlled by the Target. There are significant coal bearing areas within the Target's coal leases not currently defined by either resource or reserves as reported in the Competent Person's Report. Such areas are known to contain coal bearing formations as a result of previous mining activity from the Target's predecessor (Smoky River Coal Limited). Though historic drilling and quality data are available to the Target, such data have yet to be compiled or modelled to determine if other areas contain JORC or non-JORC compliant resources/reserves or to quantify such potential resource/reserves.

Coal tenure in the Province of Alberta is held through coal leases. Surface and underground mining rights are also granted by the provincial government through a mine permit, followed by a mine license. Coal leases granted by the Provincial Government of Alberta are for a period of 15 years and are renewable. The following is a summary of the Target's coal lease tenure (more particularly described under Section 8.2 of the Competent Person's Report set out in Appendix V to this Circular):

Summary of Coal Lease Tenure Controlled by the Target

Lease Number	Mining Area	Area (ha)	Date Recorded
1300090001	No. 7	608	Sept. 6, 2000
1300090002	No. 8	496	Sept. 6, 2000
1303010775	No. 12 South B2	224	Jan. 31, 2003
1304020416	No. 2 and part of No. 8	1,744	Feb. 2, 2004
1304020417	No. 12 South A and No. 12 South B2	912	Feb. 2, 2004
1304040418	No. 9	8,720	Feb. 2, 2004
1304020419	No. 16	2,576	Feb. 2, 2004
1304091006	No. 2	192	Sept. 1, 2004
1306020563	No. 8 East	64	Feb. 17, 2006
1306020564	No. 9	416	Feb. 17, 2006
1306020565	No. 12 North and No. 12 South B2 Underground	2,736	Feb. 17, 2006
1306080740	No. 5	1,792	Aug. 4, 2006
1306080741	No. 1	1,360	Aug. 4, 2006
1306080742	No. 1 North	864	Aug. 4, 2006
Total		**22,704**	

Based on the tenure of the Target's existing coal leases and assuming the leases are not renewed, the existing leases would all expire by August, 2021. The Target intends to renew leases as required for the continuation of the operations of the Project. The Target plans to conduct extensive exploration and evaluation on the coal potential on the coal leases which it holds in the Smoky River Coalfield with a view to identifying additional development and production options.

Principal Product and Markets

The Target's principal product is hard coking coal, which is a type of metallurgical coal, a term used to describe coal products suitable for use in the integrated steel mill process. When making steel, two of the key raw ingredients are iron ore and coke. Approximately 1.5 tonnes of metallurgical coal are needed to produce one tonne of coke. Only certain types of metallurgical 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 levels.

There are three main categories of metallurgical coal: (i) hard coking coal that forms high-strength coke; (ii) semi-soft coking coal that produces coke of lesser quality; and (iii) PCI coal. PCI coal is generally not considered to be a coking coal, rather it is used primarily for its heat value and is injected into a blast furnace to replace expensive coke. Semi-soft and PCI coals normally have lower sales values compared to hard coking coal due to the relative availability of these products.

The principal channel for the Target's hard coking coal is the seaborne hard coking coal business. The seaborne hard coking coal business is defined by the global nature of international steel-making, the relative concentration of quality metallurgical coal deposits in Australia, the United States and Canada and the relative low cost of seaborne transportation. Australia remains the largest exporter while the United States and Canada follow at a distant second and third.

Location, Accessibility and Infrastructure

The Target's underground operations, pits and process facilities are located within its coal mining lease blocks in the Grande Cache area of West Central Alberta, approximately 400 kilometres west of the city of Edmonton. The minesite is approximately 20 kilometres north of the town of Grande Cache, in the Municipal District of Greenview. See Figures 1 and 2.

A paved two-lane, provincial highway connects the Project area with the town of Grande Cache and another highway connects Grande Cache with the city of Grande Prairie, 185 kilometres to the north and the town of Hinton, 145 kilometres to the southeast. The Project area is served by an existing branch line of Canadian National Railway ("CN"), which connects with the main east-west line of CN, allowing access to the major coal export terminals in British Columbia and the Great Lakes.

Existing infrastructure at the Project consists of coal processing, coal loading, rail, plant refuse storage and office facilities. Adjacent to the Target's facilities is a coal-fired generating station owned by a subsidiary of Maxim Power Corp.

Figure 1. Location of the Target

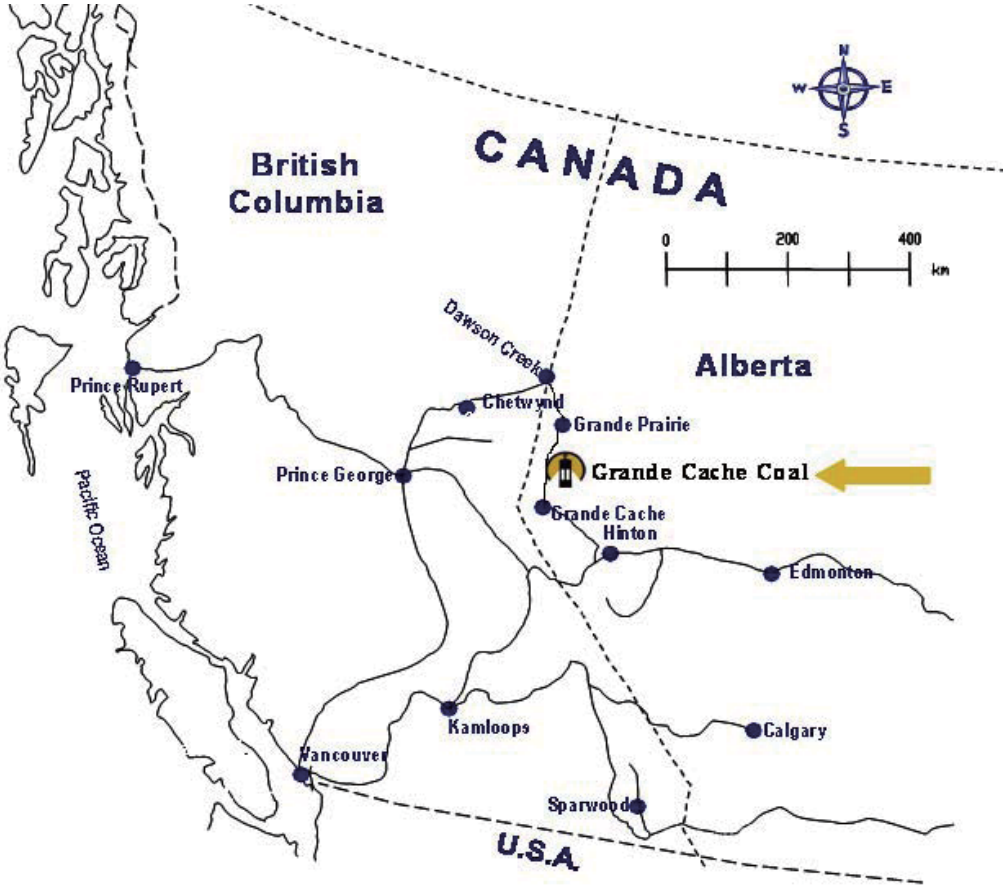
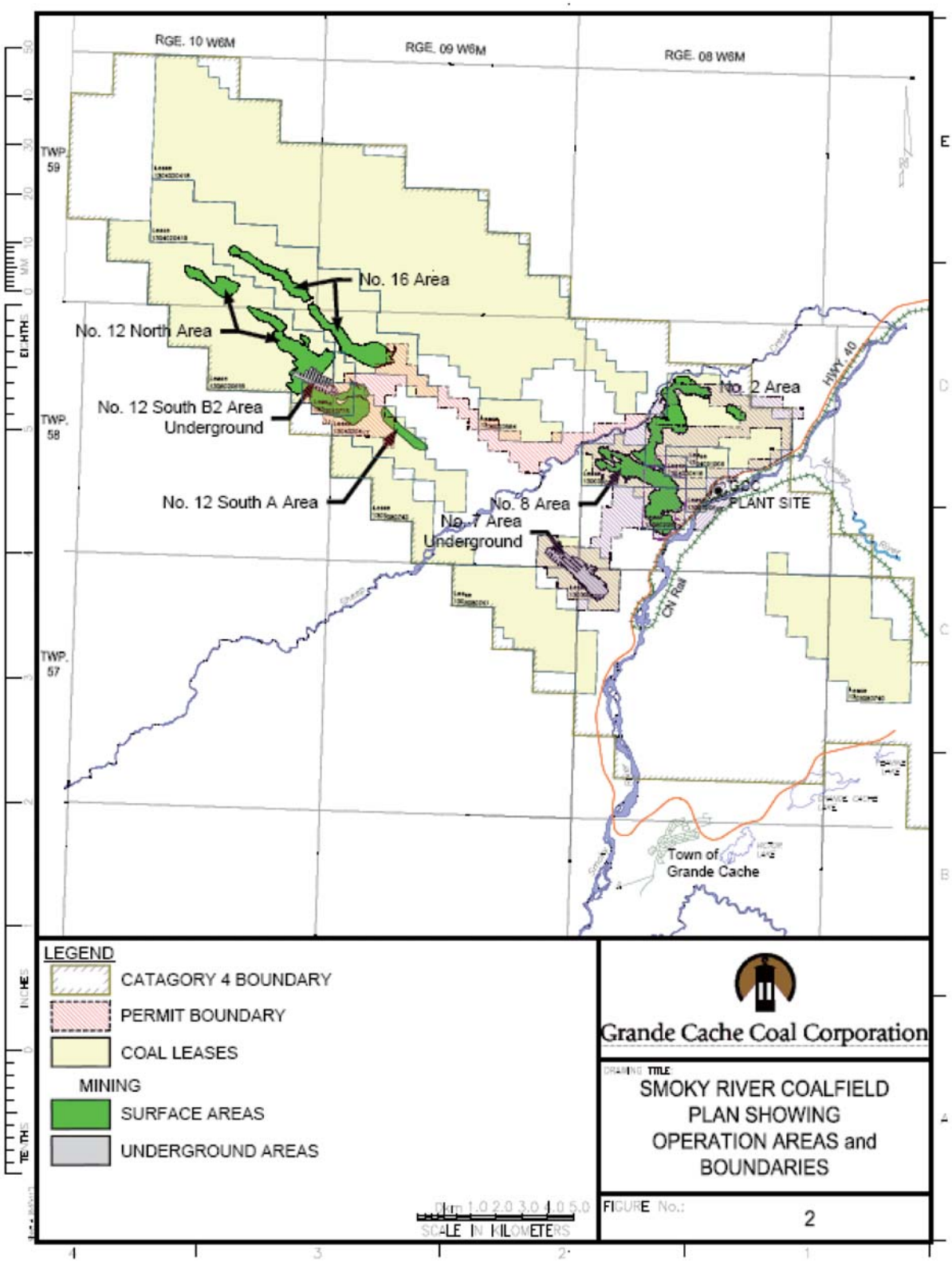


Figure 2. Locations of pits and underground operations of the Target



Resources and reserves

The following table summarizes the Target's measured and indicated in-place coal resources as of 31 October 2011 as reported in the Competent Person's Report.

Summary of Measured and Indicated In-place Coal Resources[(1)]

	Measured (Mt)	Indicated (Mt)	Total (Mt)
Surface Mining Areas[(2)]			
No. 2 Pit	10.0	16.9	26.9
No. 8 Pit	9.9	26.9	36.8
No. 12 South A Pit	8.7	11.7	20.4
No. 12 North Pit	26.2	21.7	47.9
No. 16 Pit	12.5	18.0	30.5
Total Surface Mining Areas:	67.3	95.2	162.5
Underground Mining Areas[(3)]			
No. 7 Underground Operations	0.2	—	0.2
No. 12 South B2 Underground Operations	8.4	3.2	11.6
Total Underground Mining Areas:	8.6	3.2	11.8
Grand Total:	75.9	98.4	174.3

Notes:

(1) Quality of all resources classified as Low-Volatile Bituminous (ASTM).

(2) Surface mining resources, estimated by John T. Boyd Company.

(3) Underground resource estimated by John T. Boyd Company.

(4) Coal resources are inclusive of the coal reserves.

(5) The resource estimates have been prepared under the supervision of Robert J. Farmer, a Competent Person as defined by JORC and a Qualified Person (NI43-101) in the preparation and reporting of coal resources and coal reserves.

The following table summarizes the Target's inferred in-place coal resources as of 31 October 2011 as reported in the Competence Person's Report.

Summary of Inferred In-place Coal Resources[1]

	Inferred (Mt)
Surface Mining Areas[2]	
No. 2 Pit	10.7
No. 8 Pit	12.9
No. 12 South A Pit	2.5
No. 12 North Pit	3.0
No. 16 Pit	2.8
Total Surface Mining Areas:	31.9
Underground Mining Areas[5]	
No. 7	0.7
Total Underground Mining Areas:	0.7
Grand Total:	32.6

Notes:

(1) Quality of all resources classified as Low-Volatile Bituminous (ASTM).

(2) Surface mining resources, estimated by John T. Boyd Company.

(3) Underground resource estimated by John T. Boyd Company.

(4) Coal resources are inclusive of the coal reserves.

(5) The resource estimates have been prepared under the supervision of Robert J. Farmer, a Competent Person as defined by JORC and a Qualified Person (NI43-101) in the preparation and reporting of coal resources and coal reserves.

The following table summarizes the Target's probable run-of-mine and saleable coal reserves as of 31 October 2011 as reported in the Competent Person's Report.

Summary of Probable Run-of-Mine and Saleable Coal Reserves[(1)]

	Probable Reserves (Mt)		
	In-Place	**ROM**	**Saleable**
Surface Mining Areas			
No. 8	24.2	23.9	16.9
No. 12 South A	10.7	10.5	7.8
No. 2	14.5	14.3	10.5
No. 16	24.8	24.0	16.2
No. 12 North	44.8	43.7	30.8
Total — Surface Areas	119.0	116.4	82.2
Underground Mining Areas			
No. 7	0.2	0.2	0.1
No. 12 South B2	10.4	8.3	5.8
Total — Underground	10.6	8.5	5.9
Grand Total:	129.6	124.9	88.1

Notes:

(1) Quality of all reserves classified as Low-Volatile Bituminous (ASTM).

Permitting and Licensing

Surface and underground mineable coal reserves require permits and licenses prior to the commencement of mining activity. Currently Areas No. 8 (surface), No. 7 and No. 12 South B2 (underground) are actively producing with appropriate permits and licenses. The remaining coal reserve areas are in various stages of application, review, or approval process. Other areas may require additional exploration, quality testing and mine planning prior to applying for appropriate permits/licenses.

The Target has demonstrated its ability to obtain approval of mine permits, licenses and subsequent amendments, as needed. According to the Target, no permit or license has ever been denied it by governmental regulators for any reason.

The Competent Person has considered permit status per JORC Code (as defined below), and concluded that: (1) actions of the Target are consistent with industry practice in Canada regarding the sequential obtaining of mining permits in advance of mining, and (2) there are no known issues or factors identified that would prohibit approval of the remaining permits. For this reason, pending permit areas are included in the Competent Person's Report reserve estimate and in the resulting Technical Value determination.

Assets and Profits

According to the audited consolidated financial statements of the Target as at and for the six month ended 30 September 2011 prepared under IFRS set out in Appendix II(A)(I) to this circular, the total assets minus total liabilities of the Target was approximately C$310,058,000 (approximately HK$2,415 million) as of 30 September 2011. The Target recorded a profit before tax of approximately C$34,691,000 (approximately HK$270 million) and a net income and comprehensive income of approximately C$25,354,000 (approximately HK$198 million) for the six months ended 30 September 2011.

According to Note 22 to the audited consolidated financial statements of the Target for the financial year ended 31 March 2011 and 31 March 2010 respectively set out in Appendix II(A)(II) to this circular, the Target recorded a profit before tax (reconciled to IFRS) of approximately C$34,936,000 (approximately HK$272 million) and a net income and comprehensive income (reconciled to IFRS) of approximately C$24,813,000 (approximately HK$193 million) for the financial year ended 31 March 2011, as compared to a profit before tax (reconciled to IFRS) of approximately C$26,053,000 (approximately HK$203 million) and a net income and comprehensive income (reconciled to IFRS) of approximately C$19,510,000 (approximately HK$152 million) for the financial year ended 31 March 2010.

Legal Proceedings

To the best of the Company's knowledge having made due enquiries, there are no legal claims or proceedings against the Target or that otherwise may affect its exploration right or mining right in respect of the Project.

FINANCING FOR THE ARRANGEMENT

The Acquisition Price will be financed as to C$645.5 million (approximately HK$5.03 billion) by the Company and Marubeni in proportion to their effective interest in the Purchaser, being C$387.3 (approximately HK$3.02 billion) for the Company and C$258.2 million (approximately HK$2.01 billion) for Marubeni, respectively, and as to C$339.2 million (approximately HK$2.64 billion) financed by the facilities provided by the Banks pursuant to the terms of the Facilities Agreement (after deducting arrangement fee of C$11.2 million (approximately HK$87 million)). The facilities will be 35-month term loans with interest at 3-month LIBOR plus 4.5% per annum.

Under the terms of the Facilities Agreement, the Banks will have the benefit of security for the facilities including a pledge of all the equity interest of the Company and Marubeni in the Purchaser and a security interest over all assets of the Purchaser. Upon completion of the Arrangement, the Purchaser will pledge its interest in the Target Shares and the Target's subsidiary for the benefit of the Banks and procure a first fixed charge to be granted for the benefit of the Banks over all the assets of the Target and the Target's subsidiary to secure the facilities pursuant to the Facilities Agreement. Such security will be released upon such facilities being repaid in full.

The Company intends to fund its portion of the cash consideration for the Arrangement from a proportion of the proceeds of the Company's initial public offering in October 2010 as described in the Prospectus, from the issuance of the Notes and from the Company's available bank financing.

REASONS FOR AND BENEFITS OF THE ARRANGEMENT

The Target's Smoky River Coalfield is a proven producing asset which the Company believes has significant expansion potential. The Smoky River Coalfield has an operating history dating back to 1969. In its fiscal year 2011 ended 31 March 2011, the Target produced 1.4 million tonnes of clean coal. An expansion program has been underway since fiscal 2010. The Purchaser expects the Target to achieve a future annual run rate of 3.0 million tonnes of production and plans to study further expansion beyond 3.5 million tonnes. Based on the Target's current plans, the mine life of the operation is expected to be in excess of 30 years. The Target holds fourteen coal leases that cover over 22,000 hectares and have significant potential for resource expansion beyond the currently identified total measured, indicated and inferred resource of approximately 207 million tonnes. The Purchaser will perform further drilling intended to convert a portion of these resources into reserves, increasing the life of mine.

The acquisition of the Target is the first major step in the vertical integration of the Company's business model through investment in mining assets. This investment in upstream assets significantly strengthens the Company's seaborne coal business. The acquisition of producing assets also complements the existing joint venture with Peabody Energy, which is conducting exploration in Mongolia to secure future upstream supply for the Company's Mongolian coal business.

The Target's operations in West Central Alberta, Canada provide a platform for growth in a world-class coal mining region. The Target is one of only four major coking coal producing companies in Western Canada (the others are Teck Resources Limited, Anglo American plc, and Walter Energy, Inc.). The Target's existing mining operations and developed infrastructure will provide a strong base for further expansion in the region. In contrast, Winsway estimates that a greenfield development in Western Canada would take three to five years to reach production. The Target's experienced management team will facilitate expansion efforts involving existing operations and external opportunities.

The Target's Canadian assets diversify the Company's political and geographic risk profile into an attractive investment destination. Canada has consistently ranked amongst the top investment destinations for foreign investors and this attractiveness is demonstrated by the level of investment in Canada from overseas investors. Alberta, Canada is a politically stable jurisdiction, with majority conservative governments at both the provincial and federal levels and a clear regulatory framework for resource development. The Target's Canadian Coal will be coupled with Winsway's current supply from third party sources in Mongolia, as well as third party seaborne supply from Australia, Canada, USA and Russia.

Marubeni is a strong investment partner. Marubeni is a publicly traded company with a market capitalization in excess of US$10.7 billion as of 28 October 2011. It is one of the largest trading houses in Japan and is involved in metal, minerals and energy resources, food products and materials, paper and pulp, chemicals, textiles, transportation machinery, electric power and other infrastructure projects, among others. It traded 14 million tonnes of coal in the 2010 Japanese fiscal year. Marubeni has also invested in various Australian coal mines and its equity coal output during the 2010 Japanese fiscal year was 5.8 million tonnes. Marubeni has been involved in the Canadian coal industry since the 1960s and has a long trading history with the Target. Several of their senior coal management and geologists have spent several years stationed in Canada and have relationships with rail and port operators and local coal industry management teams.

Winsway believes that ownership of the Target creates significant synergy potential. Winsway and Marubeni expect to leverage their experience in the world's two largest destinations for coking coal (China and Japan) to improve the Target's marketing efficiency. Both Winsway and Marubeni have

significant experience marketing the Target's coal, as Winsway has been one of the Target's largest offtakers for China and Marubeni has been an agent for coal produced from the Smoky River Coalfield and sold in Japan for more than 30 years and has become the sole sales agent since 2004. Winsway and Marubeni will study ways to extract synergies using Winsway's infrastructure on the East Coast of China to increase production efficiency and lower operating costs. Winsway and Marubeni also expect to leverage their other international partners' operational expertise and infrastructure to improve the Target's operations.

The Target's low-volatility coking coal provides excellent blending stock coal and is complementary to Winsway's existing product offering. The Company has built a strong position in the market relative to its peers due to its ability to supply various types of coking coal products with different characteristics, from around the world, to meet the requirements of its customers. China's coal resources lack low-to-medium volatility hard coking coal and low-volatility hard coking coal is becoming increasingly scarce worldwide. This may be an issue as the Chinese steel sector moves towards increased consolidation and larger blast furnace sizes, as larger blast furnaces generally demand higher quality coking coals. The Target's operations produce high-quality, low-ash, low-volatile hard coking coal suitable for blending to meet customer requirements.

Having considered the above, the Directors (including the independent non-executive Directors) of the Company consider that the terms of the Arrangement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ARRANGEMENT ON THE GROUP

Upon completion of the Arrangement, the Target will become a non wholly-owned subsidiary of the Company which will indirectly hold 60% of the entire issued share capital of the Target and its results will be consolidated with those of the Group.

Assets and liabilities

Set out in Appendix IV to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effect of the Arrangement on the assets and liabilities of the Group assuming completion of the Arrangement had taken place on 30 June 2011. Based on the unaudited pro forma financial information in Appendix IV to this circular, the total assets of the Group would increase from HK$15,409 million to HK$21,308 million; and its total liabilities would increase from HK$8,208 million to HK$12,135 million, as a result of the Arrangement.

Earnings

The audited consolidated net profits after tax of the Target for the six months ended 30 September 2011 was approximately C$25.354 million (approximately HK$198 million).

Shareholders should note that the earnings contribution from the Target after completion of the Arrangement will depend on the future performance of the Target, and the actual effect of the Arrangement on the assets and liabilities and gearing ratio of the Group will depend on the financial position of the Target as at the date of completion of the Arrangement, which cannot be quantified as at the Latest Practicable Date.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Principal activities of the Group

The Group is one of the leading suppliers of imported coking coal and particularly, one of the largest offtakers of Mongolian coking coal into China. The Group's principal business includes procurement, transportation, storage, processing and marketing of coking coal, servicing the Chinese steel industry at large.

Financial and trading prospects of the Enlarged Group

Investment in upstream resources has been a consistent strategic goal of the Group before the Group's initial public offering in October 2010. A proportion of the proceeds of the Group's initial public offering and the issuance of the Notes were explicitly allocated to finance investments in upstream resources.

The involvement of Marubeni in the Arrangement demonstrates the Group's strategy of cooperation and collaboration with strong international partners on sourcing, logistics and upstream acquisitions.

The Arrangement is the Group's first major step in the vertical integration of the Group's business model through investment in mining assets. This investment is expected to significantly strengthen the Company's existing businesses in a number of ways. It will provide a secure supply to the Company's seaborne coal business and will complement the longer-term upstream opportunity represented by the Company's existing joint-venture with Peabody Energy. The low-volatility coking coal produced by the Target is expected to provide excellent blending coal stock that will complement the Group's existing product offering and allow the Group to maintain a strong position with customers by effectively addressing their product requirements. The Arrangement also provides diversification to the Group's coal supply and asset base into Canada, which the Group views as an attractive investment destination characterized by significant investment from overseas investors, political stability, and a clear regulatory framework for resource development.

In addition to strengthening the Group's existing business, the Arrangement provides the Enlarged Group with a platform for growth in a world-class coal mining region. The Smoky River Coalfield produced 1.4 million tonnes of clean coal in the Target's fiscal year 2011 ended 31 March 2011 and the Target is currently implementing an expansion program with a view to achieving an annual run rate of 3.5 million tonnes of production.

Looking to the future, the Company expects the Target's experienced management team to study the further expansion of the Target's existing operations beyond production of 3.5 million tonnes. While the Company recognizes the view taken in the Competent Person's Report that construction of a new coal preparation plant is required to reach the Target's stated production target of 3.5 million tonnes, the Company plans to study the feasibility of exporting raw coal for processing in China, and this strategy has been contemplated by the Company, Marubeni and the Target. It is the Company's intention to assess the recommendations in the Competent Person's Report for the Target as a standalone entity in addition to completing an evaluation of the potential synergies with the Company's existing facilities in China. It is the Company's objective to maximize production and profitability of the Target, not as standalone operation, but as an integrated business together with the Company and Marubeni. Consistent with its stated strategy, the Company will continue to look for upstream investment opportunities in Canada, Mongolia, Russia and other parts of the world to secure additional long-term stable supply.

IMPLICATIONS OF THE ARRANGEMENT UNDER THE LISTING RULES

The Arrangement constitutes a major transaction (as such term is defined under the Listing Rules) for the Company under the Listing Rules as one or more of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) exceeds 25% but does not exceed 100%, and is subject to approval by the Shareholders at the EGM. Marubeni, which has material interest in the Arrangement, will be required to abstain from voting on the resolutions relating to the Arrangement Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Marubeni holds 10,000,000 Shares, representing approximately 0.27% of the total issued Shares. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting at the EGM.

In addition, as the assets of the Target comprise mainly Mineral Assets (as defined in the Listing Rules), and the Arrangement constitutes a Relevant Notifiable Transaction under Chapter 18 of the Listing Rules, the Company will need to comply with certain provisions of Chapter 18 of the Listing Rules in respect of the Arrangement including the inclusion of the Competent Person's Report and the Valuation Report in this circular which are set out in Appendix V and Appendix VI to this circular, respectively. In compliance with the requirements of Chapter 18 of the Listing Rules, the Company has appointed the Competent Person to issue the Competent Person's Report to provide the estimated amounts of resources and reserves in respect of the Project in accordance with Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources ("JORC Code"); and the Valuer to issue the Valuation Report on the Target.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Competent Person and the Valuer and their respective ultimate beneficial owners and associates are Independent Third Parties, and none of the Competent Person, the Valuer and other personnel of John T. Boyd Company that have performed work associated with the Competent Person's Report and the Valuation Report is an officer or employee of the Company or any of its associates.

The Competent Person confirmed that no material changes have occurred since the effective date of the Competent Person's Report (i.e. 31 October 2011) to the Latest Practicable Date.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.67(6)(a)(i) AND CHAPTER 4 OF THE LISTING RULES

(1) BACKGROUND

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountants' report on the Target prepared in accordance with Chapter 4 of the Listing Rules. The accounts on which such report is based must relate to a financial period ended 6 months or less before this circular is issued, and the financial information on the Target must be prepared using accounting policies which should be materially consistent with those of the Company. In this regard, the Company is required under Chapter 4 of the Listing Rules to include an accountants' report on the Target with the financial information of the Target for the three financial years ended 31 March 2011 and a stub period of six months ended 30 September 2011 prepared under IFRS.

The consolidated financial statements of the Target for the three financial years ended 31 March 2011 ("Historical Accounts") were prepared in accordance with Canadian GAAP and were audited by the Target's auditor in accordance with Canadian generally accepted auditing standards.

(2) WAIVER SOUGHT

The Company has applied to the Hong Kong Stock Exchange for waiver from strict compliance with Rule 14.67(6)(a)(i) regarding certain disclosures under Chapter 4 of the Listing Rules on the following grounds:

(a) the Target is a public company listed on the TSX, a regulated, regularly operating and open stock market, and the Target's financial disclosures are therefore subject to the periodic reporting requirements as well as the review and supervision of the TSX. Accordingly, the Historical Accounts have been subject to public disclosure as well as shareholder and investor scrutiny over a significant period of time. The Historical Accounts were also audited by the Target's auditor and each year's audit opinion has been given without qualification;

(b) strict compliance with Rule 14.67(6)(a)(i) and Chapter 4 of the Listing Rules would require the auditor and the management of the Target to undertake a considerable amount of work which would have significant timing, resource and cost implications for the parties involved. In addition, the significant additional work involved in preparing an accountant's report in accordance with Chapter 4 of the Listing Rules and presented under IFRS would not provide investors with materially more information than under the alternative disclosure set out below. The Company is not aware of any differences in principal accounting policies between the Target and the Company over the relevant periods other than those already set out in the Reconciliation (as defined below) which are primarily the differences between Canadian GAAP and IFRS;

(c) the objective under Rule 14.67(6)(a)(i) and Chapter 4 of the Listing Rules is to allow Shareholders and potential investors of the Company to be able to evaluate the financial performance and condition of the Target in part by facilitating a comparison on an equal basis with the financial statements of the Company. The alternative disclosure set out below would allow shareholders and potential investors to receive the same level of information required under the Listing Rules to be able to conduct desired comparisons and evaluations of the Target. The alternative disclosure will not prejudice the ability of shareholders and potential investors to evaluate and compare the financial performance and condition of the Target than if the Historical Accounts had been prepared under IFRS and audited;

(d) the alternative disclosure does not affect the Company's ability to include a pro forma statement of the assets and liabilities of the Enlarged Group on the same accounting basis pursuant to Rule 14.67(6)(a)(ii) of the Listing Rules, which is prepared by combining the assets and liabilities of the Company as at 30 June 2011 with the assets and liabilities of the Target as at 30 September 2011 under IFRS; and

(e) although the Target's auditor is not registered under the Professional Accountants Ordinance, it is an internationally recognised accounting firm with international name and reputation and its professional accountants are members of the Canadian Institute of Chartered Accountants. In addition, the Target is an overseas company and such accounting firm has been acting as the Target's auditor since 2007 and is familiar with the Target's consolidated financial statements and financial reporting system and is best able to provide an audit opinion as to the state of affairs of the Target. Appointing another accounting firm qualified under the Professional

Accountants Ordinance as reporting accountants as required by Chapter 4 of the Listing Rules would require it to complete an extensive review of the Target's audited consolidated financial statements which have already been audited by the Target's auditor and publicly filed in Canada. The additional work to be completed by another accounting firm would result in significant expense to the Target and might delay the timetable for the Arrangement.

(3) ALTERNATIVE DISCLOSURE

The Company has included the following information ("Audited Consolidated Financial Statements") in this circular as alternative disclosure to an accountants' report under Chapter 4 of the Listing Rules:

(i) Historical Accounts prepared by the Target under Canadian GAAP and audited by the Target's auditor in accordance with Canadian generally accepted auditing standards, updated to include reconciliation notes ("Reconciliation") prepared by the management of the Target to reconcile the figures in the Historical Accounts to IFRS and explain the differences between Canadian GAAP and IFRS, with "true and fair view" audit opinion given by the Target's auditor on the Historical Accounts together with the Reconciliation, included in Appendix II to this circular; and

(ii) the Target's consolidated financial statements for the six months ended 30 September 2011 prepared by the Target under IFRS and audited by the Target's auditor together with unaudited comparatives for the prior year stub period prepared under IFRS and reviewed by the Target's auditor, included in Appendix II to this circular.

Based on the information provided by the Company and the alternative disclosure above, the Hong Kong Stock Exchange granted the waiver from strict compliance with Rule 14.67(6)(a)(i) regarding certain disclosures under Chapter 4 of the Listing Rules.

IMPLICATIONS OF THE ARRANGEMENT UNDER THE NOTES

Upon completion of the Arrangement, the Target, the Purchaser as well as certain intermediate investment holding subsidiaries of the Company would become Restricted Subsidiaries of the Company under the terms of the Indenture. Restricted Subsidiaries are required to provide joint and several guarantees of the Company's obligations under the Notes and as a Restricted Subsidiary the Target would be required, amongst other things, to provide security over the assets of the Target pari passu with the security to be granted for the benefit of the Banks. The Board has therefore exercised its power under the Indenture to designate each of those entities, in the case of the Target assuming completion of the Arrangement, as an Unrestricted Subsidiary, as such term is defined in the Indenture and no such guarantee or security will be given by or in respect of such entities to the Trustee under the Indenture. The Company will therefore finance its proportionate contribution to the funding of the Arrangement through Permitted Investments and Restricted Payments, both as defined in the Indenture.

RECOMMENDATIONS

Having regard to the nature of and the benefits resulting from the Arrangement as set out in the section "Reasons for and benefits of the Arrangement" of this circular, the Directors believe that the terms of the Arrangement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Arrangement Agreement and the transactions contemplated thereunder.

THE EGM

The notice convening the EGM is set out on pages N-1 to N-2 of this circular. At the EGM, resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve the Arrangement Agreement and the transactions contemplated thereunder.

The voting in respect of the approval of the resolutions at the EGM will be conducted by way of poll.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

An announcement will be made by the Company following the conclusion of the EGM to inform the Shareholders of the results of the EGM.

In the event that Shareholders' approval in respect of the Arrangement is obtained at the EGM, the Company will make further announcement(s) as and when the Arrangement is completed.

ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendices to this circular.

The Board also refers to the reports issued by Jonestown Research ("Jonestown"), an unidentified entity, dated 19, 20 and 30 January 2012 (the "Reports"). Jonestown made allegations against the Company in the Reports alleging certain material misstatements and fraud on the part of the Company including, among others, the basis of calculation of the Company's inventory, profit margins, import data, the relationship between the Company with Moveday and Sanhe (as defined in the Prospectus) and the Company's use of import agents.

In response to the Reports, the Board issued an announcement on 20 January 2012 (the "Response Announcement") setting out its responses to the Jonestown allegations. The allegations and the Company's responses are summarised below.

Calculation of the Company's inventory

The Reports alleged that the Company's balance sheet inventory values cannot be reconciled with coal inventories on the Company's balance sheet.

The Board notes that Jonestown applied flawed figures to calculate the ending tonnage of raw coal and fed them into the subsequent steps to (i) reconcile the inventory tonnage; (ii) calculate the ending tonnage from balance sheet; and (iii) compare the ending tonnage from balance sheet to ending tonnage from reconciliation. The Company has made clear in the Response Announcement that it stands by its audited inventory balances and refutes the allegation that the Company's balance sheet inventory values cannot be reconciled with coal inventories on the Company's balance sheet. The Board takes this opportunity to set out below its actual inventory figures by tonnage and value for the stated periods.

		For the year ended				For six months ended	
	Note	**31-Dec-07**	**31-Dec-08**	**31-Dec-09**	**31-Dec-10**	**30-Jun-10**	**30-Jun-11**
Raw coal							
Volume (tonne)	1	549,000	318,000	1,296,000	2,127,000	996,000	2,520,000
Amount (HK$)	2	180,602,000	192,899,000	553,142,000	951,015,000	527,042,000	1,139,039,000
Unit cost (HK$/tonne)	3	329	607	427	447	529	452
Clean coal							
Volume (tonne)	1	N/A	163,000	380,000	582,000	364,000	838,000
Amount (HK$)	2	N/A	133,361,000	252,230,000	558,340,000	272,113,000	812,052,000
Unit cost (HK$/tonne)	3	N/A	818	664	959	748	969
Seaborne coal							
Volume (tonne)	1	N/A	N/A	275,000	231,000	303,333	458,000
Amount (HK$)	2	N/A	N/A	323,695,000	314,461,000	332,524,000	828,685,000
Unit cost (HK$/tonne)	3	N/A	N/A	1,177	1,361	1,096	1,809

Notes:

1. The volume of inventory for each stated period is based on the management accounts of the Company.

2. The actual inventory value for each stated period is the published figure in the Prospectus, 2010 annual report or 2011 interim report of the Company.

3. The unit cost for each stated period is the result of the total inventory value for each stated period divided by the total volume of inventory for such period, which is a back worked average value for that period.

Profit margin

The Reports alleged that a margin of RMB635 per tonne for the year 2008 is too high.

The Reports chose to focus on the Company's 2008 gross margin for clean coal and quoted that it was significantly higher than the typical margins of the Company for the years ended 31 December 2009 and 2010. The Company has made clear in the Response Announcement that such margin chosen by Jonestown is not representative of later financial periods when the Company's business was more mature, and is therefore misleading if taken in isolation.

Official PRC import data

An allegation was made in the Reports which suggests that the official PRC import data in relation to the Company shows import volumes far lower than those in the Company's reports.

The Reports set out uncorroborated, claimed official PRC import figures of 2.8 million tonnes for coking coal into the PRC from Mongolia for the six months ended 30 June 2011 and stated that the Company claimed to import 3.6 million tonnes over the same period. The Company has made clear in the Response Announcement that it stands by its published figure which represents total procurement of Mongolian coking coal over the period and not just imports. The Company also confirms that it has no basis for corroborating or otherwise the claimed figure of 2.8 million tonnes.

The Company's relationship with Moveday

The Reports alleged that Moveday, the Company's key transportation provider in Mongolia and beneficiary of a US$40 million loan from the Company, is actually an undisclosed related party and not operating in Mongolia.

The Company has reconfirmed in the Response Announcement the previous disclosure of the background information regarding Moveday as an independent third party to the Company in the Prospectus, and confirmed that the transactions between the Company and Moveday are bona fide and on normal commercial terms.

The Company's relationship with Sanhe

The Reports alleged that Sanhe is undertaking transportation of coal for the Company, and oppugned the relationship between Sanhe and the Company.

The Company confirmed in the Response Announcement that it stands by the disclosure regarding Sanhe in the Prospectus that Sanhe was disposed of by the Company to two individuals both of whom are independent third parties. The Company confirms that it has not engaged Sanhe to provide any transportation services to the Company.

The Company's relationship with import agents

The Reports oppugned the reason for using import agents by the Company and its relationship with import agents.

The Company has made clear in the Response Announcement that it stands by the disclosure regarding import agents in the Prospectus, which explains the relationship with, and the rationale for using, import agents. The Company also states that it currently engages two import agents both of which are large, PRC state-owned enterprises and further disclosed the transaction costs for using these two import agents.

By Order of the Board
Winsway Coking Coal Holdings Limited
Wang Xingchun
Chairman

A. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

(i) The audited consolidated financial information of the Group for the year ended 31 December 2010 is disclosed in the annual report of the Company for the year ended 31 December 2010 published on 4 April 2011, from pages 61 to 151; and (ii) the consolidated financial information of the Group for the two years ended 31 December 2009 is disclosed in Appendix I to the Prospectus published on 27 September 2010, from pages I-1 to I-74, all of which have been published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.winsway.com).

B. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP

The unaudited interim financial information of the Group for the six months ended 30 June 2011 is disclosed in the interim report of the Company published on 5 September 2011, from pages 27 to 55, and which can be found on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.winsway.com).

C. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2011, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

(1) secured bank and other loans of approximately HK$744,347,000, of which (i) HK$362,774,000 were secured by pledged bills receivable, (ii) HK$185,025,000 were secured by pledged trade receivable, (iii) HK$88,661,000 were secured by fixed deposits placed in banks, (iv) HK$83,217,000 were secured by fixed assets and (v) HK$24,670,000 were secured by land use rights;

(2) outstanding unsecured senior notes of approximately HK$3,873,925,000; and

(3) outstanding hire purchase commitments of approximately HK$615,795,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, none of the companies in the Enlarged Group had outstanding at the close of business on 31 December 2011 any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any finance lease or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up.

E. WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, after taking into account the Enlarged Group's internal resources, available banking facilities, the effect of the Arrangement and in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for its present requirements for a period of 12 months from the date of this circular.

(A) AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the text of the Audited Consolidated Financial Statements, prepared by the Target and audited by the Target's auditor, PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta, Canada, for inclusion in this circular.

The Target was required to adopt IFRS effective 1 April 2011 to comply with its reporting requirements in Canada. Accordingly, IFRS interim financial statements have been prepared previously by the Target for the period ended 30 September 2011 using a transition date of 1 April 2010. Certain IFRS 1 elections were utilized by the Target as at 1 April 2010. The audited financial statements included on pages II-4 to II-42 herein have been prepared on this basis to be consistent with the Target's Canadian regulatory filings.

As explained on page 24 of this circular, the Historical Accounts of the Target included on pages II-45 to II-75 and II-77 to II-108 are prepared in accordance with Canadian GAAP, updated to include a reconciliation note to reconcile the figures in the Historical Accounts to IFRS and explain the differences between Canadian GAAP and IFRS. IFRS reconciliation notes were added for the years ended 31 March, 2009, 2010 and 2011. In order to prepare these reconciliations, a transition date of "1 April 2008" was assumed.

Due to the difference in IFRS transition dates described above, the adjustments between Canadian GAAP and IFRS as at 1 April 2010 and 31 March 2011 outlined in the notes to the Target's audited interim financial statements at 30 September 2011 on page II-36 and II-37 will not be identical to those shown in the IFRS reconciliation notes for the Historical Accounts on pages II-67 to II-68 and pages II-101 and II-102.

(I) Six months ended 30 September 2011 (with comparatives for the six months ended 30 September 2010):

INDEPENDENT AUDITOR'S REPORT

To the Directors of Grande Cache Coal Corporation

We have audited the accompanying consolidated interim financial statements of Grande Cache Coal Corporation, consisting of:

- the consolidated statements of financial position as at September 30, 2011, March 31, 2011 and April 1, 2010;
- the consolidated statement of income and comprehensive income for the six-month period ended September 30, 2011;
- the consolidated statement of changes in equity for the six-month period ended September 30, 2011;
- the consolidated statements of cash flows for the six-month period ended September 30, 2011;
- the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated interim financial statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements including IFRS 1, *First-time Adoption of IFRS*, and International Accounting Standard 34, *Interim Financial Reporting* and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated interim financial statements give a true and fair view of the financial position of Grande Cache Coal Corporation as at September 30, 2011, March 31, 2011 and April 1, 2010 and of its financial performance and cash flows for the six-month period ended September 30, 2011 in accordance with IFRS applicable to the preparation of interim financial statements including IFRS 1, *First-time Adoption of IFRS*, and International Accounting Standard 34, *Interim Financial Reporting*.

Statements for the period ended September 30, 2010

The following statements of Grande Cache Coal Corporation for the period ended September 30, 2010 are unaudited:

- the consolidated statement of income and comprehensive income for the six-month period ended September 30, 2010;

- the consolidated statement of changes in equity for the six-month period ended September 30, 2010;

- the consolidated statements of cash flows for the six-month period ended September 30, 2010; the related notes, which comprise a summary of significant accounting policies and other explanatory information (together the "Statements for the period ended September 30, 2010")

We have reviewed the Statements for the period ended September 30, 2010. Management is responsible for the preparation and fair presentation of these statements in accordance with IFRS applicable to the preparation of interim financial statements including IFRS 1, *First-time Adoption of IFRS*, and International Accounting Standard 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on the statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Statements for the period ended September 30, 2010 do not give a true and fair view of the financial performance and cash flows of Grande Cache Coal Corporation for the six-month period September 30, 2010 in accordance with IFRS applicable to the preparation of interim financial statements including IFRS 1, *First-time Adoption of IFRS*, and International Accounting Standard 34, *Interim Financial Reporting*.

PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
February 10, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars, as at)	September 30 2011	March 31 2011	April 1 2010
Assets			
Current assets			
Cash and cash equivalents	$ 38,839	$ 17,136	$ 87,436
Restricted cash (note 5)	15,483	12,908	13,499
Trade and other receivables (note 6)	12,395	31,287	12,483
Inventories (note 7)	48,796	34,244	33,999
Prepaid expenses and deposits	1,076	399	9,114
	116,589	95,974	156,531
Property, plant and equipment (note 8)	358,355	337,240	175,722
Deferred income tax assets	—	—	232
Assets classified as held for sale (note 8)	—	—	4,735
	$ 474,944	$ 433,214	$ 337,220
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities (note 9)	$ 34,453	$ 29,496	$ 25,716
Current portion of finance lease obligations (note 11)	16,507	14,447	6,744
	50,960	43,943	32,460
Restoration provision (note 10)	15,728	14,553	9,871
Finance lease obligations (note 11)	61,027	64,390	27,515
Deferred income tax liabilities (note 12)	37,171	27,834	17,715
	164,886	150,720	87,561
Equity			
Share capital (note 13)	199,930	199,810	196,232
Contributed surplus	10,614	8,524	4,681
Retained earnings	99,514	74,160	48,746
	310,058	282,494	249,659
	$ 474,944	$ 433,214	$ 337,220

Commitments (note 14)
Subsequent events (note 23)

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

The consolidated financial statements and accompanying notes were authorized for issue by the Board of Directors on February 10, 2012, and were signed on its behalf.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Nicholas G. Kirton
Chairman of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the six months ended September 30, 2011 and 2010

(in thousands of Canadian dollars, except for per share data)		**2011**		**2010 (Unaudited)**
Revenue	$	182,342	$	150,216
Cost of sales (note 15)		(132,020)		(120,501)
Gross profit		50,322		29,715
General and administrative expenses		(8,364)		(6,341)
Other operating income		236		93
Profit from operations		42,194		23,467
Finance income		129		70
Finance expense (note 16)		(1,973)		(771)
Foreign exchange (loss) gain		(5,659)		1,256
Profit before tax		34,691		24,022
Income tax expense (note 12)		(9,337)		(6,647)
Income and comprehensive income	$	25,354	$	17,375
Earnings per share (note 17)				
Basic	$	0.26	$	0.18
Diluted	$	0.25	$	0.17

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended September 30, 2011 and 2010

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended September 30, 2011 and 2010

(in thousands of Canadian dollars)		**2011**		**2010 (Unaudited)**
Cash flow provided by (used in)				
Operating activities				
Income for the period	$	25,354	$	17,375
Adjustments for:				
Depreciation (note 15)		12,421		13,110
Unrealized foreign exchange loss (gain)		9,230		1,024
Share-based payment expense (note 18)		2,143		2,252
Finance expense (note 16)		1,973		771
Deferred income tax		9,337		6,647
Gain on sale of property, plant and equipment		(10)		—
Net changes in non-cash working capital (note 19)		5,540		(10,919)
Settlement of restoration provision (note 10)		(9)		(81)
Net cash flows from operating activities		65,979		30,179
Financing activities				
Proceeds on exercise of options		67		540
Payment on finance lease obligations		(7,152)		(10,213)
Repayment of capital loan		(39)		—
Interest paid on finance leases and capital loan		(2,295)		(1,298)
Net cash used in financing activities		(9,419)		(10,971)
Investing activities				
Additions to property, plant and equipment		(34,107)		(52,298)
Proceeds on sale of property, plant and equipment		88		—
Restricted cash		(2,575)		—
Net cash used in investing activities		(36,594)		(52,298)
Effect of foreign exchange on cash and cash equivalents		1,737		531
Net increase (decrease) in cash and cash equivalents		21,703		(32,559)
Cash and cash equivalents, beginning of period		17,136		87,436
Cash and cash equivalents, end of period	$	38,839	$	54,877

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

1. Corporate information

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

The Corporation is a public company which is listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada. The Corporation's head office is located at 1610, 800 - 5th Avenue SW, Calgary, Alberta, Canada, T2P 3T6.

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

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

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

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as at February 10, 2012, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS, that are given effect in the Corporation's annual consolidated financial statements for the fiscal year ending March 31, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

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

(in thousands of Canadian dollars, except per share data)

The September 30, 2010 comparative period information in the consolidated financial statements and the accompanying notes to the consolidated financial statements is unaudited.

3. Summary of significant accounting policies

Basis of measurement

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

Basis of consolidation

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

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

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Cash and cash equivalents

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

(in thousands of Canadian dollars, except per share data)

Restricted cash

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

Trade and other receivables

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

Inventories

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include mining, labour, operating materials and supplies, transportation costs and a relevant allocation of overhead including depreciation. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

Exploration and evaluation expenditures

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

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

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

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

Property, plant and equipment

Property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any

(in thousands of Canadian dollars, except per share data)

other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

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

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share data)

Mineral assets

(i) Mines under construction

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

(ii) Producing mines

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

Impairment of non-financial assets

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

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

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

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

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

Accounts payable and accrued liabilities

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

Provisions

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

Restoration provision

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

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

(in thousands of Canadian dollars, except per share data)

Leases

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

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

Financial instruments

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

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

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

(i) *Financial assets and liabilities at fair value through income or loss* are financial instruments acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are measured at fair value and subsequent changes are recognized in income or loss. Upon initial recognition, attributable transaction costs are recognized in income or loss as incurred.

(ii) *Held-to-maturity investments* are non-derivative financial instruments with fixed payments and maturity for which the Corporation has the intention and ability to hold to maturity. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses.

(iii) *Loans and receivables* are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Such instruments are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(iv) *Available-for-sale financial assets* are non-derivative financial instruments that are either designated in this category or are not designated in any of the preceding three categories. These financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss.

(v) *Financial liabilities measured at amortized cost* are all other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments

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

Impairment of financial assets

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

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

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

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

Share capital

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

(in thousands of Canadian dollars, except per share data)

Revenue

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

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

Cost of sales

(i) Cost of product sold

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

(ii) Distribution costs

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

(iii) Depreciation

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

Share-based payment

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

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

(in thousands of Canadian dollars, except per share data)

contributed surplus. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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

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

Finance income and finance expense

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

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

Taxes

(i) Current income tax

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

(ii) Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits carried forward from prior years. The carrying amount of deferred income tax assets is reviewed each period and is recognized only to the extent that sufficient taxable income will be available in the future for the assets to be utilized.

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

Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the income for the period attributable to common shareholders of the Corporation by the weighted average number of common

shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding, for the effects of all potentially dilutive instruments, which may comprise share options granted to employees, convertible debentures, warrants and similar instruments.

Adoption of new accounting standards

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20") was issued in October 2011, which sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013, however earlier application is permitted if disclosed. The Corporation has elected to early adopt IFRIC 20, effective April 1, 2010. Adoption of IFRIC 20 did not have an impact on the financial statements for the six months ended September 30, 2011 or the comparable period of the prior fiscal year. Future stripping activity that creates a benefit of improved access to ore, and meets the conditions present in IFRIC 20, shall be recognized as a stripping activity asset and be accounted for accordingly.

Accounting standards issued but not yet applied

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

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

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

A brief summary of the new standards is as follows:

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

(in thousands of Canadian dollars, except per share data)

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

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

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

4. Significant accounting estimates, judgments and assumptions

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

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

(i) Property, plant and equipment

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

(in thousands of Canadian dollars, except per share data)

(ii) Mineral reserves and resources estimates

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

(iii) Unit-of-production depreciation

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

(iv) Mine decommissioning and restoration

The Corporation assesses its decommissioning and restoration liability associated with its mining properties annually. Significant estimates and assumptions are made in determining the provision for mine restoration as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of restoration activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the statement of financial position date represents management's best estimate of the present value of the future restoration costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the restoration asset and liability. Refer to note 10 for details of the restoration provision balance.

(v) Production start date

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

(in thousands of Canadian dollars, except per share data)

(vi) Inventories

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

Stockpile tonnages are verified by periodic survey.

(vii) Impairment of assets

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

(viii) Income tax

Considerable judgment is required in determining the Corporation's liability for income tax. The Corporation recognizes liabilities for anticipated income tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5. Restricted cash

	As at September 30 2011	As at March 31 2011	As at April 1 2010
Cash secured letters of credit — Alberta Government	$ 15,283	$ 12,708	$ 11,799
Cash secured letters of credit — Service providers	200	200	1,700
	$ 15,483	$ 12,908	$ 13,499

Cash secured letters of credit have been provided to the Alberta Government for security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit have been made available to service providers.

(in thousands of Canadian dollars, except per share data)

6. Trade and other receivables

	As at September 30 2011	As at March 31 2011	As at April 1 2010
Trade accounts receivable	$ 11,069	$ 27,131	$ 7,384
Goods and services tax receivable	911	285	1,440
Unrealized gain on foreign exchange forward contracts	—	2,857	3,024
Other	415	1,014	635
	$ 12,395	$ 31,287	$ 12,483

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

7. Inventories

	As at September 30 2011	As at March 31 2011	As at April 1 2010
Coal inventory	$ 40,144	$ 27,628	$ 27,986
Materials inventory	8,652	6,616	6,013
	$ 48,796	$ 34,244	$ 33,999

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

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

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

(in thousands of Canadian dollars, except per share data)

8. Property, plant and equipment

	As at September 30, 2011			
	Land and buildings	Plant and equipment	Mineral assets	Total
Cost				
Balance, beginning of the period	$ 15,792	$ 293,903	$ 106,645	$ 416,340
Additions	3,440	5,495	27,894	36,829
Disposals	—	(1,283)	—	(1,283)
Balance, end of the period	$ 19,232	$ 298,115	$ 134,539	$ 451,886
Accumulated depreciation				
Balance, beginning of the period	$ (2,291)	$ (47,593)	$ (29,216)	$ (79,100)
Depreciation	(494)	(12,577)	(2,568)	(15,639)
Disposals	—	1,208	—	1,208
Balance, end of the period	$ (2,785)	$ (58,962)	$ (31,784)	$ (93,531)
Net book value	$ 16,447	$ 239,153	$ 102,755	$ 358,355

	As at March 31, 2011			
	Land and buildings	Plant and equipment	Mineral assets	Total
Cost				
Balance, beginning of the year	$ 6,704	$ 166,145	$ 53,068	$ 225,917
Additions	4,353	127,758	53,577	185,688
Reclassification of assets held for sale	4,735	—	—	4,735
Balance, end of the year	$ 15,792	$ 293,903	$ 106,645	$ 416,340
Accumulated depreciation				
Balance, beginning of the year	$ (1,377)	$ (26,236)	$ (22,582)	$ (50,195)
Depreciation	(914)	(21,357)	(6,634)	(28,905)
Balance, end of the year	$ (2,291)	$ (47,593)	$ (29,216)	$ (79,100)
Net book value	$ 13,501	$ 246,310	$ 77,429	$ 337,240

During the six months ended September 30, 2011, the Corporation capitalized interest expense of $455 incurred from mining equipment under finance lease agreements, which were directly used in the development of No. 8 pit. In addition, the Corporation capitalized depreciation expenses of $1,441 and $230 on mining equipment that was directly used in the development of No. 8 surface pit and No. 12 South B2 underground operations, respectively.

(in thousands of Canadian dollars, except per share data)

During the twelve months ended March 31, 2011, the Corporation capitalized interest expense of $1,529 incurred from mining equipment under finance lease agreements, which were directly used in the development of No. 8 surface mine. In addition, the Corporation capitalized depreciation expenses of $5,484 on mining equipment that was directly used in the development of the No. 8 surface pit.

During fiscal 2010, the Corporation purchased condominium units that it intended to sell to employees within one year, as such the condominium units were classified as assets held for sale. In June 2010, the Corporation changed its housing strategy and as such the condominium units were reclassified as assets in use and a full year of depreciation was recognized.

Plant and equipment includes the following amounts where the Corporation is a lessee under a finance lease:

	As at September 30 2011	As at March 31 2011	As at April 1 2010
Cost	$ 126,339	$ 125,953	$ 47,241
Accumulated depreciation	(15,130)	(9,840)	(1,728)
Net book value	$ 111,209	$ 116,113	$ 45,513

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

9. Accounts payable and accrued liabilities

	As at September 30 2011	As at March 31 2011	As at April 1 2010
Trade payables	$ 13,858	$ 15,189	$ 13,587
Accrued expenses	14,991	11,907	12,129
Accrued foreign exchange forward contracts	3,243	—	—
Capital loan	2,361	2,400	—
	$ 34,453	$ 29,496	$ 25,716

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

The capital loan was utilized to fund the acquisition of land and buildings to be used as housing for employees. It has a rate of 4.25% per annum, a term of 20 years, is secured by the asset and is payable on demand, and therefore has been classified as a current liability. The capital loan shall be paid on demand by the bank and, unless and until otherwise demanded, in equal monthly instalments over a 20 year period. The capital loan shall, in any event, be repaid in full by March 31, 2031. The capital loan may be repaid by the borrower in full at any time.

(in thousands of Canadian dollars, except per share data)

10. Restoration provision

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

The following table reconciles the Corporation's restoration provision:

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

11. Finance lease obligations

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

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

Balance — April 1, 2010	$	34,259
Fair value of initial finance leases		70,258
Payments made during the period		(24,949)
Interest portion of payments		3,110
Foreign exchange adjustment to US dollar obligation		(3,841)
Balance — March 31, 2011		78,837
Payments made during the period		(9,396)
Interest portion of payments		2,244
Foreign exchange adjustment to US dollar obligation		5,849
Balance — September 30, 2011		77,534
Current portion of finance lease obligations		(16,507)
Long term portion of finance lease obligations	$	61,027

(in thousands of Canadian dollars, except per share data)

Future minimum payments under finance leases consist of the following:

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

12. Income taxes

The tax on the Corporation's income before tax differs from the amount that would arise from applying the statutory Canadian federal and provincial income tax rates of 26.13% (2011 — 27.63%), as follows:

	Six months ended September 30	
	2011	2010 (Unaudited)
Expected income tax expense	$ 9,063	$ 6,636
Change resulting from:		
Share-based payments	560	622
Change in tax rates	(404)	(699)
Other	118	88
Income tax expense	$ 9,337	$ 6,647

(in thousands of Canadian dollars, except per share data)

The analysis of deferred tax liabilities is as follows:

	As at September 30 2011	As at March 31 2011	As at April 1 2010
Deferred tax liabilities:			
Deferred tax liability to be recovered after more than 12 months	$ 35,832	$ 26,943	$ 17,202
Deferred tax liability to be recovered within 12 months	1,339	891	281
Deferred income tax liabilities	$ 37,171	$ 27,834	$ 17,483

The movement in net deferred income tax liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Property, plant and equipment	Others	Total
Balance — April 1, 2010:	$ 20,491	$ (3,008)	$ 17,483
Charged/(credited) to statement of income	11,370	(1,019)	10,351
Balance — March 31, 2011:	31,861	(4,027)	27,834
Charged/(credited) to statement of income	11,259	(1,922)	9,337
Balance — September 30, 2011	$ 43,120	$ (5,949)	$ 37,171

(in thousands of Canadian dollars, except per share data)

13. Share capital

Authorized

Unlimited common shares
Unlimited preferred shares, issuable in series

Issued

Common shares	Number (000's)		Stated Value
Balance — March 31, 2010 and April 1, 2010	96,975	$	196,232
Shares issued on exercise of options	1,325		3,578
Balance — March 31, 2011	98,300		199,810
Shares issued on exercise of options	15		120
Balance — September 30, 2011	98,315	$	199,930

During the six months ended September 30, 2011, 15 thousand common share options were exercised for cash proceeds of $67. On exercise of these common share options, $53 was credited to share capital from contributed surplus.

During the twelve months ended March 31, 2011, 1,325 thousand common share options were exercised for cash proceeds of $2,037. On exercise of these common share options, $1,541 was credited to share capital from contributed surplus.

14. Commitments

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

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

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

(in thousands of Canadian dollars, except per share data)

15. Cost of sales

	Six months ended September 30	
	2011	**2010 (Unaudited)**
Cost of product sold	$ 98,127	$ 83,435
Distribution costs	21,472	23,956
Depreciation	12,421	13,110
	$ 132,020	$ 120,501

16. Finance expense

	Six months ended September 30	
	2011	**2010 (Unaudited)**
Interest expense	$ 2,295	$ 1,298
Accretion on restoration provision	133	124
Less interest capitalized	(455)	(651)
	$ 1,973	$ 771

17. Earnings per share

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

	Six months ended September 30	
	2011	**2010 (Unaudited)**
Weighted average shares outstanding — basic	98,305	97,067
Dilutive effect of share options	2,451	2,629
Weighted average shares outstanding — diluted	100,756	99,696
Income for the period	$ 25,354	$ 17,375
Basic earnings per share	$ 0.26	$ 0.18
Diluted earnings per share	$ 0.25	$ 0.17

(in thousands of Canadian dollars, except per share data)

18. Share-based payment

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

There were no share options granted during fiscal 2012.

During the first quarter of fiscal 2011, the Corporation granted share options to purchase 2,145 thousand common shares pursuant to the Corporation's share option plan at an exercise price of $5.61 per share. The options have a five year term and are subject to a three year vesting period. The weighted average fair value of these share options was estimated at $4.61 per share option at the grant date using the Black-Scholes option pricing model. The option valuations were based on an average expected option life of five years, a risk-free interest rate of 2.17%, a dividend yield of 0%, a forfeiture rate of 5% and an average expected volatility of 149%.

Details of the common share options outstanding are as follows:

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

(in thousands of Canadian dollars, except per share data)

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

Range of exercise prices	Outstanding share options (000's)	Weighted-average remaining contractual life (months)	Weighted-average exercise price	Exercisable share options (000's)	Exercisable weighted-average exercise price
$0.77–$1.00	315	20	$ 0.85	240	$ 0.86
$1.01–$5.00	1,767	21	1.16	1,179	1.20
$5.01–$5.95	2,258	43	5.62	795	5.59
	4,340	31	$ 3.46	2,214	$ 2.74

The Corporation has a restricted share unit plan (the "RSU Plan") that is a discretionary incentive compensation plan to provide officers, directors, employees and other eligible service providers of the Corporation and any subsidiary thereof who provide services to the Corporation with the opportunity to acquire common shares of the Corporation through an award of restricted share units ("RSUs"). Each RSU represents a right to receive one common share. As at September 30, 2011, the Corporation has not awarded any RSUs pursuant to the RSU Plan.

19. Net changes in non-cash working capital

	Six months ended September 30	
	2011	2010 (Unaudited)
Trade and other receivables	$ 17,008	$ (10,268)
Inventories	(13,005)	12,090
Prepaid expenses and deposits	(677)	(8,397)
Accounts payable and accrued liabilities	2,214	(4,344)
	$ 5,540	$ (10,919)

20. Capital management

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

(in thousands of Canadian dollars, except per share data)

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

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

21. Financial instruments and risks management

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

Financial instrument	Classification
Cash and cash equivalents	Loans and receivables
Restricted cash	Loans and receivables
Foreign exchange forward contracts	Financial assets at fair value through income or loss
Trade accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Finance lease obligations	Other financial liabilities

Fair value of financial instruments

The Corporation has certain financial instruments that are measured at fair value on a recurring basis. At September 30, 2011, the fair value of cash and cash equivalents, restricted cash, trade accounts receivable, foreign exchange forward contracts and accounts payable and accrued liabilities approximates their carrying amounts on the statement of financial position due to the short periods to maturity and the terms of the financial instruments.

Financial instruments hierarchy

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

(in thousands of Canadian dollars, except per share data)

The hierarchy is as follows:

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

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

	As at September 30, 2011			
(thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liability				
Foreign exchange forward contracts	—	3,243	—	3,243

	As at March 31, 2011			
(thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset				
Foreign exchange forward contracts	—	2,857	—	2,857

Risk Management

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

Credit Risk

Grande Cache Coal carries a balance of cash and cash equivalents as disclosed on the statement of financial position at September 30, 2011. The Corporation invests conservatively a portion of its cash in short-term, low risk term deposits with credit worthy financial institutions. The remainder of the cash balance is held with major financial institutions and is available for immediate use.

The Corporation has a balance of restricted cash as disclosed on the statement of financial position at September 30, 2011. Restricted cash is held with major financial institutions for the purpose of securing letters of credit and is invested in short-term guaranteed investment certificates. The Corporation is exposed to credit risk in the event that the financial institutions were to redeem the letter of credit to the beneficiary. The Corporation considers this risk as low as the majority of the letters of credit have been

provided to the Alberta Government for security to cover future anticipated costs of restoration.

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of trade accounts receivable. The maximum credit risk exposure is equal to the carrying amount of trade accounts receivable as disclosed in the notes to the consolidated financial statements. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider any of the trade accounts receivable to be impaired or past due.

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

Liquidity Risk

The Corporation is exposed to liquidity risk in the event that it would be unable to meet obligations associated with financial liabilities. The Corporation has a $29,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at September 30, 2011 was nil. However, availability on the credit facility was reduced by approximately $15,572 due to the Corporation entering into foreign exchange forward contracts. At September 30, 2011, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

(thousands of Canadian dollars)	**Less than 1 year**	**1–3 years**	**4–5 years**	**After 5 years**
Accounts payable and accrued liabilities	34,453	—	—	—
Operating leases	864	1,402	571	235
Finance leases	20,594	37,916	28,566	1,050
	55,911	39,318	29,137	1,285

Market Risk

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

Foreign exchange rates

The majority of the Corporation's revenues from operations are received in US dollars while most of its operating expenses are incurred in Canadian dollars. Although the Corporation has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance that the activities or products are, or will, continue to be effective. Accordingly, the inability of the Corporation to obtain or to put in place effective hedges

could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the US dollar. This could have a material adverse effect on the Corporation's business, financial condition and results of operations. In addition, the relative exchange rate fluctuation between the Canadian dollar and the currencies of Grande Cache Coal's international competitors will impact the ability of Grande Cache Coal's coal products to compete in foreign markets.

Based on the US dollar denominated trade accounts receivable balance at September 30, 2011, each decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease of $99, which would have been charged to income in the current period.

The Corporation has US dollar denominated finance lease obligations. At September 30, 2011, the outstanding commitment on the finance lease obligations was US$73,968. Based on this balance, each decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease of $740, which would have been credited to income in the current period. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the finance lease payments. The Corporation entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

The Corporation entered into a series of foreign exchange forward contracts that will mature by March 2012. At September 30, 2011, the Corporation had outstanding contracts to sell a total of US$60,000 at an average rate of Canadian dollars 0.996 to the US dollar. At September 30, 2011, these contracts were marked to market resulting in an unrealized foreign exchange loss of $3,242 that was recognized in the consolidated statement of income and has been classified on the balance sheet as an accrued liability. A decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease in the accrued liability of $600, which would have been charged to income in the current period. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

Interest rates

Interest accrues on the Corporation's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 percent per annum, calculated daily. The Corporation did not have a balance owing on the operating credit facility at September 30, 2011.

22. First time adoption of IFRS

(i) Transition elections

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

- IFRS 2 *Share-based Payment* has not been applied to any equity instruments granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before the transition date.

(in thousands of Canadian dollars, except per share data)

- The Corporation has elected to apply the exemption from full retrospective application of decommissioning and restoration provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Asset* ("IAS 37") and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. As a result, the Corporation has re-measured its asset retirement obligation as at April 1, 2010 in accordance with IAS 37 and re-measured the asset retirement cost included in property, plant and equipment by estimating the amount that would have been included in the cost of the related asset at the time the liability first arose, discounting the liability to date using the best estimate of the historical risk-free discount rate and calculating the accumulated depreciation on that amount up to the date of transition to IFRS.

(ii) Reconciliation of equity

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

		As at March 31, 2011			As at April 1, 2010		
	Notes	Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
Assets							
Current assets							
Cash and cash equivalents		$ 17,136	$ —	$ 17,136	$ 87,436	$ —	$ 87,436
Restricted cash		12,908	—	12,908	13,499	—	13,499
Trade and other receivables		31,287	—	31,287	12,483	—	12,483
Inventories		34,244	—	34,244	33,999	—	33,999
Prepaid expenses and deposits		399	—	399	9,114	—	9,114
Deferred income tax assets		—	—	—	232	(232)	—
		95,974	—	95,974	156,763	(232)	156,531
Property, plant and equipment	a, c	338,405	(1,165)	337,240	176,200	(478)	175,722
Deferred income tax assets		—	—	—	—	232	232
Assets classified as held for sale		—	—	—	4,735	—	4,735
		$ 434,379	$ (1,165)	$ 433,214	$ 337,698	$ (478)	$ 337,220
Liabilities and equity							
Current liabilities							
Accounts payable and accrued liabilities		$ 29,496	$ —	$ 29,496	$ 25,716	$ —	$ 25,716
Deferred income tax liabilities	d	891	(891)	—	—	—	—
Current portion of finance lease obligations		14,447	—	14,447	6,744	—	6,744
		44,834	(891)	43,943	32,460	—	32,460
Restoration provision	a	14,217	336	14,553	8,801	1,070	9,871
Finance lease obligations		64,390	—	64,390	27,515	—	27,515
Deferred income tax liabilities	d	27,319	515	27,834	18,102	(387)	17,715
		150,760	(40)	150,720	86,878	683	87,561
Equity							
Share capital		199,810	—	199,810	196,232	—	196,232
Contributed surplus	b	5,437	3,087	8,524	3,945	736	4,681
Retained earnings		78,372	(4,212)	74,160	50,643	(1,897)	48,746
		283,619	(1,125)	282,494	250,820	(1,161)	249,659
		$ 434,379	$ (1,165)	$ 433,214	$ 337,698	$ (478)	$ 337,220

(in thousands of Canadian dollars, except per share data)

(in thousand of Canadian dollars)	Notes	As at March 31 2011	As at April 1 2010
As reported under Canadian GAAP		$ 283,619	$ 250,820
Differences increasing (decreasing) reported amount:			
Restoration provision	a	501	(511)
Property, plant and equipment	c	(1,626)	(650)
		(1,125)	(1,161)
As reported under IFRS		$ 282,494	$ 249,659

(iii) Reconciliation of income and comprehensive income

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

		Six months ended September 30, 2010 (Unaudited)		
	Notes	Cdn GAAP	Adj	IFRS
Revenues		$ 150,216	$ —	$ 150,216
Cost of sales	c, e, f, g	(119,735)	(766)	(120,501)
Gross profit		30,481	(766)	29,715
General and administrative expenses	b	(5,361)	(980)	(6,341)
Other income		93	—	93
Operating profit		25,213	(1,746)	23,467
Finance income		70	—	70
Finance expense	a, g	(647)	(124)	(771)
Foreign exchange gain		1,256	—	1,256
Profit before taxes		25,892	(1,870)	24,022
Income tax expense	d, e	(7,822)	1,175	(6,647)
Income and comprehensive income		$ 18,070	$ (695)	$ 17,375

(in thousands of Canadian dollars, except per share data)

(iv) Explanatory notes

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

a) Restoration provision

IFRS does not have a specific accounting standard for restoration provisions. Under IFRS these provisions are included in *IAS 37 — Provisions, Contingent Liabilities and Contingent Assets*. IFRS is more encompassing in that it requires that constructive obligations be included in the recognition of a liability. IFRS also differs in that estimates of future cash flows use a discount rate that is no longer credit adjusted. On a go-forward basis, IFRS requires that the provision be re-measured at each reporting date.

As a result of these differences, the Corporation recorded an adjustment to increase the restoration provision asset by $389 and increase the restoration provision liability by $1,070, resulting in a net of tax adjustment that decreased equity by $511 at the transition date. As at March 31, 2011, the IFRS adjustments include an increase in restoration provision asset of $1,004 and an increase in the restoration provision liability of $336 resulting in a net of tax increase in equity of $501. For the six months ended September 30, 2010, the Corporation recorded a decrease of accretion on the restoration provision of $198 and a decrease in depreciation on restoration provision asset of $797.

b) Share-based payment

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

The effect of the change to IFRS resulted in an increase to contributed surplus and a reduction to retained earnings at the date of transition of $736 and at March 31, 2011 of $3,087. In addition, the Corporation recorded an increase in share-based payments expense of $980 for the six months ended September 30, 2010.

c) Property, plant and equipment

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were

(in thousands of Canadian dollars, except per share data)

expected from their use. Under IFRS, this derecognizing of assets occurs at the component level. The Corporation recorded the significant parts or components of its PP&E and depreciated them separately, which resulted to a decrease in property, plant and equipment of $2,169 and $867, a decrease in deferred tax liabilities of $543 and $217 and a decrease in equity of $1,626 and $650 as at March 31, 2011 and as at April 1, 2010, respectively. For the six months ended September 30, 2010, the Corporation increased its depreciation expense by $616.

d) Deferred income taxes

Under Canadian GAAP, deferred tax assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified the amount of $891 from deferred income tax liabilities (current) to deferred income tax liabilities (non-current) as at March 31, 2011 and the amount of $232 from deferred income tax assets (current) to deferred income tax assets (non-current) as at April 1, 2010.

In addition, the Corporation recorded the tax impact on the IFRS adjustments for the restoration provision and property, plant and equipment disclosed above, which resulted to a decrease in deferred income tax liabilities of $376 as at March 31, 2011 and $387 as at April 1, 2010. For the six months ended September 30, 2010, the Corporation recorded an increase in income tax expense of $94.

e) Coal royalties

Under Canadian GAAP the Corporation presented the Alberta coal royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government are considered a resource tax expense as payments to government should be classified in accordance with the substance of the transaction. The Corporation has determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales. The change of the classification of coal royalties had no impact on shareholders' equity at March 31, 2011 and April 1, 2010, however it changed the presentation of the consolidated statements of income and comprehensive income for the six months ended September 30, 2010, for the twelve months ended March 31, 2011 and for the future periods.

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

f) Cost of sales

Under IFRS, the Corporation must present expenses on the consolidated statement of income by either function or nature. The Corporation has chosen to

present expenses by function, as a result, the cost of sales include cost of product sold, distribution costs and depreciation on its consolidated statements of income and comprehensive income.

g) Finance expense

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

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

(v) Adjustments to the statement of cash flows

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

23. Subsequent events

Subsequent to September 30, 2011, the following events occurred.

Arrangement Agreement

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

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

The Arrangement is subject to customary conditions for a transaction of this nature, which include court and regulatory approvals, and the approval of 66 2/3% of the votes cast by Grande Cache Coal shareholders represented in person or by proxy at a special meeting of Grande Cache Coal shareholders to be called to consider the Arrangement. The Arrangement also requires majority approval of Winsway's shareholders and the approval

of the Hong Kong Stock Exchange. Certain shareholders of Winsway, who beneficially own or exercise control or direction over approximately 51% of the ordinary shares of Winsway, have entered into voting agreements with Grande Cache Coal pursuant to which they have irrevocably agreed to, among other things, vote their Winsway shares in favour of the Arrangement at the extraordinary meeting of Winsway shareholders to be called to consider the Arrangement.

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

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

Other

The Corporation was made aware that a Notice of Hearing was issued by the Alberta Securities Commission ("ASC") with respect to certain current and former officers of the Corporation, one of whom is a current director of the Corporation, alleging contraventions of section 147 of the *Securities Act* (Alberta) and conduct contrary to the public interest. The allegations relate to trading in securities of the Corporation by the named persons in 2008. The Corporation has not been named as a party to the Notice of Hearing. The allegations are unproven and the Corporation has been informed that each of the named persons denies the allegations and intends to dispute and defend themselves against the allegations in the Notice. The Corporation expects that its Directors' and Officers insurance policy will be sufficient to cover the associated legal costs associated with the defense. However, should the defence be unsuccessful, the Insurers, have the right to seek reimbursement from the Corporation for all, or a portion of the costs incurred by the Insurers. As at September 30, 2011, approximately $300 was accrued by the Corporation for costs incurred to date but no receivable has been recorded for potential reimbursement from Insurers.

(in thousands of Canadian dollars, except per share data)

24. Expense by nature

Cost of sales and general and administrative expenses by nature are as follows:

	Six months ended September 30	
	2011	**2010 (Unaudited)**
Wages and employee benefits expense (note 25)	$ 37,102	$ 28,911
Change in inventories	(9,125)	10,434
Distribution costs	21,472	23,956
Depreciation	12,421	13,110
Mining costs	50,708	37,454
Fuels and utilities	18,712	7,494
Other expenses	9,093	5,483
	$ 140,383	$ 126,842

25. Wages and employee benefits expense

	Six months ended September 30	
	2011	**2010 (Unaudited)**
Salaries and wages	$ 27,865	$ 21,448
Share-based payment	2,143	2,252
Other employee benefits	7,094	5,211
	$ 37,102	$ 28,911

Salaries and wages included directors' remuneration.

Compensation of key management

Key management includes the Corporation's directors and senior executive officers. The compensation paid or payable to key management is as follows:

	Six months ended September 30	
	2011	**2010 (Unaudited)**
Salaries and wages	$ 1,032	$ 872
Share-based payment	1,670	1,602
Other employee benefits	612	450
	$ 3,315	$ 2,924

(II) Financial year ended 31 March 2011 and 31 March 2010 respectively:

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Grande Cache Coal Corporation

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Grande Cache Coal Corporation as at March 31, 2011 and March 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta

June 2, 2011 (except for note 22 which is dated February 10, 2012)

CONSOLIDATED BALANCE SHEETS
As at March 31
(thousands of Canadian dollars)

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

Commitments *(note 14)*

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Nicholas G. Kirton
Director

CONSOLIDATED STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS
Years Ended March 31
(thousands of Canadian dollars, except per share amounts)

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31
(thousands of Canadian dollars)

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

Supplemental cash flow information *(note 18)*

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 and 2010
(thousands of Canadian dollars, except per share amounts)

1. Nature of Operations

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

2. Significant Accounting Policies

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

Principles of Consolidation

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

Management Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

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

Inventory

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

(thousands of Canadian dollars, except per share amounts)

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

Property, plant and equipment

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

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

Mineral Properties and Development

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

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

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

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

Depreciation and Depletion

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

(thousands of Canadian dollars, except per share amounts)

Leases

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

Asset Retirement Obligations

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

Foreign Currency Translation

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

Financial Instruments

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

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

(thousands of Canadian dollars, except per share amounts)

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

Revenue Recognition

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

Cost of Product Sold

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

Distribution

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

Taxes

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

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

Stock-based Compensation

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

(thousands of Canadian dollars, except per share amounts)

increase to share capital. The Corporation has not incorporated an estimated forfeiture rate of share options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

Reclassification

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

3. Recent and Upcoming Changes in Accounting Policies

All accounting policies adopted by the Corporation are in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the current period.

Convergence with International Financial Reporting Standards

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

4. Restricted Cash

	As at March 31 2011	As at March 31 2010
Cash secured letters of credit — Alberta Government	$ 12,708	$ 11,799
Cash secured letters of credit — Service providers	200	1,700
	$ 12,908	$ 13,499

Cash secured letters of credit have been provided to the Alberta Government for security to cover anticipated costs of reclamation for the Corporation's mining areas, processing facilities and surrounding infrastructure. In addition, cash secured letters of credit have been made available to service providers. During fiscal 2011, the Corporation increased its letters of credit with the Alberta Government by $909, and reduced its letters of credit with service providers by $1,500.

(thousands of Canadian dollars, except per share amounts)

5. Accounts Receivable

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

6. Inventory

	As at March 31 2011	As at March 31 2010
Coal inventory	$ 27,628	$ 27,986
Materials inventory	6,616	6,013
Total	$ 34,244	$ 33,999

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

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value. The Corporation maintains an inventory of parts and supplies for day to day maintenance and operations. During fiscal 2011, parts and supplies inventories of $8,550 were expensed to cost of product sold compared to $8,154 in fiscal 2010.

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

7. Prepaid expenses and deposits

	As at March 31 2011	As at March 31 2010
Prepaid expenses and other deposits	$ 399	$ 289
Deposits on mining equipment	—	8,825
	$ 399	$ 9,114

(thousands of Canadian dollars, except per share amounts)

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

8. Capital Assets

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

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

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

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

During fiscal 2010, the Corporation purchased condominium units that it intended to sell to employees within one year, as such the condominium units were classified as assets held for sale. In June 2010, the Corporation changed its housing strategy and as such the condominium units were reclassified as assets in use and a full year of depreciation was recognized.

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

(thousands of Canadian dollars, except per share amounts)

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

9. Accounts payable and accrued liabilities

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

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

10. Taxes

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

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

(thousands of Canadian dollars, except per share amounts)

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

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

11. Capital Lease Obligations

The Corporation has certain mining equipment and buildings under capital lease agreements. The capital leases for the mining equipment are denominated in US dollars at interest rates up to a maximum of 6.7% per annum, expire by fiscal 2017 and are secured by the related assets.

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

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

(thousands of Canadian dollars, except per share amounts)

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

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

12. Asset Retirement Obligations

Future asset retirement obligations were calculated based on the Corporation's estimated costs to fulfill its legal asset retirement obligations. At fiscal year end, the Corporation has estimated the net present value of its asset retirement obligations to be $14,217 (2010 — $8,801), based on a total future liability of $20,171 (2010 — $14,926). The Corporation's credit adjusted risk-free rates range from 4.2% to 7.6% depending on the period when the provision originated and the term of estimated years to reclamation.

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

		2011		**2010**
Balance, beginning of year	$	8,801	$	6,429
Increase in liability		4,894		1,865
Settlement of liability		(135)		—
Accretion		657		507
Balance, end of year	$	14,217	$	8,801

(thousands of Canadian dollars, except per share amounts)

13. Share Capital

Authorized

Unlimited common shares
Unlimited preferred shares, issuable in series

Issued

(thousands)	Number	Stated Value
Common shares		
Balance — March 31, 2009	96,076	$ 194,541
Shares issued on exercise of options	899	1,691
Balance — March 31, 2010	96,975	196,232
Shares issued on exercise of options	1,325	3,578
Balance — March 31, 2011	98,300	$ 199,810

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

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

14. Commitments

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

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

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

(thousands of Canadian dollars, except per share amounts)

15. General and Administrative

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

16. Net Income per Share

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

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

17. Stock-Based Compensation

The Corporation has a share option plan pursuant to which the outstanding share options of the Corporation as at August 17, 2010 are governed. Total stock-based compensation expense included in general and administrative expenses for the current fiscal year was $3,033 compared to $1,312 in the prior year.

During the fiscal year ended March 31, 2011, options to purchase 2,145 thousand common shares were granted pursuant to the Corporation's share option plan at an exercise price of $5.61 per share. The options have a five year term and are subject to a three year vesting period.

During the fiscal year ended March 31, 2010, pursuant to the Corporation's share option plan, options to purchase 50 thousand common shares were granted at an exercise price of $3.57 per share and options to purchase 125 thousand common shares were granted at an exercise price of $5.95 per share. The options have a five year term and are subject to a three year vesting period.

(thousands of Canadian dollars, except per share amounts)

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

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

[1] *Expected volatility estimated based on historical volatility*

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

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

Details of the common share options outstanding are as follows:

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

(thousands of Canadian dollars, except per share amounts)

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

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

* *Expire in April 2011*

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

18. Supplemental Cash Flow Information

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

(thousands of Canadian dollars, except per share amounts)

19. Capital Management

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

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

For the operating credit facility, the Corporation is subject to certain borrowing covenants that are monitored on a monthly basis. For the year ended March 31, 2011, the Corporation was in compliance with externally imposed requirements on its capital, including debt covenants and credit facilities.

20. Financial Instruments and Risk Management

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

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

Fair value of financial instruments

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

(thousands of Canadian dollars, except per share amounts)

Financial instruments hierarchy

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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

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

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

Risk Management

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

(thousands of Canadian dollars, except per share amounts)

Credit Risk

Grande Cache Coal carries a balance of cash and cash equivalents as disclosed on the balance sheet at March 31, 2011. The Corporation invests conservatively a portion of its cash in short-term, low risk term deposits with credit worthy financial institutions. The remainder of the cash balance is held with major financial institutions and is available for immediate use.

The Corporation has a balance of restricted cash as disclosed on the balance sheet at March 31, 2011. Restricted cash is held with major financial institutions for the purpose of securing letters of credit and is invested in short-term guaranteed investment certificates. The Corporation is exposed to credit risk in the event that the financial institutions were to redeem the letter of credit to the beneficiary. The Corporation considers this risk as low as the majority of the letters of credit have been provided to the Alberta Government for security to cover future anticipated costs of reclamation.

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of trade accounts receivable. The maximum credit risk exposure is equal to the carrying amount of trade accounts receivable as disclosed in the notes to the consolidated financial statements. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider any of the trade accounts receivable to be impaired or past due.

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

Liquidity Risk

The Corporation is exposed to liquidity risk in the event that it would be unable to meet obligations associated with financial liabilities. The Corporation has a $28,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at March 31, 2011 was nil, however availability on the facility was reduced by approximately $555 due to the Corporation entering into foreign exchange forward contracts. At March 31, 2011, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

(thousands of Canadian dollars)	**Less than 1 years**	**1–3 years**	**4–5 years**	**After 5 years**
Accounts payable and accrued liabilities	29,496	—	—	—
Operating leases	861	1,461	819	272
Capital leases	18,658	38,622	31,493	2,074
	49,015	40,083	32,312	2,346

(thousands of Canadian dollars, except per share amounts)

Market Risk

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

Foreign exchange rates

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

Based on the US dollar denominated trade accounts receivable balance at March 31, 2011, each decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease of $74, which would have been charged to income in the current period.

The Corporation has US dollar denominated capital lease obligations. At March 31, 2011, the outstanding commitment on the capital lease obligations was US$81,309. Based on this balance, each decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease of $813, which would have been credited to income in the current period. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of the capital lease payments. The Corporation entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

The Corporation entered into a series of foreign exchange forward contracts that will mature by July 2011. At March 31, 2011, the Corporation had outstanding contracts to sell a total of US$32,000 at an average rate of Canadian dollars 1.06 to the US dollar. At March 31, 2011, these contracts were marked to market resulting in an unrealized foreign exchange gain of $2,857 that was recognized in the income statement and has been classified on the balance sheet as accounts receivable. A decrease of US$0.01 relative to the Canadian dollar would have resulted in a decrease in accounts receivable of $320, which would have been charged to income in the current period. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

Interest rates

Interest accrues on the Corporation's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 percent per annum, calculated daily. The Corporation did not have a balance owing on the operating credit facility at March 31, 2011.

(thousands of Canadian dollars, except per share amounts)

21. Economic Dependence

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

22. Reconciliation to International Financial Reporting Standards

Basis of preparation

In fiscal years ended March 31, 2011 and prior, Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") prepared its annual consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), which required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. In this appended note to the consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Due to an arrangement agreement the Corporation entered into on October 31, 2011, the Corporation was required to reconcile its historical Canadian GAAP financial statements to IFRS for the fiscal years ended March 31, 2011 and March 31, 2010, as described below.

For purposes of the reconciliation, the policies applied are based on IFRS issued and outstanding as of March 31, 2011.

Transition elections

IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") requires full retrospective application of IFRS at the transition date, which for the purposes of this note is April 1, 2008 ("transition date"), with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions available under IFRS 1 are applied. The Corporation has elected to take the following IFRS 1 exemptions:

- IFRS 2 *Share-based Payment* has not been applied to any equity instruments granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before the transition date.

- The Corporation has elected to apply the exemption from full retrospective application of decommissioning and restoration provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Asset* ("IAS 37") and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. As a result, the Corporation has re-measured its asset retirement obligation as at April 1, 2008 in accordance with IAS 37 and re-measured the asset retirement cost included in property, plant and equipment by estimating the amount that would have been included in the cost of the related asset at the time the liability first arose, discounting the liability to date using the best estimate of the historical risk-free discount rate and calculating the accumulated depreciation on that amount up to the date of transition to IFRS.

(thousands of Canadian dollars, except per share amounts)

Fiscal year ended March 31, 2011

1) Reconciliation of equity

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

		As at March 31, 2011		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Assets				
Current assets				
Cash and cash equivalents		$ 17,136	$ —	$ 17,136
Restricted cash		12,908	—	12,908
Trade and other receivables		31,287	—	31,287
Inventories		34,244	—	34,244
Prepaid expenses and deposits		399	—	399
		95,974	—	95,974
Property, plant and equipment	*a, c*	338,405	(919)	337,486
		$ 434,379	$ (919)	$ 433,460
Liabilities and equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 29,496	$ —	$ 29,496
Deferred income tax liabilities	*d*	891	(891)	—
Current portion of finance lease obligations		14,447	—	14,447
		44,834	(891)	43,943
Restoration provision	*a*	14,217	336	14,553
Finance lease obligations		64,390	—	64,390
Deferred income tax liabilities	*d*	27,319	578	27,897
		150,760	23	150,783
Equity				
Share capital		199,810	—	199,810
Contributed surplus	*b*	5,437	2,394	7,831
Retained earnings		78,372	(3,336)	75,036
		283,619	(942)	282,677
		$ 434,379	$ (919)	$ 433,460

(thousands of Canadian dollars, except per share amounts)

	Notes	**As at March 31 2011**
As reported under Canadian GAAP		$ 283,619
Increase (decrease) in reported amount:		
Restoration provision	*a*	685
Property, plant and equipment	*c*	(1,627)
As reported under IFRS		$ 282,677

2) Reconciliation of income and comprehensive income

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

		Twelve months ended March 31, 2011		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Revenues		$ 268,103	$ —	$ 268,103
Cost of sales	*c, e, f, g*	(221,689)	(2,906)	(224,595)
Gross profit		46,414	(2,906)	43,508
General and administrative expenses	*b*	(11,762)	(2,261)	(14,023)
Other income (expenses)		226	—	226
Operating profit		34,878	(5,167)	29,711
Finance revenue		279	—	279
Finance expense	*a, g*	(1,644)	(249)	(1,893)
Foreign exchange gain (loss)		6,839	—	6,839
Profit before taxes		40,352	(5,416)	34,936
Income tax expense	*d, e*	(12,623)	2,500	(10,123)
Income and comprehensive income		$ 27,729	$ (2,916)	$ 24,813

(thousands of Canadian dollars, except per share amounts)

3) Explanatory notes

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

a) Restoration provision

IFRS does not have a specific accounting standard for restoration provisions. Under IFRS these provisions are included in *IAS 37 — Provisions, Contingent Liabilities and Contingent Assets*. IFRS is more encompassing in that it requires that constructive obligations be included in the recognition of a liability. IFRS also differs in that estimates of future cash flows use a discount rate that is no longer credit adjusted. On a go-forward basis, IFRS requires that the provision be re-measured at each reporting date.

The effect of the change to IFRS resulted in an increase to the restoration provision asset by $1,250 and an increase to the restoration provision liability by $336, resulting in a net of tax adjustment that increased equity by $685 as at March 31, 2011. For the year ended March 31, 2011, the Corporation recorded a decrease in accretion of restoration provision of $408 and a decrease in depreciation expense on restoration provision asset of $22 as compared to Canadian GAAP.

b) Share-based payment

Under previous Canadian GAAP, the Corporation expensed share option awards granted to employees in an amount equal to the fair value of the equity instrument amortized on a straight-line basis over the respective vesting period. IFRS 2 *Share-based Payment* ("IFRS 2") requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS 2 requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has elected the IFRS 1 exemption and has not applied IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before April 1, 2008. The Corporation continues to use the Black-Scholes option pricing model to fair value its equity instruments.

The effect of the change to IFRS resulted in an increase to contributed surplus and a reduction to retained earnings at March 31, 2011 of $2,261 as well as an increase in share-based payments expense of $2,261 for the twelve months ended March 31, 2011.

c) Property, plant and equipment

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were expected from their use. Under IFRS, this derecognition of assets occurs at the component level. The Corporation recorded the significant parts or components of its PP&E and depreciated them separately, which resulted to a decrease in property, plant and equipment of $2,169, a decrease in deferred tax liabilities of $542 and a corresponding decrease in equity of $1,627 as at March 31, 2011 as well as an increase in depreciation expense by $1,302.

(thousands of Canadian dollars, except per share amounts)

d) Deferred income taxes

Under Canadian GAAP, deferred tax assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified the amount of $891 from deferred income tax liability (current) to deferred income tax liability (non-current) as at March 31, 2011.

In addition, the Corporation recorded the tax impact on the IFRS adjustments for the restoration provision and property, plant and equipment disclosed above, which resulted to an decrease in deferred income tax liabilities of $313 as at March 31, 2011. For year ended March 31, 2011, the Corporation decreased its income tax expense by $217.

e) Coal royalties

Under Canadian GAAP the Corporation presented the Alberta coal royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government are considered a resource tax expense as payments to government should be classified in accordance with the substance of the transaction. The Corporation has determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales. The change of the classification of coal royalties had no impact on shareholders' equity at March 31, 2011, however it changed the presentation of the consolidated statements of income and comprehensive income for the twelve months ended March 31, 2011.

For the year ended March 31, 2011, the Corporation reclassified coal royalties of $2,283 from income tax expense to cost of sales.

f) Cost of sales

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

g) Finance expense

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

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

(thousands of Canadian dollars, except per share amounts)

Fiscal year ended March 31, 2010

1) Reconciliation of equity

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

		As at March 31, 2010		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Assets				
Current assets				
Cash and cash equivalents		$ 87,436	$ —	$ 87,436
Restricted cash		13,499	—	13,499
Trade and other receivables		12,483	—	12,483
Inventories		33,999	—	33,999
Prepaid expenses and deposits		9,114	—	9,114
Deferred income tax assets	*d*	232	(232)	—
		156,763	(232)	156,531
Property, plant and equipment	*a, c*	176,200	687	176,887
Deferred income tax assets	*d*	—	232	232
		176,200	919	177,119
Assets classified as held for sale		4,735	—	4,735
		$ 337,698	$ 687	$ 338,385
Liabilities and equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 25,716	$ —	$ 25,716
Current portion of finance lease obligations		6,744	—	6,744
		32,460	—	32,460
Restoration provision	*a*	8,801	1,070	9,871
Finance lease obligations		27,515	—	27,515
Deferred income tax liabilities	*d*	18,102	(96)	18,006
		86,878	974	87,852
Equity				
Share capital		196,232	—	196,232
Contributed surplus	*b*	3,945	132	4,077
Retained earnings		50,643	(419)	50,224
		250,820	(287)	250,533
		$ 337,698	$ 687	$ 338,385

(thousands of Canadian dollars, except per share amounts)

	Notes	**As at March 31 2010**
As reported under Canadian GAAP		$ 250,820
Increase (decrease) in reported amount:		
Restoration provision	*a*	363
Property, plant and equipment	*c*	(650)
As reported under IFRS		$ 250,533

2) Reconciliation of income and comprehensive income

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

		Twelve months ended March 31, 2010		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Revenues		$ 232,530	$ —	$ 232,530
Cost of sales	*c, e, f, g*	(195,914)	(2,236)	(198,150)
Gross profit		36,616	(2,236)	34,380
General and administrative expenses	*b*	(9,960)	(167)	(10,127)
Other income (expenses)		242	—	242
Operating profit		26,898	(2,403)	24,495
Finance revenue		248	—	248
Finance expense	*a, g*	(1,017)	(183)	(1,200)
Foreign exchange gain (loss)		2,510	—	2,510
Profit before taxes		28,639	(2,586)	26,053
Income tax expense	*d, e*	(8,533)	1,990	(6,543)
Income and comprehensive income		$ 20,106	$ (596)	$ 19,510

(thousands of Canadian dollars, except per share amounts)

3) Explanatory notes

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

a) Restoration provision

IFRS does not have a specific accounting standard for restoration provisions. Under IFRS these provisions are included in *IAS 37 — Provisions, Contingent Liabilities and Contingent Assets*. IFRS is more encompassing in that it requires that constructive obligations be included in the recognition of a liability. IFRS also differs in that estimates of future cash flows use a discount rate that is no longer credit adjusted. On a go-forward basis, IFRS requires that the provision be re-measured at each reporting date.

The effect of the change to IFRS resulted in an increase to the restoration provision asset by $1,554 and an increase to the restoration provision liability by $1,070, resulting in a net of tax adjustment that increased equity by $363. For the year ended March 31, 2010, accretion of restoration provision decreased by $325 and depreciation expense on restoration provision asset increased by $30, as compared to Canadian GAAP.

b) Share-based payment

Under previous Canadian GAAP, the Corporation expensed share option awards granted to employees in an amount equal to the fair value of the equity instrument amortized on a straight-line basis over the respective vesting period. IFRS 2 *Share-based Payment* ("IFRS 2") requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS 2 requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has elected the IFRS 1 exemption and has not applied IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before April 1, 2008. The Corporation continues to use the Black-Scholes option pricing model to fair value its equity instruments.

The effect of the change to IFRS resulted in an increase to contributed surplus and a reduction to retained earnings at March 31, 2010 of $167 as well as an increase in share-based payments expense of $167 for the twelve months ended March 31, 2010.

c) Property, plant and equipment

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were expected from their use. Under IFRS, this derecognition of assets occurs at the component level. The Corporation recorded the significant parts or components of its PP&E and depreciated them separately, which resulted to a decrease in property, plant and equipment of $867, a decrease in deferred tax liabilities of $217 and a corresponding decrease in equity of $650 as at March 31, 2010 as well as an increase in depreciation expense of $867.

(thousands of Canadian dollars, except per share amounts)

d) Deferred income taxes

Under Canadian GAAP, deferred tax assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified the amount of $232 from deferred income tax assets (current) to deferred income tax assets (non-current) as at March 31, 2010.

In addition, the Corporation recorded the tax impact on the IFRS adjustments for the restoration provision and property, plant and equipment disclosed above, which resulted to a decrease in deferred income tax liabilities of $96 as at March 31, 2010. For year ended March 31, 2010, the Corporation decreased its income tax expense by $143.

e) Coal royalties

Under Canadian GAAP the Corporation presented the Alberta coal royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government are considered a resource tax expense as payments to government should be classified in accordance with the substance of the transaction. The Corporation has determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales. The change of the classification of coal royalties had no impact on shareholders' equity at March 31, 2010, however it changed the presentation of the consolidated statements of income and comprehensive income for the twelve months ended March 31, 2010.

For the year ended March 31, 2010, the Corporation reclassified coal royalties of $1,847 from income tax expense to cost of sales.

f) Cost of sales

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

g) Finance expense

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

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

(thousands of Canadian dollars, except per share amounts)

Adjustments to the statement of cash flows

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

(III) Financial year ended 31 March 2010 and 31 March 2009 respectively:

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Grande Cache Coal Corporation

We have audited the accompanying consolidated financial statements of Grande Cache Coal Corporation, which comprise the consolidated balance sheets as at March 31, 2010 and March 31, 2009 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the years then ended, and the related notes which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Grande Cache Coal Corporation as at March 31, 2010 and March 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta

June 8, 2010 (except for note 21 which is dated February 10, 2012)

CONSOLIDATED BALANCE SHEETS
As at March 31
(thousands of Canadian dollars)

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

Commitments (note 12)

See accompanying notes to the consolidated financial statements.

(Signed) Robert G. Brawn
Chairman of the Board

(Signed) Nicholas G. Kirton
Director

CONSOLIDATED STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS
Years Ended March 31
(thousands of Canadian dollars, except per share amounts)

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31
(thousands of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009
(thousands of Canadian dollars, except per share amounts)

1. Nature of Operations

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

2. Significant Accounting Policies

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

Principles of Consolidation

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

Management Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

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

Inventory

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

(thousands of Canadian dollars, except per share amounts)

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

Mineral Properties and Development

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

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

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

Depreciation and Depletion

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

Asset Retirement Obligations

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

(thousands of Canadian dollars, except per share amounts)

Foreign Currency Translation

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

Financial Instruments

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

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

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

Revenue Recognition

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

Cost of Product Sold

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

Distribution

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

(thousands of Canadian dollars, except per share amounts)

Taxes

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

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

Stock-based Compensation

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

Reclassification

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

3. Recent and Upcoming Changes in Accounting Policies

Mining Exploration Costs

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

(thousands of Canadian dollars, except per share amounts)

Goodwill and Intangible Assets

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

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

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

Financial Instruments — Disclosures

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

Convergence with International Financial Reporting Standards

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

The Corporation's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation. With the assistance of third party advisers, the Corporation completed the diagnostic phase, which identified the key differences between the Corporation's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Corporation made significant progress in the evaluation and development phase including the following:

- Completed an assessment on the effects of adoption on key financial statement components;

- Made choices regarding alternatives available under first time adoption (IFRS 1);

(thousands of Canadian dollars, except per share amounts)

- Componentization of property, plant and equipment has been substantially completed;
- Prepared an assessment of changes to stock based compensation provisions and asset retirement obligations;
- Prepared draft financial statements that included IFRS presentation and disclosure requirements and conducted a review of these statements with the Audit Committee of the Board of Directors;
- Continued assessments of less critical IFRS transition issues;
- Continued training of key personnel and stakeholders;
- Maintained communication with the Corporation's independent external auditors.

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

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

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

4. Restricted Cash

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

(thousands of Canadian dollars, except per share amounts)

5. Accounts Receivable

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

6. Inventory

	As at March 31 2010	As at March 31 2009
Coal inventory	$ 27,986	$ 44,332
Materials inventory	6,013	5,468
Total	$ 33,999	$ 49,800

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

Materials inventory consists of parts, supplies and consumables, and is valued at the lower of average cost and net realizable value. The Corporation maintains an inventory of parts and supplies for day to day maintenance and operations. During fiscal 2010, parts and supplies inventories of $8,154 were expensed to cost of product sold compared to $7,364 in fiscal 2009.

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

(thousands of Canadian dollars, except per share amounts)

7. Capital Assets

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

	As at March 31, 2009		
	Cost	Accumulated depreciation and depletion	Net Book Value
Buildings and equipment	$ 107,954	$ 14,171	$ 93,783
Mineral properties and development	38,534	15,816	22,718
Capital leases	230	24	206
	$ 146,718	$ 30,011	$ 116,707

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

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

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

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

(thousands of Canadian dollars, except per share amounts)

8. Taxes

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

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

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

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

(thousands of Canadian dollars, except per share amounts)

9. Capital Lease Obligations

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

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

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

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

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

(thousands of Canadian dollars, except per share amounts)

10. Asset Retirement Obligations

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

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

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

11. Share Capital

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

Issued

(thousands)	Number	Stated Value
Common shares		
Balance — March 31, 2008	73,361	$ 154,676
Shares issued on exercise of warrants	10,846	17,354
Shares issued on exercise of options	2,280	5,013
Shares issued on conversion of convertible debenture	9,589	17,500
Share issuance costs	—	(2)
Balance — March 31, 2009	96,076	194,541
Shares issued on exercise of options	899	1,691
Balance — March 31, 2010	96,975	$ 196,232

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

(thousands of Canadian dollars, except per share amounts)

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

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

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

The following transactions occurred during fiscal 2009.

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

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

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

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

12. Commitments

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

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

(thousands of Canadian dollars, except per share amounts)

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

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

13. General and Administrative

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

14. Net Income per Share

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

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

15. Stock-Based Compensation

The Corporation has a share option plan for the benefit of directors, officers, employees and consultants, pursuant to which the Board of Directors or a committee thereof may from time to time grant options to purchase common shares. Share options granted under the plan may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors. The maximum number of shares authorized for option grants is limited to 10% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security based compensation arrangements.

(thousands of Canadian dollars, except per share amounts)

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

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

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

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

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

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

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

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

The fair value of each share option granted is estimated on the date of the grant using the Black-Scholes option pricing model, using an estimated volatility at the time of each grant between 42% and 150%, risk-free interest rates of 1.3% to 4.5% and an expected term of five years.

(thousands of Canadian dollars, except per share amounts)

Details of the share options outstanding are as follows:

(thousands of shares)	Number of Options	Weighted Average Exercise Price
Outstanding — March 31, 2008	5,218	$ 1.57
Granted	2,350	1.25
Cancelled	(672)	1.86
Exercised	(2,280)	1.30
Outstanding — March 31, 2009	4,616	1.50
Granted	175	5.27
Cancelled	(175)	7.29
Exercised	(899)	1.07
Outstanding — March 31, 2010	3,717	$ 1.51

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

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

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

(thousands of Canadian dollars, except per share amounts)

16. Revolving and Term Debt

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

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

17. Capital Management

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

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

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

18. Financial Instruments and Risk Management

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

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

(thousands of Canadian dollars, except per share amounts)

Fair value of financial instruments

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

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

The fair value of these financial instruments approximates their carrying amounts on the balance sheet due to the short periods to maturity and the terms of the financial instruments.

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

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

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

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

(thousands of Canadian dollars, except per share amounts)

Risk Management

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

Credit Risk

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

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

Grande Cache Coal is exposed to credit risk in the event that it does not receive payment of trade accounts receivable. The maximum credit risk exposure is equal to the carrying amount of trade accounts receivable as disclosed in the notes to the consolidated financial statements. The Corporation typically sells its product to large steel companies with high credit ratings. The Corporation does not consider any of the trade accounts receivable to be impaired or past due.

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

(thousands of Canadian dollars, except per share amounts)

Liquidity Risk

The Corporation is exposed to liquidity risk in the event that it would be unable to meet obligations associated with financial liabilities. The Corporation has a $28,000 operating credit facility that it can utilize for working capital purposes. The balance owing on the operating credit facility at March 31, 2010 was nil, however availability on the facility was reduced by approximately $2,332 due to the Corporation entering into foreign exchange forward contracts. At March 31, 2010, the Corporation had contractual obligations with estimated future minimum undiscounted amounts payable due as follows:

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

Market Risk

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

Foreign exchange rates

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

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

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

(thousands of Canadian dollars, except per share amounts)

The Corporation entered into a series of foreign exchange forward contracts that will mature by September 2010. At March 31, 2010, the Corporation had outstanding contracts to sell a total of US$5,000 at an average rate of Canadian dollars 1.155 to the US dollar and a total of US$48,000 at an average rate of Canadian dollars 1.065 to the US dollar. At March 31, 2010, these contracts were marked to market resulting in an unrealized foreign exchange gain of $3,024 that was recognized in the income statement and has been classified on the balance sheet as accounts receivable. Significant fluctuations in the US/Canadian dollar exchange rate could materially impact the Canadian dollar value of these contracts.

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

Interest rates

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

19. Economic Dependence

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

20. Subsequent Events

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

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

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

(thousands of Canadian dollars, except per share amounts)

21. Reconciliation to International Financial Reporting Standards

Basis of preparation

In fiscal years ended March 31, 2011 and prior, Grande Cache Coal Corporation ("Grande Cache Coal" or the "Corporation") prepared its annual consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), which required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. In this appended note to the consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Due to an arrangement agreement the Corporation entered into on October 31, 2011, the Corporation was required to reconcile its historical Canadian GAAP financial statements to IFRS for the fiscal years ended March 31, 2010 and March 31, 2009, as described below.

For purposes of the reconciliation, the policies applied are based on IFRS issued and outstanding as of March 31, 2011.

Transition elections

IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") requires full retrospective application of IFRS at the transition date, which for the purposes of this note is April 1, 2008 ("transition date"), with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions available under IFRS 1 are applied. The Corporation has elected to take the following IFRS 1 exemptions:

- IFRS 2 *Share-based Payment* has not been applied to any equity instruments granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before the transition date.

- The Corporation has elected to apply the exemption from full retrospective application of decommissioning and restoration provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Asset* ("IAS 37") and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. As a result, the Corporation has re-measured its asset retirement obligation as at April 1, 2008 in accordance with IAS 37 and re-measured the asset retirement cost included in property, plant and equipment by estimating the amount that would have been included in the cost of the related asset at the time the liability first arose, discounting the liability to date using the best estimate of the historical risk-free discount rate and calculating the accumulated depreciation on that amount up to the date of transition to IFRS.

(thousands of Canadian dollars, except per share amounts)

Fiscal year ended March 31, 2010

1) Reconciliation of equity

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

		As at March 31, 2010		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Assets				
Current assets				
Cash and cash equivalents		$ 87,436	$ —	$ 87,436
Restricted cash		13,499	—	13,499
Trade and other receivables		12,483	—	12,483
Inventories		33,999	—	33,999
Prepaid expenses and deposits		9,114	—	9,114
Deferred income tax assets	*d*	232	(232)	—
		156,763	(232)	156,531
Property, plant and equipment	*a, c*	176,200	687	176,887
Deferred income tax assets	*d*	—	232	232
		176,200	919	177,119
Assets classified as held for sale		4,735	—	4,735
		$ 337,698	$ 687	$ 338,385
Liabilities and equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 25,716	$ —	$ 25,716
Current portion of finance lease obligations		6,744	—	6,744
		32,460	—	32,460
Restoration provision	*a*	8,801	1,070	9,871
Finance lease obligations		27,515	—	27,515
Deferred income tax liabilities	*d*	18,102	(96)	18,006
		86,878	974	87,852
Equity				
Share capital		196,232	—	196,232
Contributed surplus	*b*	3,945	132	4,077
Retained earnings		50,643	(419)	50,224
		250,820	(287)	250,533
		$ 337,698	$ 687	$ 338,385

(thousands of Canadian dollars, except per share amounts)

	Notes	As at March 31 2010
As reported under Canadian GAAP		$ 250,820
Increase (decrease) in reported amount:		
Restoration provision	*a*	363
Property, plant and equipment	*c*	(650)
As reported under IFRS		$ 250,533

2) Reconciliation of income and comprehensive income

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

		Twelve months ended March 31, 2010		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Revenues		$ 232,530	$ —	$ 232,530
Cost of sales	*c, e, f, g*	(195,914)	(2,236)	(198,150)
Gross profit		36,616	(2,236)	34,380
General and administrative expenses	*b*	(9,960)	(167)	(10,127)
Other income (expenses)		242	—	242
Operating profit		26,898	(2,403)	24,495
Finance revenue		248	—	248
Finance expense	*a, g*	(1,017)	(183)	(1,200)
Foreign exchange gain (loss)		2,510	—	2,510
Profit before taxes		28,639	(2,586)	26,053
Income tax expense	*d, e*	(8,533)	1,990	(6,543)
Income and comprehensive income		$ 20,106	$ (596)	$ 19,510

(thousands of Canadian dollars, except per share amounts)

3) Explanatory notes

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

a) Restoration provision

IFRS does not have a specific accounting standard for restoration provisions. Under IFRS these provisions are included in IAS 37 — *Provisions, Contingent Liabilities and Contingent Assets*. IFRS is more encompassing in that it requires that constructive obligations be included in the recognition of a liability. IFRS also differs in that estimates of future cash flows use a discount rate that is no longer credit adjusted. On a go-forward basis, IFRS requires that the provision be re-measured at each reporting date.

The effect of the change to IFRS resulted in an increase to the restoration provision asset by $1,554 and an increase to the restoration provision liability by $1,070, resulting in a net of tax adjustment that increased equity by $363 as at March 31, 2010. For the year ended March 31, 2010, accretion of restoration provision decreased by $325 and depreciation expense on restoration provision asset increased by $30, as compared to Canadian GAAP.

b) Share-based payment

Under previous Canadian GAAP, the Corporation expensed share option awards granted to employees in an amount equal to the fair value of the equity instrument amortized on a straight-line basis over the respective vesting period. IFRS 2 *Share-based Payment* ("IFRS 2") requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS 2 requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has elected the IFRS 1 exemption and has not applied IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before April 1, 2008. The Corporation continues to use the Black-Scholes option pricing model to fair value its equity instruments.

The effect of the change to IFRS resulted in an increase to contributed surplus and a reduction to retained earnings at March 31, 2010 of $167 as well as an increase in share-based payments expense of $167 for the twelve months ended March 31, 2010.

c) Property, plant and equipment

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were expected from their use. Under IFRS, this derecognition of assets occurs at the component level. The Corporation recorded the significant parts or components of its PP&E and depreciated them separately, which resulted to a decrease in property, plant and equipment of $867 and a decrease in deferred tax liabilities of $217 as at March 31, 2010 as well as an increase in depreciation expense of $867.

(thousands of Canadian dollars, except per share amounts)

d) Deferred income taxes

Under Canadian GAAP, deferred tax assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified the amount of $232 from deferred income tax assets (current) to deferred income tax assets (non-current) as at March 31, 2010.

In addition, the Corporation recorded the tax impact on the IFRS adjustments for the restoration provision and property, plant and equipment disclosed above, which resulted to a decrease in deferred income tax liabilities of $96 as at March 31, 2010. For year ended March 31, 2010, the Corporation decreased its income tax expense by $143.

e) Coal royalties

Under Canadian GAAP the Corporation presented the Alberta coal royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government are considered a resource tax expense as payments to government should be classified in accordance with the substance of the transaction. The Corporation has determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales. The change of the classification of coal royalties had no impact on shareholders' equity at March 31, 2010, however it changed the presentation of the consolidated statements of income and comprehensive income for the twelve months ended March 31, 2010.

For the year ended March 31, 2010, the Corporation reclassified coal royalties of $1,847 from income tax expense to cost of sales.

f) Cost of sales

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

g) Finance expense

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

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

(thousands of Canadian dollars, except per share amounts)

Fiscal year ended March 31, 2009

1) Reconciliation of equity

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

		As at March 31, 2009		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Assets				
Current assets				
Cash and cash equivalents		$ 68,035	$ —	$ 68,035
Restricted cash		8,440	—	8,440
Trade and other receivables		15,153	—	15,153
Inventories		49,800	—	49,800
Prepaid expenses and deposits		965	82	1,047
		142,393	82	142,475
Property, plant and equipment	*a, c*	116,707	1,556	118,263
Deposit for future reclamation expenditures		82	(82)	—
		116,789	1,474	118,263
		$ 259,182	$ 1,556	$ 260,738
Liabilities and equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 13,130	$ —	$ 13,130
Deferred income tax liabilities	*d*	886	(886)	—
		14,016	(886)	13,130
Restoration provision	*a*	6,429	1,367	7,796
Deferred income tax liabilities	*d*	10,298	933	11,231
		30,743	1,414	32,157
Equity				
Share capital		194,541	—	194,541
Contributed surplus	*b*	3,362	(35)	3,327
Retained earnings		30,536	177	30,713
		228,439	142	228,581
		$ 259,182	$ 1,556	$ 260,738

(thousands of Canadian dollars, except per share amounts)

	Notes	**As at March 31 2009**
As reported under Canadian GAAP		$ 228,439
Increase (decrease) in reported amount:		
Restoration provision	*a*	142
As reported under IFRS		$ 228,581

2) Reconciliation of income and comprehensive income

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

		Twelve months ended March 31, 2009		
	Notes	**Cdn GAAP**	**Adj**	**IFRS**
Revenues		$ 248,628	$ —	$ 248,628
Cost of sales	*c, e, f, g*	(135,257)	(1,702)	(136,959)
Gross profit		113,371	(1,702)	111,669
General and administrative expenses	*b*	(7,086)	(210)	(7,296)
Other income (expenses)		304	—	304
Operating profit		106,589	(1,912)	104,677
Finance revenue		986	—	986
Finance expense	*a, g*	(574)	(93)	(667)
Foreign exchange gain (loss)		12,535	—	12,535
Profit before taxes		119,536	(2,005)	117,531
Income tax expense	*d, e*	(13,317)	2,049	(11,268)
Income and comprehensive income		$ 106,219	$ 44	$ 106,263

3) Explanatory notes

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

a) Restoration provision

IFRS does not have a specific accounting standard for restoration provisions. Under IFRS these provisions are included in IAS 37 — *Provisions, Contingent Liabilities*

and Contingent Assets. IFRS is more encompassing in that it requires that constructive obligations be included in the recognition of a liability. IFRS also differs in that estimates of future cash flows use a discount rate that is no longer credit adjusted. On a go-forward basis, IFRS requires that the provision be re-measured at each reporting date.

The effect of the change to IFRS resulted in an increase to the restoration provision asset by $1,556 and increased the restoration provision liability by $1,367, resulting in a net of tax adjustment that increased equity by $142. For the year ended March 31, 2009, accretion of restoration provision and depreciation expense on restoration provision asset decreased by $293 and $45 respectively, as compared to Canadian GAAP.

b) Share-based payment

Under previous Canadian GAAP, the Corporation expensed share option awards granted to employees in an amount equal to the fair value of the equity instrument amortized on a straight-line basis over the respective vesting period. IFRS 2 *Share-based Payment* ("IFRS 2") requires that each tranche with a different vesting date be accounted for as a separate option grant. In addition, IFRS 2 requires graded vesting be used in accounting for option expenses and requires the estimate of forfeitures. The Corporation has elected the IFRS 1 exemption and has not applied IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before April 1, 2008. The Corporation continues to use the Black-Scholes option pricing model to fair value its equity instruments.

The effect of the change to IFRS resulted in a decrease to contributed surplus and an increase to retained earnings at the date of transition of $245 and an increase to contributed surplus and a decrease to retained earnings at March 31, 2009 of $210. In addition, the Corporation recorded an increase in share-based payments expense of $210 for the year ended March 31, 2009.

c) Property, plant and equipment

Under previous Canadian GAAP, carrying amounts of property, plant and equipment ("PP&E") were derecognized when no future economic benefits were expected from their use. Under IFRS, this derecognition of assets occurs at the component level. The Corporation reviewed the significant parts or components of its PP&E as at the transition date and as at March 31, 2009, and determined that there was no IFRS adjustment necessary.

d) Deferred income taxes

Under Canadian GAAP, deferred tax assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IFRS requires that all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The Corporation reclassified the amount of $886 from deferred income tax liability (current) to deferred income tax liability (non-current) as at March 31, 2009.

(thousands of Canadian dollars, except per share amounts)

In addition, the Corporation recorded the tax impact on the IFRS adjustments for the restoration provision disclosed above, which resulted to an increase in deferred income tax liabilities of $84 as at March 31, 2009 and a decrease of $37 as at April 1, 2008,. For the year ended March 31, 2009, the Corporation recorded an increase in income tax expense of $84.

e) Coal royalties

Under Canadian GAAP the Corporation presented the Alberta coal royalty as a current tax expense on the income statement. IFRS requires judgment in determining whether royalties paid to government are considered a resource tax expense as payments to government should be classified in accordance with the substance of the transaction. The Corporation has determined that the current coal royalties payable to the Alberta Government will no longer be classified as a tax expense and has elected to classify them as a cost of sales. The change of the classification of coal royalties had no impact on shareholders' equity at March 31, 2009, however it changed the presentation of the consolidated statements of income and comprehensive income for the twelve months ended March 31, 2009.

For the year ended March 31, 2009, the Corporation reclassified coal royalties of $2,133 from income tax expense to cost of sales.

f) Cost of sales

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

g) Finance expense

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

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

Adjustments to the statement of cash flows

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

(B) SUPPLEMENTAL FINANCIAL INFORMATION OF THE TARGET

The Company sets out the following supplemental financial information of the Target, prepared under IFRS, which were not included in the Audited Consolidated Financial Statements.

1. Directors' Emoluments

Executive director

Executive director remuneration was as follows:

C$ thousands	Salary	Option-based awards	Annual incentive plans	All other compensation	Total compensation
For the six months ended September 30, 2011					
Robert H. Stan	233	—	151	32	416
For the fiscal year ended March 31, 2011					
Robert H. Stan	450	2,247	190	62	2,949
For the fiscal year ended March 31, 2010					
Robert H. Stan	350	—	210	50	610
For the fiscal year ended March 31, 2009					
Robert H. Stan	350	430	200	50	1,030

Non-executive directors

Fees paid to non-executive directors were as follows:

	For the fiscal year ended			For the six months ended
C$ thousands	March 31, 2009	March 31, 2010	March 31, 2011	September 30, 2011
Robert G. Brawn	72	70	62	80
Barry T. Davies	29	29	39	36
Donald J. Douglas	35	50	52	49
Nicolas G. Kirton	9	53	57	54
John R. Morgan	30	29	39	46
Donald. R. Seaman	22	—	—	—
	197	231	249	265

2. Five Highest Paid Employees

The five highest paid employees during the period included 1 (2011: 1; 2010: 1; 2009: 1) executive director, details of whose remuneration is set out above.

Details of the remuneration of the five highest paid employees for each period, including the 1 executive director, are as follows:

	For the fiscal year ended			For the six months ended
C$	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**	**September 30, 2011**
Salaries	969,375	955,417	1,270,000	670,000
Option-based awards	838,000	602,600	4,606,350	—
Annual incentive plans	338,000	527,000	585,000	435,500
Other compensation	142,506	141,150	185,369	98,036
	2,287,881	2,226,167	6,646,719	1,203,536

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	For the fiscal year ended			For the six months ended
HK$	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**	**September 30, 2011**
HK$1,000,001–HK$1,500,000	—	—	—	3
HK$1,500,001–HK$2,000,000	1	—	—	1
HK$2,000,001–HK$2,500,000	—	2	—	—
HK$2,500,001–HK$3,000,000	3	1	—	—
HK$5,000,001–HK$5,500,000	—	1	—	—
HK$6,500,001–HK$7,000,000	—	—	3	—
HK$8,000,000–HK$8,500,000	—	—	1	—
	4	4	4	4

3. Aging Analysis of Trade Receivable and Trade Payable

Aging of Trade Receivable

C$ thousands	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**	**September 30, 2011**
Not past due	13,899	7,384	27,131	11,069
	13,899	7,384	27,131	11,069

Trade receivable are non-interest bearing and are generally granted on less than 30 days terms.

Aging of Trade Payable

C$ thousands	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**	**September 30, 2011**
Not past due	3,374	5,949	9,812	10,688
Past due less than 1 month	1,599	5,740	4,292	2,635
Past due more than 1 month	726	1,898	1,085	535
	5,699	13,587	15,189	13,858

4. Wages and Employee Benefits Expense

(C$ thousands)	**For the six months ended September 30, 2011**	**For the fiscal year ended March 31, 2011**	**March 31, 2010**	**March 31, 2009**
Salaries and wages	27,865	44,268	34,381	30,287
Share-based payment	2,143	5,295	1,480	1,162
Other employee benefits	7,094	12,036	9,264	7,962
	37,102	61,599	45,125	39,411

5. Financial Position of Grande Cache Coal Corporation (on a non-consolidated basis)

The statement of financial position of Grande Cache Coal Corporation on a non-consolidated basis was as follows:

Grande Cache Coal Corporation
Statements of Financial Position

(in thousands of Canadian dollars, as at)	**September 30, 2011**	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**
Assets				
Current assets				
Cash and cash equivalents	$ 38,839	$ 17,136	$ 87,436	$ 68,035
Restricted cash	15,483	12,908	13,499	8,440
Trade and other receivables	12,395	31,287	12,483	15,153
Inventories	48,796	34,244	33,999	49,800
Prepaid expenses and deposit	1,076	399	9,114	1,047
	116,589	95,974	156,531	142,475
Property, plant and equipment	358,355	337,486	176,887	118,263
Deferred income tax assets	—	—	232	—
Investment in subsidiary	1	1	1	1
	358,356	337,487	177,120	118,264
Assets classified as held for sale	—	—	4,735	—
	$ 474,945	$ 433,461	$ 338,386	$ 260,739

(in thousands of Canadian dollars, as at)	**September 30, 2011**	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**
Liabilities and equity				
Current liabilities				
Accounts payable and accrued liabilities	$ 34,453	$ 29,496	$ 25,716	$ 13,130
Current portion of finance lease obligations	16,507	14,447	6,744	—
	50,960	43,943	32,460	13,130
Restoration provision	15,728	14,553	9,871	7,796
Finance lease obligations	61,027	64,390	27,515	—
Deferred income tax liabilities	37,171	27,897	18,006	11,231
Due from subsidiary	1	1	1	1
	164,887	150,784	87,853	32,158
Equity				
Share capital	199,930	199,810	196,232	194,541
Contributed surplus	10,614	7,831	4,077	3,327
Retained earnings	99,514	75,036	50,224	30,713
	310,058	282,677	250,533	228,581
	$ 474,945	$ 433,461	$ 338,386	$ 260,739

6. Particulars of the Sole Subsidiary of Grande Cache Coal Corporation

Grande Cache Coal Corporation has only one, dormant subsidiary, namely Smoky River International Inc.. It is an inactive wholly-owned subsidiary that was incorporated in Alberta, Canada. Its issued share capital is 200 shares at C$1 each.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF THE TARGET

The following is the management discussion and analysis of results of the Target for each of the three financial years ended 31 March 2009, 2010 and 2011 and the six months ended 30 September 2011 and 2010 respectively. The financials for the three financial years ended 31 March 2009, 2010 and 2011 are prepared under Canadian GAAP, while the financials for the six months ended 30 September 2011 and 2010 are prepared under IFRS. All data should be read in conjunction with the consolidated financial statements of the Target set out in Appendix II(A) to this circular and the reconciliations of the historical financials between Canadian GAAP and IFRS which are set out in Note 22 on pages II-35 to II-40 of this circular, Note 22 on pages II-66 to II-75 of this circular and Note 21 on pages II-100 to II-108 of this circular. All references are to Canadian dollars unless otherwise indicated.

Financial Overview

(C$ millions)	As at 30 September 2011	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
Balance Sheet				
Cash and cash equivalents	38.8	17.1	87.4	68.0
Total assets	474.9	433.2	337.7	259.2
Long-term liabilities	113.9	106.8	54.4	16.7
Shareholders' equity	310.1	282.5	250.8	228.4

	One year ended 31 March			Six months ended 30 September	
(C$ millions, except per share amounts)	2011	2010	2009	2011	2010
Statement of Income and Comprehensive Income					
Revenue	268.1	232.5	248.6	182.3	150.2
Cost of sales	197.3	176.9	126.0	132.0	120.5
Income/Profit from operations	34.7	26.7	106.3	42.2	23.4
Income and comprehensive income	27.7	20.1	106.2	25.4	17.4
Basic earnings per share	0.28	0.21	1.18	0.26	0.18
Diluted earnings per share	0.28	0.20	1.15	0.25	0.17

	One year ended 31 March			Six months ended 30 September	
	2011	2010	2009	2011	2010
Statistics					
Clean coal production (millions of tonnes)	1.41	1.74	1.31	0.86	0.70
Coal sales (millions of tonnes)	1.55	1.77	1.06	0.84	0.89
Average sales price (C$/tonne)	172	132	234	218	168
Average cost of product sold (C$/tonne)	101	72	85	117	93
Average distribution costs (C$/tonne)	26	28	34	26	27
Average cost of sales (C$/tonne)	127	100	119	143	120

Six months ended 30 September 2011

Revenue

Revenue for the first six months of the financial year ending 31 March 2012 ("fiscal 2012") was C$182.3 million on sales of 0.84 million tonnes of coal compared to revenue of C$150.2 million on sales of 0.89 million tonnes of coal in the same period of the financial year ended 31 March 2011 ("fiscal 2011"). Higher sales prices were the main contributor to the increase in revenue as the average sales price for the first six months for all coal products was C$218 per tonne, 30% higher than C$168 per tonne in the first half of fiscal 2011. The average selling price of metallurgical coal, which accounted for 86% of total sales volumes, was US$240 per tonne (C$233 per tonne) compared to US$169 per tonne (C$175 per tonne) in the same period of fiscal 2011. First quarter sales volumes were impacted by an equipment malfunction at Westshore Terminals in the latter part of June and shipping delays, which resulted in two vessel loadings (approximately 70,000 tonnes) being delayed until the first week of July.

The higher price during the first half of fiscal 2012 reflects an increase in quarterly contract price settlements due to higher demand partially offset by a portion of lower priced thermal coal and lower priced carryover tonnage from fiscal 2011. The average Canadian dollar sales price on US dollar denominated sales was impacted by a stronger Canadian dollar in relation to the US dollar as the average exchange rate for converting US dollars into Canadian dollars was 0.97 during the first half of fiscal 2012, compared to 1.03 in the first half of fiscal 2011.

Sales Volumes	**For the six months ended 30 September 2011**
Coal sales (millions of tonnes)	0.84
Sales by Geographic Region (%)	
Asia	24
Europe	34
Americas	42

Cost of Sales

Cost of sales for the first half of fiscal 2012 was C$132.0 million, or C$158 per tonne, compared to C$120.5 million, or C$135 per tonne in the first six months of fiscal 2011.

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

Other Income and Expenses

For the six months ended 30 September 2011, the Target's general and administrative expenses were C$8.4 million against C$6.3 million in the same period of last fiscal year, which consisted of head office administrative and marketing charges of C$6.3 million (fiscal 2011 — C$4.0 million) and share-based payment expense of C$2.1 million (fiscal 2011 — C$2.3 million).

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

For the first half of fiscal 2012, the Target's net foreign exchange loss was C$5.7 million versus a C$1.3 million net foreign exchange gain in the first half of the prior fiscal year. The net foreign exchange loss in the first half of fiscal 2012 was the result of a significant weakening of the Canadian dollar against the US dollar in the latter part of the period. In contrast, the Canadian dollar strengthened compared to the US dollar in the latter part of the period ended 30 September 2010 resulting in a net foreign exchange gain. The net foreign exchange loss in the period ended 30 September 2011, was largely unrealized and was the result of revaluing US dollar denominated lease obligations and foreign exchange forward contracts.

Taxes

Income tax expense was C$9.3 million for the first half of fiscal 2012, compared to C$6.6 million in the same period of last fiscal year. The increase in income tax expense in the current fiscal year was related to higher profit before tax.

Liquidity and Capital Resources

The Target's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure consists of cash and cash equivalents, finance leases and shareholders' equity. The Target also has an unused operating credit facility and the ability to enter into foreign exchange hedging arrangements.

The Target held cash and cash equivalents of C$38.8 million at 30 September 2011. Its cash position increased by C$21.7 million during the first six months of fiscal 2012 compared to a decrease of C$32.6 million in the same period last fiscal year.

For the first half of fiscal 2012, cash generated by operating activities before changes in non-cash working capital was C$60.4 million compared to C$41.1 million in the comparable period.

Fiscal 2012 financing activities resulted in a cash decrease of C$9.4 million during the first half of fiscal 2012, compared to a decrease of C$11.0 million for the six months ended 30 September 2010. Included in financing activities were payments towards finance lease obligations of C$7.2 million for the first half of fiscal 2012 (fiscal 2011 — C$10.2 million). Also included in financing activities were interest payments on finance lease obligations and a capital loan of C$2.3 million (fiscal 2011 — C$1.3 million) for the first half of fiscal 2012.

Investing activities for the six months ended 30 September 2011 led to a cash decrease of C$36.6 million, compared to C$52.3 million in the same period last fiscal year.

Investing activities during the first half of fiscal 2012 included capital asset additions to land and buildings (C$3.4 million), plant and equipment (C$5.5 million) and mineral assets (C$25.2 million). There was also an addition to restricted cash of C$2.5 million during the second quarter of fiscal 2012.

The Target has an agreement with HSBC Bank Canada to provide the Target with a credit facility up to C$29 million and the ability to enter into foreign exchange hedging arrangements. The credit facility contains covenants that require the Target 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. This credit facility is also secured by a general security agreement over all assets owned by the Target, which has been registered by the lender. On 9 September 2011, the Target entered into a series of foreign exchange forward contracts to sell a total of US$70 million at an average rate of 0.996 Canadian dollars. At 30 September 2011, foreign exchange forward contracts of US$60 million remained outstanding. These contracts settle in monthly installments of US$10 million per month, the last of which will mature by March 2012. The balance owing on the operating credit facility at 30 September 2011 was nil. The availability on the credit facility was reduced by approximately C$15.6 million due to the Target entering into foreign exchange forward contracts.

At 30 September 2011, the Target did not have any foreign currency net investments that were hedged by currency borrowings or other hedging instruments.

Interest accrues on the Target's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 per cent per annum, calculated daily. The Target did not have a balance owing on the operating credit facility at 30 September 2011.

The Target believes that its existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements during fiscal 2012. The Target expects that capital expenditures of approximately C$80 million during fiscal 2012 will be funded by existing cash and cash flow from operations.

The Target anticipates that sustaining capital expenditures during the financial year ended 31 March 2013 and 31 March 2014 will be approximately C$60 to C$80 million per year.

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

The Target did not have any off-balance sheet financing structures in place at 30 September 2011. At 30 September 2011, the Target had long term liabilities for restoration provision with a present value of C$15.7 million, deferred income tax liabilities of C$37.2 million and finance lease obligations of C$61.0 million. The Target's restoration provision is covered by letters of credit totaling C$15.3 million provided to the Alberta Government, which are presently secured by restricted cash.

The gearing ratio (calculated as total liabilities divided by total assets) of the Target at 30 September 2011 was approximately 34.7%, as compared to 28.7% at 30 September 2010.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Target has entered into multi-year agreements for the lease of coal properties, light vehicles, equipment and office space. Title to the assets under the capital leases remains with the lessors, and the lessors have registered claims against the related assets.

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

(C$ millions)	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1–3 years**	**4–5 years**	**After 5 years**
Operating Leases	3.1	0.9	1.4	0.6	0.2
Capital Leases	88.1	20.6	37.9	28.6	1.0
Total Contractual Obligations	91.2	21.5	39.3	29.2	1.2

Human Resources

As at 30 September 2011, the Target had 672 full-time employees, 30 of which were located at its head office in Calgary.

To maximize individual and corporate results, the Target has created a working environment that supports safety and motivates and rewards employees to be high performers and produce results. The Target's benefits package include: extended health care, basic and optional life insurance, dental, prescription and vision coverage and an employer and employee contribution savings plan. Certain employees are also eligible to participate in bonus programs which allow employees to earn up to a prescribed maximum of their annual salary based on achievement of company and individual goals.

New employees are provided with orientation and training, including important company policies and safety programs. Employees are provided with on-going training as part of a certification process, which includes assessment and testing.

Stock-Based Compensation

The Target has a share option plan pursuant to which outstanding share options of the Target granted prior to 17 August 2010 are governed. The options have a five year term and are subject to a three year vesting period. Total share-based payment expense included in general and administrative expenses for the three months ended 30 September 2011, was approximately C$0.7 million compared to C$1.7 million in the same period last fiscal year.

There were no share options granted during the first half of fiscal 2012.

Details of the common share options outstanding are as follows:

	First Half of Fiscal 2012		
	Number of Options (000's)		Weighted Average Exercise Price
Outstanding — 31 March 2010	3,717	C$	1.51
Granted	2,145		5.61
Forfeited	(148)		2.64
Exercised	(1,325)		1.54
Outstanding — 31 March 2011	4,389	C$	3.46
Forfeited	(34)		3.77
Exercised	(15)		4.48
Outstanding — 30 September 2011	4,340	C$	3.46

Fiscal 2011 compared with fiscal 2010

The Target earned net income of C$27.7 million, or C$0.28 per basic and diluted share, during the financial year ended 31 March 2011 ("fiscal 2011") compared to net income of C$20.1 million, or C$0.21 per basic share and C$0.20 per diluted share, in the financial year ended 31 March 2010 ("fiscal 2010"). Fiscal 2011 net income increased mainly due to higher metallurgical coal prices for the coal year commencing 1 April 2010, however the increase was offset somewhat by a decrease in sales volumes and an increase in operating costs. Fiscal 2011's income from operations was C$34.7 million, representing a 30% increase over C$26.7 million in fiscal 2010.

Revenue

The Target's fiscal 2011 revenue was C$268.1 million, up from C$232.5 million in fiscal 2010, reflecting higher coal prices in fiscal 2011. Coal sales volumes for fiscal 2011 were 1.55 million tonnes, down from 1.77 million tonnes in fiscal 2010, mainly as a result of lower production volumes.

Sales Volumes	**2011**	**2010**
Coal sales (millions of tonnes)	**1.55**	1.77
Sales by Geographic Region (%)		
Asia	**72**	81
Europe	**8**	5
North America	**20**	14

The average sales price for fiscal 2011 was C$172 per tonne, a 30% increase over C$132 per tonne in fiscal 2010. Metallurgical coal sales accounted for 91% of fiscal 2011's sales volumes and realized an average price of C$181 per tonne (US$178 per tonne). The remaining sales volumes related to thermal coal sales, some of which were sold in US dollars. The higher price during fiscal 2011 reflected an increase in contract price settlements, which were primarily being negotiated on a quarterly basis, offset by a portion of lower priced carryover tonnage from fiscal 2010. Fiscal 2010's coal prices were negatively impacted by the global economic slowdown when demand for metallurgical coal was low. The average Canadian

dollar sales price on US dollar denominated sales was affected unfavorably by a stronger Canadian dollar in relation to the US dollar as the average exchange rate was 1.02 in fiscal 2011, compared to 1.09 in the previous fiscal year.

Sales Prices	**2011**	**2010**
Average metallurgical coal sales price (US$/tonne)	**178**	125
Average exchange rate (1 USD = Canadian)	**1.02**	1.09
Average metallurgical coal sales price (C$/tonne)	**181**	137
Average thermal coal sales price (C$/tonne)	**77**	51
Average total sales price (C$/tonne)	**172**	132

Cost of Sales

Cost of sales for fiscal 2011 was C$197.3 million, or C$127 per tonne, compared to C$176.9 million, or C$100 per tonne in fiscal 2010. Included in fiscal 2011 was cost of product sold of C$157.0 million (C$101 per tonne) and distribution costs of C$40.3 million (C$26 per tonne). In fiscal 2010, the cost of product sold was C$127.2 million (C$72 per tonne) and distribution costs were C$49.7 million (C$28 per tonne).

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

The distribution unit cost was lower during fiscal 2011 due to a portion of the sales volumes being sold from the mine site, whereby the customer incurred the rail and port costs.

Other Operating Expenses

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

Depreciation, depletion and accretion charges were C$24.4 million in fiscal 2011 compared to C$19.0 million in fiscal 2010. The increase was primarily a result of additional capital assets and a one time depletion expense in fiscal 2011 to charge remaining No. 12B2 pit development costs to income.

Other Income (Expenses)

For fiscal 2011, the Target had a foreign exchange gain of C$6.8 million compared to a C$2.5 million gain in fiscal 2010. The increase was largely attributable to a favorable exchange on the Target's capital lease obligations due to a significant strengthening of the Canadian dollar against the US dollar.

Interest and other income was C$0.5 million in fiscal 2011 and in fiscal 2010 and consisted primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads and bridges belonging to the Target. Interest and other expenses were C$1.6 million in fiscal 2011 (fiscal 2010 — C$1.0 million) and consisted primarily of interest paid on capital lease obligations.

Taxes

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

Liquidity and Capital Resources

The Target's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure consists of cash and cash equivalents, capital leases and shareholders' equity. The Target also had an unused operating credit facility of up to C$28 million and the ability to enter into foreign exchange hedging arrangements.

The Target held cash and cash equivalents of C$17.1 million at 31 March 2011, a decrease of C$70.3 million from 31 March 2010. In fiscal 2010, the Target had an increase in cash position of C$19.4 million.

Operating activities during fiscal 2011 generated C$52.7 million in cash compared to C$73.7 million in fiscal 2010. Cash generated prior to changes in non-cash working capital was C$63.1 million in fiscal 2011, up from C$46.6 million in fiscal 2010, due in part to higher coal prices which led to an increase in net income. Changes in non-cash working capital included a C$19.2 million increase in accounts receivable, as a result of sales that occurred late in fiscal 2011, and an C$8.7 million decrease in prepaid expenses and deposits.

Financing activities resulted in a cash decrease of C$17.4 million during fiscal 2011, in contrast to a cash increase of C$3.3 million in fiscal 2010. Financing activities included payments towards capital lease obligations of C$21.8 million, as well as proceeds from a mortgage loan and the exercise of share options for C$2.4 million and C$2.0 million, respectively. In fiscal 2010, the Target entered into a sales-leaseback agreement for a Hitachi EX5500 hydraulic excavator, which resulted in cash proceeds of C$10.7 million, and made payments of C$8.4 million towards capital lease obligations.

Investing activities during fiscal 2011 led to a cash decrease of C$104.4 million, compared to C$53.2 million in fiscal 2010. Capital additions during fiscal 2011 totaled C$105.4 million (fiscal 2010 — C$47.2 million) and consisted of the additions to land, buildings and equipment of C$57.2 million (fiscal 2010 — C$35.3 million) and the development of mineral properties for C$48.2 million (fiscal 2010 — C$12.0 million), the majority of which related to No. 8 pit development. Expenditures for No. 8 pit development were higher than anticipated due to challenging operating, topographical and geological conditions.

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

The Target has an agreement with HSBC Bank Canada to provide the Target with a credit facility up to C$28 million, which can be utilized to meet financial liabilities, and the ability to enter into foreign exchange hedging arrangements. The credit facility contains covenants that require the Target 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. This credit facility is also secured by a general security agreement over all assets owned by the Target, which has been registered by the lender. The balance owing on the operating credit facility at 31 March 2011 was nil, however availability on the facility was reduced by approximately C$0.6 million due to the Target entering into foreign exchange forward contracts. At 31 March 2011, the Target had a series of foreign exchange forward contracts to sell a total of US$32 million at an average rate of 1.06. These contracts settle in monthly installments, the last of which was to mature by July 2011.

At 31 March 2011, the Target did not have any foreign currency net investments that were hedged by currency borrowings or other hedging instruments.

Interest accrues on the Target's operating credit facility at a rate equal to the prime lending rate or a US dollar base rate plus 1.00 per cent per annum, calculated daily. The Target did not have a balance owing on the operating credit facility at 31 March 2011.

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

The Target invests conservatively a portion of its cash in short-term, low risk term deposits with credit worthy financial institutions. The remainder of the cash balance is held with major financial institutions and is available for immediate use. Restricted cash is held with major financial institutions for the purpose of securing letters of credit and is invested in short-term guaranteed investment certificates. The Target is exposed to credit risk related to trade accounts receivable, however the Target typically sells its product to large steel companies with high credit ratings and does not consider any of the trade accounts receivable to be impaired or past due.

The majority of the Target's revenues from operations are received in US dollars while most of its operating expenses are incurred in Canadian dollars. The Target has taken certain steps to help mitigate foreign currency fluctuations, including entering into US dollar denominated capital lease obligations. The Target entered into this liability in US currency to provide a natural hedge against foreign exchange rate fluctuations on the trade accounts receivable.

Capital additions for the financial year ended 31 March 2012 ("fiscal 2012") are anticipated to be approximately C$80 million. This includes development expenditures for the surface and underground mining operations, upgrades and refurbishments at the process plant, employee housing projects and other sustainable capital expenditures. Capital expenditures are expected to be funded by existing cash and cash flow from operations. It is believed that the Target's existing cash, cash flow from operations and its operating credit facility will be sufficient to fund ongoing working capital requirements during fiscal 2012.

The Target anticipates that its coal inventory and coal production will be sufficient to meet anticipated coal sales volumes for fiscal 2012. At 31 March 2011, the Target had C$27.6 million in coal inventory, compared to C$28.0 million at the end of fiscal 2010.

The Target did not have any off-balance sheet financing structures in place at 31 March 2011. At 31 March 2011, the Target had long term liabilities for asset retirement obligations with a present value of C$14.2 million, future income tax liabilities of C$27.3 million and capital lease obligations of C$64.4 million. The Target's asset retirement obligations are covered by letters of credit totaling C$12.7 million provided to the Alberta Government, which are presently secured by restricted cash.

The gearing ratio (calculated as total liabilities divided by total assets) of the Target at 31 March 2011 was approximately 34.7%, as compared to 25.7% at 31 March 2010.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Target has entered into multi-year agreements for the lease of coal properties, light vehicles, equipment, buildings and office space. Title to the assets under the capital leases remains with the lessors, and the lessors have registered claims against the related assets.

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

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

Human Resources

As at 31 March 2011, the Target had 636 full-time employees, 24 of which were located at its head office in Calgary.

To maximize individual and corporate results, the Target has created a working environment that supports safety and motivates and rewards employees to be high performers and produce results. The Target's benefits package include: extended health care, basic and optional life insurance, dental, prescription and vision coverage and an employer and employee contribution savings plan. Certain employees are also eligible to participate in bonus programs which allow employees to earn up to a prescribed maximum of their annual salary based on achievement of company and individual goals.

New employees are provided with orientation and training, including important company policies and safety programs. Employees are provided with on-going training as part of a certification process, which includes assessment and testing.

Stock-Based Compensation

The Target has a share option plan pursuant to which the outstanding share options of the Target as at 17 August 2010 are governed. Total stock-based compensation expense included in general and administrative expenses for fiscal 2011 was C$3,033,000 compared to C$1,312,000 in fiscal 2010.

Details of the common share options outstanding are as follows:

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

Fiscal 2010 compared with fiscal 2009

Net income of the Target was C$20.1 million, or C$0.21 per basic share (C$0.20 per diluted share), during fiscal 2010 compared to net income of C$106.2 million, or C$1.18 per basic share (C$1.15 per diluted share) in the financial year ended 31 March 2009 ("fiscal 2009"). Fiscal 2010's net income was significantly reduced due to lower metallurgical coal prices for the coal year commencing April 1, 2009. However, the impact of lower pricing was mitigated somewhat by a significant increase in sales volumes and a considerable reduction in operating costs. Income from operations was C$26.7 million in fiscal 2010 versus C$106.3 million in fiscal 2009.

Revenue

The Target's fiscal 2010 revenue was C$232.5 million compared to C$248.6 million in fiscal 2009. The 6% decrease is primarily a result of lower sales prices, offset to a large extent by significantly higher sales volumes.

Fiscal 2010 sales volumes were 1.77 million tonnes, a 67% increase from 1.06 million tonnes sold in fiscal 2009. The increase in sales was driven by a recovery in the global economy which led to an increase in steel production, and consequently an increase in the demand for metallurgical coal. Sales to new customers in China accounted for virtually all of the increase in sales volume during the year. Overall, there

was also a moderate increase in demand from traditional Asian customers following a slow start to the year. Due to the large volume of sales into China the Target's sales by geographic region shifted to a much higher proportion in Asia.

Sales Volumes	**2010**	**2009**
Coal sales (millions of tonnes)	**1.77**	1.06
Sales by Geographic Region (%)		
Asia	**81**	42
Europe	**5**	32
North America	**14**	26

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

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

Sales Prices	**2010**	**2009**
Average metallurgical coal sales price (US$/tonne)	**125**	210
Average exchange rate (1 USD = Canadian)	**1.09**	1.11
Average metallurgical coal sales price (C$/tonne)	**137**	234
Average thermal coal sales price (C$/tonne)	**51**	—
Average total sales price (C$/tonne)	**132**	234

Cost of Sales

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

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

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

Other Operating Expenses

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

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

Other Income (Expenses)

The Target had a foreign exchange loss of C$0.5 million during fiscal 2010 compared to a gain of C$12.5 million in fiscal 2009. Fiscal 2009's foreign exchange gain was the result of a significant weakening of the Canadian dollar against the US dollar.

The Target recorded an unrealized foreign exchange gain of C$3.0 million (fiscal 2009 — C$nil) in fiscal 2010 relating to foreign exchange forward contracts.

Interest and other income was C$0.5 million in fiscal 2010, down from C$1.3 million in the prior year. Interest and other income consists primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads and bridges belonging to the Target.

Interest and other expenses were C$1.0 million in fiscal 2010 (fiscal 2009 — C$0.6 million) and mainly related to interest charges on capital leases.

Taxes

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

Liquidity and Capital Resources

The Target's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure consists of cash and cash equivalents, capital leases and shareholders' equity. The Target also had an unused operating credit facility of up to C$28 million and the ability to enter into foreign exchange hedging arrangements.

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

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

Financing activities resulted in a cash increase of C$3.3 million during fiscal 2010. In the third quarter, the Target entered into a sale leaseback agreement for an Hitachi EX5500 hydraulic excavator, that was purchased during the second quarter of fiscal 2010, resulting in cash proceeds of C$10.7 million. Payments towards capital lease obligations were C$8.4 million during the fiscal year and cash proceeds of C$1.0 million were received from the exercise of stock options. In fiscal 2009, warrants were exercised for cash proceeds of C$17.4 million and common share options were exercised for cash proceeds of C$3.0 million. The Target also made net repayments of C$5.0 million towards a revolving debt facility, which expired on 1 April 2009, bringing the balance to nil.

In March 2010, the Target amended its agreement with HSBC Bank Canada to provide the Target with an operating credit facility up to C$28 million and the ability to enter into foreign exchange forward contracts. The credit facility contains covenants that require the Target 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. This credit facility is also secured by a general security agreement over all assets owned by the Target, which has been registered by the lender. At 31 March 2010, the balance on the operating credit facility was nil and US$53 million of foreign exchange forward contracts were outstanding.

At 31 March 2010, the Target did not have any foreign currency net investments that were hedged by currency borrowings or other hedging instruments.

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

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

During fiscal 2010, the Target acquired mining equipment at a cost of C$47.2 million through capital lease arrangements, which included a fleet of eight Komatsu AC 830E haul trucks.

At 31 March 2010, the Target had C$28.0 million in coal inventory, compared to C$44.3 million at the end of the previous fiscal year.

The Target did not have any off-balance sheet financing structures in place at 31 March 2010. Long term liabilities of the Target include asset retirement obligations with a present value of C$8.8 million, capital lease obligation of C$27.5 million and future income tax liabilities of C$18.1 million. The Target's asset retirement obligations are covered by letters of credit totaling C$11.8 million provided to the Alberta Government, which are presently secured by restricted cash.

The gearing ratio (calculated as total liabilities divided by total assets) of the Target at 31 March 2010 was approximately 25.7%, as compared to 11.9% at 31 March 2009.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Target has entered into multi-year agreements for the lease of coal properties, light vehicles, equipment, buildings and office space. Title to the assets under the capital leases remains with the lessors, and the lessors have registered claims against the related assets.

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

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

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

Human Resources

As at 31 March 2010, the Target had 518 full-time employees, 18 of which were located at its head office in Calgary.

To maximize individual and corporate results, the Target has created a working environment that supports safety and motivates and rewards employees to be high performers and produce results. The Target's benefits package include: extended health care, basic and optional life insurance, dental, prescription and vision coverage and an employer and employee contribution savings plan. Certain employees are also eligible to participate in bonus programs which allow employees to earn up to a prescribed maximum of their annual salary based on achievement of company and individual goals

New employees are provided with orientation and training, including important company policies and safety programs. Employees are provided with on-going training as part of a certification process, which includes assessment and testing.

Stock-Based Compensation

The Target has a share option plan for the benefit of directors, officers, employees and consultants, pursuant to which its board of directors or a committee thereof may from time to time grant options to purchase common shares. Share options granted under the plan may have a term of up to ten years and are subject to vesting periods determined by the board of directors. The maximum number of shares authorized for option grants is limited to 10% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security based compensation arrangements.

Total stock-based compensation expense included in general and administrative expenses for fiscal 2010 was approximately C$1,312,000 (2009 — C$952,000) and was a result of options granted pursuant to the Target's share option plan.

Details of the common share options outstanding are as follows:

	Fiscal 2010			Fiscal 2009		
	Number of Options (000's)		Weighted Average Exercise Price	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of year	4,616	C$	1.50	5,218	C$	1.57
Granted	175		5.27	2,350		1.25
Forfeited	(175)		7.29	(672)		1.86
Exercised	(899)		1.07	(2,280)		1.30
Outstanding, end of year	3,717	C$	1.51	4,616	C$	1.50
Vested and exercisable, end of year	2,002	C$	1.37	1,708	C$	1.99

Fiscal 2009 compared with fiscal 2008

Net income of the Target in fiscal 2009 was C$106.2 million, or C$1.18 per basic share (C$1.15 per diluted share), compared to a net loss of C$15.5 million, or C$0.24 per basic and diluted share, in the financial year ended 31 March 2008 ("fiscal 2008"). Income from operations was C$118.8 million in fiscal 2009 versus a loss from operations of C$13.9 million in the comparable period.

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

Revenue

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

Sales Volumes	**2009**	**2008**
Coal sales (millions of tonnes)	**1.06**	1.65
Sales by Geographic Region (%)		
Asia	**42**	53
Europe	**32**	38
North America	**26**	9

The average sales price achieved in fiscal 2009 was US$210 per tonne representing a 144% increase over US$86 per tonne last fiscal year. The increase in price was primarily due to higher contractual sales prices for the coal year commencing 1 April 2008. At the time of negotiations, the global economy was strong and there was a high demand for steel and subsequently metallurgical coal. At the same time, there were concerns about the supply of metallurgical coal as other coal producers around the world encountered production issues primarily caused by flooding in Australia. As a result, all of the product sold during fiscal 2009 was hard coking coal and ranged in price from US$300 per tonne, for current coal year sales, to US$81 per tonne for carryover sales from the prior year. The product sales mix in fiscal 2008 included hard coking coal sales (87%) at an average price of US$89 per tonne and Pulverized Coal Injection (PCI) sales (13%) at an average price of US$68 per tonne.

In fiscal 2009, the stronger US dollar (USD) in relation to the Canadian dollar had a positive impact on the Target's financial results. On average, US$1 equaled C$1.11 in the current fiscal year compared to fiscal 2008 during which US$1 equaled C$1.03. The average Canadian sales price for USD denominated sales was C$234 per tonne in fiscal 2009 compared to C$89 per tonne in the comparable period.

Sales Prices	**2009**	**2008**
US$/tonne		
Average hard coking coal sales price	**210**	89
Average PCI coal sales price	**—**	68
Average sales price	**210**	86
Average exchange rate (1 USD = C$)	**1.11**	1.03
C$/tonne		
Average hard coking coal sales price	**234**	91
Average PCI coal sales price	**—**	70
Average sales price for $US denominated sales	**234**	89
Average thermal coal sales price	**—**	—
Average total sales price	**234**	89

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

Production Costs and Cost of Sales

The average clean coal production cost for fiscal 2009 was C$86 per tonne, compared to C$58 per tonne last fiscal year. The increase was caused by a higher strip ratio in the surface mine, a lower plant yield and higher mining input costs, especially for diesel fuel and contract labour. Additionally, the underground mine spent a higher proportion of time in development compared to fiscal 2008, which temporarily decreased coal production, increasing the unit cost.

In fiscal 2009, cost of sales were C$126.0 million (C$119 per tonne), versus C$141.3 million (C$86 per tonne) in the prior year. The cost of sales consisted of cost of product sold of C$90.4 million (C$85 per tonne) and distribution costs of C$35.6 million (C$34 per tonne). In the prior period, cost of product sold was C$96.2 million (C$59 per tonne) and the distribution costs were C$45.1 million (C$27 per tonne).

The increase in the unit cost of product sold in fiscal 2009 was a result of lower sales volumes combined with lower productivity in the underground mine, a lower plant yield and a higher surface mine strip ratio. In addition, mining costs were considerably higher during fiscal 2009. During fiscal 2009 a number of contractual service arrangements were terminated and replaced with the Target's employees and the pre-existing coal haul contractor was replaced with a new contractor. These measures resulted in additional transition costs but are expected to reduce operating costs going forward.

The increase in distribution costs in fiscal 2009 was primarily caused by the inclusion of fuel surcharges in the rail rates due to higher diesel fuel prices. Additionally, there were a higher proportion of shipments to eastern North America, which carry higher rail rates than shipments to port in western Canada. Also contributing to the higher distribution costs, but to a lesser extent, was an increase in demurrage charges due to a temporary shortage of available coal in the first few months of fiscal 2009.

Production Costs and Cost of Sales	**2009**	**2008**
Clean coal production (millions of tonnes)	**1.31**	1.42
Coal sales (millions of tonnes)	**1.06**	1.65
Average cost of production (C$/tonne)	**86**	58
Average cost of product sold (C$/tonne)	**85**	59
Average distribution costs (C$/tonne)	**34**	27
Average cost of sales (C$/tonne)	**119**	86

Other Operating Expenses

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

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

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

Other Income (Expenses)

Interest and other income in fiscal 2009 was C$1.3 million versus C$1.1 million in the prior year and consisted primarily of interest earned on restricted cash, interest earned on short term investments and access fees charged for the use of roads belonging to the Target.

Interest and other expenses were C$0.6 million in fiscal 2009, down from C$1.7 million in the prior period due to a reduction of interest being paid on the revolving and long term debt.

Taxes

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

Liquidity and Capital Resources

The Target's objective is to maintain a capital structure that will sustain ongoing operations, allow for capital expansion and provide returns to shareholders. The capital structure consists of cash and cash equivalents, capital leases and shareholders' equity. The Target also had an unused operating credit facility of up to C$25 million and the ability to enter into foreign exchange hedging arrangements.

The Target's cash position increased C$63.8 million during fiscal 2009 resulting in cash and cash equivalents of C$68.0 million at 31 March 2009. In the prior fiscal year, the Target's cash position decreased C$0.4 million to C$4.2 million.

Operating activities produced cash of C$86.0 million during fiscal 2009 compared to C$10.6 million in fiscal 2008. The increase in cash generation in fiscal 2009 was primarily related to the net income of C$106.2 million due to the substantial increase in the price of coal. In the prior year, the Target's C$15.5 million net loss was largely a result of reduced revenue due to lower contract sales prices and a weaker US dollar.

During the fourth quarter of fiscal 2008, the Target completed negotiations on credit financing with Brookfield Bridge Lending Fund Inc. ("Brookfield"), the Target's then existing senior lender. At closing, a C$17.5 million floating rate senior secured convertible debenture (the "convertible debenture") was issued to Brookfield and a secured revolving credit facility was entered into with Brookfield for an amount up to C$20.0 million (the "revolving facility"), subject to a borrowing base calculation. The proceeds from the convertible debenture were used to fully repay the Target's pre-existing term facility with Brookfield (C$10 million) and associated fees. The balance of the proceeds from the convertible debenture, as well as proceeds from the revolving facility, was used for general corporate purposes. During fiscal 2008, the Target made net repayments of C$10.0 million on the revolving facility bringing the balance to C$5.0 million at 31 March 2008. Additionally, common share options were exercised for cash proceeds of C$0.2 million.

During fiscal 2009, warrants were exercised for cash proceeds of C$17.4 million and common share options were exercised for cash proceeds of C$3.0 million. Pursuant to the terms of the convertible debenture, Brookfield converted C$17.5 million into 9.6 million common shares. The Target also made net repayments on the revolving debt facility of C$5.0 million bringing the balance to nil. The revolving debt facility with Brookfield expired on 1 April 2009.

In June 2009, the Target entered into an agreement with HSBC Bank Canada to provide the Target with a credit facility up to C$25 million and the ability to enter into foreign exchange hedging arrangements. The credit facility contains covenants that require the Target 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. This credit facility is also secured by a general security agreement over all assets owned by the Target, which has been registered by the lender.

At 31 March 2009, the Target did not have any foreign currency net investments that were hedged by currency borrowings or other hedging instruments.

Investing activities led to a cash decrease of C$45.1 million in fiscal 2009, compared to a decrease of C$34.6 million in the prior fiscal year. Capital additions in fiscal 2009 were C$45.2 million (fiscal 2008 — C$38.8 million) and consisted of the addition of equipment totaling C$36.9 million (fiscal 2008 — C$37.4 million) and the development of mineral properties of C$8.3 million (fiscal 2008 — C$1.4 million).

At 31 March 2009, the Target had C$44.3 million in coal inventory, compared to C$5.5 million at the end of the previous fiscal year.

The Target did not have any off-balance sheet financing structures in place at 31 March 2009. The only long term liabilities of the Target are asset retirement obligations with a present value of C$6.4 million and future income tax liabilities of C$10.3 million. The Target's asset retirement obligations are covered by a cash deposit of C$0.1 million and letters of credit totaling C$8.2 million provided to the Alberta Government, which are presently secured by restricted cash.

The gearing ratio (calculated as total liabilities divided by total assets) of the Target at 31 March 2009 was approximately 11.9%, as compared to 32.3% at 31 March 2008.

In order to ensure the continued availability of, and access to, facilities and services to meet operational requirements, the Target has entered into multi-year agreements for the lease of coal properties, light vehicles, equipment, buildings and office space. Title to the assets under the capital leases remains with the lessors, and the lessors have registered claims against the related assets.

The Target entered into an agreement with a property and development company to purchase condominium units for employees. At 31 March 2009, C$4.2 million remained owing on this commitment.

The Target entered into various purchase commitments for mining equipment. At 31 March 2009, remaining payments owing on the mining equipment totalled C$43.1 million, which included USD commitments of US$29.0 million.

Under contracts existing at 31 March 2009, future minimum undiscounted amounts payable under these agreements were:

(C$ millions)	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1–3 years**	**4–5 years**	**After 5 years**
Operating Leases	2.4	0.7	1.1	0.2	0.4
Capital Leases	47.3	47.3	—	—	—
Total Contractual Obligations	49.7	48.0	1.1	0.2	0.4

Human Resources

The Target had 404 full-time employees at 31 March 2009, 13 of which were located at its head office in Calgary.

To maximize individual and corporate results, the Target has created a working environment that supports safety and motivates and rewards employees to be high performers and produce results. The Target's benefits package include: extended health care, basic and optional life insurance, dental, prescription and vision coverage and an employer and employee contribution savings plan. Certain employees are also eligible to participate in bonus programs which allow employees to earn up to a prescribed maximum of their annual salary based on achievement of company and individual goals

New employees are provided with orientation and training, including important company policies and safety programs. Employees are provided with on-going training as part of a certification process, which includes assessment and testing.

Stock-Based Compensation

The Target has a share option plan for the benefit of directors, officers, employees and consultants, pursuant to which its board of directors or a committee thereof may from time to time grant options to purchase common shares. Share options granted under the plan may have a term of up to ten years and are subject to vesting periods determined by the board of directors. The maximum number of shares authorized for option grants is limited to 10% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security based compensation arrangements.

Total stock-based compensation expense included in general and administrative expenses for fiscal 2009 was approximately C$952,000 (2008 — C$1,575,000) and was a result of options granted pursuant to the Target's share option plan.

Details of the common share options outstanding are as follows:

	Fiscal 2009			Fiscal 2008		
	Number of Options (000's)		Weighted Average Exercise Price	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of year	5,218	C$	1.57	2,948	C$	2.07
Granted	2,350		1.25	2,470		1.01
Forfeited	(672)		1.86	(49)		4.13
Exercised	(2,280)		1.30	(151)		1.32
Outstanding, end of year	4,616	C$	1.50	5,218	C$	1.57
Vested and exercisable, end of year	1,708	C$	1.99	3,307	C$	1.89

Risk factors

Exploration, Development and Operating Risks

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

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

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

Volatility of Coal Prices

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

Project Development, Expansion Targets and Operational Delays

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

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

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

Dependence Upon the Steel Industry

Substantially all of the metallurgical coal that the Target 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 the Target. Similarly, if less expensive ingredients could be used in substitution for metallurgical coal in the integrated steel mill process, the demand for metallurgical coal would materially decrease, which would also materially adversely affect the Target.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. The recovery from the recession has been slow in various jurisdictions including in Europe

and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity process and to result in high volatility in the stock market.

Currency Risk

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

Dependence on Suppliers of Services and Products

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

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

Competition

The coal mining industry is competitive in all its phases. The Target competes with numerous other participants in the search for, and the acquisition of, coal properties and in the marketing of coal as well as for the recruitment and retention of qualified employees and other personnel. Target's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Marketability

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

Additional Funding Requirements

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

Work Stoppages and Dependence on Key Personnel

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

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

Governmental Regulations and Processing Licences and Permits

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

Permits and Permitting Process

The Target must obtain numerous permits, licences 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, licences 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, licences and approvals required by the Target 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 the Target's ability to conduct its mining operations or to do so profitably.

Reserve and Resource Estimates

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

Environmental Regulation and Liability

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

Uninsured Risks

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

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 the Target. In addition, there can be no assurance that income tax laws, royalty regulations and government incentive programs relating to the mining industry in other coal producing countries will not change to

favour the Target's competitors leading to reduced international coal prices and demand for coal products that the Target intends to produce.

Regulatory Efforts to Control Greenhouse Gas Emissions

The Target's business emits carbon dioxide during the production of metallurgical coal products which emit large quantities of carbon dioxide when consumed by end users. Carbon dioxide and other greenhouse gases are the subject of public concern and regulatory reporting.

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

In Alberta, the Climate Change and Emissions Management Act and the Specified Gas Emitters Regulation require certain existing large emitters (facilities, including coal processing facilities, that are releasing 100,000 tonnes or more of greenhouse gas emissions in any calendar year after and including 2003) to reduce their emissions intensity from a baseline emissions intensity by 2% annually to a maximum of 12% starting July 1, 2007. The regulation also outlines options for meeting reduction targets. Large emitters that are unable to reduce emissions intensity by the required amount in a given compliance period will be able to invest in an Alberta-based technology fund to develop infrastructure to reduce emissions and support research into innovative climate change solutions by paying C$15 per tonne into the technology fund for every tonne of emissions above their annual emissions limit. Alternatively, large emitters can purchase emissions offset credits generated by Alberta-based projects that have reduced greenhouse emission emissions. The Target does not currently own or operate a facility that is required to reduce its emissions intensity under the Climate Change and Emissions Management Act and associated regulations.

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

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

The Target intends to expand current levels of production, which will likely qualify the Target for the greenhouse gas intensity reduction requirement. The Target is engaged in upgrading processing plant operations, ongoing modernization of equipment, including the electrification of surface mining equipment, and efficiency improvements, which will have the effect of reducing greenhouse gas emissions intensity.

The primary source of greenhouse gas emissions in Canada is the use of hydrocarbon energy. The Target's operations depend significantly on hydrocarbon energy sources such as diesel fuel and natural gas to conduct daily operations, and there are typically no economic substitutes for these forms of energy.

Other than as described above, it is not yet possible to reasonably estimate the nature, extent, timing and cost of any federal or provincial government programs proposed or contemplated to control greenhouse gas emissions, or their potential effects on operations. Most of the Target's products are sold outside of Canada, and sales are not expected to be significantly affected by Canada's expressed goals. However, the broad adoption of emission limitations or other regulatory efforts to control greenhouse gas emissions by other countries could materially negatively affect the demand for coal, as well as restrict development of new coal projects and increase production and transportation costs.

Litigation

Legal proceedings may arise from time to time in the course of the Target'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 the Target in the future from time to time or the Target may be subject to another form of litigation.

Health and Safety

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

Title to Assets

The Target'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 the Target's claim which could result in a reduction or extinguishment of the revenue received by the Target.

Debt Instruments

The Target's operating credit facility of up to C$29 million with a Canadian chartered bank contains covenants that require the Target to meet certain financial tests and that restrict, among other things, the ability to incur additional debt, dispose of assets or pay dividends in certain circumstances. These restrictions limit the Target from paying dividends to shareholders.

Directors' and Officers' Conflicts of Interest

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

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma statement of financial position of the Enlarged Group prepared in accordance with Rule 4.29(1) and Rule 14.67(6)(a)(ii) of the Listing Rules (the "Unaudited Pro Forma Financial Information") to illustrate the effects of the Arrangement, as detailed in the "Letter from the Board" to this circular, as if the Arrangement had taken place on 30 June 2011.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Company as set out in the published annual report of the Company for the year ended 31 December 2010. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only.

The Unaudited Pro Forma Financial Information is based on:

- the unaudited consolidated statement of financial position of the Group as at 30 June 2011 as extracted from the Company's published interim financial report for the six months ended 30 June 2011 as mentioned in section B of "Financial information of the Group" in Appendix I;

- the audited consolidated statements of financial position of Grande Cache Coal Corporation ("GCC") and its subsidiaries (the "GCC Group") as at 30 September 2011 as extracted from the audited consolidated financial statements of GCC set out in Appendix II to this circular; and

- the pro forma adjustments as described below. A narrative description of the pro forma adjustments that are (i) directly attributable to the Arrangement and not relating to future events or decisions; and (ii) factually supportable, is summarised in the notes below.

The Unaudited Pro Forma Financial Information is also based on currently available information as well as a number of assumptions, estimates, and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Arrangement been completed on 30 June 2011 or any future date. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to give a true picture of the Enlarged Group's financial position or predict the Enlarged Group's future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the interim report of the Company for the six months ended 30 June 2011 and the annual report of the Company for the year ended 31 December 2010 as mentioned in the "Financial information of the Group" set forth in Appendix I to this circular, the audited consolidated financial statements of GCC set forth in Appendix II to this circular and the other financial information included elsewhere of this circular.

Unaudited pro forma statement of financial position of the Enlarged Group

	The Group as at 30 June 2011 HK$'000	The GCC Group as at 30 September 2011 CA$'000	The GCC Group as at 30 September 2011 HK$'000 Note (2)	Pro forma Adjustments HK$'000	Notes	The Enlarged Group HK$'000
Non-current assets						
Property, plant and equipment, net	645,783	358,355	2,791,585			3,437,368
Construction in progress	461,181	—	—			461,181
Lease prepayments	280,195	—	—			280,195
Intangible assets	229	—	—			229
Interest in a jointly controlled entity	363,378	—	—			363,378
Other investments in equity securities	270,571	—	—			270,571
Goodwill	—	—	—	5,601,025	*6*	5,601,025
Other non-current assets	459,841	—	—			459,841
Deferred tax assets	46,849	—	—			46,849
	2,528,027	358,355	2,791,585			10,920,637
Current assets						
Inventories	2,844,600	48,796	380,121			3,224,721
Trade and other receivables	3,674,855	12,395	96,557			3,771,412
Prepaid expenses and deposits	—	1,076	8,382			8,382
Restricted bank deposits	598,385	15,483	120,613			718,998
Cash and cash equivalents	5,763,157	38,839	302,556	(211,327)	*3*	2,664,331
				2,011,355	*4*	
				2,642,640	*5*	
				(7,671,062)	*6*	
				(172,988)	*7*	
	12,880,997	116,589	908,229			10,387,844

	The Group as at 30 June 2011 HK$'000	The GCC Group as at 30 September 2011 CA$'000	The GCC Group as at 30 September 2011 HK$'000 Note (2)	Pro forma Adjustments HK$'000	Notes	The Enlarged Group HK$'000
Current liabilities						
Secured bank and other loans	572,423	—	—	468,000	*5*	1,040,423
Trade and other payables	3,533,426	34,453	268,389			3,801,815
Current portion of finance lease obligations	—	16,507	128,590			128,590
Income tax payable	130,191	—	—			130,191
	4,236,040	50,960	396,979			5,101,019
Net current assets	8,644,957	65,629	511,250			5,286,825
Total assets less current liabilities	11,172,984	423,984	3,302,835			16,207,462
Non-current liabilities						
Secured bank and other loans	63,823	—	—	2,174,640	*5*	2,238,463
Deferred income	111,369	—	—			111,369
Interest-bearing borrowings	3,796,737	—	—			3,796,737
Provision	—	15,728	122,521			122,521
Finance lease obligations	—	61,027	475,400			475,400
Deferred tax liabilities	—	37,171	289,562			289,562
	3,971,929	113,926	887,483			7,034,052
NET ASSETS	7,201,055	310,058	2,415,352			9,173,410
CAPITAL AND RESERVES						
Share capital	5,022,288	199,930	1,557,455	(1,557,455)	*6*	5,022,288
Reserves	2,100,563	110,128	857,897	(211,327)	*3*	2,061,563
				(512,582)	*6*	
				(133,988)	*7*	
				(39,000)	*7*	
Total equity attributable to equity shareholders of the Company	7,122,851	310,058	2,415,352			7,083,851
Non-controlling interests	78,204	—	—	2,011,355	*4*	2,089,559
TOTAL EQUITY	7,201,055	310,058	2,415,352			9,173,410

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) On 31 October 2011, the Company entered into the Arrangement Execution Agreement with Marubeni Corporation to establish 1629835 Alberta Ltd. (the "Offeror Company") in which the Company holds 60% equity interest through its subsidiaries and Marubeni Corporation holds the remaining 40% equity interest through its subsidiaries. Pursuant to the Arrangement Agreement entered into between the Offeror Company and GCC on the same date, the Offeror Company has agreed to conditionally acquire the entire issued share capital of GCC for CA$10.00 per share (the "Share Acquisition Price") in cash. The pro forma adjustments reflect the effect of this transaction on the financial position of the Group as if the Arrangement had been completed on 30 June 2011 and the consideration was settled by the Group's cash at bank and in hand, cash from Marubeni Corporation as contribution from non-controlling interest and a non-revolving term credit facility of US$350,000,000 provided by Banks (see note 5).

The Arrangement is to be accounted for as a business combination in accordance with IFRS 3 Business Combinations ("IFRS 3"). Since the fair value of the identifiable assets and liabilities of the GCC Group at the date of completion may be substantially different from the net book value as at 30 September 2011, the actual goodwill arising from the Arrangement and any goodwill impairment (see note 6) may be different from the goodwill estimates as shown above. The adjustment to goodwill represents the excess of the fair value of the consideration over the fair value of net assets of GCC Group acquired. The final amount of goodwill will be determined based on the consideration payable by the Group and the fair value of the identifiable assets and liabilities of the GCC Group on the date of completion in accordance with IFRS 3 and any required goodwill impairment.

(2) For the purpose of this Unaudited Pro Forma Financial Information, the translations of CA$ and US$ into HK$ is carried out at the rates of CA$1 to HK$7.79 and US$1 to HK$7.8 respectively as mentioned in the "Definitions" of this circular. No representation is made that the CA$ and US$ amounts have been, could have been or may be converted to Hong Kong dollars or vice versa, at that rate.

(3) According to the Arrangement Agreement entered into between the Offeror Company and GCC and other relevant options surrender agreements to be entered into between GCC and eligible employees under GCC's share option plan, GCC will terminate its share option plan immediately prior to the completion of the Arrangement and all vested and unvested outstanding options will be eligible to be surrendered to GCC for settlement in cash equal to the Share Acquisition Price less applicable exercise prices. The total payment for the termination of GCC's share option plan is estimated to be CA$27,128,000 (approximately HK$211,327,000) based on GCC's share option schedules.

(4) According to the Arrangement Execution Agreement entered into between the Company and Marubeni Corporation, for the purpose of the Arrangement, Marubeni Corporation will subscribe for 40% equity interest in the Offeror Company and inject approximately CA$258,197,000 (approximately HK$2,011,355,000) through its subsidiaries into the Offeror Company prior to 28 February 2012.

(5) As disclosed in the paragraph "Financing for the arrangement" set forth in the "Letter from the Board" in this circular, the Offeror Company will partially finance the Arrangement by a credit facility provided by Banks. Pursuant to the Facilities Agreement entered into between the Offeror Company and Banks, it is estimated that the Offeror Company will obtain a USD senior secured loan amounting to US$350,000,000 with net proceeds from the loan of US$338,800,000 (approximately HK$2,642,640,000) after deducting arrangement fee of US$11,200,000 for the Arrangement.

(6) The total consideration of acquisition of the entire issued share capital of GCC is estimated to be CA$984,732,000 (approximately HK$7,671,062,000). The consideration is expected to be satisfied in cash.

For the purpose of Unaudited Pro Forma Financial Information, goodwill of approximately HK$5,601,025,000 arising from the Arrangement was derived from the estimated fair value of the consideration of CA$984,732,000 less the pro forma net assets as at 30 September 2011 of the GCC Group acquired totaling approximately CA$265,730,000 (approximately HK$2,070,037,000). The pro forma net assets of GCC Group as at 30 September 2011 is based on the financial information of GCC Group as at 30 September 2011 extracted from the audited consolidated financial statements of GCC set forth in Appendix II to this circular minus the payment for termination of GCC's share option plan (note 3) and transaction costs incurred by the GCC Group in respect of the Arrangement (note 7). The detailed calculation is set out below:

	CA$'000	**Equivalent of HK$'000**
Consideration (Cash)	984,732	7,671,062
Less: Net assets of the GCC Group	310,058	2,415,352
Payment for termination of GCC's share option plan (note 3)	(27,128)	(211,327)
Transaction costs incurred by the GCC Group in respect of the Arrangement (note 7)	(17,200)	(133,988)
		5,601,025
Represented by Goodwill		5,601,025

The actual fair values of the identifiable assets and liabilities of GCC Group at the actual date of completion may be different from the estimated fair value used in the preparation of the Unaudited Pro Forma Financial Information. Accordingly, the actual amount of goodwill may be different from the amount as adopted in this Unaudited Pro Forma Financial Information.

The directors have performed a preliminary review of impairment under IAS 36 "Impairment of Assets" regarding Goodwill and there is no indication of impairment charge necessary for Goodwill, with reference to the fact that the proposed consideration of CA$984,732,000 while the fair market value of GCC is in a probable range of between CA$527,000,000 and CA$1,200,000,000, with CA$860,000,000 being the preferred amount stated in the independent valuation report set out in Appendix VI to the Circular.

Once the directors complete their assessment of the impairment of goodwill (following completion of the transaction) in accordance with IAS 36, and update the calculation using information as at the relevant dates, an impairment charge, may be shown to be required and, therefore, the net amount of goodwill (after any such impairment charge) to be recorded in future published financial statements may differ materially from the amount included in the above Unaudited Pro Forma Financial Information.

(7) The transaction costs incurred by the Enlarged Group for the Arrangement are estimated to be HK$172,988,000 which consist mainly of the professional fees directly attributable to the Arrangement. HK$133,988,000 has been incurred by GCC and the remaining amount of HK$39,000,000 has been incurred by the Group.

(8) The Unaudited Pro Forma Financial Information does not include any adjustments that may be required if the termination fee of CA$100,000,000 described in the section headed Non-solicitation covenants and break fees on page 10 of the Circular were to become payable due to a delay in Winsway shareholder approval or any other circumstances that would require payment of the termination fee.

(9) The Directors have reviewed the Jonestown Research allegations described in the section headed Additional information on page 26 of the Circular and do not believe there is any merit to the allegations, accordingly, no adjustments have been made to the unaudited consolidated statement of financial position of the Group as of 30 June 2011 in preparing the Unaudited Pro Forma Financial Information.

(10) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2011 and GCC Group subsequent to 30 September 2011.

B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
Winsway Coking Coal Holdings Limited

13 February 2012

Dear Sirs

Winsway Coking Coal Holdings Limited (the "Company")

We report on the unaudited pro forma financial information ("the Pro Forma Financial Information") of Winsway Coking Coal Holdings Limited and its subsidiaries ("the Group") set out on pages IV-1 to IV-6 in Section A of Appendix IV to the shareholders' circular of the Company dated 13 February 2012 (the "Circular"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the entire issued share capital of Grande Cache Coal Corporation ("GCC") by entering into a joint venture with Marubeni Corporation might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in notes 1 to 10 on pages IV-4 to IV-6 of Section A of Appendix IV to the Circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial

information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2011 or any future date.

Opinion

In our opinion:

a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Company; and

c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully

Certified Public Accountants
Hong Kong

COMPETENT PERSON'S REPORT
GRANDE CACHE COAL CORPORATION

Alberta, Canada

Prepared For

WINSWAY COKING COAL HOLDINGS LIMITED

By

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh, Pennsylvania, USA

Report No. 3550.2
FEBRUARY 2012

John T. Boyd Company

Mining and Geological Consultants

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James W. Boyd

President and CEO
John T. Boyd II

Managing Director and COO
Ronald L. Lewis

Vice Presidents
Richard L. Bate
James F. Kvitkovich
Russell P. Moran
John L. Weiss
William P. Wolf

Vice President
Business Development
George Stepanovich, Jr.

Managing Director — Australia
Ian L. Alexander

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13 February 2012
File: 3550.2

Winsway Coking Coal Holdings Limited
Akara Building
24 DeCastro Street
Wickham's Cay 1, Road Town
Tortola, BVI

Attention: The Board of Directors

Subject: Competent Person's Report
Grande Cache Coal Corporation
Alberta, Canada

Dear Sirs:

This competent Person's Report (CPR) presents our independent technical review of the coal mining and related operations, and coal holdings of Grande Cache Coal Corporation (GCC). All work has been performed in accordance with reporting guidelines of The Stock Exchange of Hong Kong Limited (SEHK) and is intended to support a pending SEHK filing by Winsway Coking Coal Holdings Limited (Winsway) related to the purchase of GCC.

The GCC Western Canadian operations currently produce a nominal 1.5 million tonnes per annum (Mtpa) of predominately coking quality coal from both underground and surface mines. Coals are processed in the company's coal preparation facilities and then transported by rail to either Westshore Terminal (Vancouver, British Columbia), the primary export port, or to Thunder Bay port on the Great Lakes. Internal plans of GCC are to expand annual production to 3.5 million tonnes (Mt).

We wish to acknowledge the cooperation of GCC management and staff during the CPR assignment, for providing source data used in preparing this CPR, and for arranging and conducting site visits by John T. Boyd Company (BOYD) personnel.

Respectfully submitted:

JOHN T. BOYD COMPANY
By:

John T. Boyd II
President and CEO

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Attachment A: Curricula Vitae of the BOYD Project Team

GLOSSARY AND DEFINITIONS

ad	Air dried, as in coal quality reporting.
AENV.	Alberta Environment.
ASTM.	American Society for Testing and Materials
AUC	Alberta Utilities Commission.
AWN	Aseniwuche Winewak Nation.
BOYD	John T. Boyd Company.
Btu	British Thermal Unit.
CAPEX.	Capital expenditure(s).

Cash Operating Cost (or Cash Cost)	All cash costs directly associated with coal production, including, but not limited to, raw materials, salary and wages, labor benefits, power, repairs, coal processing, transport of coal from mine to loading point, general administrative expense, and selling expenses.
CN	Canadian National Railway
Coal Reserve	The economically mineable part of a Measured or Indicated Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.
Coal Resource	A concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics, and continuity of a Coal Resource are known, estimated, or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.
Coal Seam	Portion of the strata that contains solid fossil fuel.
Commercial Output	Saleable product from a particular mine, which may include varying proportions of raw and clean coals.
Competent Person	Person satisfying SEHK rules 18.21 and 18.22.
Competent Person's Report	Public report prepared by a Competent Person concerning Resources and/or Reserves in compliance with SEHK rules and reporting standards.
CPP	Coal Preparation Plant, facility used to process raw coal using mechanical washing or chemical methods.
CPR	Competent Person's Report.
CV	Calorific value, heat content of the coal seam.
d	Dry basis, as in coal quality reporting.
daf	Dry, ash free basis, as in coal quality reporting.

Dip	Angle that stratum makes with the horizontal.
EPEA	Environmental Protection and Enhancement Act.
ERCB	Energy Resources Conservation Board.
EUB	Alberta Energy and Utilities Board.
Face	An area of coal designated for extraction using LW mining.
Feasibility Study	In international practice, this study assesses in detail the technical soundness and economic viability of an undeveloped mining project and serves as the basis for the investment decision and as a bankable document for project financing. The study is based on a detailed mine plan and constitutes an audit of all geological, engineering, environmental, legal, and economic information accumulated on the project. Generally, a separate environmental impact study is required.
Fm	Formation.
FOB	Free-on-board, a mercantile term meaning that the seller is responsible for delivering goods to a specified location after loading to truck or rail, commonly used in coal price reporting.
FSI	Free Swelling Index.
FSR	Feasibility Study Report, the document produced as a result of a feasibility study as conducted by a Chinese design institute.
GAAP	Generally accepted accounting principles.
GCC	Grande Cache Coal Corporation.
Geology Type	Canadian sources include Geology Type in the general criteria to be used to assess coal resource and reserves. The two geologic types used to characterize the GCC coal deposits include: *Moderate* Deposits in this category have been affected to some extent by tectonic deformation. They are characterized by homoclines or broad open folds (wavelength greater than 1.5 km) with bedding inclinations of generally less than 30°. Faults may be present, but are relatively uncommon and generally have displacements of less than ten metres. Deposits in this category would include some deposits farther west in the Front Ranges of the Rocky Mountains, such as the Bullmoose deposit of northeastern British Columbia.

	Complex Deposits in this category have been subjected to relatively high levels of tectonic deformation. Tight folds, some with steeply inclines or overturned limbs, may be present, and offsets by faults are common. Individual fault-bounded plates do, however, generally retain normal stratigraphic sequences, and seam thickness have only rarely been substantially modified from their pre-deformational thickness. Most of the coal deposits in the inner Foothills and Front Ranges of western Alberta and British Columbia are included in this category. Examples include parts of the Smoky River Coalfield. Source: "A Standardized Coal Resource/Reserve Reporting System for Canada", Geological Survey of Canada, Paper 88–21, 1989.
GPS	Global Positioning System.
Gr.a.d	Gross value, air dried, as in coal quality reporting for calorific content.
Gr.d	Gross value, dry basis, as in coal quality reporting for calorific content.
HCC	Hard Coking Coal.
Hr	Hour.
Indicated Coal Resource	That part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed.
Inferred Coal Resource	That part of a Coal Resource for which tonnage, quality, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed, but not verified, geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability.
In-Place Resource	Coal resources in the ground, in situ or un-mined condition.
IPO	Initial Public Offering.
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

JORC Code	Australasian Code for Reporting of Mineral Resources and Ore Reserves.
Kcal/kg	Kilocalorie per kilogram, measure of coal heat content.
km	Kilometer.
kW	Kilowatt.
kV	Kilovolt.
LOM	Life-of-mine (mine plan).
m	Meter.
m^2	Square meter.
m^3	Cubic meter.
m^3/min	Cubic meter per minute.
m/s	Meters per second.
Marketable Reserves	Saleable coal product from Recoverable Reserves after accounting for mining and processing losses, where applicable.
Measured Coal Resource	That part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced sufficiently close to confirm geological and quality continuity.
Methane	A colorless, odorless, explosive gas (CH_4) typically associated with coal seams.
Mine Plan	The current documentation of the state of development and exploitation of a deposit during its economic life, including current mining plans. The study takes into consideration exploration data, quantity and quality of the minerals extracted, changes in economic viability due to changes in prices and costs, development of relevant technology, and environmental and other regulations.
Mining Rights	The rights granted by the relevant authorities to conduct mining activities within Canada, specifying owner of record, boundary coordinates, area, mining method, and term (validity period).
mm	Millimeter.
Mt	Million tonnes.

Mtpa	Million tonnes per annum.
Non-Cash Operating Cost (Or Non-Cash Cost)	All non-cash costs directly associated with coal production, including, but not limited to: depreciation, amortization, and financial expenses.
Normal Fault	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall.
OSD	Out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal mining process.
Outcrop	The part of the coal formation exposed to the surface.
Out-of-Seam	Non-coal material above and below the coal seam recovered during mining.
Overburden	Waste rock material overlying a coal seam.
Panel	An area of coal designated for extraction using the room and pillar system of underground mining.
Partings	Rock material within mineable coal seams usually extracted with the coal.
PCB	Polychlorinated bi-phenols.
PCI	Pulverized Coal Injection (coal product).
PCL	Programmable Logic Controller.
Pillar	In underground mining, it is the column of solid coal left behind for support.
Prefeasibility Study	The study that provides a preliminary assessment of the economic viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes accumulated geological, engineering, environmental, legal, and economic information.

Probable Coal Reserve	The economically mineable part of an Indicated and, in some circumstances, Measured Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, for example, tonnes per employee-year.
Proved Coal Reserve	The economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments that may include feasibility studies, have been conducted and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Qgr.d	Gross calorific value or higher heating value on a dry basis.
Qnet.ar	Net calorific value or lower heating value on an as-received basis.
Qnet.d	Net calorific value or lower heating value on a dry basis.
Railcar	Open-top cars (wagons) used to haul coal to the customers.
Raw Coal	Coal on an as-mined basis, which may be sold directly or processed if necessary.
Recoverable Coal	Portion of coal reserve available for mining exclusive of coal losses due to mining.
Recoverable Reserves	Proved and Probable reserves prior to adjustment for preparation plant yield. Refers to that portion of the in-place coal seam tonnage that can be recovered with the mining techniques specified in the feasibility or design study before OSD and coal processing considerations.
Recoverable Resources	Tonnage after mining recovery, mining dilution, and moisture gain factors have been applied. Tonnages are classified as resources because the mining rights have not been obtained.
ROM	Run-of-mine, the as-mined material as it leaves the mine, including the recoverable portion of the coal seam and OSD.
Reverse Fault	The hanging wall has moved upward along the fault plane relative to the footwall.

Saleable Product	May include varying proportions of raw and clean coal.
SEHK	The Stock Exchange of Hong Kong Limited.
SRCL	Smoky River Coal Limited.
Strike	The course or bearing of an inclined coal seam or stratum on a level surface; the direction of a horizontal line perpendicular to the dip.
Subcrop	Projected limit of mineral deposition where the coal seam outcrop is overlain by surface alluvial material (i.e., bed outcrop is obscured).
Tonne	Metric ton equal to 1,000 kilograms.
tph	Tonnes-per-hour.
UG	Underground.
VM	Volatile Matter, characteristic for coal quality reporting.
Wash Plant	Facility used to selectively remove undesirable waste from the ROM/raw coal using chemical and mechanical methods. Also known as a CPP.
Yield	The recovered product or saleable portion of the raw coal processed in a coal preparation plant relative to the total tonnes processed.
Winsway	Winsway Coking Coal Holdings Limited.

1.0 INTRODUCTION

1.1 Background

GCC is an established coal production and sales company with main offices in Calgary. Mining, related operations, and coal holdings are located in west-central Alberta Province. The general location of GCC lease holdings and operations is shown on Figure 1.1, following this text. The primary coal product being produced is a low volatile bituminous rank, Hard Coking Coal (HCC) for export sale through Westshore Terminal (British Columbia). Minor tonnages of thermal coal are also produced and future production will most likely include both semi-hard/semi-soft coking coal and pulverized coal injection (PCI) products. Internal GCC management plans are to expand operations and production from the current 1.5 Mtpa level to 3.5 Mtpa.

The following report describes the process BOYD used in estimating production schedules, mine plans, and economic modeling.

BOYD has been working for Winsway on the GCC project since June 2011. We first provided technical assistance and advisory services during the initial due diligence period. Much of our work during this initial period was largely subjective opinions to support Winsway's financial advisor, TD Securities (since disclosure of data by GCC was restricted by the company). This work was completed in October 2011; after which we were engaged to complete this CPR. Availability of GCC historical operating and other basic source data was resolved and BOYD received the full cooperation of GCC during this study. The effective date of this CPR is 31 October 2011 to correspond with the current operating data at the start of the project. Regarding Rule 18.05(2), BOYD is unaware of any material change that has occurred with active mining operations being performed by GCC since the effective date of this study According to Rule 18.24(2) submittal of this report to the SEHK must be completed by 31 March 2012.

There is a difference of opinion between GCC management and BOYD regarding the washing (throughput) capacity of the existing GCC coal preparation plant (CPP) after planned modifications are completed in FY 2013. GCC internal mine plans project 4.8 Mtpa of run-of-mine (ROM) will be processed in FY 2014. Based on historical plant performance statistics, plant age, and planned modifications to increase both throughput capacity and washing yield, BOYD opines that the nominal CPP capacity (after modifications) will be 3.6 Mtpa throughput after ROM processing in the rotary breaker. BOYD has independently opted to construct a new CPP which we believe provides a realistic view and more conservative compared to GCC management and their NI 43-101 projections.

Historical documents as well as previously submitted NI 43-101 reports by various consultants are available for public review on www.sedar.com. BOYD has used historic documents and available reports (NI 43-101) to understand the GCC operations. However, as required by JORC have independently derived mine plans, schedules, and cost models.

All dollar values are expressed in Canadian $'s (C$) unless otherwise noted.

1.2 Scope of Work

To achieve near term financing requirements, BOYD was directed by Winsway to use the following mine planning parameters:

1. Maintain a cash cost of C$150 per product tonne or less, during the initial three years.

2. Achieve a 2.5 Mtpa product coal production in FY 2014 and FY 2015.

3. Control capital investment requirements during the initial three years.

After FY 2014, BOYD's mine plan is to increase coal production to reach 3.5 Mtpa (product) in an expedited, but reasonable time frame. To achieve the longer term goal of 3.5 Mtpa, BOYD incorporates capital to construct a new nominal 300 tonnes per hour (tph) to 1,000 tph CPP.

The work plan relative to the CPR intended to utilize existing reports and geological and cost models to the extent possible while satisfying SEHK rules 18.21 and 18.22. This CPR provides BOYD's independent review and opinions regarding the following areas of study:

- ***Geology and Reserves***

  — Geologic complexity of the individual deposits.
  — Adequacy of existing exploration.
  — Quantitative estimates of recoverable resources/reserves were independently developed as part of the CPR.

- ***Coal Quality***

  — General quality characterization.
  — Compatibility to existing contracts and future markets.
  — Processing requirements and issues.
  — Qualitative estimates of estimated reserves by product type.

- ***Mine Operations***

  — Mining practices and technology.
  — Type and condition of equipment.
  — Employment levels.
  — Historical capital investment and operating costs.
  — Issues affecting future operations.

- ***Mine Plans***

  — Mine plans by Mine (Reserve) Area and mining method for a seven-year period.
  — Projected operating and capital costs.

- ***Environmental Review***

  — Current permit status.
  — Compliance of active mining operations.
  — Environmental liability review.
  — Mine closure cost.
  — Future permitting requirements.

- ***Risk Analysis (seven-year study period)***

To expedite completion of this CPR, it was mutually agreed between Winsway and BOYD to restrict our mine plan(s) to areas (pit shells) as previously developed by consultants to GCC. BOYD then completed independent modeling and mine planning to determine the extent of Joint Ore Reserves Committee of the Australasian Institute of Mining & Metallurgy (JORC) compliant reserves within each area.

Regarding forward coal pricing, Winsway directed BOYD to use forward coal pricing assumptions as developed by Wood Mackenzie, dated 31 October 2011, for Canadian HCC, semi-soft coking coal, and PCI coals. BOYD estimated By-Product thermal coal pricing based on actual discount to benchmark coking coal prices and carried forward that projection.

1.3 Forward-Looking Statement

Estimates of coal resources and reserves, as well as projections of coal mine output and associated costs, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: actual geologic conditions experienced during future mining varying from interpretations made using available exploration data, change or lack of development in key domestic and international markets; material changes in market prices, variances in execution of construction and mine plans, significant changes in projected materials, supplies, parts, and equipment; operating costs, and expenditures. Imposition of new national, provincial, and/or local government policies could affect future coal production. For example, increased environmental compliance and changes in regulatory oversight could result in reduced output and increased costs. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report. Comments on the risks inherent in the various operations are discussed in the appropriate sections.

1.4 Project Team

The BOYD project team has extensive professional experience in coal resource and mine evaluations. Section 18.21(1) requires that a Competent Person (CP) have a minimum of five years experience relevant to the style of mineralization and type of deposit under consideration …, and to the activity which the Mineral Company is undertaking. In addition, Section 18.21(2) requires that the CP be a member of good standing of a relevant Recognized Professional Organization (RPO) (or under JORC requirements be a member of a — Recognized Overseas Professional Organization [ROPO]). Key professionals for this project include:

Mr. Ronald L. Lewis — Chief Operating Officer and Managing Director, BS-Civil Engineering/Project Oversight

Mr. Lewis has over 40 years of experience in assessment and evaluation of coal mining companies, with specialized expertise in the areas of coal/mineral reserve estimation, opencut and underground mine analysis, and economic assessment of mining operations. He is a Registered Professional Mining Engineer within the United States and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the JORC Code.

Mr. Thaddeus J. Sobek — Senior Engineer — Senior Mining Engineer, BS-Civil Engineering/Project Manager and Surface Mining Analyst

Mr. Sobek has over 37 years of relevant experience in mining consultancy with a focus on surface mining including numerous coal projects involving moderate to complex geology (similar to GCC). Similar project locations have included: western Canada (in addition to GCC), Colombia (South America), Mongolia (Asia), and Indonesia. As a Registered Member of the Society of Mining, Metallurgy and Exploration, Inc., Mr. Sobek complies with RPO/RPOP requirements.

Mr. Sobek is the Project Manager and lead Competent Person in preparing the CPR.

Mr. Christian J. Breckenridge — Senior Engineer, BS-Mining Engineering/Underground Mining Analyst

Mr. Breckenridge has 16 years of mining industry experience in various project management and engineering capacities with focus on mine design, feasibility analysis, project construction management, and liability assessment. Projects have included evaluation of both underground and surface mining operations, with emphasis on longwall, room-and-pillar, highwall, contour, and area mining methods. Projects have included financial, operational, and geologic/reserve modeling efforts to assist with the development of forward-looking financially driven projections. Mr. Breckenridge is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person under the JORC code.

Mr. Robert J. Farmer — Director of Advanced Computer Services, B.Sc.-Mining Engineer/ Geologic Modeling and Resource/Reserve Estimation

Experienced mining engineer with extensive computer training in geologic modeling, resource and reserve estimation, underground and surface mine design, production scheduling, and financial modeling. Expertise in modeling coal, industrial minerals, base metals, and gold deposits and mines using Datamine, MaxiPit, MineScape, MineSight, SurvCADD, Vulcan, Whittle, XERAS, XPAC, and other software packages. A Competent Person as defined in the JORC Code and a Qualified Person (NI 43-101) in the preparation and reporting of coal resources and coal reserves. Mr. Farmer is a recognized expert in computerized geosciences modeling.

Mr. Farmer's role in preparation of the CPR included auditing and modifying as required the GCC geologic models, developing coal resource estimates and reserve estimates (Chapter 3 of CPR), and providing volumetrics used in the BOYD mine plan.

Mr. Thomas G. Simonetti — Senior Environmental Engineer, MS-Civil Engineer, BS-Biology/Environmental Review

Mr. Simonetti has over 31 years of professional experience in the domestic and international mining industry. Broad and varied background concentrated on environmental engineering as applied to mining. Experience in mine planning, reserves, economic analysis, regulatory permit preparation/acquisition, stormwater control, groundwater hydrology, erosion and sediment control, mine closure cost analysis, reclamation and restoration, acid mine drainage treatment design, reject storage area design, perpetual discharge analysis and mitigation, social and economic impact assessment, and environmental risk assessment considering US, EU, and World Bank guidelines.

Mr. Frank A. Hilty — Senior Mining Consultant, MBA-Finance, BS-Mining Engineer/Coal Preparation Plant Review and Market and Transport Analyst

Extensive experience with the review of coal supply agreements and their price adjustment mechanisms. Broad-based knowledge in coal preparation, market pricing of coal, economic analysis of mining ventures, and fuel planning.

Mr. Joseph G. Jandrasits — Senior Business Analyst-MBA-Finance/Minor in Accounting, MS-Mining Engineering, BA-Geology/Cost Analyst

Mr. Jandrasits has over 26 years of financial and management experience in the areas of accounting, auditing, financially analysis, planning, acquisitions, divestitures, and special projects along with an engineering background.

Curriculum vita of the BOYD project team are provided in Attachment A, following this report.

1.5 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. Our consultancy services have been provided on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Contract negotiations
- Market and transport analyses
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

BOYD also possesses extensive computer and software systems to evaluate resources, reserves, and mine plans including Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region of the US. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, China. Our website, www.jtboyd.com, has additional details.

We have extensive experience in preparing Competent Persons and Independent Financial Technical Review Reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of SEHK, London Stock Exchange (LSE), and NI 43-101 (Canadian Requirements), JORC Code, US Securities and Exchange (SEC) Rules, etc. We are familiar with the level of effort required by international investors and financial institutions.

Among our Chinese Initial Public Offering (IPO) projects, we represented Shenhua Group Corporation as their Technical Advisor for their successful IPO on the SEHK. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling, rail and ocean transport facilities, and economics. Shenhua Group Corporation's reserve holdings were evaluated according to JORC Code and SEHK Rule 18 requirements. We subsequently prepared four resource studies commissioned by Shenhua Group Corporation for material acquisition SEHK filings.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry. The coal mining operations of British Coal were successfully privatized. We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers, for SEC filings.

Our work in the Western Canadian coal fields began in the 1950s and continues today. Approximately 100 studies have been completed including reports on coal properties, which are now controlled by GCC.

1.6 Statement of Interests

In accordance with Rules 18,22(3) and (4), we acknowledge that Messrs. Farmer and Sobek or other members of the BOYD project team that has performed work associated with this CPR are not an officer, employee, or proposed officer of the issuer or any group, holding, or associated company of the issuer. BOYD is a privately owned consultancy firm with headquarters in the US. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation. BOYD has no ownership or shareholder interest in the target mines, or its respective assets. Additionally, BOYD officers (partners, if applicable) are not officers or proposed officers of any group, holding, or associated company of the issuer. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by Winsway, Consortium members, or other related parties.

1.7 Closing

In preparing this report, we have relied on data, including geologic models, operating data, and any other information as provided by GCC, GCC's consultant, and Winsway/Wood Mackenzie. We have assumed the first principle data (e.g., drill hole measurements, coal analyses, etc.) to be true and accurate. We have exercised reasonable care in reviewing the information provided. Our technical review has been completed in accordance with generally accepted standards and practices employed

in the international mining industry. Although we have compared key information provided by GCC with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. Our expertise is in technical and financial mining issues and BOYD is not qualified, nor do we represent that any of our findings include matters of a legal or accounting nature.

The ability of GCC, or any mine operator, to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, the securing of required approvals and permits in a timely manner, etc. Although we believe all findings and conclusions to be reasonable, we do not warrant this report in any manner, express, or implied.

While this report addresses technical (e.g., reserve, mining, etc.) and financial (operating costs, capital costs, revenues, etc.) issues, qualified legal expertise is required to verify existing exploration and mining rights to the various areas.

Additionally, according to Rule 18.13, the competent persons previously listed consent to the use of this CPR by Winsway and their Board of Directors as part of filing with the SEHK.

Following this page is Figure 1.1, Map Showing Grande Cache Coal Corporation.

Respectfully submitted,
JOHN T. BOYD COMPANY
By:

(Signature)

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Director of Advance Computer Services

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Ronald L. Lewis
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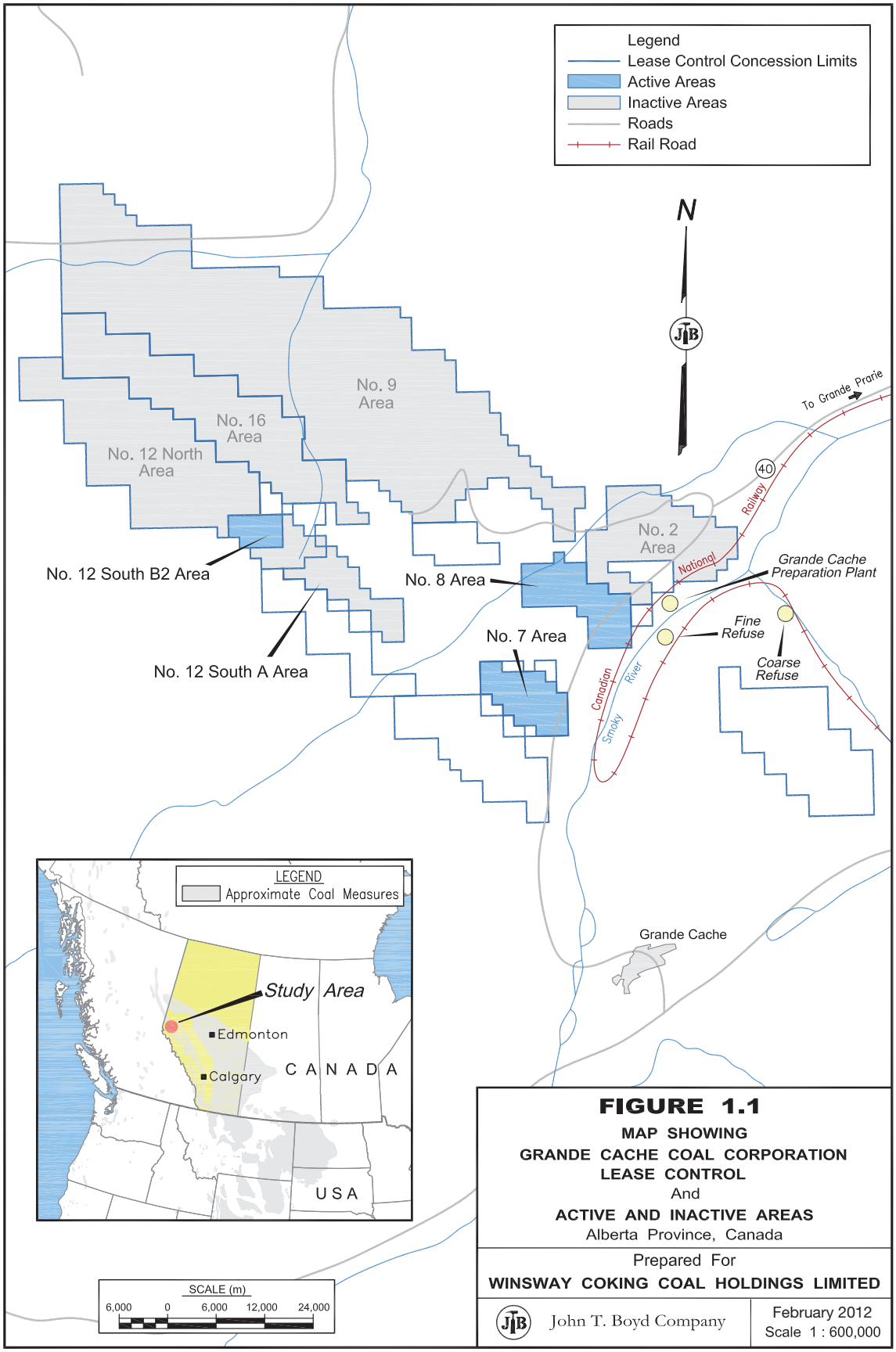


FIGURE 1.1

MAP SHOWING
GRANDE CACHE COAL CORPORATION
LEASE CONTROL
And
ACTIVE AND INACTIVE AREAS
Alberta Province, Canada

Prepared For
WINSWAY COKING COAL HOLDINGS LIMITED

John T. Boyd Company

February 2012
Scale 1 : 600,000

2.0 EXECUTIVE SUMMARY

2.1 Background

GCC is an Alberta based coal mining operation that primarily produces a metallurgical (coking) coal for the export market. GCC is listed on the Toronto Stock Exchange with corporate offices located in Calgary, Canada. GCC's coal holdings and coal mining operations are located in west-central Alberta, approximately 400 km west of the city of Edmonton and 20 km north of the town of Grande Cache. The property is accessed via Provincial Highway 40, a two lane, paved road which connects the project with the town of Grande Cache and with the communities of Grande Prairie to the north and Hinton to the southeast.

Coking coal from GCC is strategically located with established logistics and infrastructure. Saleable product is transported from the GCC rail loadout via the Canadian National Railway (CN) to either the Westshore Terminal (1,084 km) on the Pacific coast (British Columbia) for shipment to Asian customers, or minor tonnages are transported eastward to the Thunder Bay Terminal (1,538 km) on the Great Lakes for shipment to eastbound customers.

BOYD's assignment was to complete an independent CPR to be submitted to the SEHK as part of the finalization of the transfer of GCC ownership to the consortium assembled by Winsway. During our initial work efforts, GCC management limited our access to data available in the public domain, which, in turn, limited the scope of our technical due diligence review (previously submitted). For purposes of this CPR, additional information (in the form of geologic models and detailed costs) were provided the last week of October, with site visits during the first week of November 2011 to observe current operations, discuss GCC forward plans, and obtain any additional information needed to complete this CPR.

In order to complete this CPR within the time frame specified by Winsway, BOYD utilized existing geologic models to establish initial pit shells (resource boundaries) for each mine area and existing GCC internal economic models. We have independently completed mine plans and schedules as required for JORC compliant reserve statements, and have reviewed and revised the economic models based on our revised production schedule. This CPR provides forward mine plans (production, capital expenditure [CAPEX], and cash mine site operating cost projections) for a seven-year period. BOYD has completed a life-of-mine (LOM) plan for the purposes of our Valuation Report, which will be submitted under separate cover.

GCC operates on a fiscal year (FY) basis ending 31 March. Historic and forecast information is presented on a FY basis, unless otherwise noted.

The following text provides our CPR summarized findings, opinions, and recommendations.

2.2 Resources and Reserves

2.2.1 Introduction

The assumptions and parameters used in the preparation of BOYD's estimates of coal resources and reserves are based on our independent professional opinions. These opinions are the result of our thorough review of the information provided to us and our considerable experience with similar coal deposits and mining operations in western Canada and throughout the world. We consider the estimates reasonable, realistic and supportable. The BOYD professional staff responsible for preparing this CPR are recognized experts in their fields and qualify as Competent Persons under the requirements of the JORC Code.

2.2.2 Operations

The project consists of the active and planned mining operations listed in the following table:

Mine Area	Mining Method	Operating Status
No. 2	Surface	Planned
No. 7	Underground	Active
No. 8	Surface	Active
No. 12 North	Surface	Planned
No. 12 South A	Surface	Planned
No. 12 South B2	Underground	Active
No. 16	Surface	Planned

2.2.3 Geology

The geologic setting or nature of the coal deposits controlled by GCC is judged to vary from moderate to complex. The active and planned mining areas reviewed are located within the Smoky River coal field. Coal seams of economic interest occur in the Lower Cretaceous-aged Grande Cache Member of the Gates Formation. There are seven coal seams that are considered to be economically mineable within defined reserve areas, including the Nos. 4 through 8, 10 and 11 seams.

2.2.4 Resources

The BOYD estimate of in-place coal resources controlled by GCC, as of 31 October 2011, is shown in the following:

	In-Place Resources (Mt) by Classification				
	Measured	Indicated	Measured + Indicated	Inferred	Total
Surface Mining Areas:					
No. 8	9.9	26.9	36.8	12.9	49.7
No. 12 South A	8.7	11.7	20.4	2.5	22.9
No. 2	10.0	16.9	26.9	10.7	37.6
No. 16	12.5	18.0	30.5	2.8	33.3
No. 12 North	26.2	21.7	47.9	3.0	50.9
Total-Surface Areas	67.3	95.2	162.5	31.9	194.4
Underground Mining Areas:					
No. 7	0.2	—	0.2	0.7	0.9
No. 12 South B2	8.4	3.2	11.6	—	11.6
Total-Underground Areas	8.6	3.2	11.8	0.7	12.5
Grand Total	75.9	98.4	174.3	32.6	206.9

Commonly, it would be reasonable to expect that the majority of Inferred Coal Resources would upgrade to Indicated Mineral Resources with continued exploration. However, due to the uncertainty of Inferred Coal Resources, it should not be assumed that such upgrading will always occur.

The estimates of coal resources stated above have been prepared in accordance with the JORC Code.

GCC has identified additional coal bearing areas in their license boundaries that have not been modeled and may require additional exploration prior to being considered within any of the JORC categories.

2.2.5 Reserves

Our estimate of the Probable Reserves controlled by GCC, as of 31 October 2011, is summarized in the following:

	Probable Reserves (Mt)		
	In-Place	**ROM**	**Saleable**
Surface Mining Areas:			
No. 8	24.2	23.9	16.9
No. 12 South A	10.7	10.5	7.8
No. 2	14.5	14.3	10.5
No. 16	24.8	24.0	16.2
No. 12 North	44.8	43.7	30.8
Total-Surface Areas	119.0	116.4	82.2
Underground Mining Areas:			
No. 7	0.2	0.2	0.1
No. 12 South B2	10.4	8.3	5.8
Total-Underground	10.6	8.5	5.9
Grand Total	129.6	124.9	88.1

The preceding estimates of coal reserves have been prepared in accordance with the JORC Code.

Oxidized outcrop coals are recovered where of acceptable quality, stockpiled and sold on a raw coal (unwashed) basis. All remaining (unoxidized) ROM coals are selectively mined and stockpiled by quality, after passing through the rotary breaker raw coals of an acceptable quality by-pass the CPP and report to the product coal stockpile. Remaining raw coal from the rotary breaker are mechanically washed on the onsite CPP with the washed coal reporting to the product coal stockpile. GCC currently produces a HCC product. Average product coal quality for the last four years is shown below:

	Product	
	Metallurgical	**Thermal**
Moisture (%)	9.0	7.8
Ash (%)	8.8	16.9
Volatile Matter (%)	17.6	15.8
Sulfur (%)	0.4	0.4
FSI	5.3	0.3

2.2.6 Coal Quality

In general, the rank of the GCC coal reserves can be categorized as low-volatile bituminous based on the American Society for Testing and Materials (ASTM) coal classification system.

The in-seam raw coal quality is reported as follows:

Characteristic	**Typical Range**
Ash % (adb)	11.5 to 37.4
Volatile Matter % (adb)	14.5 to 20.5
FSI	1.8 to 5.8

2.3 Underground Mine Operations

2.3.1 Background

The Smoky River Coal Basin is a mature mining area, where significant mining activity has occurred for several decades. In the last 10 years, underground mining operations have been planned, implemented, and exhausted in the course of normal operations by GCC. While underground mining activities in the region are well known, there has not been the propensity of underground mines when compared to regional surface mining operations. GCC's underground operations represent a large portion of all underground mining in Canada. As a result, it is critical for GCC to retain their key underground mining staff as well as continue to recruit and develop a new replacement workforce. Retention and development of personnel having specialized underground skills, such as mechanics, electricians, and managers, should remain a priority during any corporate transition.

2.3.2 Historical Cash Costs

Underground mining cash costs estimates have been developed based on BOYD's review of recent historical quarterly and monthly cost statements and our independent experience and judgment. Summarized production costs have been provided for FY 2009, 2010, 2011, and year-to-date (YTD) 2012. Detailed production costs have been provided for FY 2010, 2011, and YTD 2012. We have not independently audited the cost statements, but have studied their variability in conjunction with historical production trends, and available underground mine mapping. Historical underground direct mining costs on a ROM basis range between $30.07 and $46.44 per ROM tonne on a quarterly basis from FY 2009 through FY 2011, and have averaged $42.30 per ROM tonne during this same period. Based on BOYD's projections of mining costs, future direct mining cash cost is expected to average $34.13 per ROM tonne over the next seven years. These production costs are dependent on the cycle of multiple production units in development and depillaring type operations, and by mine(s) being operated in any given year.

2.3.3 Future Mines

An engineered mining plan for the No 12 South B2 underground mine, supported with corresponding geological models has been developed by GCC's underground management team. This offers the most appropriate basis for projecting future performance. The GCC technical staff, with the assistance of their technical consultants, have prepared and publicly presented long-range underground mining plans for the No. 7/8 Seam and No. 4 Seam respectively. Tonnage, revenue, and cost figures provided by GCC were reviewed and considered as the starting point in the BOYD cost analysis. Considering the implementation of the new mining methods, a 15% to 20% increase in production could be achieved, on average. The cost and production projections developed by BOYD for this report, while being variable, account for these added efficiencies. Achieving a ROM production in excess of 900,000 ROM tonnes per year is considered reasonable. This would allow the operations to increase to a 75,000 tonnes per month (0.9 million ROM tonnes per annum [tpa]) for the aggregate production from multiple operating sections.

Future development of an additional underground mine, No. 12 South A7, is anticipated by GCC, and would be needed by 2023, as a replacement underground production source for the No. 12 South B2 Mine. While GCC has not identified these reserves in recent NI 43-101 reports, they have verbally indicated that the resource is reasonably available. The resource is expected to be included in future reserve and resource reports once additional reserve analysis have been performed, and detailed mining plans and projections have been developed. Neither GCC nor BOYD has developed detailed mining plans for this future underground mining area, and as such, the inclusion of the production in a LOM plan is regarded as hypothetical at this time. It is BOYD's opinion that the addition of a follow-up underground mine is important to alleviate expansion issues for the surface mines at that time. The availability of existing underground equipment from the depleted No. 12 South B2 (No. 4 Seam) Mine in FY 2023 will be a key asset to economically support the development of the proposed underground operation. BOYD regards the new underground mine as the most realistic opportunity to perpetuate the current production scheme.

2.4 Surface Mine Operations

2.4.1 Surface Mine Areas

BOYD's independent review of the surface mining operations was based on an evaluation of LOM plans. Surface mine operations and status are summarized as follows:

Mine Area	Status
No. 8 Pits	Permitted, Licenses and currently active.
No. 2 Pit	Permit application pending with pit anticipated to be in production by FY 2014.
No. 12 South A Pit	Permit application pending with pit anticipated to be in production by FY 2015.
No. 16 Pit	Mine plan re-designed based on updated exploration results; application pending completion of mine plan. Anticipated production start date is FY 2020.
No. 12 North Pits	Additional drilling required and no applications have been made at this time. Anticipated production start date is FY 2022 to FY 2026.

2.4.2 Equipment Complement

GCC employs truck and shovel mining equipment and methods which are typical of open pit coal mines. The company has recently updated its surface mining fleet to enable the planned increase in production rates. Equipment types currently employed are:

- Large 36 m^3, 27 m^3 and 21 m^3 shovel/excavators.
- Rear dump trucks with 220-tonne and 90-tonne capacity.
- Blast hole drills, 35 cm diameter.
- Track dozers for coal cleaning, shovel support, as well as road and waste dump construction.
- Road graders for haul road construction and maintenance.
- Front-end loaders (20 m^3) for coal loading and back-up for shovels.
- Backhoes for coal cleaning and ditching for water control.
- Miscellaneous support equipment to maintain a 24/7 operation.

GCC has upgraded their equipment fleet over the last several years with the acquisition of approximately $135 million in equipment.

2.4.3 Workforce

The operations workforce is unionized and represented by the United Mine Workers of America (UMWA). The current five-year labor contract is scheduled to expire 16 May 2015. Average annual contractual wage increases are between 2.5% and 3.0% over the remainder of the contract. The following table shows Surface Mine and Other Operational workforce by department:

Department	**No. of Personnel**
Surface Operations	181
Coal Haul	21
Surface Maintenance	79
Warehouse and Purchasing	11
Env. Health & Safety (EH&S)	22
Accounting and Information Technology	7
Engineering	21
Human Resources	7
Senior Management	11
Calgary (corporate)	29
Total	389*

* *Plant and underground workforce consists of 247 employees and is discussed in their respective chapters.*

Annual employee turnover ranges between 24.9% to over 31%, which is excessive and will directly result in lower productivity, continual safety issues with a young inexperienced work force, and ultimately increased production costs. Remedies by GCC management being investigated and attempted are:

— Providing affordable housing by constructing company condominiums.
— Developing a 7-day on and 7-day off (or 10-day on and 10-day off) rotation.

2.4.4 Historic Production

Surface mine production has been consistent since GCC has restarted operations and produced approximately 1.4 Mt in FY 2011. Historic production beginning in FY 2009 is summarized as follows:

		FY			
Category	**Units**	**2009**	**2010**	**2011**	**2012 (6 months)**
Operating Days		363	348	363	183
Waste Material Moved	bcm*-000	7,045	7,129	13,919	11,604
ROM Mined	tonnes-000				
Met	ROM	1,379	1,254	1,145	722
Thermal		2	149	207	99
Total		1,381	1,402	1,352	821
ROM Strip Ratio		5.1	5.1	10.3	14.1
Production Metrics					
Waste Mined	bcm/day	19,407	20,486	38,345	63,407
ROM Mined	ROM tonne/ day	3,805	4,030	3,725	4,487

Note: GCC does not report the net product tonnes of production for the individual mine or by mining method.

* *Bank cubic meters.*

GCC has experienced production related issues in an attempt to increase production (FY 2012). It is our opinion, based on discussions with GCC management, that the causes of GCC's inability to meet target production include: labor due to turnover, geological issues, and throughput of the existing CPP. BOYD opines that productivity should increase as operators and management work through the learning curve of new equipment and modifications are made to increase CPP throughput capacity.

BOYD does not agree with GCC management nor its consultant that the existing CPP with upgrades will be capable of producing 3.5 million clean product tonnes per year. BOYD recommends construction of a new high efficiency plant to achieve this target. BOYD's mine plan is based on our assessment of the existing CPP capacity and the future construction of a new CPP. Chapter 6.0 of this CPR discusses BOYD's position in greater depth.

Market conditions are driving the plan to increase coking coal production. BOYD projects surface mine production at 2.4 Mt (ROM) in FY 2012, increasing to 3.9 Mt (ROM) by FY 2016. This assumes a new CPP is constructed.

2.4.5 Historic Surface Mine Costs

GCC provided Quarterly Financial Reports for FY 2009 through second quarter FY 2012 and are summarized as follows:

	Fiscal Year			
Surface Mine Direct Cash Cost	**2009**	**2010**	**2011**	**2012 (6 months)**
C$000	59,471	36,027	54,231	48,804
C$/bcm	8.44	5.05	3.90	4.21
C$/ROM tonne mined				
Metallurgical Only	43.13	28.73	47.36	67.60
Met and Thermal	43.06	25.70	40.11	59.44

However, historic costs may not be reflective of future performance.

2.4.6 Surface Mine Production Projections

The following summarizes BOYD's clean coal production and By-Product Thermal projections for the seven-year period:

Product Type	**Clean Coal Production by Product Type**							
	FY 2012 (5 months)	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
HCC	472	1,519	2,036	2,130	2,398	2,102	2,577	2,550
Semi-Soft	—	—	—	—	—	—	—	—
PCI	—	—	—	55	51	105	265	205
Subtotal Products	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755
By-Product Thermal	16	123	23	73	139	82	85	88

2.4.7 Surface Mine Cost Projections

BOYD's estimate of surface mining cost was developed from first principles. GCC recently acquired new larger surface mining equipment fleets are expected to lower unit cost of production. The acquisition of the new mining equipment fleets, combined with the cost of developing the new mining areas and associated development, require a high level of capital expenditures over the next several years as operations expand.

		C$ (000), Constant Dollar Values							
Equipment Type	**Make/Model**	**FY 2012***	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Surface Equipment Capital (new and replacements)									
Drills	P&H 320XPC	—	6,000	—	—	—	—	—	—
Drills	PV271	—	—	—	—	—	—	—	—
Shovels	P&H 2800XPC	—	—	—	—	18,900	—	—	—
Shovels	PC5500	—	11,000	—	—	—	—	—	—
Shovels	PC3600	—	—	—	—	—	—	—	—
Haul trucks	830E AC	—	28,350	14,175	70,875	80,325	33,075	—	—
Haul trucks	CAT 777	—	—	—	—	3,000	—	7,000	5,000
Loaders	WA1200/L1350	—	—	—	4,200	—	—	—	—
Dozers	D10T	—	—	—	4,400	—	2,200	—	2,200
Graders	24M	—	—	—	4,400	—	—	4,400	—
RTD	CAT 834	800	—	800	—	800	800	800	—
Water Truck	CAT 777	1,300	—	1,300	—	—	—	—	—
Subtotal		2,100	45,350	16,275	83,875	103,025	36,075	12,200	7,200

* 5 months (Nov. through March)

The following are projected surface mining cash costs over the next seven years on a C$/ROM and per product tonne basis:

	Estimated Surface Mines Cash Cost of Operations, Nominal Dollar Values							
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
$/Tonne ROM	70.22	54.07	51.84	65.13	78.15	94.09	72.83	75.29
$/Tonne Product	105.74	81.64	78.24	93.01	103.01	124.04	100.67	103.37
Strip Ratio (per ROM tonne)	14.00	12.40	10.80	12.20	14.30	15.90	12.00	12.10
$/bcm	5.01	4.36	4.79	5.32	5.48	5.91	6.04	6.20

As shown operating costs increase and decrease with the primary driver being stripping ratio.

2.5 Coal Preparation Plant (CPP)

- The existing CPP was constructed in the late 1960s and put in operation during 1969. The plant is currently more than 40 years old and, with few updates, remains in the same configuration as when constructed.

- Significant capital expenditures have been directed toward the preparation plant and ancillary facilities in recent years with plans for additional capital spending in the near-term. BOYD believes these improvements may provide some improvement to plant operation; however, it is unclear if the planned capital projects, once complete, will allow the facility to consistently operate at or more than the targeted 6,800 hours annually or meet future clean coal production goals (3.5 Mtpa).

- The company indicates that CPP operating costs will decrease from the current C$27.58 per clean tonne (April through October 2011) to the C$18.00 per clean tonne level once all plant improvements are operational with further decreases (C$10.00 to C$12.00 per tonne) projected once clean coal volumes increase. It is likely that some of the issues associated with the plant operation will be addressed with near-term upgrades; however, it is our opinion the projected capital improvements to the CPP will not allow the facility to achieve the company's estimates of operating cost savings.

- BOYD recommends and assumes that a modern high efficiency CPP will be built as an integral part of future expansion to 3.5 Mtpa product coal. It is our view that a new preparation plant would enable the reduction of required labor, increase coal fines recovery, reduce disposal of fines in the current coal sedimentation ponds, provide an efficient facility capable of consistently operating at or near rated throughput capacity, and reduce overall preparation costs.

- BOYD's estimate of a budgetary capital cost to replace the preparation plant is approximately $42 million. This cost would be inclusive of building a plant structure sufficient to house a facility capable of producing 3.5 Mtpy (clean) and support an additional module to expand to the 5.0 Mtpa clean coal production level sought by Consortium in the later years.

2.6 Transportation

- Shipping at the 3.5 Mtpa (plus 10% for thermal output) level will require approximately one unit train every 1 1/2 days. It is our understanding that the only other user of the CN railway is Milner power plant (receives approximately 800,000 TPY) located adjacent to GCC. If Milner power plant is able to construct the additional unit it is proposing (will require 3 Mtpa), rail capacity may become an issue.

- Rail transportation costs as per the current CN agreement are commercially confidential. While provided to and used by BOYD in our analysis, they cannot be disclosed. The current contract expires on 31 March 2012. The company indicates that negotiations for the new agreement will begin by end of calendar 2011. It is our understanding that the CN prefers two-year agreements although GCC would like to have a longer term if escalation mechanisms are advantageous.

- GCC ships metallurgical as well as most thermal output through Westshore Terminal, located in Vancouver, British Columbia, which is the largest exporting bulk terminal in North America. Recent expansions have increased the overall annual throughput capacity to approximately 31 Mt.

- Management has entered into a 20-year agreement for terminal services commencing on 1 April 2011. Westshore will provide for shipping services for up to 2.4 Mtpa (beginning the 2014/2015 contract year) exclusively through the terminal. Total storage availability for GCC produced coal is approximately 160,000 tonnes.

- Pricing and other provisions of the Westshorne agreement are commercially confidential, but made available to BOYD for use in our analysis. This agreement does include a base price, annual escalation, and an incremental additional premium depending on coal sales price.

2.7 Project Economics

2.7.1 Annual Production Projections

The following summarizes estimated annual ROM and clean coal production (seven-year period) from the GCC mine operations:

		Estimated Annual ROM and Clean Coal Production							
Units	**Mining Method**	**FY 2012 5 (months)**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Waste (000 bcm)	Surface Mines	10,311	30,727	33,652	39,475	48,633	48,750	48,750	47,390
ROM Production (000 tonnes)	Surface Mines	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816
	Underground Mines	255	346	741	670	556	941	931	941
	Thermal By-Product	16	123	23	73	139	82	85	88
	Total ROM	990	2,826	3,848	3,895	3,967	4,005	4,977	4,845
Clean Production (000 tonnes)	Surface Mines	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755
	Underground Mines	155	190	445	402	333	564	585	652
	Thermal By-Product	16	123	23	73	139	82	85	88
	Total Clean	643	1,832	2,504	2,660	2,921	2,853	3,512	3,495
	Calculated Average CPP Yield	64%	63%	65%	68%	73%	71%	70%	72%

GCC management has targeted the operations to expand to 3.5 Mtpa and BOYD projects that this is achievable upon completion of a new CPP in FY 2018.

2.7.2 Projected Capital Expenditures

The following provides BOYD's estimate of capital expenditures for new and replacement equipment and infrastructure:

Estimated Capital Expenditures by Category
C$ (000), Constant Dollar Values

Category	FY 2012*	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Surface Mine Equipment	2,100	45,350	16,275	83,875	103,025	36,075	12,200	7,200
Roads	1,000	10,000	5,000	—	5,000	—	—	—
Surface Mine Development and Pre-Strip	2,000	5,000	2,500	2,500	2,500	4,000	5,000	2,500
Underground Equipment	570	780	2,300	2,080	1,720	2,920	2,890	2,920
Underground Mine Development	1,000	5,000	—	—	—	—	2,000	2,000
Plant	6,000	12,500	3,000	7,000	30,000	5,000	3,000	3,000
Infrastructure	2,000	10,000	10,000	—	15,000	5,000	—	—
Other/Contingency	—	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Capital	14,670	92,130	42,575	98,955	160,745	56,495	28,590	21,120

* *5 Months November through March.*

2.7.3 Estimated Revenue

BOYD utilized coking coal price assumption provided and prepared by Wood Mackenzie (effective November 1, 2011). Price assumptions provided are on a nominal basis reflecting a 2% annual escalation.

BOYD has adjusted prices from a calendar year basis to a FY basis as follows:

Coal Prices (US$/tonne), Nominal Dollar Values escalated at 2%

Category	(5 months) FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
HCC	257.24	240.46	220.68	210.54	204.72	208.81	212.99	217.25
Semi-soft	198.90	185.93	170.63	162.79	158.29	161.45	164.68	167.98
PCI	212.16	198.32	182.00	173.64	168.84	172.22	175.66	179.17
By-Product Thermal	84.86	79.33	72.80	69.46	67.54	8.89	70.26	71.67

Based on the above price assumptions, the following reflect Gross Revenues for the seven-year period based on the previously listed coal production schedule:

US$ (000), Nominal Dollar Values

Category	(5 months) FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
HCC	161,289	411,038	547,312	533,016	559,241	556,681	673,609	695,683
Semi-soft	—	—	—	—	—	—	—	—
PCI	—	—	—	9,584	8,547	18,115	46,478	36,736
By-Product Thermal	1,358	9,757	1,674	5,070	9,388	5,649	5,972	6,307
Total Gross Revenue	162,647	420,795	548,986	547,670	577,176	580,445	726,059	738,726
US$/Product tonne	252.95	229.65	219.32	205.30	197.57	203.44	206.72	211.35

An exchange rate of C$1.00: US$1.00 is used in this CPR. Gross revenue is reduced by off-site cost to provide net revenue (free on board [FOB], mine). The following summarizes off-site cost and net revenue:

	Distribution Costs (C$ per product tonne)							
Category	**(5 months) FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Total Distribution Cost (C$-000)	19,450	59,094	91,992	96,420	105,900	103,426	127,318	128,451
Total Distribution Cost (C$/tonne)	30.25	32.25	36.75	36.25	36.25	36.25	36.25	36.75
Distribution Costs (C-$000), Nominal Dollar Values using 2% annual escalation	19,450	60,276	95,708	102,322	114,630	114,190	143,381	147,550
FOB Mine Revenue (C-$000), Nominal Dollar Values using 2% annual escalation	143,196	360,520	453,279	445,348	462,546	466,254	582,678	591,175

BOYD's estimated cash cost of operations, inclusive of surface mining, underground mining, processing, general & administrative (G&A) and royalties, is summarized as

Cost Category	**(5 months) FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Constant Dollar Values								
Surface Mining	51,634	134,074	161,059	210,027	266,589	288,244	294,652	293,892
Underground Mining	8,076	15,392	25,673	24,390	22,338	29,597	29,628	30,632
Processing	16,493	40,175	40,176	40,177	40,262	24,716	28,422	27,948
General & Administration — On-Site	6,250	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Royalties (First Tier Only)	1,432	3,605	4,533	4,453	4,625	4,663	5,827	5,912
Total Cash Cost of Mine Site Operations	83,885	208,246	246,441	294,047	348,814	362,220	373,529	373,384
C$ per Product Tonne	130.46	113.65	98.45	110.55	119.40	126.96	106.35	106.83
Nominal Dollar Values								
Total Cash Cost (C$-000)	83,885	212,411	256,396	312,046	377,568	399,919	420,654	428,900
C$ per Product Tonne	130.46	115.92	102.43	117.32	129.24	140.17	119.77	122.71

Under the BOYD seven-year plan, GCC will generate substantial pre (income) tax cash flow during each year of the projection.

2.8 Risk Assessment

BOYD independently assessed the GCC mining operations as a whole to be low to medium in overall risk for the following reasons:

- Risk of production is mitigated by GCC maintaining both underground and surface mining operations (with three pits) with five potential mining areas. Risk of mining in one area can be mitigated as additional areas are permitted for mining (Areas No. 2 and No. 12 South A) within the seven-year risk assessment period.

- Production throughput is presently restricted from the coal preparation perspective. The existing CPP is approaching 40 years old and has demonstrated limited throughput. GCC management has recognized this limitation and is in the process of capital upgrades to increase throughput. In addition, BOYD has allocated additional capital, as described within this text, to construct a new state-of-the-art coal processing facility. We consider the risk to be low once this new CPP is fully functional, provided that capital is allocated as planned.

- GCC is actively pursuing additional permits in areas and additional resource/reserve blocks not currently permitted, as well as obtaining additional data (with in-house drilling and public source data). This will increase the resource/reserve base and allow for flexibility in mining various areas simultaneously to take advantage of blending to maximize future product quality.

- Geologically, the GCC resources and reserves are in a moderate to complex depositional setting which places the risk in a medium category (depending on classification). However, additional drilling to improve the classification (upgrade the reliability) from a quantitative perspective will reduce this risk.

- Qualitative risk is dependent on both drill core testing, pit samples, and corresponding blending studies. The current mine areas (No. 8 surface pits) are well defined within the No. 4 Seam and less defined for non-primary seams (No. 11/12). Areas to the north and west of the current mining areas are less defined. While quality discrepancies (relative to blending) have been identified, experience indicates that empirical data may differ from subjective information based on discussions with GCC management. BOYD has used dull core analytical data in preparing our mine plan. If GCC's management opinion regarding the enhanced benefits of coal blending are proven to be correct, the BOYD approach will be conservative. We consider qualitative risk to be low to medium (depending on area and seam), this can be further mitigated with additional quality testing.

- GCC mining concessions are located in established coalfields where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.

- GCC has experienced management and technical capabilities to successfully operate their mines and to respond to operating interruptions and other event occurrences in a timely, professional, and proactive manner in order to minimize production and financial losses.

- Except for routine production risks, which all coal mine operators, both underground and surface may experience, BOYD has not identified any extraordinary risk issues related to the future operation of the GCC mine over the risk assessment period.

- While not anticipated (based on recent history), naturally occurring events such as flooding (at the preparation plant and rail load-out facility) or an earthquake, could occur, but their impact would be regional in nature and not unique to GCC.

- The GCC mines produce a low-volatile hard coking, semi-soft, and PCI coal products. The company has established markets for its products and risk of future sales is low based on the nature of the various producers and potential aspects of end-user relationships with this impending sale.

2.9 Conclusions and Recommendations

- BOYD's independent seven-year mine plan and associated economic models project that GCC will generate substantial cash flow.

- We recommend that additional drilling and testing be completed to optimize future blending of lower grade and higher grade coking coals and to maximize value of the total GCC reserve base.

- GCC has identified additional areas (i.e., No. 9 Area) that have mineable potential and existing data available through governmental agencies. BOYD recommends that a complete database of all available information (public and in-house) be inventoried and input into geologic models to define all potential resources and ultimately reserves. BOYD also recommends confirmatory drilling and testing to ensure the accuracy of any public source data.

- Mitigation of any possible environmental issues, such as migratory passages of native species, should be prioritized in order to obtain necessary mining and associated permits and regulatory approvals in a timely manner.

- Complete the study to evaluate upgrade options to the existing CPP and/or construction of a new CPP/rail load-out facility.

- Evaluate methods to optimize staff retention to address the current turnover problem and insure expansion can occur in an orderly fashion.

Chapter 8 of the CPR discusses GCC's permitting, licensing and compliance history. GCC has not had a permit application denied, and has successfully added licenses to those initially acquired at start-up. GCC has a well qualified team of professionals dedicated to environmental protection and compliance. Mine water discharges are monitored to assure compliance with permit stipulations.

The closest town to GCC is Grande Cache. The population is roughly 3,600. GCC employs 615 persons, with bi-monthly wages of $2-2 ½ million. The impact on the local economy is significant. Property values have increased by factors of 5-6 since the mines were re-started under GCC management. GCC has also donated approximately $1 million to the Grande Cache Community Center over the past three years. The symbiotic relationship between GCC and the local communities is well recognized. The communities, as with many mining towns, are directly dependent on the success of GCC.

BOYD is not aware of claims to the coal lands occupied by GCC. There is an asserted claim by the AWN as to their aboriginal rights to the mining area. These have been successfully negotiated as evidenced by the Agreement previously described. The coal and lands belong to the Provincial and federal governments. GCC leases and licenses the rights to mine the coal in this area.

3.0 GEOLOGY AND RESOURCES

3.1 General

GCC's coal holdings and coal mining operations are located in west-central Alberta, approximately 400 km west of the city of Edmonton and 20 km north of the town of Grande Cache.

The property is accessed via Provincial Highway 40, a two lane, paved road which connects the project with the town of Grande Cache and with the communities of Grande Prairie to the north and Hinton to the southeast. Rail service to the property is provided by a branch of the CN, which connects to the main east-west rail line at the town of Hinton, allowing access to the major coal export terminals in British Columbia.

Active coal mining operations on the property include two underground mines and one surface mine. The estimates of coal resources and reserves reported herein are wholly contained within the following current and planned mining areas:

Mine Area	Type	Status
No. 2	Surface	Planned
No. 7	Underground	Active
No. 8	Surface	Active
No. 12 North	Surface	Planned
No. 12 South A	Surface	Planned
No. 12 South B2	Underground	Active
No. 16	Surface	Planned

The location of these areas is shown in Figure 3.1, following this chapter.

The study area is located in the Inner Foothills of the Rocky Mountains. Folding and faulting during the formation of the Rocky Mountains has resulted in a general trend of northwest-southeast elongated ridges. The ridges are cut by rivers and streams which generally flow in a northeasterly direction. Topographic relief between the streams valleys and ridge tops ranges from 300 m to 1,100 m. Below the tree line, the land is covered by subalpine forests; however, approximately 1/4 of the study area is above the tree line.

Climate in the Grande Cache region is characterized by relatively long, cold winters and moderate to warm summers. Average annual summer and winter temperatures are 10C and -15C, respectively. Frost can occur throughout the year and snow accumulates from late October to May at the higher elevations. Precipitation ranges between 800 mm to 1,100 mm annually.

3.2 Geology

3.2.1 Stratigraphic Setting

The study area is located in the Inner Foothills of the Rocky Mountains, which are characterized by exposures of Upper Jurassic and Cretaceous clastic rocks. The lowermost outcropping unit is the Nikanassin Formation, of the Late Jurassic to Early Cretaceous age. The Nikanassin Formation is overlain by the Luscar Group, which contains several coal-bearing formations, including those of interest to this project. The Fort St. John Group, which overlies the Luscar Group, is present in the northern and eastern parts of the project area.

The general stratigraphic sequence in the study area includes the following formations in ascending order:

- Nikanassin Formation consists of more than 400 m of interbedded sandstone, shale and minor coal seams. The lower part of this formation is marine in origin.

- Cadomin Formation is the oldest formation in the Luscar Group. The Cadomin Formation disconformably overlays the Nikanassin Formation and consists of approximately 30 to 40 m of pebble conglomerate and sandstone lenses.

- Gladstone Formation overlays the Cadomin Formation and consists of approximately 100 m of interbedded sandstone, siltstone, shale, and minor coal seams. Two coal seams — the Nos. 1 and 2 Seams — are present within the study area, most notably in the Nos. 7 and 8 Areas.

- Moosebar Formation consists of approximately 60 m of dark grey marine shale interbedded with siltstone.

- Gates Formation is the uppermost unit of the Luscar Group and contains the coal seams of economic interest to this study. This formation consists of approximately 320 m of sandstone, shale, and coal and is divided into three members:

  — The lowermost Torrens Member is a marine sandstone and siltstone sequence with a thickness of approximately 30 m. Throughout the study area, there is an abrupt contact with the overlying No. 3 Seam of the Grand Cache Member.

— The middle member of the Gates Formation, the Grande Cache Member, consists of approximately 150 m of interbedded sandstone, siltstone, coal, and mudstone units. Seven of the coal seams present in the Grande Cache Members are: the Nos. 4, 5, 6, 7, 8, 10, and 11 Seams, in ascending stratigraphic order, are of economic interest and form the basis for the coal resources and reserves reported herein. The seams of interest by mine area are:

Mine Area	Seams of Interest
No. 2	4, 10, 11
No. 7	4
No. 8	4, 10, 11
No. 12 North	4, 5, 6, 7, 8
No. 12 South A	4, 5, 6, 7, 8
No. 12 South B2	4, 7, 8
No. 16	4, 5, 6, 7, 8

— The uppermost Mountain Park Member consists of 150 m to 180 m of non-marine fine sandstone, siltstone and coal.

• Shaftesbury Formation; the recessive weathering shales of this formation form the uppermost unit, which overlies the Gates Formation and outcrops throughout most of the study area.

3.2.2 Structural Setting

Strata in the region are complexly folded and intersected by numerous thrust faults, which are the result of deformation by the tectonic events of the Laramide Orogeny. Typical structures consists of a series of northeast verging thrust sheets bounded by major faults with displacements from several hundred to several thousands of metres. The strata within the thrust sheets are commonly folded and cut by subsidiary faults with displacements of 10 m to 100 m. The thrust faults have folds produced by associated fault plane drag. Surface traces of these folds and thrust faults trend northwest-southeast. The majority of the faults are southwest-dipping thrusts.

Commonly found throughout the study area are asymmetric folds with relatively long, straight limbs and short, narrow hinge zones. These folds generally have chevron or box shapes which maintain their profile over large distances along trend. The amplitude of the large folds is in the order of 200 to 1,000 m. Parasitic folds on the limbs of the major anticlines and synclines are common.

Categorization of geologic complexity is an essential step in the estimation of resources and/or reserves for a coal deposit. The geologic setting or complexity of the coal deposits underlying the study areas is judged to vary from Moderate to Complex as per the following definitions:

Moderate — Deposits in this category have been affected to some extent by tectonic deformation. They are characterized by homoclines or broad open folds with bedding inclinations of generally less than 30 degrees. Faults may be present, but are relatively uncommon and generally have displacements of less than 10 m.

Complex — Deposits in this category have been subjected to relatively high levels of tectonic deformation. Tight folds with steeply inclined limbs (> 30 degrees), are present, and offsets by faults are common. Individual fault-bounded blocks generally retain normal stratigraphic sequences, and seam thickness has not been substantially modified by the structural deformation.

The geologic complexity for each mining area is given in the following table:

Mine Area	Geologic Complexity
No. 2	Moderate
No. 7	Moderate
No. 8	Complex
No. 12 North	Complex
No. 12 South A	Moderate
No. 12 South B2	Complex
No. 16	Complex

Representative cross sections demonstrating the geologic setting of the deposit are provided in Figures 3.2 and 3.3, following this chapter.

3.3 Source Data

In August and November 2011, BOYD representatives met with management, technical, and operations personnel at GCC's headquarters in Calgary, Alberta and at the mining operations. During our visits to GCC's operations, BOYD toured each active and proposed mine site, and discussed the deposit geology, estimates of coal resources and reserves, and mining operations with the pertinent personnel.

In order to prepare an independent assessment of the coal resources, GCC provided BOYD with the following information:

1. A report entitled *2011 NI 43-101 Technical Report on the Grande Cache Coal Operation*, published 27 June 2011, by AMEC Americas Limited (AMEC) on behalf of GCC (June 2011 NI 43-101 Report).

2. Geologic source data, including tables/databases of exploration drilling data, and copies of logs and coal quality analyses.

3. Computerized geologic models and mine designs.

4. Current surface elevation (topography) models delineating pit status as of 31 October 2011.

5. Recent operating data including mine and plant performance information.

6. Electronic mapping files containing:

    - Lease boundaries.
    - Permit boundaries.
    - Site infrastructure.
    - Limits of previous mining (as of 31 October 2011).

BOYD has exercised a reasonable level of care in reviewing the information provided by GCC within the scope of our expertise. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. It must be noted, however, that much of the information we received was presented in summary form with limited or no supporting data. Furthermore, no experiential evidence was provided by GCC to substantiate their predications of seam densities, mining losses and dilution, coal quality, and plant yields based on the 40 years of mining activity and coal processing at the deposit.

BOYD reviewed previous documents including the March 2011 NI 43-101. As required by JORC and to comply with these requirements, BOYD independently developed resources and reserves. Our review indicates that estimates contained in the AMEC 43-101 are not presented as being developed in accordance with the JORC Code. The primary differences are:

a. The "dramatic differences between [resource] tonnage" is due to the treatment of economics. The JORC requires resources to demonstrate "reasonable prospects for eventual economic extraction." The estimates presented in the AMEC 43-101 are based on "a 20:1 strip ratio cut-off." BOYD's resource estimates are the result of preliminary (Lerchs-Grossman) economic analysis which we believe more reasonably demonstrates the economic potential of the resources.

b. BOYD's estimates of reserves are 9% lower than those presented in the AMEC 43-101. While a 9% difference is not considered substantive to BOYD, it needs to be understood that there are significant differences (between BOYD and AMEC) in our respective classification of resources/reserves within the specified pit shells which results in the exclusion of resource tonnages classified by BOYD as inferred in the final BOYD reserve tonnages.

c. BOYD's reporting of Measured and Indicated Resources within the mine plans as Probable Reserves is the result of our consideration of uncertainties in the Modifying Factors (mining losses and dilution, plant yields, etc.). While we believe that these Modifying Factors are reasonable, we do not believe that they support the level of certainty required to classify the Measured Resources as Proved Reserves.

d. BOYD's independent judgment resulted in a more conservative reporting of reserves (as compared to AMEC 43-101).

3.3.1 Exploration Data

Over 3,400 holes have been drilled in the Smoky River coal field since the 1950s. The table below summarizes the drilling completed through the end of 2010 in each mine area. Historically, the development of adits prior to mining was a common method to provide bulk samples for coal washability test work. A total of 129 adits have been driven within the study area.

Mine Area	No. of Drill Holes	Total Length of Drilling (m)
No. 2	505	42,313
No. 7	119	18,606
No. 8	461	58,097
No. 12 North	284	27,361
No. 12 South A	447	47,386
No. 12 South B2	376	49,413
No. 16	222	31,546

Approximately 1 in 15 drill holes were reportedly cored in the surface mining areas and one in 10 drill holes were cored in the underground mining areas. Typically, the cores were analyzed for in-place ash, volatile matter, and free swelling index (FSI). Very limited coal washability data were provided for our review.

3.3.2 Geologic Models

BOYD was provided with the following computerized geologic models for use in our assessment:

Mine Area	Type	Geologic Model Updated	Producer
No. 2	3D Block	May 2011	GCC/AMEC
No. 7	Digital Mapping	Unknown	Unknown
No. 8	3D Block	May 2011	GCC/AMEC
No. 12 North	3D Block	May 2011	AMEC
No. 12 South A	3D Block	May 2011	AMEC
No. 12 South B2	Digital Mapping	Unknown	Unknown
No. 16	3D Block	May 2011	AMEC

The following methodology is described by GCC and/or AMEC as being used to develop the aforementioned 3-D block models:

1. Verification and partitioning of exploration data were performed for each mine area. These data were imported into the mining software package (Minesight®).

2. The drill hole data were used to create 3-D wire frame solids from cross sectional polygons for each seam.

3. Wire frame models representing the surface topography and the bedrock topography were created.

4. A 3-D block model was created from the wire frame models. The relative percentages of each seam are then coded to the blocks, along with the percentage of the block that exists below topography.

5. Coal quality was interpolated using inverse distance squared (ID2) from composites of sampled holes.

6. The depth of coal oxidation was defined as 8 m from the bedrock surface in all the mine areas except the No. 16 Area, where past experiences indicate that a more appropriate value of 24 m should be applied.

For each underground mine area, BOYD was provided with a suite of digital contour maps depicting the roof and floor elevation and thickness for each coal seam.

Our review of the models provided by GCC indicates that they have been developed using a widely-employed and industry standard technique. Furthermore, it is our opinion that the models provide reasonable and appropriate representations of the site-specific geologic conditions and are suitable for use in estimating coal resources and reserves.

3.3.3 Mine Designs

GCC provided the mine plans — both surface and underground — produced by and reported in AMEC's Technical Report. These plans include intermediate (prefeasibility) phase designs and a general mining sequence. BOYD has assumed that these represent GCC's current LOM plans.

GCC is an established coal mining company. Mining methodology for forward mine planning is exactly the same as current mining practices and methods with provisions for expansion.

3.4 Resource Classification

The goal in reporting coal resources and/or reserves for mining property evaluation is the identification of deposits that:

- Are well defined by geologic data.

- Can be economically and legally extracted.

When an identified quantity of coal meets both of these criteria, it qualifies as a reserve.

Internationally recognized systems for resource classification use different terminology; however, all are designed to separate estimates into categories based on two criteria:

- Degree of geologic certainty (e.g., for resources: measured vs. indicated vs. inferred).

- Establishment of economic viability (e.g. reserves vs. resources).

Estimates of coal resources and reserves reported herein have been prepared in accordance with the JORC Code. The relevant definitions are found in the Glossary and Definitions section.

In this report, geologic certainty is established by the availability of both structural (thickness and elevation) and quality information for each individual coal seam. Classification is generally based on the concentration or spacing of exploration data which can be used to demonstrate the geologic continuity of the deposit. These "points of observation" mainly include drill hole intersections; however, other sources of data, such as bulk samples from adits or the results of historical mine production, may be given consideration. The following table provides a general outline of the criteria used by BOYD in the classification of coal resources:

		Sample Spacing (m)	
Geologic Complexity	**Classification**	**Structure**	**Quality**
Moderate	Measured	< 300	< 600
	Indicated	300–600	600–1,200
	Inferred	600–1,200	1,200–2,400
Complex	Measured	< 200	< 400
	Indicated	200–400	400–800
	Inferred	400–800	800–1,600

Projections of resources in any category beyond any point of observation do not exceed one-half of the defined spacing. We have assigned these spacing criteria based on our independent assessment of the site-specific geologic conditions encountered or expected in each area. We believe these criteria are appropriate and provide the required level of geological assurance.

3.5 General Procedures and Assumptions

The estimates of coal resources and reserves presented herein have been independently prepared by BOYD. Generally, our estimates are the result of the following procedures:

- Thorough review of the provided geologic data, including a comparison of selected drill logs and laboratory results with the information stored in the provided drill hole and quality sample databases.
- Review of available data to ascertain the level of geologic continuity for each coal seam and to validate the geologic models.
- Adjustment or revision to geologic models where warranted.
- Classification of the coal resources based on the criteria previously mentioned.
- Development of estimation assumption, parameters, and criteria.
- Preliminary verification of the economic viability of existing mine designs.
- Estimation of coal resources and/or reserves for each mine area.

- Development of mining sequences and production schedules for the reported coal reserves (covered in Chapters 4 and 5).

- Economic analysis of the reported coal reserves (covered in Chapters 4 and 5).

Based on our review of the provided geologic data, it is BOYD's professional opinion that the information used from drilling logs has been verified, recorded, stored, and used appropriately and accurately by GCC for geological interpretation of the deposit.

BOYD's review of the limited coal quality data revealed discrepancies between the values interpolated within the block models provided by GCC and the samples obtained from exploration. In light of these findings, and to be consistent with the actual laboratory analytical data provided, BOYD has remodeled coal quality for each area using the data provided to us.

BOYD used the various criteria shown below in our development of coal resources and reserves estimates for this project:

1. Bulk Density.

2. Minimum Mineable Thickness.

3. Mining Limitations.

4. Mining Recovery.

5. Plant Yield.

6. Product Assignment.

7. Lerchs-Grossmann Parameters.

3.5.1 Bulk Density

An empirical formula has been provided by GCC for density calculations. The formula has been reportedly developed using experiential data obtained over a period of 35 years. These have been used to develop an empirical formula relating density to in situ ash values. The density formula is:

$$\textbf{Density} = \frac{-206.3}{\text{Ash\%} - 165.2}$$

In this formula, density is expressed in tonnes per bcm (t/bcm) and ash % is the ash content in the coal on an air dry basis.

A density of 2.3 t/bcm has been used for waste (non-coal) material.

3.5.2 Minimum Mineable Thickness

For surface resources, minimum coal ply thickness of 0.5 m was used as a cut-off for inclusion of a seam in the resources. Partings were included where they were less than 0.5 m, with an overall coal to rock ratio of 1.5 or greater.

For underground resources, the minimum seam thickness used to determine whether a seam is included in the resource was 2.0 m. This corresponds to the minimum operating thickness specified for underground mining equipment used at the GCC mines.

3.5.3 Mining Limitations

All reported coal resources and reserves are contained within the Coal Lease or Coal Lease Application areas.

In addition to the above limitation, the underground mineable estimates are subject to the following criteria:

- Seam slope equal or less than 15 degrees.
- Minimum overburden cover of 50 m.
- Offset (buffer) of 20 m to major faults.
- Buffer of 50 m from surface mining highwall(s).

3.5.4 Mining Recovery

For surface mining operations, BOYD estimates a total coal loss of 50 cm and the addition of 25 cm of dilution (waste) material per seam. These assumptions are based on our field observations of the current surface mining operations.

For underground mining operations, overall factors of 78% and 80% have been used for the recovery of the No. 7/8 Seam and No. 4 Seam, respectively. Out-of-seam dilution (OSD) has been estimated at 60 cm for the No. 7/8 Seam and 30 cm for the No. 4 Seam.

All dilution material is assumed to have an ash content of 80%.

3.5.5 Product Assignment

For the purposes of determining the reasonable prospects for economic extraction, BOYD has assigned product types to the coal resources. The assignment is based on the following coal quality parameters, on a raw basis:

	Quality Parameters		
Product	**FSI**		**Ash (%)**
Hard Coking Coal	> 4.5		—
Semi-Soft Coking Coal	2–4.5		—
	< 2	*or*	> 15
PCI	< 2		< 15

Assignment of these product types to the resources is preliminary and does not recognize the potential for blending lower quality coals with higher quality coals to produce marketable product specifications. In preparing our economic analysis (see Chapter 9), BOYD has recognized the potential to blend product types.

3.5.6 Plant Yield

Estimated plant yields for clean coal are based on an ash balance using the following equation:

$$\text{Yield} = \frac{\text{Refuse Ash\% – ROM Ash \%}}{\text{Refuse Ash\% – Product Ash \%}}$$

BOYD has assumed the ash content of the refuse ranges from 50% to 55% and product ash is projected at 8.5%.

3.5.7 Lerchs-Grossmann Parameters

The Lerchs-Grossmann (LG) algorithm determines the exact optimum shape, in terms of cash flow, for an open pit (surface mine) in three dimensions. BOYD has used this algorithm in the development of our coal resource and coal reserve estimates. The LG algorithm has been used in the mining industry for many years and is accepted as the standard benchmark tool for evaluating the economic prospects of surface mineable coal deposits. This technique was used by BOYD in our estimates of resources and our preliminary assessment of GCC's mine designs.

In addition to the criteria described above, BOYD has utilized the following parameters to perform our LG analysis of the various surface mining areas:

		Surface Mining Area				
Parameter	**Units**	**No. 2**	**No. 8**	**No. 12 North**	**No. 12 South A**	**No. 16**
Unit Costs:						
Mining	C$/bcm	4.50	4.00	4.00	4.00	4.00
Coal Haulage	C$/t ROM	8.00	8.00	16.00	12.00	16.00
CPP Facility	C$/t ROM	14.00	14.00	14.00	14.00	14.00
Offsite	C$/t Clean	28.00	28.00	28.00	28.00	28.00
G&A	C$/t Clean	13.00	13.00	13.00	13.00	13.00
Realizations by Coal Product:						
Hard Coking Coal	US$/t Clean			210.00		
Semi-soft Coking Coal	C$/t Clean			157.50		
PCI	US$/t Clean			168.00		
Exchange Rate	C$:US$/$			1.00		
Highwall Slope	degrees			50.0		
Minimum Mining Width	meters			60.0		

All operating costs used in the pit optimizations are cash costs. Depreciation, depletion, and amortization are not included, nor are any other non-cash reserve items.

3.6 Resource Estimates

The estimated coal resources controlled by GCC, as of 31 October 2011, within the study area are shown in the following:

	In-Place Resources (Mt) by Classification				
	Measured	Indicated	Measured + Indicated	Inferred	Total
Surface Mining Areas:					
No. 8	9.9	26.9	36.8	12.9	49.7
No. 12 South A	8.7	11.7	20.4	2.5	22.9
No. 2	10.0	16.9	26.9	10.7	37.6
No. 16	12.5	18.0	30.5	2.8	33.3
No. 12 North	26.2	21.7	47.9	3.0	50.9
Total	67.3	95.2	162.5	31.9	194.4
Underground Mining Areas:					
No. 7	0.2	—	0.2	0.7	0.9
No. 12 South B2	8.4	3.2	11.6	—	11.6
Total	8.6	3.2	11.8	0.7	12.5
Grand Total	75.9	98.4	174.3	32.6	206.9

Commonly, it would be reasonable to expect that the majority of Inferred Coal Resources would upgrade to Indicated Mineral Resources with continued exploration. However, due to the uncertainty of Inferred Coal Resources, it should not be assumed that such upgrading will always occur.

Estimates for surface mineable resources have been developed from LG analysis using the parameters previously referenced. Estimates for underground resources have been determined using the criteria provided earlier in this chapter.

Oxidized coal has been excluded from our analysis and is, therefore, not reported in the resource estimates.

As indicated above, the coal resources of GCC are reasonably well defined with over 84% being classified as Measured (37%) and Indicated (47%).

3.7 Reserve Estimates

The coal reserves controlled by GCC, estimated as of 31 October 2011, within the study area are shown in the following:

	Probable Reserves (Mt)		
	In-Place	**ROM**	**Saleable**
Surface Mining Areas:			
No. 8	24.2	23.9	16.9
No. 12 South A	10.7	10.5	7.8
No. 2	14.5	14.3	10.5
No. 16	24.8	24.0	16.2
No. 12 North	44.8	43.7	30.8
Total	119.0	116.4	82.2
Underground Mining Areas:			
No. 7	0.2	0.2	0.1
No. 12 South B2	10.4	8.3	5.8
Total	10.6	8.5	5.9
Grand Total	129.6	124.9	88.1

Reserves are the part of the estimated Measured and Indicated Resources that have been adjusted by the modifying factors and assumptions listed in Section 3.5, and where economic viability has been demonstrated. Under the JORC Code, Inferred Resources are not considered (included) in the determination of reserves. Because coal resources are inclusive of the coal reserves, the reported Reserves and Resources are not additive. This applies to the ROM quantities as well as the Saleable quantities.

These estimates have been prepared in accordance with the JORC Code and form the basis of our report. While we have used GCC's existing mine designs, the estimates reported herein have been independently prepared by BOYD.

Since BOYD was unable to substantiate the historical mining recovery and plant yield factors, we have classified all of the reserves as Probable.

By assignment, these estimates have been restricted to (constrained within) GCC's current mine designs (pit shells), which were developed in conjunction with the June 2011 NI 43-101 Report. This was done to allow BOYD to complete our work on an expedited basis and is considered to be conservative (i.e. resource and reserve tonnage estimates may be larger if BOYD completed independent pit shell modeling using the specified coal prices used in this report). BOYD has excluded both oxidized coal and Inferred resources from our economic analysis of the reserves. That is, the costs of mining these tonnes have been included in our analysis (categorized as waste), but no revenue has been realized for oxidized coal or inferred resources in the CPR economic analysis.

3.8 Coal Quality

Within the Smoky River coal field, coal rank has the greatest impact on the value of the marketable product. 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 content and the FSI value of the coal. Both of these qualities decrease as coal rank increases.

In general, the coal rank of the coal field can be categorized as low-volatile bituminous coal based on the ASTM coal classification system. There is, however, an overall trend in coal rank within the stratigraphic column and across the project. There is a consistent increase in the volatile matter content of the coal up the stratigraphic column; i.e., rank increases with increasing burial depth. There is also a lateral change in the volatile matter content of coal across the deposit – in general, there is an increase in volatile matter (or decrease in rank) to the southeast.

Potentially, coal rank can be controlled by blending of coal from different mining areas. However, while GCC has expressed anecdotal opinions regarding the benefits of coal blending, the blending characteristics of these coals are not well documented.

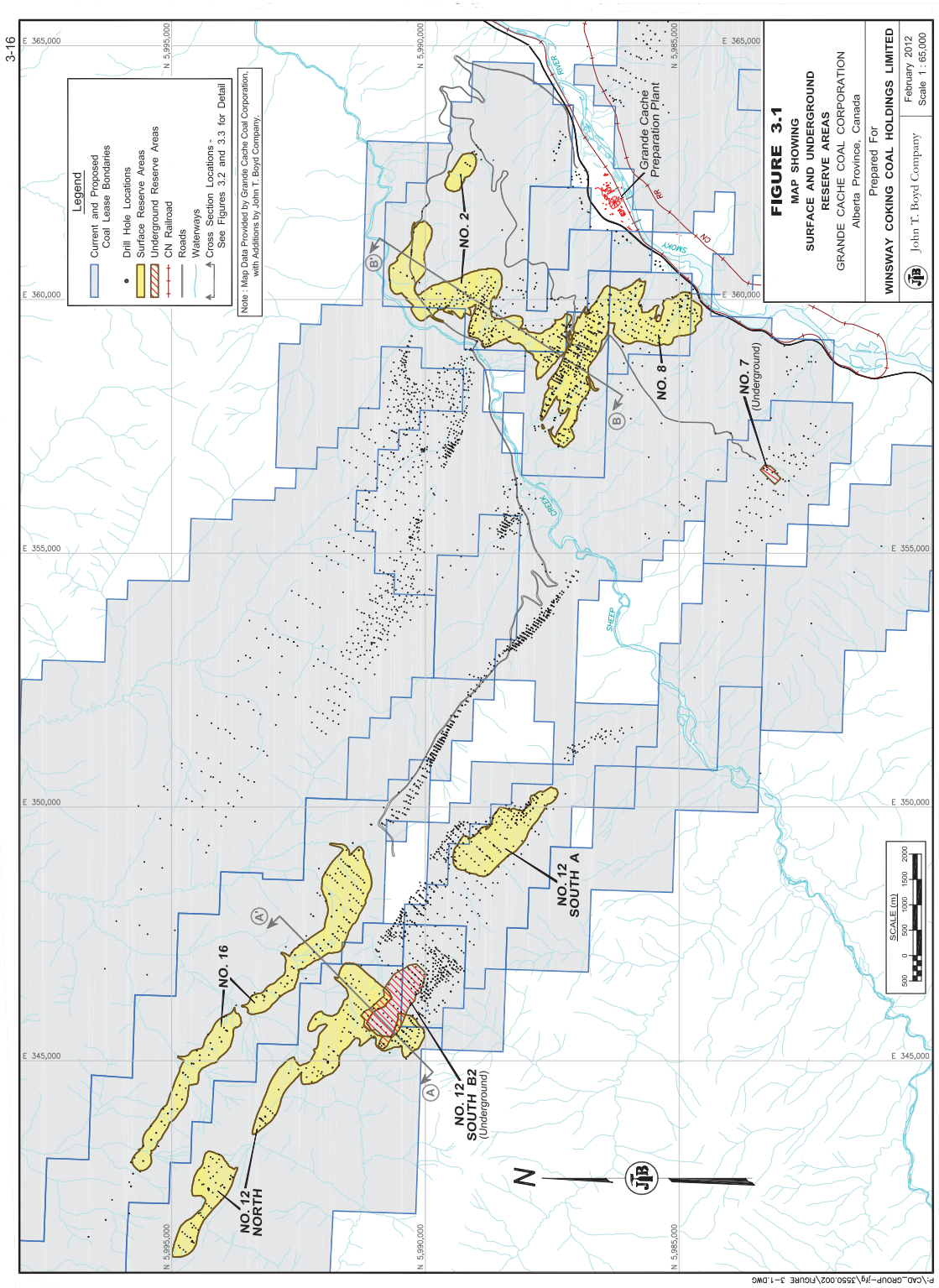
The coal quality estimates for each mine area by seam are summarized as follows:

		In-Place Quality (% adb)			
Mine/Reserve Area	**Coal Seam**	**Ash**	**Volatile Matter**	**FSI**	**ROM Ash (% adb)**
No. 2	11	33.3	20.4	3.1	41.8
	10	22.7	19.9	4.5	30.5
	4	17.0	18.5	5.8	20.7
No. 7	4	11.5	19.0	5.5	13.0
No. 8	11	19.9	20.5	4.4	28.4
	10	17.9	19.8	5.6	25.6
	4	19.5	18.3	5.4	22.7
No. 12 North	8	23.4	19.0	5.5	47.6
	7	16.0	16.5	2.1	23.4
	6	19.8	16.0	2.5	35.8
	5	13.2	16.6	3.4	30.1
	4	14.4	15.9	1.8	18.9
No. 12 South A	7	12.2	16.3	2.5	21.3
	6	18.9	15.8	2.5	33.4
	5	12.3	16.2	2.9	31.2
	4	12.0	15.3	2.3	16.6
No. 12 South B2	7/8	17.1	n/a	4.0	30.3
	4	12.4	n/a	3.0	14.5
No. 16	8	37.4	14.1	2.3	55.1
	7	18.3	15.7	2.6	27.3
	6	17.6	15.8	4.0	40.5
	5	22.0	15.3	3.1	37.4
	4	13.0	16.2	2.7	16.9

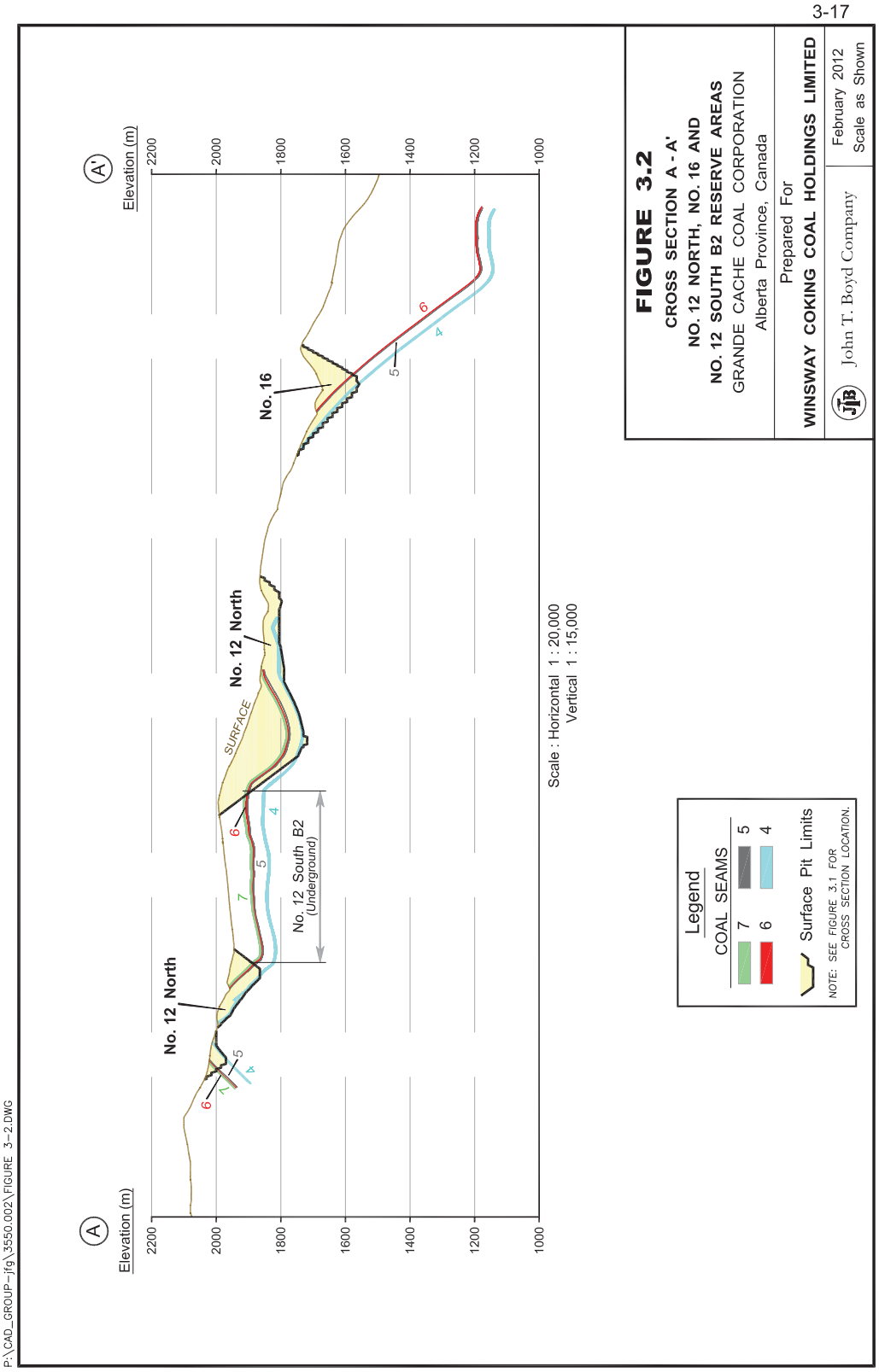
Following this page are:

Figures

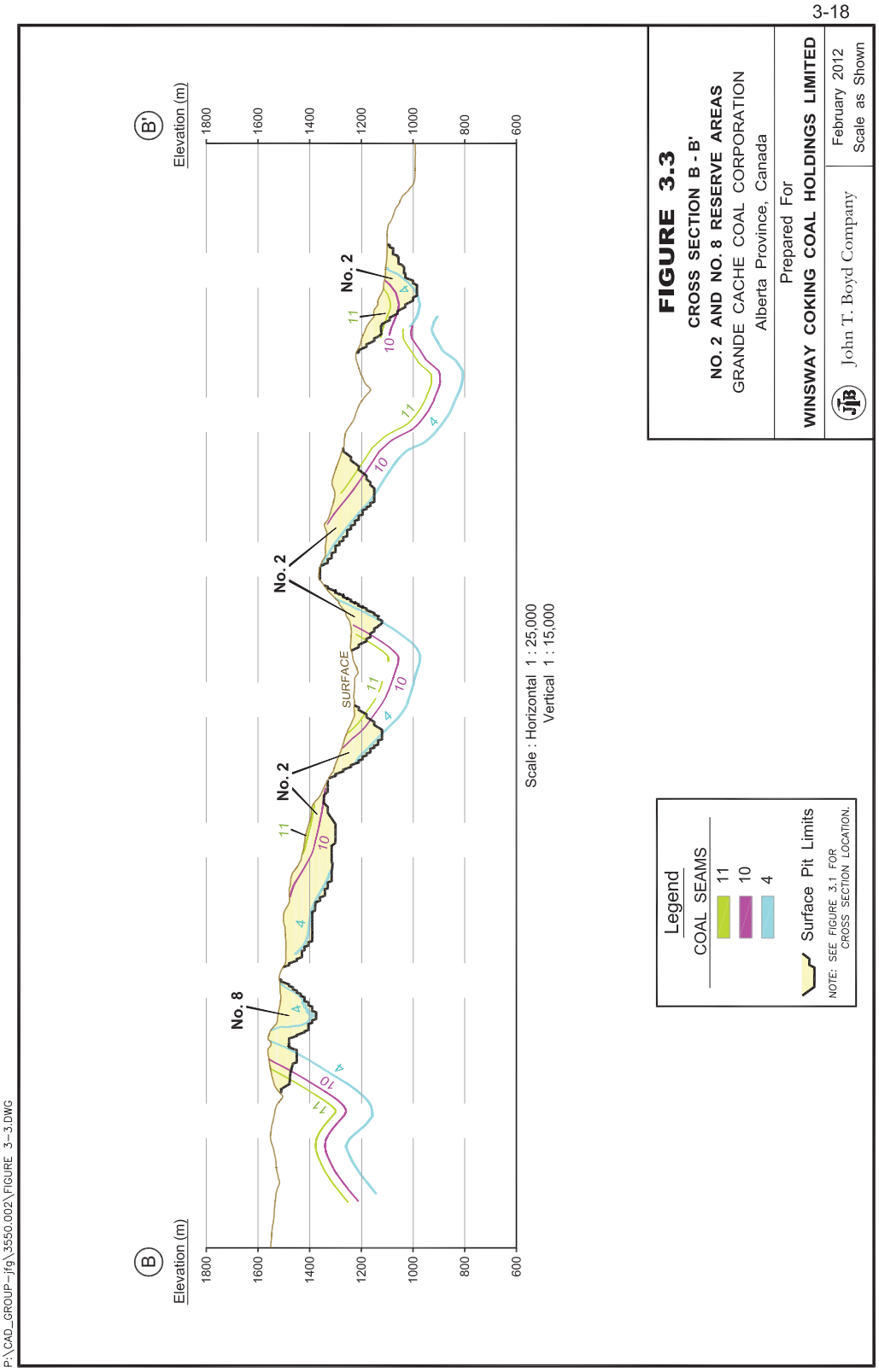
1. Map Showing Surface and Underground Reserve Areas



2. Cross-Section A-A'



3. Cross-Section B-B'



4.0 UNDERGROUND MINE OPERATIONS AND PLANNING

4.1 Underground Mine Operations

4.1.1 General

The GCC underground operations are currently in a state of transition. The No. 7 Mine is in the final stages of mining, where depillaring will be conducted as the operation makes its final retreat prior to mine closure. The No. 12 South B2 Mine commenced operations in early August, with the first cut of coal production reported on Wednesday, 3 August 2011 (during BOYD's initial site visit). Additional underground observations of development operations were conducted at the No. 12 South B2 Mine in November 2011. The mining was advance in two breaks (crosscuts) at the time of our visit.

4.1.2 Historical Production

Quarterly financial reports have been provided for review beginning in FY 2009. Historical production for the underground mining operations is summarized as follows:

Summary of Historical Operations — No. 7 Mine

Parameter	FY-2009	FY-2010	FY-2011	FY-2012 (Q1)	Total/Avg.
Operating Days	357	346	363	122	1,188
Production Days	265	344	—	—	—
ROM tonnes Mined — (000s tonnes)	613	657	835	331	2,437
ROM Tonnes/Prod. Day	1,718	1,898	2,302	2,716	2,051
ROM Tonnes/Month	51,105	54,714	69,622	110,456	62,479
Direct Mining Costs — $/ROM Tonne	34.03	36.74	38.80	26.88	35.42
— Total ($000s)	20,870	24,120	32,420	8,910	86,320

Since the No. 12 South B2 Mine is in the initial stages of development, available production records are not meaningful.

4.1.3 No. 7 Mine

When the No. 7 Mine was in full production, it was equipped with enough equipment to operate four single continuous miner (CM) sections. At the time of our visit, the complement of equipment was being downsized as the time was approaching its final stages of depillaring operations. Two single CM sections were in operation. Each section included:

1 — Joy 12 CM 12
2 — Joy 10 SC 32
1 — Fletcher roof bolter
1 — Stamler feeder/breaker

The shuttle cars haul coal from the face and load coal directly onto the section belt line. The mine is in full retreat with advancing development having been completed earlier this year. As of the November 2011 site visit, the West No. 3 panel was nearly completed of remaining depillaring operations, leaving a small portion of the mains to be depillared. According to GCC managers, the depillaring operations are projected to conclude before the end of the calendar year.

Depillaring mining operations in the No. 7 Mine utilize a "Wing and Stump" method, where nearly all coal remaining in the support pillar is removed. The remaining 1 m (+/–) of floor coal is also extracted when mining conditions permit. This increases the efficiency of the mining process, and is a reasonable source of supplemental production. A similar method of depillaring is expected in the No. 12 South B2 Mine, once the retreat mining commences.

BOYD was informed that the two-unit depillaring operations recently achieved 103,100 and 90,200 tonnes per month during July and August 2011. This run rate, could allow the mine to operate at a 600,000 tpa rate, with a single miner operating solely in pillaring operations. While this recent level of production has been achieved, it is recognized as being variable, and not likely to be achieved on a consistent basis. It is appropriate to expect that underground operations moving forward will continue to operate using the newly implemented mining methodology. A 15% to 20% increase in production (compared to historical averages) is expected because of the addition of MRS technology and the use of Super Section unit for development.

BOYD reviewed and relied upon mine plans developed by GCC as these mines were both in operation. The No. 7 mine is nearing depletion, and current mining methods, planned layouts and extraction sequences are prudent as presented by GCC.

During site visits to the No. 7 underground mine, BOYD made the following observations:

- The No. 7 Mine is nearing depletion and only depillaring operations remain. The mine had historically been a 3-unit CM mine. We were informed that one of the mining units had been moved from the No. 7 Mine and relocated to the No. 12 South B2 Mine for initial development. Two miner units were onsite during our visit.

- Coal extraction was not observed, as both miner units were in nonproduction positions of their respective mining cycle. The mine was observed to be in full depillar mode. Installation of supplementary roof support, such as cribbing, and posting was observed. These supplemental roof supports are expected during depillaring operations to stabilize roof conditions for worker safety as the pillars are removed during the mining sequence. Roof bolting to support the roof is typically installed during development mining and was not observed during our visit.

- The mine was using a blowing ventilation system. Bleeder systems are not used in the No. 7 Mine, instead ventilation is directed toward the working area using stoppings and line curtail (fireproof fabric to direct air current) to dilute methane and move dust away from the work area to the return entries. BOYD considers the ventilation practices to be appropriate.

- MRS, manufactured by Jeffrey Machinery, had been acquired at the time of the August 2011 site visit. The MRS fleet includes four individual units, which are remotely operated and situated in depillaring areas where temporary roof support is needed. The MRS's use hydraulic actuated jacks to apply support pressure to the roof. By the November 2011 site visit, GCC had gained approval for underground operation. The MRS's were being used for pillar extraction.

- Pillar extraction using post and crib supplemental supports is projected to recover approximately 60% of the remaining pillar. With the implementation of MRS equipment, the extraction ratio was expected to increase to 90%. While the efficiency and ultimate recovery factor attributable to MRS units is largely untested in the GCC underground mine, it is expected to increase pillar recovery efficiency, and reduce exposure of employees to manually setting supplemental supports near unstable roof.

4.1.4 No. 12 South B2 Mine

The No. 12 South B2 mine is also an operating mine, with mining initiated in August 2011. GCC has constructed external infrastructure, and initiated mining based on logical and efficient access for both the No. 7/8 Seam and the No. 4 Seam. Both mines are accessed from the same open pit. They will share surface facilities, as well as surface infrastructure and coal storage areas. The plans were subject to a permitting and approval process required by the provincial authorities, and generally considered fixed, as construction activities are nearly complete.

The general layout and mining methods for reserve extraction are considered prudent for the type of deposit, location of mine access, and production levels being considered. These plans are likely to be modified in localized areas based on mining conditions and operational issues in the future, but the macro plan will need to be implemented methodically in order to allow for extraction of the underlying No. 4 Seam once the No. 7/8 Seam is depleted. Major modification of future mining plans provided by GCC is considered doubtful. These plans are utilized by BOYD for development of independent production projections.

Since the No. 12 South B2 Mine is in startup mode, our assessment is primarily based on a review of pre-mining plans and projections. This mine is newly initiated by GCC, with "first cut" production occurring in early August 2011. Recent production updates indicate that the mine is progressing through initial development. This is a complex period of mine development due to regulatory, logistical, and practical inefficiencies related to coal extraction. Once mine management has the ability to establish a reliable mining cycle, reasonable steady state production can be achieved. It should be recognized that initial production could be closely associated with a construction projects rather than a steady state production scheme.

While the No. 12 South B2 Mine will also operate in the No. 4 Seam in the future once the 7/8 Seam is depleted, it may not exhibit the same mining and operational characteristics as the current No. 7 Mine as it is in a different location. However, the operating personnel, mining equipment, and mine management will be consistent between the two mines. It is reasonable to expect that the operational practices of the new mine would be similar, as the new underground operations come on line. The production methods are expected to be consistent through the transition of the operation, while the production levels will vary.

Ultimately, mine production will be determined by the seam characteristics. Mining in the No. 12 South B2 Mine will involve multiple coal seams. The upper seam (combined No. 7/8 Seam) will be completed initially, then transition downward to the No. 4 Seam. Current projections provide for production from the No. 4 Seam in No. 12 South B2 Mine to begin in several years (mid-year 2017). Near term, production will be sourced from the combined No. 7/8 Seam. The coking characteristics of these coals are reportedly acceptable when blended with other coals from the surface operations on the property. BOYD has not performed (and none have been provided by GCC) a detailed quality and coking analysis of blending various production by seam or by area.

The No. 7/8 combined seam will include an inherent band of non-coal binder. GCC's underground management team does not expect complications due to the presence of the binder material. Based on review of available mapping and discussions with the mine manager, the binder is expected to range between 0.2 m and 1.0 m, averaging 0.6 m. The mining height during development is expected to be 4.5 m (including coal and binder). The extracted binder material in the ROM is expected to be removed during coal processing. According to management, coal product quality has not historically been affected by binder material, but is largely untested as the mine is in its infancy. BOYD assumes that the Rotary Breaker Facility will remove a significant portion of the rock binder material present in the ROM from the No. 7/8 Seam.

At full production, the mine is projected to operate two single CM sections and one super section. The super section will include two Joy 12-CM-12 continuous miners, three Joy 10-SC-32 shuttle cars, two Fletcher roof bolters, and one Stamler feeder breaker (with three way loading).

Equipment alternatives for higher productivity and higher reserve recovery, such as longwall or shortwall mining methods, are not considered practical with the expected reserve conditions at the No. 12 South B2 Mine. The current room-and-pillar mining methods, given inherent geological and geotechnical complexities, represent the most suitable mining system and equipment choice at the GCC mines. MRS units have been introduced to advance technology already used in the established room and pillar mining methods. As the depillaring operations are completed in the No. 7 Mine, the MRS units will remain idle until sufficient development is completed in the No. 7/8 Seam. According to the most recent plans provided by GCC, 12 months of development will be needed before the depillaring units can commence in the No. 7/8 Seam. It is expected that similar lead times will be needed for development in the No. 4 Seam mine once production is commenced in this mine, and underground mining has transitioned from the 7/8 Seam.

During site visits to the No. 12 South B2 underground mine, BOYD made the following observations:

- The No. 12 South B2 Mine was observed in its initial stages of development. In August, the mine was observed from an aerial tour where mining equipment on the ground was observed being positioned for its initial cut from the highwall. Subsequently in November 2011, the mine was observed after construction and initial mining had advanced approximately 200 m. This initial development was noted to be complex, as the mine at this stage was limited to a confined underground working area. Equipment change out points, storage of supplies, and installation of infrastructure, limits mobility and reduces efficiency in this initial stage.

- Access to the No. 7/8 Seam is facilitated with four portal entries. The access entries include a return entry, conveyor belt entry, a haulage/supply entry, and a main fan entry. The No. 7/8 Mine uses a blowing fan system for main ventilation. During the initial development of the first four entries, temporary fans are installed to allow for ventilation of the working area prior to the full ventilation circuit being established. Following the initial development and the subsequent transitional period, the temporary fans will be removed.

- The immediate plan is for the No. 7/8 Mine to develop main entries and turn right off main headings and developed an area for supply storage, and a main sump where mine drainage water will be collected from mine workings and discharged outside. This sump area is required to be developed prior to any significant extension of the main entries.

- Once the main entries are fully developed, panels will be alternately developed off the left side and right side of the mains. After the panels are developed to the reserve boundaries, they will be depillared. This will allow the mine to be depillared as the mine retreats from the furthest extents. It is prudent to develop the main entries and retreat out to alleviate the need for ventilating overcasts. According to plans provided by GCC, depillaring should commence in approximately 18 months after development begins.

- Mine management plans to utilize a super section for expedited development of the main entries. The super section is designed to utilize two CMs to coordinate coal extraction for quicker development. This practice allows for one of the CMs on the section to be cutting coal while the other is moving, cleaning, and positioning for its next cut. The shuttle car haulage units will alternate between the CMs (depending on which CM is actively mining), and allows for full utilization of the shuttle cars during the mining cycle. At the time of our November 2011 visit, formal approval for this coordinated dual CM mining program had not been received. Indications from regulators were that this approval would be forth coming. Optimization of the super section would not be realized until after development of the sump area was completed. Therefore, the delay for super section approval is not expected to be detrimental.

- As of November 2011, permanent power to the No. 12 South B2 Mine had not been established. Power line pole installations were observed without cable, as of August 2011. Temporary power was being maintained with the use of rented diesel generators. The use of temporary power is considered a prudent short-term solution, as it allows initial development to commence in a timely manner. The use of temporary power as a long-term solution is not considered realistic. GCC management has reported that permanent power will be available to the mine within a month of our visit, and use of temporary power would be discontinued at that time.

4.2 Underground Employment and Labor Practices

The Smoky River Coal Basin is a mature mining region, where significant mining activity has occurred for several decades. In the last 10 years, operations have been planned, implemented, and exhausted in the course of normal operations. While underground mining activities in the region are well known, surface mining has been the primary mining method. GCC's underground operations represent a large portion of all underground mining in Canada. As a result, it is critical for GCC

to retain their key underground mining staff due to their specialized training and skills during any corporate transitions.

GCC has assembled a capable, experienced management group to oversee the final extraction of the No. 7 Mine and development of the No. 12 South B2 Mine. The region's history of mining provides a limited base for building the necessary mine workforces for future staffing needs, and continual development of new talent is required.

Review of the staffing charts provided indicates that GCC generally maintains a workforce consisting of Mine Management and Support Staff (11 personnel) and Underground Hourly Labor (92 personnel), totaling 103 persons for underground mining activity.

The following table summarizes the distribution of underground workers and management/ support staff on a historical basis:

Summary of Underground Employment

Management & Support Staff	
General Superintendent	1
General Mine Foreman	1
Underground Foreman	4
Utility Foreman	1
Training	1
Safety	3
Total	11
Hourly Workers	
A Crew	17
B Crew	15
C Crew	16
D Crew	16
E Crew	9
Swing Crew 5x2	3
Timber Crew	5
Yard/Outside Support	2
Bus Driver	3
Total	86
Other	
Modified Duty	4
Long Term Disability	2
Total	6
Total Mine Personel	103

GCC's production team is traditionally staffed when compared to other first world underground mining operations employing high levels of mechanization. There are variations in personnel assignments based on the specific mining situation, mining conditions, and mining method.

Due to regionally high turnover (nearly 30%), GCC is developing new, creative, and innovative ways to minimize the turnover rate. Typically, GCC is able to recruit new employees, and successfully train them to perform duties. The difficulty is once new employees are trained, they are often lost to larger companies in oil sands mining, or the oil and gas industry. GCC is working to combat this with the implementation of retention benefits, including company provided housing during an initial employment period. This has recently helped to some degree, but high turnover remains an issue. Additional staff is being sourced through recruitment of foreign workers who are expected to serve in underground management, labor, and technical/maintenance positions.

GCC underground workers are UMWA affiliated. Production is scheduled 24 hours per day, 7 days per week, on a 360 day per year schedule. The mines are operated on 12 hours per shift, with crews working a 4 days on and 4 day off work rotation. Historically, production days are less than operating days. Financial reports, summarizing underground operations, show 357 operating and 265 production days in 2009, with 346 operating and 344 production days indicated in 2010. Financial reports for 2011 indicate that there were 363 operating days, but do not provide a summary of production days. Financial reports for year to date 2012 (as of month end August 2011) indicate 153 operating days and no reference to production days.

Based on our review of historical operating data, and discussions with underground management regarding the intended overall production for underground operations, 300 annual production days are projected for future operations.

4.3 Underground Mining Costs

Underground mining cash cost estimates have been developed based on our review of recent historical quarterly and monthly cost statements. Summarized production costs have been provided for FY 2009, 2010, 2011, and YTD 2012. Detailed production costs have been provided for FY 2010, 2011, and YTD 2012. We have not independently audited the cost statements, but have studied their variability in conjunction with historical production trends, and available underground mine mapping.

Historical underground direct mining costs on a ROM basis range between $30.07 and $46.44 per tonne on a quarterly basis FY 2009 through FY 2011, and average $42.30 per tonne during this same period.

Forward projections developed by BOYD, utilize detailed production costs, and have assessed the difference in production costs between development mining operations (advance mining) and depillaring operations. This analysis projects a fixed production cost for all underground operations, a variable production cost component for development mining, and a variable cost component for depillaring operations. A summary of this analysis is provided in Table 4.1, located at the conclusion of this chapter.

As a result of the extensive rock parting in the No. 7/8 Seam, it is BOYD's view that the variable cost of the No. 7/8 Seam could be overstated if directly compared to the recent mining in the No. 4 Seam. Due to the rock parting, ROM production will inherently have a higher density than that of its No. 4 Seam counterpart. As a result, we have assessed the variable components of the No. 7/8 Seam ROM production at a reduced variable cost to account for this weight difference. This adjustment is

expected to have a 10% reduction of the variable cost portion of direct mining cost for the No. 7/8 Seam only, and has been included in future projections.

The mine production units will periodically transition between development and depillaring operations as the individual seams are exploited. The production situations will have separate dynamic cost drivers, which need to be considered independently. A summary of projected underground mining costs follows:

Summary of Underground Mining Cost

Summary Category	Min.	Max	Avg.
Total ROM Production	255.3	940.5	702.4
Total Saleable	154.7	827.6	493.5
Average Plant Yield — (%)	55.0	88.0	69.2
Cash Mining Cost			
Fixed Cost — ($000's)	1,875	9,000	7,365
Advance Mining			
ROM Tonnes Mined — (000's)	112.8	313.5	277.1
Variable Cost — ($/ROM t)	29.70	33.00	30.99
Depillaring			
ROM Tonnes Mined — (000's)	32.3	627.0	456.3
Variable Cost — ($/ROM t)	18.00	20.00	18.63
Combined Operations			
Total Variable Cost — ($000's)	6,200.5	22,885.5	16,298.4
Total Mining Cost	8,075.5	31,885.5	23,663.0
Average Unit Cost — ($/ROM t)	28.31	44.51	34.13
Average Unit Cost — ($/Product t)	32.17	80.93	51.40

It should be noted that changes in plant yield will have a significant effect on unit costs stated on per product ton basis. Additional analysis of CPP operations, in conjunction with underground operations, will provide underground management with the ability to refine underground operations in order to maximize future saleable coal production.

4.4 Underground Capital Expenditures

Underground mines are currently capitalized and adequately equipped to meet the near term production projections. The equipment type and number of units appear to be appropriate for the mining conditions and room-and-pillar methods. Equipment will need to be maintained and replaced on an ongoing basis. At this stage, with limited knowledge of the current condition of underground equipment, a detailed equipment replacement program has not been projected. Management has reported, and provided asset allocation information, which confirms that units of primary mining equipment have recently been acquired. The base assumption for this report includes both funding for the replacement of underground equipment, as well as a general sustaining capital allowance of $3.10 per ROM tonne, at full production levels. This CAPEX account for equipment replacement and a portion of the future transition to the No. 4 Seam.

The No. 7 Mine is currently concluding operation; with the No. 12 South B2 Mine recently being started. Capital for the initial development of the new mine is already included in projections to date.

The replacement mine for the No. 12 South B2 Mine is not currently identified in GCC's recent NI 43-101 report, but will be needed within the 15-year model period. No. 12 South B2 Mine will be exhausted in approximately 12 years. BOYD projects that an additional $4.0 million of capital will be needed to develop the next underground area for the No 4 Mine. This includes temporary fans, canopies, and highwall face bolting which cannot be reused from the No. 7/8 Seam operation. We propose that these development costs be incurred beginning in 2018 and are distributed over two years.

4.5 Underground Production/Mine Planning

An engineered mining plan for the No. 12 South B2 underground mine, supported with corresponding geological models has been developed by the underground management team. This offers the most appropriate basis for projecting future performance. The GCC technical staff, with the assistance of their technical consultants, have prepared and publically presented these long-range mining plans.

Tonnage, revenue, and cost figures provided by GCC were reviewed, and included in our cost analysis. While there is inherent difficulty in accurately forecasting the performance of operations, it is BOYD's opinion that recent shortfalls experienced to date, combined with revisions offered by GCC, raise questions regarding the achievability of available GCC internal plans and projections. GCC has historically exceeded its budgeted underground mining costs. Our review of historical data indicates that the budgeted cost and actual costs have only recently been consistent.

This presumably corresponds to the depillaring operations in the No. 7 Mine, and correlates to a more predictable low variable cost component.

Our analysis includes the review of GCC's ability to remove the stated reserves on an efficient and economic basis. The proposed underground mining plans appear to be reasonable given the stated historic recovery of previous GCC underground operations. BOYD's views and opinions regarding the underground reserve recovery are based on our extended history in western Canada, and our knowledge of room and pillar development and depillaring operation. Following our review of available data and direct observation relative to the GCC underground operations, we provide the following summary of underground production and reserve recovery.

Underground Mining Recovery

- It is important to recognize that the in-place coal tonnages, mining recovery, etc., are restricted to defined mining blocks and not the entire areal extent of coal.

- GCC has prepared detailed mine plans for the 12-South B2 Mine, which were reviewed by BOYD. These plans are similar to the plans and projections developed and executed in the No. 7 Mine. GCC management explained that they have historically recovered 80% of the mining plan during depillaring operations in the No. 4 seam.

- While the inclusion of 80% recovery is an aggressive factor, the method of coal recovery at GCC includes the recovery of floor coal. This is the method of driving production equipment into the floor to extract the maximum coal zone. This was a successful mining method in the No. 7 Mine.

- BOYD recognizes that the depillaring process is variable, and includes pillar removal and floor coal extraction simultaneously. The application of 80% recovery factor is appropriate for this seam at this operations to account for all coals extracted. It needs to be recognized that the coal being mined is of coking quality and all reasonable efforts will be taken to maximize recovery.

- Depillaring is an established practice at GCC. The application of the MRS systems by GCC is included in the production scheme to minimize or reduce the hazards associated with depillaring. Until recently depillaring has been conducted with wood posts. The labor needed to install posts for depillaring operations is exposed to hazards, that are mitigated by the use of MRS units.

- Subsidence analysis and associated stress analysis have already been completed by GCC as part of provincial permit application processes. BOYD has not completed an analysis of these results, or conducted a detailed ground control analysis regarding GCC's depillaring operations. This CPR report opines that the GCC mine plan has been completed successfully by GCC in the past under similar mining conditions. The projections developed by GCC are supported by historical practices and production methods, in the available reserves. Safety concerns associated with depillaring need to be managed appropriately based on operational situations, and appropriate analytical ground control analysis.

Our review of available summarized data suggests that monthly production could theoretically exceed 85,000 ROM tonnes/month (1.0 Mtpa) production level with multiple sections. However, in actual practice, this run rate was not achieved between 2009 and 2011. On average, the operations have averaged 58,000 tonnes/month (0.7 million ROM tpa). Given the consideration for improvement in efficiencies, and the application of new mining technology (i.e., MRS's and a super section), up-side consideration is warranted for future production.

BOYD opines that a 15% to 20% increase in production could be achieved on average. The projections developed by BOYD for this report, while being variable, account for these added efficiencies, and ROM production in excess of 850,000 ROM tonnes per year is considered reasonable. This would allow the operations to increase to a 70,000 tonne per month (0.84 million ROM tpa) for multiple operating sections.

The application and benefits of MRSs are only realized once the depillaring cycle is established in the No. 12 South B2 Mine. The No. 7 Mine is nearly complete and the implementation of MRSs there could be considered a test analysis for future production at the No. 12 South B2 Mine. Reports of actual MRS use in the No. 7 Mine indicate that full utilization of this technology in the No. 12 South B2 Mine will be favorable.

The projections developed by BOYD assume that the underground mining operation is a swing producer until a new CPP is constructed (to accommodate a higher tonnage of ROM production). Under the BOYD plan full underground production was postponed for several years to allow for increased surface production. The surface production is estimated to have a better yield. Proportionally high reject from the underground mine displaces ROM production from the surface operations. Likewise, depillaring is delayed within the plan to allow for mine entry development.

This production swing of the underground mines are generally allocated based on stripping abilities of the surface operations, and the eventual replacement of the preparation plant with a modern higher capacity CPP in FY 2016.

It is BOYD's view that limiting underground production, in near term projections, results in an enhanced economic performance of the overall operation. Alternatives to increase high yield coal production in the early years results in higher initial capital expenditure. This is necessary to achieve production projections, cost efficiencies, and placement of strategic capital to maximize economic outcomes, as specified by Winsway for the initial three years of the mine plan.

A summary of BOYD's projected ROM production is summarized as follows:

	Projected Underground ROM Production (tonnes – 000) Fiscal Year							
Production Source	**2012 (5 mos.)**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
No. 7 Mine (4 Seam)	142.5	—	—	—	—	—	—	—
No. 12 South B2 (7/8 Seam)								
Advance Mining	112.8	313.5	285.0	285.0	285.0	313.5	209.0	—
Depillaring Operations	—	32.3	456.0	384.8	270.8	627.0	627.0	627.0
Total ROM Production	112.8	345.8	741.0	669.8	555.8	940.5	836.0	627.0
No. 12 South B2 (4 Seam)								
Advance Mining	—	—	—	—	—	—	95.0	313.5
Depillaring Operations	—	—	—	—	—	—	—	—
Total ROM Production	—	—	—	—	—	—	95.0	313.5
Total ROM Production	255.3	345.8	741.0	669.8	555.8	940.5	931.0	940.5

4.6 Future Underground Production

A third underground mine, assumed to No. 12 South A7, will be needed by 2023, as a replacement underground production source for the No. 12 South B2 Mine. While GCC has not identified these reserves in recent NI 43-101 reports, GCC management verbally indicated that the coal resource is reasonably available. The resource is expected to be included in future reserve and resource reports once additional reserve analysis have been performed, and detailed mining plans and projections have been developed. Neither GCC nor BOYD has developed detailed mining plans for this underground reserve area, and as such, the inclusion of the production is regarded as hypothetical at this time. With the availability of existing underground equipment from the then depleted No. 12 South B2 (No. 4 Seam) Mine in FY 2023, BOYD regards the new underground mine as the most realistic opportunity to perpetuate the current production scheme.

The alternative of increasing production levels at the surface mines beginning in 10 to 12 years (to replace underground production capacity) would require significant capital expenditures for additional surface equipment. The availability of underground equipment and probable underground reserves provides sustained production on a logical and economical basis. Exploration followed by detailed underground mine planning for the No. 12 South A7 reserve area should be a priority for GCC.

Following this page are:

Tables

4.1: Summary of Historical Underground Mine Costs

4.2: Revised Production Projections

TABLE 4.1

SUMMARY OF HISTORICAL UNDERGROUND MINE COSTS
GRANDE CACHE COAL CORPORATION — UNDERGROUND MINES
Alberta, Canada
Prepared For
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

	Year End 31 March 2010			Year End 31 March 2011			YTD 30 June 2011		
ROM Production	656,572			835,468			228,290		
Average Tonnes per Month	54,714			69,622			76,097		
Avg. Plant Yield — (%)	77.1			62.7			65.6		
Saleable Production	506,217			523,838			149,758		
Operating Costs — All UG Production	**Total (US$)**	**US$ per ROM Tonne**	**US$ per Product Tonne**	**Total (US$)**	**US$ per ROM Tonne**	**US$ per Product Tonne**	**Total (US$)**	**US$ per ROM Tonne**	**US$ per Product Tonne**
Labor Costs	13,910,517	21.19	27.48	16,351,894	19.57	31.22	4,294,611	18.81	28.68
Electrical Supplies and Repairs Parts	838,559	1.28	1.66	1,317,738	1.58	2.52	303,459	1.33	2.03
Mechanical Supplies and Repair Parts	2,825,816	4.30	5.58	2,105,994	2.52	4.02	326,397	1.43	2.18
Operating Costs	4,625,557	7.05	9.14	3,437,812	4.11	6.56	625,916	2.74	4.18
Roof Supports	745,804	1.14	1.47	1,449,957	1.74	2.77	489,771	2.15	3.27
Contractors and Consultants	—	—	—	—	—	—	204,060	0.89	1.36
Other Costs	1,272,875	1.94	2.51	7,755,924	9.28	14.81	876,560	3.84	5.85
Total	24,219,128	36.89	47.84	32,419,319	38.80	61.89	7,120,774	31.19	47.55
Projected Fixed Costs	9,000,000			9,000,000			2,250,000		
Variable Portion of Mining Costs	15,219,128			23,419,319			4,870,774		
Production Split — ROM Tonnes									
Percent Adv — (%)	50			60			30		
Percent Retreat — (%)	50			40			70		
Advance Production — ROM Tonnes	328,286			501,281			68,487		
Retreat Production — ROM Tonnes	328,286			334,187			159,803		
Cost Split — ROM Tonnes									
Percent Adv — (%)	60			60			60		
Percent Retreat — (%)	40			40			40		
Advance Production — ROM Tonnes	9,131,477			14,051,591			2,922,464		
Retreat Production — ROM Tonnes	6,087,651			9,367,728			1,948,310		
Advance Variable Cost — ($/ROM Tonne)	27.82			28.03			42.67		
Retreat Variable Cost — ($/ROM Tonne)	18.54			28.03			12.19		
Fixed Portion of Underground Production Costs — (000's)		9,000							
Average Advance Variable Cost — ($/ROM Tonne)		33.00							
Average Retreat Variable Cost — ($/ROM Tonne)		20.00							

Nos. expressed in Canadian Dollars.

TABLE 4.2

REVISED PRODUCTION PROJECTIONS
GRAND CACHE COAL CORPORATION — UNDERGROUND MINES
Alberta, Canada
Prepared For
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

FY:	2012 (5mo)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Underground Production Assumptions																
No. 7 Mine (4 Seam)																
Depillaring Operations																
ROM Tonnes per shift	500	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Shifts per Day	2	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Production Days	75	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Production Months	3.0	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Availability (%)	95	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
CM Mining Units	2	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total ROM Tonnes	142,500	—	—	—	—	—	—	—	—	—	—	—	—	—	—	142,500
No. 12 South B2 (7/8 Seam)																
Advance Mining																
ROM Tonnes per shift	475	550	500	500	500	550	550	—	—	—	—	—	—	—	—	
Shifts per Day	2	2	2	2	2	2	2	—	—	—	—	—	—	—	—	
Production Days	125	300	300	300	300	300	200	—	—	—	—	—	—	—	—	
Production Months	5.0	12.0	12.0	12.0	12.0	12.0	8.0	—	—	—	—	—	—	—	—	
Availability (%)	95	95	95	95	95	95	95	—	—	—	—	—	—	—	—	
Operaing units	1	1	1	1	1	1	1	—	—	—	—	—	—	—	—	
Total ROM Tonnes	112,813	313,500	285,000	285,000	285,000	313,500	209,000	—	—	—	—	—	—	—	—	1,803,813
Depillaring Operations																
ROM Tonnes per shift	—	400	400	450	475	550	550	550	550	—	—	—	—	—	—	
Shifts per Day	—	1.0	2.0	1.5	1.0	2.0	2.0	2.0	2.0	—	—	—	—	—	—	
Production Days	—	85	300	300	300	300	300	300	150	—	—	—	—	—	—	
Production Months	—	3.4	12.0	12.0	12.0	12.0	12.0	12.0	6.0	—	—	—	—	—	—	
Availability (%)	—	95	95	95	95	95	95	95	95	—	—	—	—	—	—	
Operaing units	—	1	2	2	2	2	2	2	2	—	—	—	—	—	—	
Total ROM Tonnes	—	32,300	456,000	384,750	270,750	627,000	627,000	627,000	313,500	—	—	—	—	—	—	3,338,300
											Total 12-South-B2 (No. 7/8 Seam) ROM Extracted					5,142,113
No. 12 South B2 (4 Seam)																
Advance Mining																
ROM Tonnes per shift	—	—	—	—	—	—	500	550	550	550	550	—	—	—	—	
Shifts per Day	—	—	—	—	—	—	2	2	2	2	2	—	—	—	—	
Production Days	—	—	—	—	—	—	100	300	300	300	200	—	—	—	—	
Production Months	—	—	—	—	—	—	4.0	12.0	12.0	12.0	8.0	—	—	—	—	
Availability (%)	—	—	—	—	—	—	95	95	95	95	95	—	—	—	—	
Operaing units	—	—	—	—	—	—	1	1	1	1	1	—	—	—	—	
Total ROM Tonnes	—	—	—	—	—	—	95,000	313,500	313,500	313,500	209,000	—	—	—	—	1,244,500
Depillaring Operations																
ROM Tonnes per shift	—	—	—	—	—	—	—	—	500	550	550	500	—	—	—	
Shifts per Day	—	—	—	—	—	—	—	—	2	2	2	2	—	—	—	
Production Days	—	—	—	—	—	—	—	—	150	300	300	190	—	—	—	
Production Months	—	—	—	—	—	—	—	—	6.0	12.0	12.0	7.6	—	—	—	
Availability (%)	—	—	—	—	—	—	—	—	95	95	95	95	—	—	—	
Operaing units	—	—	—	—	—	—	—	—	2	2	2	2	—	—	—	
Total ROM Tonnes	—	—	—	—	—	—	—	—	285,000	627,000	627,000	361,000	—	—	—	1,900,000
											Total 12-South-B2 (No. 4 Seam) ROM Extracted					3,144,500
Total Production — ROM Tonnes																
Advance Mining Operations	112,813	313,500	285,000	285,000	285,000	313,500	304,000	313,500	313,500	313,500	209,000	—	—	—	—	3,048,313
Depillaring Operations	142,500	32,300	456,000	384,750	270,750	627,000	627,000	627,000	598,500	627,000	627,000	361,000	—	—	—	5,380,800
Total	255,313	345,800	741,000	669,750	555,750	940,500	931,000	940,500	912,000	940,500	836,000	361,000	—	—	—	8,429,113
ROM Production — Tonnes/Month	21,276	28,817	61,750	55,813	46,313	78,375	77,583	78,375	76,000	78,375	69,667	30,083	—	—	—	

FY:	2012 (5mo)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Cash Mining Cost																
Fixed Cost — ($000's)	1,875	5,500	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	6,000	3,000	—	—	—	12,100
Cost Components — No. 7 Mine (4Seam)																
Depillaring																
ROM Tonnes Mined — (000's)	143	—	—	—	—	—	—	—	—	—	—	—	—	—	—	143
Variable Cost — ($/ROM t)	20.00	—	—	—	—	—	—	—	—	—	—	—	—	—	—	20.00
Combined Operations																
ROM Tonnes Mined — (000's)	143	—	—	—	—	—	—	—	—	—	—	—	—	—	—	143
Total Variable Dollars — ($000's)	2,850	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,850
Cost Components — No. 12 South B2 No. 7/8																
Advancing Mining																
ROM Tonnes Mined — (000's)	113	314	285	285	285	314	209	—	—	—	—	—	—	—	—	200
Variable Cost — ($/ROM t)	29.70	29.70	29.70	29.70	29.70	29.70	29.70	—	—	—	—	—	—	—	—	18.90
DePillaring																
ROM Tonnes Mined — (000's)	—	32	456	385	271	627	627	627	314	—	—	—	—	—	—	500
Variable Cost — ($/ROM t)	—	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	—	—	—	—	—	—	13.09
Combined Operations																
ROM Tonnes Mined — (000's)	113	346	741	670	556	941	836	627	314	—	—	—	—	—	—	5,142
Total Variable Dollars — ($000's)	3,351	9,892	16,673	15,390	13,338	20,597	17,493	11,286	5,643	—	—	—	—	—	—	113,663
Cost Components — No. 12 South B2 No. 4																
Advancing Mining																
ROM Tonnes Mined — (000's)	—	—	—	—	—	—	95	314	314	314	209	—	—	—	—	400
Variable Cost — ($/ROM t)	—	—	—	—	—	—	33.00	33.00	33.00	33.00	33.00	—	—	—	—	15.00
Depillaring																
ROM Tonnes Mined — (000's)	—	—	—	—	—	—	—	—	285	627	627	361	—	—	—	700
Variable Cost — ($/ROM t)	—	—	—	—	—	—	—	—	20.00	20.00	20.00	20.00	—	—	—	5.45
Combined Operations																
ROM Tonnes Mined — (000's)	—	—	—	—	—	—	95	314	599	941	836	361	—	—	—	3,145
Total Variable Dollars — ($000's)	—	—	—	—	—	—	3,135	10,346	16,046	22,886	19,437	7,220	—	—	—	79,069
Underground Operations Cost																
ROM Tonnes Mined — (000's)	255	346	741	670	556	941	931	941	912	941	836	361	—	—	—	
Total Cost — ($000's)	8,076	15,392	25,673	24,390	22,338	29,597	29,628	30,632	30,689	31,886	25,437	10,220	—	—	—	
Avg. Unit Cost — ($/ROM Tonne)	31.63	44.51	34.65	36.42	40.19	31.47	31.82	32.57	33.65	33.90	30.43	28.31	—	—	—	25.15
Avg. Unit Cost — ($/Prod. Tonne)	52.21	80.93	57.74	60.69	66.99	52.45	50.63	46.98	42.93	38.53	34.58	32.17	—	—	—	13.35
Estimated Capital Expenditure																
Rom Tonnes Mined	255	346	741	670	556	941	931	941	912	941	836	361	—	—	—	8,429
CAPEX — ($/ROM tonne)	2.25	2.25	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	—	—	—	3.04
Total Capital — Sustaining	570	780	2,300	2,080	1,720	2,920	2,890	2,920	2,830	2,920	2,590	1,120	—	—	—	25,640
Development Capital	1,000	5,000	—	—	—	—	2,000	2,000	—	—	—	—	—	—	—	10,000
Sustaining Capital/Product Tonne	3.69	4.10	5.17	5.18	5.16	5.17	4.94	4.48	3.96	3.53	3.52	3.53	—	—	—	4.33
ROM Production — (000's)																
No. 7 Mine	143	—	—	—	—	—	—	—	—	—	—	—	—	—	—	143
No. 12 South B2 7 Seam	113	346	741	670	556	941	836	627	314	—	—	—	—	—	—	5,142
No. 12 South B2 4 Seam	—	—	—	—	—	—	95	314	599	941	836	361	—	—	—	3,145
Total ROM	255	346	741	670	556	941	931	941	912	941	836	361	—	—	—	8,429
Average Plant Yield	60.6	55.0	60.0	60.0	60.0	60.0	62.9	69.3	78.4	88.0	88.0	88.0	—	—	—	70.3
Saleable Production — (000's)																
No. 7 Mine	93	—	—	—	—	—	—	—	—	—	—	—	—	—	—	93
No. 12 SB2 7 Seam	62	190	445	402	333	564	502	376	188	—	—	—	—	—	—	3,062
No. 12 SB2 4 Seam	—	—	—	—	—	—	84	276	527	828	736	318	—	—	—	2,767
Total Product	155	190	444.6	401.9	333.5	564.3	585.2	652.1	714.8	828	736	318	—	—	—	5,922

5.0 SURFACE MINE OPERATIONS AND PLANNING

5.1 General

The primary coal mining method used at GCC, and western Canada as a whole, is surface or open pit. Current GCC surface mine production is sourced from No. 8 Area (No. 8 South, Central and North pits). Development of the No. 8 Area commenced in December 2009. The current plan is to focus mining in the No. 8 Area to provide the lowest initial cost coal operations and highest yield to achieve throughput and operating cost requirements for the primary lender to the Consortium. The No. 12 South A Area has been delayed from the original GCC plan to meet updated financial objectives and is now scheduled to commence for pre-stripping in FY 2014 and full production in FY 2015. Future mining in the No. 2 Area, which is adjacent to the No. 8 Area, will be a continuous of previously mined outcrop pits. No. 2 Area is anticipated to be brought into production in FY 2014. The No. 16 Area is scheduled to commence operations in FY 2020 once the No. 12 South A pits are nearing completion. The No. 12 North Area will be developed last in the available reserve sequence.

As discussed in Chapter 3, BOYD's surface mine planning for GCC utilized the existing pit shells, as developed for the June 2011 NI 43-101 Report. BOYD then used Mine Sight and XPAC software to establish the reserve boundaries and to schedule an annual mining plan sequence. Overburden volumes and coal tonnages and qualities were estimated for each projected annual area of mining. This report provides our results for the next seven years of operation. Complete LOM projections were also completed for use in the separate Valuation Report.

GCC is an established coal mining company with extensive experience of using shovels/ excavators and trucks in surface operations. Mining methodology for forward planning will be exactly the same as current mining practices and will expand utilizing larger equipment (already in-use).

5.2 Surface Mining Method

GCC currently employs truck and shovel mining equipment and methods typical of open pit coal mines. Overburden and interburden (waste rock) are drilled and blasted in a series of vertical benches. Benches are designed 10 m to 15 m in height, depending on the size of loading units used and the thickness of the interval (interburden) between coal seams. The resulting shot waste rock excavated by large diesel-hydraulic and electric excavators/shovels and loaded into rear dump (rock) trucks. These trucks haul the waste material to the designated spoil disposal area located closest to the pit being mined.

Once the waste overlying the coal seam is removed, the top of the exposed coal seam is cleaned using small track dozers and smaller backhoe units. Coal is then excavated and loaded into coal haulage units for transport to either a designated intermediate stockpile area located near the mined pit, or directly hauled to the primary ROM stockpile area located at the CPP's raw coal handling system. Coal transported from the various pits is segregated by quality (seam, mining area) into separate stockpiles to enable proper coal blending to achieve customer coal quality specifications.

GCC has upgraded its surface mining fleet to enable the planned increase in production rates. A large (27 m^3) hydraulic shovel was added to the fleet of existing 21 m^3 units, and a 36-m^3 capacity electric cable shovel was commissioned to complete the primary waste removal fleet.

A fleet of large 240-tonne capacity rear dump trucks is used for waste rock haulage. Following is a list of the existing surface mine equipment fleet including units that have been added over the last two years to upgrade the waste removal fleet:

Category	No. of Units	Model
Shovels	1*	P&H 2800 XPC (electric)
	1*	Hitachi EX 5500
	1	Hitachi EX 3600
Excavators	1	CAT 5130E
	1	Komatsu PC 3000
	1	Hitachi UH 801
	1	Komatsu PC 750
	1	Komatsu PC 300
	1	Komatsu PC 600
Drills	1*	P&H 250XP-ST
	1*	P&H 320XP (electric)
	1	Viper P271
	1	IR DMM-2
	1	Tamrock/Drilltech 785
	1	Atlas Copco CM 785
Haul Trucks (rock)	18*	Komatsu 830E
	14	Komatsu 685 (standby)
Haul Trucks (coal)	6	CAT 777D
	6	CAT 777B
Dozers	2	CAT D11R
	6*	CAT D10T
	5	CAT D10N
	1	CAT D9N
	3	CAT D8T
	1	CAT D8N
	1	CAT 834B RT
	1	CAT 834H RT
Front End Loaders	1*	Komatsu WA1200-3
	1	LeTourneau L 1350
	1	Komatsu WA600
	1	CAT 988F
	1	Komatsu WA 500
	1	CAT 980G
	1	CAT 924G
Graders	1	CAT 24H
	2	CAT 16H
	1	CAT 16G

* *Equipment upgrade (addition) over the last two years*

Coal haulage utilizes either, or a combination of company owned 90-tonne trucks, and/or contractor owned and operated 60-tonne tractor-trailer units. Other support equipment includes:

- track dozers for coal cleaning, and shovel support, as well as road and waste dump construction and maintenance,
- road graders for haul road construction and maintenance,
- front-end loaders (20 m^3) for coal loading and to back-up shovels,
- backhoes for coal cleaning and ditch construction for runoff water control, and
- miscellaneous equipment to support a 24/7 operation.

GCC has extensive experience operating in cold weather climate. Equipment compliments (i.e., road graders, etc.) are designed to maintain road conditions during periods of significant snow. Cold weather packages are included when purchasing equipment to mitigate potential down-time during periods of extreme cold.

5.3 Site Infrastructure

Vehicular access to the GCC mining operations is via Provincial Highway 40, which is a two-lane road that connects the property with the town of Grande Cache and with the communities of Grande Prairie to the north and Hinton to the southeast. The GCC rail load-out is serviced by an existing branch line of the CN, which connects with the main line and provides rail access to the three major coal export terminals in British Columbia and to the Great Lakes.

The operation uses the existing CPP and rail load-out facility, and associated infrastructure, which were previously owned and operated by Smoky River Coal Limited and predecessor companies over a period of approximately 30 years. A new main pit access road has been constructed on the east slope of Horse Mountain Ridge to support development of the surface mining pits in the No. 8 Mine Area.

Electrical power to the CPP site is provided by the Alberta interconnected electrical grid system and the nearby Milner Power Station. Transmission lines supply power to the No. 8 surface mine area and to the No. 7 underground mining operations. A new transmission line was recently constructed to supply electrical power to the No. 12 South B2 underground and to the No. 12 South A surface areas.

5.4 Surface Workforce and Labor Practice

GCC's workforce totals approximately 636 employees (hourly, site management, and corporate management). Of the total, approximately 281 are directly related to surface mining.

The operations hourly workforce is unionized and represented by the UMWA. The current labor agreement has a five-year term, which is scheduled to expire 16 May 2015. Average annual contractual wage increases are between 2.5% and 3.0% over the remainder of the contract.

The following table shows Surface Mine and Other Operational workforce by department:

Surface Mine and Other Operational Workforce by Department

Surface Operations	181
Coal Haul	21
Surface Maintenance	79
Warehouse and Purchasing	11
EH&S	22
Accounting and IT	7
Engineering	21
HR	7
Senior Management	11
Calgary (corporate)	29
Total	*389

* *Plant and underground workforce consists of 247 employees and is discussed in their respective chapters.*

5.4.1 Workforce Turnover

On an annualized basis turnover ranges between 25% and over 31%. High turnover is a regional problem and results in lower productivity, continual safety issues with a young/ inexperienced work force, and ultimately higher production costs.

GCC is facing competition for skilled workers from other coal producers and the oil sand operations in northern Alberta. GCC management recognizes the turnover problem and is proactively working toward solutions. The remedies being investigated and attempted are:

- Providing affordable housing by constructing company condominiums.
- Developing a 7 day on and 7 day off or 10 day on and 10 day off work rotation. It should be noted that the oil sand operation reportedly uses a 14 day on and 14 day off rotation.

The turnover has resulted in GCC recruiting experienced mining personnel from South Africa, Britain, Poland, and Japan. The company must document and obtain approvals from the provincial and federal governments to allow expatriate workers to enter and live on a long-term basis in Alberta.

5.4.2 Contract Workers

GCC management attributes the significant short-falls in production during the last several quarters to, at least partially, turnover in truck drivers. In order to remedy this situation, GCC has contracted with an independent third party to provide truck drivers. GCC also contracts with Caterpillar and other equipment manufacturers to provide skilled maintenance workers under a contract arrangement. Using contract workers as a primary means of addressing the labor shortage will increase the cost of mining, but is required in order to continue operations.

BOYD considers the high turnover rates a significant impediment to increasing production and achieving the targets projected by GCC. We have assumed that historical productivity levels will be sustained for the purposes of this CPR. The fact that management recognizes the issue and is working to address it, should, if successful, avoid further decline and could result in a future improvement.

5.5 Historical Production

Quarterly financial reports were provided and summarized beginning in FY 2009. Historical production for the surface mining operations is summarized as follows:

		Fiscal Year (1 April through 31 March)			
Category	**Units**	**2009**	**2010**	**2011**	**Apr–Sept 2012**
Operating Days		363	348	363	183
Material Moved	Waste (bcm — 000)	7,045	7,129	13,919	11,604
ROM Mined	Met (ROM tonnes — 000)	1,379	1,254	1,145	722
	Thermal (ROM tonnes — 000)	2	149	207	99
	Total ROM	1,381	1,402	1,352	821
ROM Strip Ratio		5.1	5.1	10.3	14.1
Production Metrics	Waste mined (bcm/day)	19,407	20,486	38,345	63,407
	ROM mined (ROM tonnes/day)	3,805	4,030	3,725	4,487

Note: GCC does not report the net product tonnes of production for the individual mine or mining method.

As shown, the volume of waste removal in FY 2011 increased 95%, as compared to FY 2010, and 226% when comparing FY 2012 (six months on an annualized basis) with FY 2010. This reflects the introduction and use of the upgraded equipment fleet.

BOYD opines that productivity should increase as operators and management work through the learning curve of the new equipment. Additionally, the mine has increased its utilization of Pit Ram software that is used to analyze production from the various sources. Based on FY 2012 six-month results, the current equipment has the potential to remove a nominal 22 Mbcm to 24 Mbcm per year.

5.6 Surface Mining Historic Costs

GCC provided Quarterly Financial Report for FY 2009 through the 2nd quarter (Q2) FY 2012 plus the month of October 2011. However, these costs were provided in summary (with no breakdown of surface mining historical costs by typical line items: labor, explosives, etc.). Following is the summarized total surface mine cost by FY:

	Fiscal Year			
Surface Mine Direct Cash Cost	**2009**	**2010**	**2011**	**2012 Apr–Sept**
C$000	59,471	36,027	54,231	48,804
C$/BCM	8.44	5.05	3.90	4.21
C$/ROM tonne mined				
Metallurgical Only	43.13	28.73	47.36	67.60
Metallurgical and Thermal	43.06	25.70	40.11	59.44

However, the historical costs should not be reflective of future performance since:

- FY 2009 and FY 2010 mining utilized the older equipment.
- FY 2011 and FY 2012 (six months) are periods in transition as the upgraded equipment is introduced and implemented into the mining operation.

On a steady state basis, BOYD would expect No. 8 Mine cash costs to be approximately $4.00/bcm.

5.7 Surface Mine Design and Scheduling

BOYD has completed pit by pit mine plans and supporting schedules for future GCC surface mines. Each pit area is shown on Figure 1.1, which is located in the Introduction Chapter of this report. The following provides a general description of each pit (mine area):

5.7.1 No. 8 Pits

No. 8 surface mine area continues to be developed and expanded as equipment is added to the fleet. The No. 8 Mine consists of a series of pits following the synclines and anticlines crossing the Horse Mountain Ridge in a southeast-northwest direction. Mining commenced in the eastern pits with waste dumps being developed in the draws above Highway 40 and along the top of the ridges. As mining progresses, mined-out areas will be used for waste backfill. The steep terrain complicates access to the pit areas. No. 8 Mine-East is subdivided into three pit areas (south, middle and north). Estimated ROM reserves in the No. 8 pits total 23.9 Mt. Development work commenced in 2009 and production in Q2 FY 2011. The primary development work has been completed. Production is projected to be 2.4 Mt, 3.1 Mt, and 3.2 Mt in FY 2013 through FY 2015, respectively.

5.7.2 No. 2 Pits

No. 2 Pits are continuations of the previously mined Reiff Terrace and Barrett pits. The pit designs, and associated access and waste dump designs, were completed as part of this mine design and schedule. ROM reserves in the No. 2 Area total 14.3 Mt. and production is projected to commence by FY 2016.

5.7.3 No. 12 South A Open Pit

This pit is a continuation of a previously mined-out pit and is adjacent to the recently mined out No. 12 South B Pit. It is planned that overburden waste will be disposed of in the previously disturbed area. Estimated ROM reserves in the No. 12 South A Pits total 10.5 Mt. Permits for mining this area are pending; an amended application was submitted in March 2010. Production in No. 12 South A is projected to commence by FY 2015.

5.7.4 No. 16 Pit

The No. 16 Pit consists of two main areas (East and West) which will follow the same syncline system in a southeast-northwest direction. The No. 16 Pit involves significant vertical relief and access will be challenging. Estimated ROM reserves in the No. 16 pit total 24.0 Mt. This mine area has been recently redesigned based on updated exploration results and submittal of the mining permit application is pending.

5.7.5 No. 12 North Pits

This area is an extension of the No. 12 South surface and underground mining areas. Pit designs, including access roads and waste dumps, have been completed for the No. 12 North Area. Estimated ROM reserves in the No. 12 North Pits total 43.7 Mt. Additional drilling is planned prior to commencing detailed planning and permitting.

5.8 Production Plans

Since GCC took over operations from the former owner in 2004, production has gradually increased to a level of approximately 1.5 Mtpa. Supported by favorable market conditions for metallurgical coal, GCC is in the process of increasing their production to reach a target of 3.5 Mtpa (from both surface and underground mining operations).

BOYD projected tonnage for the balance of FY 2012 (5 months) and FY 2013/FY 2014 is at a nominal rate of 1.5 Mtpa (product basis) as upgrades to the existing CPP are anticipated to be completed during FY 2013. BOYD optimized the initial three-year period (FY 2013 through FY 2015) to achieve financial objectives of the Consortium. This plan projects ROM surface production at 2.4 Mt, 3.1 Mt, and 3.2 Mt for FY 2013 through FY 2015, respectively. The remaining projected ROM production ranges from 3.0 to 4.0 Mtpa depending on year for the balance of the seven-year period shown in this CPR. The ROM and corresponding product tonnes are shown on Table 5.1 following this chapter.

The total coal production capacity of the GCC mining operations is dependent on the CPP and a discussion regarding plant capacity is included in the CPP chapter of this report. Additionally, effective operating hours include consideration for cold weather and snow operational delays. GCC has extensive experience operating in this climate and is prepared to handle extreme conditions.

5.9 Surface Mine Capital

GCC has upgraded its fleet capacity over the last several years with the acquisition of approximately $135 million in equipment. The recent acquisitions are listed as follows:

- 1 — Hitachi 5500 shovel
- 1 — P&H 2800 electric shovel
- 18 — Komatsu 830E haul trucks (240 tonnes)
- 2 — P&H drills (one electric, one diesel)
- 1 — Komatsu Loader
- 6 — CAT dozers

The acquisitions have been financed with internal funds and/or involve equipment leases. The following table shows the last three years of capital expenditures (including underground related):

	CAPEX (C$-000) by FY		
	2009	**2010**	**2011**
Surface Equipment Capital			
Drills and Shovels	10,044	10,955	31,134
Trucks and Dozers	14,711	39,380	48,923
Total Surface Equipment Capital	24,755	50,335	80,057
Other Capital			
Surface Mine and Road Development	10,744	17,627	44,532
Underground Mine Development and Equipment	2,013	15,024	12,553
Plant, Infrastructure, and Other	7,701	8,565	38,494
Total Other Capital	20,458	41,216	95,579
Total Capital Expenditures	45,213	91,551	176,636

The following table summarizes estimated surface mine capital expenditures for the next seven-year period:

		C$ (000), Constant Dollar Values							
Equipment Type	**Make/Model**	**FY 2012***	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Surface Equipment Capital (new and replacements)									
Drills	P&H 320XPC	—	6,000	—	—	—	—	—	—
Drills	PV271	—	—	—	—	—	—	—	—
Shovels	P&H 2800XPC	—	—	—	—	18,900	—	—	—
Shovels	PC5500	—	11,000	—	—	—	—	—	—
Shovels	PC3600	—	—	—	—	—	—	—	—
Haul trucks	830E AC	—	28,350	14,175	70,875	80,325	33,075	—	—
Haul trucks	CAT 777	—	—	—	—	3,000	—	7,000	5,000
Loaders	WA1200/L1350	—	—	—	4,200	—	—	—	—
Dozers	D10T	—	—	—	4,400	—	2,200	—	2,200
Graders	24M	—	—	—	4,400	—	—	4,400	—
RTD	CAT 834	800	—	800	—	800	800	800	—
Water Truck	CAT 777	1,300	—	1,300	—	—	—	—	—
Subtotal		2,100	45,350	16,275	83,875	103,025	36,075	12,200	7,200

* 5 months (Nov. through March)

5.10 Surface Mine Production Planning

Surface mine production has been consistent since GCC has restarted operations with approximately 1.4 Mt produced in FY 2011. Market conditions are driving the plan to increase coking coal production. GCC has experienced production issues in an attempt to increase production, which are attributed to: labor due to turnover, geological issues, and throughput of the preparation plant. Shortfalls in production also directly correlate to below budget financial results.

The following summarizes BOYD's product coal production estimates for GCC surface mines over the seven-year period:

Product Type	**Clean Coal Production by Product Type**							
	FY 2012 (5 mos.)	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
HCC	472	1,519	2,036	2,130	2,398	2,102	2,577	2,550
Semi-Soft	—	—	—	—	—	—	—	—
PCI	—	—	—	55	51	105	265	205
Subtotal Products	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755
By-Product Thermal	16	123	23	73	139	82	85	88

Table 5.1, following this text, shows Estimated Annual Surface Mine Production.

5.11 Surface Mine Mining Cost Projections

Surface mining cost projections were developed by BOYD from first principles and predicted site operating cost parameters. GCC has acquired new larger surface mining fleets, which, when compared to prior equipment, are expected to lower the unit cost of production. The new electric shovel and drill will assist in reducing the volatility of diesel fuel in the production cost. The acquisition of the new mining equipment fleets, combined with the cost of expanding production through the development the new mining areas, require a high level of capital expenditures as the mine expands over the next seven-year period.

Surface mining operating costs include both fixed and variable cost components. The variable cost component is based on stripping ratio (amount of overburden waste per recovered tonne of coal). As stripping ratio increases the $/tonne increases and conversely lower stripping ratio's result in decreased operating costs. However, future haul distances required for disposal of rock waste has a direct impact on the number of haul trucks required, and consequently, the mining cost. The BOYD mining plan estimates required haul distances in each year of the plan by mine area.

BOYD also escalated all cash costs at 2% per annum to be consistent with the nominal coal price assumptions provided by Wood Mackenzie (refer to discussion in the price assumptions section of this report contained in Chapter 7).

The following are estimated surface mine cost for a seven-year period on a C$/ROM and per Product tonne basis:

Estimated Surface Mines Cash Cost of Operations, Nominal Dollar Values

	2012	2013	2014	2015	2016	2017	2018	2019
$/Tonne ROM	70.22	54.07	51.84	65.13	78.15	94.09	72.83	75.29
$/Tonne Product	105.74	81.64	78.24	93.01	103.01	124.04	100.67	103.37
Strip Ratio (per ROM tonne)	14.0	12.4	10.8	12.2	14.3	15.9	12.0	12.1
$/bcm	5.01	4.36	4.79	5.32	5.48	5.91	6.04	6.20

As shown above, the estimated operating cash cost increase and decrease in relation to stripping ratio, and also reflect site specific mining requirements and the effect of escalation (at 2% per annum).

Chapter 9, Economic Analysis, combines surface, underground, processing, and G&A costs.

5.12 Recommendations

The following recommendations were made in the June 2011 NI 43-101 Report and confirmed by BOYD as part of this CPR:

- Continue effort to obtain a mining permit and license amendment for the new mining areas — No. 12 South A surface mine.

- Commence the process for regulatory approvals to mine the remaining phases of future mining areas.

- Start necessary data acquisition and analysis in the No. 2 and No. 16 mining areas in preparation for the permit application for continued operations. Based on discussions with GCC management, obtain available data for remaining resources within coal bearing areas on current licenses not previously modeled in this CPR. Additional data are required to upgrade resources from both a quantity and quality perspective.

- Perform reconciliation between exploration quality data and the actual ROM and product coal operational quality data. ROM coal samples should be compared to calculated values in the data base to determine if the calculation formula is accurate.

- Acquire additional coal quality data from drilling programs to augment the historical data. We also recommend blending studies be completed to assist in determining the ability to blend coals of various qualities (namely FSI) to create a premium blend.

- Determine on a priority basis, the feasibility of the proposed method of co-disposal of the plant refuse streams with mine waste material, in terms of geotechnical requirements and operational considerations.

- Complete the study to evaluate upgrade options to the existing CPP circuitry (see Preparation Plant section of this report for further BOYD opinions). For CPR purposes, BOYD has assumed a new CPP will be built on an expedited basis.

Following this page are:

Tables

5.1: Estimated Annual Surface Mine Production by Product Type and Mine Area

5.2: Estimated Surface Mining Cash Cost (Nominal C$ with 2% per year Escalation)

TABLE 5.1

ESTIMATED ANNUAL SURFACE MINE PRODUCTION BY PRODUCT TYPE AND MINE AREA
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

Units	Mine Area	Fiscal Year 5 Months*	2013	2014	2015	2016	2017	2018	2019
					Surface Mines				
Waste (000 bcm)	No.8 Mine	10,011	29,832	24,949	29,063	28,370	30,040	15,924	13,072
	No.2 Mine	—	—	3,887	3,000	7,412	6,921	21,114	22,645
	No.12 SA Mine	—	—	3,836	5,679	10,275	10,293	10,293	10,293
	No.12 North	—	—	—	—	107	77	—	—
	No.16 Mine	—	—	—	584	1,053	—	—	—
	Rehandle @ 3%	300	895	980	1,150	1,416	1,420	1,420	1,380
	Total Waste	10,311	30,727	33,652	39,475	48,633	48,750	48,750	47,390
ROM Production (000 tonnes)	No.8 Mine	719	2,357	3,084	2,960	2,954	2,468	2,609	1,293
	No.2 Mine	—	—	—	—	43	131	290	1,084
	No.12 SA Mine	—	—	—	192	274	383	1,062	1,439
	No.12 North	—	—	—	—	—	—	—	—
	No.16 Mine	—	—	—	—	—	—	—	—
	Subtotal ROM	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816
Thermal By-Product (from Oxidized Coal)		16	123	23	73	139	82	85	88
Strip Ratio (BCM/ROM tonne)		14.33	13.04	10.91	12.53	14.86	16.35	12.31	12.42
					Clean Coal Production				
Product by Quality Type (000 tonnes)	HCC	472	1,519	2,036	2,130	2,398	2,102	2,577	2,550
	Semi-Soft	—	—	—	—	—	—	—	—
	PCI	—	—	—	55	51	105	265	205
	Subtotal Products	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755
Thermal By-Product (Sold)		16	123	23	73	139	82	85	88
	Total Products	488	1,642	2,059	2,258	2,588	2,289	2,927	2,843
	Calculated Yield	66%	64%	66%	69%	75%	74%	72%	72%

* 5 Months are November 2011 through March 2012

TABLE 5.2

ESTIMATED SURFACE MINING CASH COST (NOMINAL C$ WITH 2% PER YEAR ESCALATION)
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

		Fiscal Year						
Mine Category	**5 Months***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Production								
BCM (000)	10,311	30,727	33,652	39,475	48,633	48,750	48,750	47,390
ROM tonnes (000)	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816
Cash Operating Cost ($-000)								
Drilling	1,028	3,527	3,862	6,133	7,555	7,574	7,574	7,362
Blasting	3,404	10,143	11,108	13,031	16,053	16,092	16,092	15,643
Waste Loading	3,996	11,717	13,005	16,000	19,411	19,542	19,542	18,875
Waste Haulage	18,601	50,262	56,679	86,163	121,670	136,013	124,523	118,289
Coal Loading	303	959	1,274	1,173	1,273	1,058	1,472	1,386
Support	7,820	14,684	16,568	20,746	25,096	26,091	26,157	25,687
Mine Overhead	6,735	17,488	21,008	27,395	34,772	37,597	38,433	38,334
Subtotal Direct Mine	41,887	108,780	123,503	170,640	225,832	243,967	233,793	225,576
Coal Haulage & Forwarding	9,747	25,294	37,555	39,388	40,757	44,276	60,859	68,316
TOTAL Surface Mining Cost ($-000)	51,634	134,074	161,059	210,027	266,589	288,244	294,652	293,892
Direct Surface Mining (Constant Dollar Values):								
$/bcm	5.01	4.36	4.79	5.32	5.48	5.91	6.04	6.20
$/ROM Tonne	71.81	56.88	52.22	66.63	81.48	96.66	74.39	77.02
Escalated (Nominal Dollar Values):								
$/bcm	5.01	4.45	4.98	5.65	5.93	6.53	6.81	7.12
$/ROM Tonne	71.81	58.02	54.33	70.71	88.19	106.72	83.77	88.47

* 5 Months are November 2011 through March 2012

6.0 COAL PREPARATION

The existing GCC CPP was constructed in the late 1960s and began operation during 1969. The plant's primary product is a washed, low volatile, hard coking coal product. A small amount of oxidized coal is recovered during surface mining operations and is sold as by-pass (unwashed) thermal product. BOYD toured the GCC CPP in August 2011, with a follow-up visit in November 2011. During our second visit, BOYD was provided the opportunity to observe plant operations and to discuss current and future operations with plant management.

Reported historical CPP facility tonnage figures varied between sources. Following is BOYD's recap of historical production based on our best effort to interpret GCC's reporting:

FY	**2010**	**2011**	**2012**
Tonnes, except where noted			
Total ROM from Mines			
Thermal Direct Ship			
(to Thermal stockpiles)	134,715	104,694	154,198
% Total ROM	6.1	4.7	12.2
To CPP Raw Coal Stockpiles			
(to Breaker)	2,069,503	2,101,053	1,107,095
% Total ROM	93.9	95.3	87.8
Total ROM Mined	2,204,218	2,205,747	1,261,293
Raw Coal to CPP-Breaker Reject	57,114	96,501	37,286
% Breaker Reject of Raw Coal to CPP	2.8	4.6	3.4
Bypass Coking Coal			
(3/4 in. from Breaker)	186,787	99,702	17,840
% Raw Coal Feed to Breaker	9.0	4.7	1.6
Raw Coal from Breaker to CPP	1,825,602	1,904,850	1,051,969
% Raw Coal Feed to Breaker	88.2	90.7	95.0
Plant Coking Coal Clean Product	1,408,320	1,193,562	687,662
% Yield (Clean from Raw Coal to CPP)	77.1	62.7	65.4
Total Coking Coal Product	1,585,107	1,293,264	705,502
% Product from Raw Coal Feed to Breaker	76.6	61.6	63.7
% Product from Total ROM Mined	71.9	58.6	55.9
Other Product-Pond Fines to Milner Station	5,302	14,188	—

Incoming coal is delivered by truck and is segregated by quality. Thermal (oxidized) coal is stockpiled separately at either a designated area at the new raw coal handling area or at the original ROM stockpile area near the CPP. All coking coal is stockpiled at the new raw coal handling areas for recovery and transport via conveyor to the rotary breaker(s).

Following is BOYD's review of the present CPP and ancillary facilities, as well as our opinions regarding necessary improvements to achieve specified coal production goals.

6.1 Current Operations

The plant is currently more than 40 years old, and except for selected upgrades, remains in the same configuration as when constructed. Although the existing preparation facility is rated at 600 raw tph, based on operating statistics provided, the facility has not achieved GCC-projected hourly throughput levels needed to achieve 3.5 Mtpa of metallurgical coal product.

BOYD opines that the CPP will be an operational bottleneck in its current state. A significant capital expenditure program is currently underway in order to achieve future production targets.

6.1.1 Raw Coal Handling

A recent capital upgrade (C$19 million) to the raw coal handling facilities began operation in May 2011. The new facility is a satellite facility located on the north side of Highway Route 40. Incoming coal can be delivered by on-highway trucks dumping raw coal directly into the truck dump, as well as by off-highway trucks, which must dump new coal into a stockpile. Coal is then recovered from storage by a front-end-loader and then dumped into the truck dump grizzly. A tunnel extends under the highway and connects the new system into the existing raw coal reclaim conveyor, which transports raw coal from the original raw coal stockpile to the rotary breakers. Management indicates the capacity of the raw coal system is approximately 1,500 tph.

There are two rotary breakers (10 ft x 22 ft) operating in parallel, which initially process the raw coal to produce a raw coal plant feed of less than 1 1/2 in. When ROM coal quality permits, a portion of the breaker feed (part of the minus 3/4 in. size fraction) is bypassed to the product coking coal stockpile. This is done to reduce tonnage entering the wash plant and provides the benefits of added product tonnage (no loss of tonnes due to washing) and avoids the added cost of coal washing of the bypass coal. In the past, as much as 15% of the raw coal has been bypassed. However, due to poorer coal quality, no coal has been bypassed since June 2010.

6.1.2 Existing Coal Preparation Plant

An 1,800 tonne raw coal silo provides surge capacity in advance of the plant. The CPP processing circuitry is split in an "A" and "B" side each identical in size. The current CPP utilizes a two-stage cleaning process based on the size of the raw coal feed. Raw plant feed is deslimed and screened at 0.5 mm into a coarse coal (+ 0.5 mm) and fine coal (-0.5mm).

Coarse coal is processed by a bank of eight, 600 mm diameter heavy media cyclones (HMC) operating at 1.73 specific gravity. Coarse clean coal product reports to the HMC overflow and then to drain and rinse screens (DRS) for magnetite removal. HMC clean coal is conveyed to the clean coal stockpile. HMC cyclone underflow (coarse refuse) is dewatered and magnetite removed on DRS then conveyed to the CPP refuse bin. Refuse is then trucked to the facility's Flood Creek refuse storage (disposal) area.

The efficiency of the HMC circuit decreases when particle size is less than approximately 1 mm to 2 mm. Currently the HMCs are processing materials as fine as 0.5 mm in size.

The fine coal processing circuit consists of five banks of four froth flotation cells each having a capacity of 8.5 m3. Chemical frother and collector are added, both produced by Nalco, to the circuit to enhance flotation. The size of raw coal fed to the flotation circuit (0.5 mm top size) is too coarse to be effectively cleaned by froth flotation. To improve washing efficiency, capital projects are planned to install an intermediate sized coal cleaning circuit utilizing spirals. At the time of our visit, the CPP was utilizing spirals on the flotation refuse stream.

Once all spirals are installed (completion scheduled during FY2013), the plant will be modified to clean incoming raw coal in three stages. The raw coal screen deck will be replaced with a 1 mm screen with the plus 1 mm coal reporting to the HMC circuit for cleaning. The minus 1 mm coal will be further split by classifying cyclones at 100 mesh (0.15 mm) with the intermediate coal (1 mm x 0.15 mm) reporting to the new spiral circuit and the minus 0.15 mm coal reporting to the existing flotation circuit for fine coal cleaning.

At present, inefficiency in the plant's fine coal circuit is overloading the fine refuse stream causing dewatering issues and discarding a portion of the fine coal to the refuse. Management has installed:

No. of Units	Description
12	water only cyclones (WOCs), each 10 in. in diameter
2	high frequency screens (HFS) for fine refuse dewatering
30	WOCs, each 6 in. in diameter
2	HFS for fine clean coal dewatering.

It is our understanding that due to the utilization of fine clean coal classifying cyclones, a disk filter has been idled.

6.2 CPP Operating Results

When the former Smoky River Coal Co. declared insolvency, the CPP was idled. GCC management reopened the plant in 2004 and it has served the GCC mines since that time. Following are recent historical production and yield for the CPP based on quarterly management reports:

		Fiscal Year			
	Unit	2009	2010	2011	2012 (6 months)
Plant Feed	Mt	1.58	1.82	1.90	1.05
Clean Coal	Mt	1.21	1.41	1.19	0.69
Tonnes Sold	Mt	1.07	1.77	1.56	0.72
Yield	%	76.6	77.1	62.7	65.4

Based on historical information provided for BOYD's review, ROM production peaked at approximately 3.0 Mtpa to 3.5 Mtpa equating to approximately 2.2 Mtpa to 2.6 Mtpa clean. Current plant yield is well below historical levels as well as those experienced in FY 2009 and 2010. Declining yield is primarily due to the lower raw coal quality of reserves in new mining areas.

The following historical operating statistics were provided or interpreted by BOYD from available data:

	Hours				%	
FY	Operating	Downtime	Scheduled	Calendar (Maximum)	Availability*	Utilization**
2010	3,434.7	631.8	4,056.0	8,760.0	84.7	39.2
2011	4,223.5	1,332.5	5,556.0	8.760.0	76.0	48.2
2012 (6 mos.)	2,882.8	885.2	3,780.0	4,392.0	76.3	65.6

* *Operating Hours ÷ Scheduled Hours*

** *Operating Hours ÷ Calendar Hours*

Combining reported coal tonnages with operating hours results in the following hourly performance statistics:

	Mtpa-CPP			Monthly Averages		
FY	ROM	Clean	Avg. Yield (%)	ROM tonnes	Operating Hours	ROM tonnes/ Oper. hour
2010	1.83	1.41	77.1	152,134	286	532
2011	1.90	1.19	62.7	158,738	352	451
2012 (6 mos.)	1.05	0.69	65.4	175,328	515	340

Historical operating statistics indicate hourly throughput tonnage is materially reduced as the total ROM tonnage (input) increases, and as washing yield and plant availability decreases.

BOYD mine plan assumptions for the existing CPP after modifications in FY 2013 and high standards of management are:

- 100% ROM coking coal washed.
- 6,000 operating hours per year.
- 600 ROM tonnes/hour throughput.

The current CPP (after the planned spiral upgrade) will be capable of processing a nominal 6.6 Mtpa ROM.

We recommend a thorough review of the plant's operational capability, currently and after modification, to assess the facility's suitableness for the Consortium's future processing needs.

6.3 Capital Improvements

Significant capital expenditures have been made in the preparation plant and ancillary facilities in recent years with plans for additional capital spending in the near-term. The following summarizes historical CPP related capital expenditures:

FY	Capital Expenditures (C$ millions)
2009	3.71
2010	16.25
2011	9.87
2012*	0.55

* *April through September*

Between FY 2009 and 2011, approximately C$30 million in capital has been invested into the existing CPP facility, including the new raw coal receiving and handling facility, Motor Control Center upgrade, and programmable logic controller (PLC) addition. FY 2012 has a capital allocation of approximately C$5.4 million (C$4.5 million for the High-Ash Thickener). The following is a list of the major capital projects either planned or approved:

- Construction of an additional 75 ft diameter high-ash thickener. Cost of this project is approximately C$4.5 million. The new thickener is expected to be operational beginning FY 2013.

- Installation of a new motor control center, as well as PLC process control, designed to provide better control of the processing elements and increase plant efficiency. Expected completion is end of third quarter FY 2012.

- Addition of a spiral circuit intended to enhance fine coal efficiency (yield) and increase throughput. As of December 2011, the project is in the engineering stage. Capital required is approximately C$12.5 million. It is management's opinion that the project will be approved by the fourth quarter FY 2012 and installation will be completed by the end of the third quarter FY 2013.

It is projected that over the next four years capital investment at the plant will approach an additional C$20 million (estimated C$12.5 million for spiral circuit). It is management's opinion that once these projects, as well as other projects smaller in scope, are completed, the plant throughput will increase and productive hours will increase allowing production to reach the 3.5 Mtpa clean level. As previously discussed, BOYD does not believe this is a reasonable expectation.

Justification for the high-ash thickener (C$4.5 million) is to reduce contamination of the low-ash refuse. Underflow from the existing thickener is currently recovered as a supplemental fuel for the adjacent Milner Generating Station (Milner). It is our understanding low-ash refuse is currently the result of inefficiencies in the preparation process (i.e., feed to the flotation circuit feed is too coarse). Ash content of the fine refuse will increase once the major capital projects are completed and there is improved (higher) carbon (fine coal) recovery in the coal washing circuits. An evaluation should be performed by the Consortium to determine if one of the two thickeners can be decommissioned after installation of the spiral circuit.

6.4 Coal Cleaning Costs

The cost of coal preparation has risen significantly since 2010. This is partially due to declining average yield and processing inefficiency. Cost information is summarized below by major cost category:

	Fiscal Year		
Cost Category	**2010**	**2011**	**2012***
Plant Feed (Mt)	1.83	1.90	0.48
Clean Coal (Mt)	1.41	1.19	0.32
Yield (%)	77.1	62.7	65.6

	C$/Tonne					
	Raw	**Clean**	**Raw**	**Clean**	**Raw**	**Clean**
Labor	4.27	5.54	7.47	11.91	7.70	11.74
Material and Supplies	2.53	3.28	3.95	6.31	4.06	6.19
Electricity	0.61	0.79	1.15	1.83	1.02	1.55
Nat. Gas	0.39	0.51	0.81	1.30	1.11	1.69
Lab	—	—	0.06	0.10	0.06	0.09
G&A	0.08	0.11	0.06	0.09	0.09	0.13
Other	1.85	2.40	2.25	3.59	3.76	5.74
	9.73	12.63	15.75	25.12	17.80	27.13

* *April through June*

The substantial increase in the labor component is due to signing a new labor agreement effective May 2010 (first quarter FY 2011). It is BOYD's opinion the CPP will realize some improvement in operating costs once the planned plant modifications have been completed (expected for fourth quarter FY 2013). The company indicates that CPP operating costs will decrease to the C$18.00 per clean tonne level once all plant improvements are operational. Management believes the CPP performance will further improve such that future average operating costs will reduce by more than 40% from recent historical levels (approximately 60% below YTD FY 2012 levels). Discussions indicated much of the reduction in projected CPP costs is due to the projected increase in clean coal production and increased plant efficiency.

Projected CPP operating costs are not consistent with historical plant performance. It is likely that some of the issues associated with the plant operation will be addressed with near-term upgrades. However, it is our opinion the projected capital improvements to the CPP will not allow the facility to achieve the company's projected production levels nor meet their estimates of operating cost savings.

6.5 Waste Disposal

The CPP currently produces rejects from three sources: breaker, HMC underflow (coarse waste), and flotation reject via thickener (fine refuse). The existing Flood Creek disposal site is the only permitted coarse refuse (breaker and HMC waste) disposal area. In addition to the CPP coarse refuse, fine refuse is pumped and stored at a disposal site located adjacent to the CPP.

Coarse refuse is trucked approximately 6 km to the Flood Creek disposal area. Milner comingles its ash with the CPP coarse refuse at Flood Creek. The remaining capacity of Flood Creek is limited with only approximately two years of remaining capacity at current production levels.

Fine refuse is placed in one of three "cells" at a storage site near the CPP. Each cell contains fine refuse material in various stages of dewatering. Inefficiencies in the CPP coal processing circuit has resulted in creation of higher volumes of fine refuse. It is our understanding the fine refuse stream, as a result, is relatively low in ash content (approximately 20%) indicating a high percentage of coal remains in the refuse. As fine refuse material dries, it is recovered using backhoes, loaded into articulated end dump trucks, and sold to Milner as a supplemental fuel.

Due to the refuse storage (fine and coarse) limitations, the CPP is currently investigating methods to mitigate the refuse disposal issues including permitting another disposal area and backfilling previously mined surface pits.

6.6 Employment

Current CPP staff consists of 87 employees as follows: No. of Employees

	No. of Employees		
	Hourly	**Salaried**	**Total**
Operations	33	8	41
Maintenance	26	8	34
Site Services	6	1	7
Laboratory	4	1	5
Total	69	18	87

Discussions with CPP management indicate the preceding employment numbers are inclusive of raw and clean coal handling, rail loadout, and refuse disposal. It is our understanding CPP staffing will not change significantly once the plant modernization measures are completed.

6.7 New CPP

The CPP is a critical operational component in the GCC mine and it is management's and the Consortium's goal to achieve a clean coal output level of 3.5 Mtpa. The following are our comments and recommendations regarding the CPP and associated model inputs:

- BOYD recommends (and assumes) a new high efficiency preparation plant is constructed. We would incorporate the existing raw coal handling facilities, which were recently upgraded by management into the new facility. It is our view that a new CPP would enable the reduction of required labor, increase coal fines recovery, reduce disposal of fines in the current coal sedimentation ponds, provide an efficient facility capable of consistently operating at or near rated throughput capacity, and reduce overall preparation costs.

- Management's capital expenditures during the last three years, as well as near-term projections at the existing plant are at levels that exceed the expected cost of a newly constructed CPP. BOYD proposes, for budgetary purposes, that a replacement plant would cost on the order of $42 million. This cost would be inclusive of a plant building structure sufficient to house a facility capable of producing 3.5 Mtpa clean and support an additional module to expand to the 5.0 Mtpa clean coal production level proposed by the Consortium in the later years. The construction of the new plant could most likely be completed while the existing plant continues operation. This will minimize operational downtime and allow coal operations to continue at current levels.

- The new plant construction (Phase 1) should be designed to process a nominal 800 tph to 1,000 tph, and to be able to accommodate a Phase 2 expansion increasing the overall plant capacity to 1,200 tph to 1,500 tph in later years if desired by the Consortium. The module necessary to expand from 800 tph to 1,200 tph could be added at an estimated cost of $10.0 million. A thorough review of projected coal quality (raw and clean), as well as projected future yield, is necessary to determine the necessary size of the new CPP.

- Due to acquisition timing and the abbreviated construction season, it is unlikely that a newly constructed CPP would begin operation before FY 2015. Preliminary estimates of near-term capital expenditures associated with construction of a new CPP are as follows:

C$ (millions)			
2015	**2016**	**2017**	**2018**
5	30	5	2

  BOYD has also included C$4.5 million in capital every 10 to 15 years for rebuilding/replacing of plant components.

- While BOYD has not prepared a detailed analysis of the operating cost associated with the proposed CPP, we estimate the cash operating cost will be $9.00 per clean tonne. Our operating cost estimate is inclusive of the costs associated with raw coal handling, preparation, rail loadout, and refuse disposal operations.

- Based on discussions with operations personnel, management plans to upgrade and modernize the current rail load-out. An estimate for the capital required for load-out improvements was not available. Management indicates changes in the load-out would include a more ergonomic control room as well as extension of the PLC controls installed in the CPP.

6.8 Findings and Conclusions

BOYD was provided limited operational data and could perform only a high level evaluation of the existing CPP performance. The following recommendations are based primarily on available data, our plant walk through, and discussions with operations and management personnel:

- It is management's, and the Consortium's, intent to expand annual metallurgical coal output, thus CPP output, to the 3.5 Mtpa clean coal level. A full plant evaluation study should be completed to determine the adequacy of the current facility to provide efficient

cleaning consistent with a 3.5 Mtpa, and clean coal output (Phase 1). BOYD opines that this is not a reasonable expectation.

- Based on limited data available, it is BOYD's opinion that a new preparation facility will be required and the preferred option to reach the required clean coking coal output capacity (3.5 Mtpa). Based on the availability of data, we believe our opinion of requiring a new CPP to achieve a 3.5 Mtpa clean coal output is reasonable. The size of that facility requires further investigation regarding the expected overall plant yield. If CPP yield is expected to remain at current levels (less than 65%) then a plant with an 800 tph to 1,000 tph throughput capacity will be required.

- We recommend a thorough evaluation of the expected yield for the CPP. Yield has been generally deteriorating over time (80% to 85% during the early 1990's to 60% to 65% during FY 2012). Information provided to date does not indicate there will be significant improvement. At the current yield (60% April through September 2011), it will be impossible for the current CPP to achieve 3.5 Mtpa clean.

- High employee turnover and absenteeism, consistent with other similar operations in the region, have resulted in a high proportion of personnel with limited experience. The CPP currently operates on an undefined schedule that will continue until current process modifications are completed (expected during fourth quarter FY 2012). Observations during our plant tour indicated the quality of housekeeping is fair to poor, although there seemed to be adequate staff at the time of our visit. Construction of a new CPP with automated controls where possible will result in lower employee requirements.

- We recommend, as part of its planned modernization, a loadout redesign incorporating a batch loading system having an installed capacity capable of achieving the 5 Mtpa. Currently, trains must be split to be loaded due to inadequate rail siding length. A study to evaluate the feasibility and costs to extend the rail siding capacity from the current 110 rail cars to 150 rail cars CN preferred unit train length) should be undertaken.

- Available CPP refuse (coarse and fine) disposal space is limited. Discussions with operations personnel indicate there are several alternatives being considered for CPP refuse disposal including: (1) purchase and permitting of new coarse refuse disposal area and (2) as backfill in old surface mine pits. BOYD recommends a study to determine the feasibility and associated costs of future refuse disposal options.

- Fine refuse issues may be mitigated to some degree with upgrades in the fine/small coal cleaning circuit or construction of a new CPP. The result would likely be a higher recovery of coal currently misplaced in the refuse stream thereby reducing the overall volume of fine refuse. It is our opinion that construction of a new, high efficiency preparation plant would provide the greatest improvement as compared to upgrading the current antiquated system.

- It is our understanding that management intends several upgrades to the existing CPP in order to achieve an annual operating rate of 6,800 hours. It is our opinion, that given the age of the facility, its location, labor issues as well as recent actual performance, the current CPP will be unable to consistently operate at the 6,800 hour per year level and will be unable to produce 3.5 Mtpa clean even after plant upgrades are complete. The most prudent and cost effective solution to achieving the desired annual clean coal production is construction of a new CPP, which should be designed to operate at approximately 6,500 to 6,700 hours per year.

7.0 TRANSPORTATION AND SALES

7.1 Rail Transportation

Virtually all of GCC's product coal is transported via CN rail unit trains to Vancouver, British Columbia. The railway transports the coal approximately 1,100 km from the mine's rail load-out, located approximately 4 km north of Winniandy, to Swan Landing (approximately 180 km) where the unit train reaches the CN mainline for delivery to the Westshore Terminal. Following are our comments regarding the rail transportation:

- The mine site rail load-out facility is old and antiquated (same vintage as CPP) and requires significant modernization. As part of the rail load-out modernization, BOYD recommends installation of a batch load system to replace the current arrangement.

- Currently, the rail siding at the mine is sufficient to load unit trains of approximately 110 railcars. It is CN's practice to ship coal in unit trains, which are 150 railcars in length. At present, unit trains must be broken and loaded in segments slowing the loading process. Based on discussions with operations personnel, approximately 6 to 7 hours are required to load a unit train. The tops of the loaded railcars are chemically treated to reduce airborne dust during transit.

- Shipping at the 3.5 Mtpa (plus 10% for thermal output) level will require approximately one unit train every 1 1/2 days. It is our understanding that the only other user of the CN railway is Milner power plant (which receives approximately 800,000 tpa) located adjacent to Grande Cache. If Milner power plant is able to construct the additional electricity generating unit, annual coal consumption would increase to 3.8 Mtpa and rail capacity may become an issue.

7.1.1 Coal Transportation Agreement

The current rail transportation agreement is a two-year agreement which began 1 May 2010 and will expire on 30 April 2012. Price under the agreement is based on rail car type and fixed annually with a 3.5% increase between the first and second year of the agreement.

Rail transportation rates are exclusive of fuel surcharges, which are currently estimated at approximately C$2.00 per tonne. Actual rail transportation costs were provided to BOYD, but are considered to be commercially confidential.

GCC indicates that negotiations for the new agreement will begin by the end of calendar 2011. It is our understanding that the CN prefers two-year agreements although GCC would like to have a longer term if escalation mechanisms are advantageous.

Once the existing rail load-out is redesigned and modernized, there should not be an issue with loading approximately one unit train every 1 1/2 days.

7.2 Port Services

Westshore Terminal, located in Vancouver, British Columbia is the largest exporting bulk terminal in North America. Recent expansions have increased the overall annual throughput capacity to approximately 31 Mt. Following are our comments regarding the current export terminal services agreement:

- The current agreement between Westshore and GCC expires in 31 March 2022. Contract years are from 1 April through 31 March, coinciding with GCC's fiscal year.

- The agreement commits to shipping annual tonnages as shown below:

	Quantity (Mt)	
Contract Year	**Base**	**Expansion***
2011/2012	1.80	—
2012/2013	1.80	—
2013/2014	1.80	2.10
2014/2015 +	2.10	2.40

* After completion of installation of new railcar dumping station.

There are no penalties for shipping less than either the Base or Expansion quantities listed above. Westshore has no obligation to ship any quantities in excess of those above.

- The existing contract stipulates that all coal shipped from GCC offshore must use Westshore exclusively.

- Westshore has allocated two stockpile areas at the terminal to GCC having a total storage capacity of 160,000 tonnes.

- Cost of shipping includes a loading charge as well as a premium depending on the sales price of the coal. The premium is graduated on 10.00 C$/tonne increments between C$120/tonne and C$220/tonne. Loading charge will escalate annually beginning the third contract year, based on changes in the Consumer Price Index (CPI) for Vancouver, British Columbia, all items. Premiums to the coal sales price are not escalated and application begins during FY 2014. Pricing structure of the Westshore Terminal agreement was provided to BOYD, but not shown for commercially confidential reasons.

The contract does not include a provision requiring the accommodation of increased volumes from the GCC operation in the event the mine expands production to the targeted 3.5 Mtpa production rate.

7.3 Non-Westshore Terminal Coal Sales

All metallurgical and thermal coal produced at Grande Cache is shipped west to Westshore Terminal with two exceptions. One Great Lakes region customer receives eastbound shipments direct rail shipped and priced on a delivered to Chicago basis, while another eastern customer purchases metallurgical coal FOB mine (C$220 per tonne) and separately arranges for transportation. To date (April through October 2011), approximately 190,000 tonnes of coal priced FOB mine have been shipped east, and as approximately 24,400 tonnes (two trains) have been shipped to Chicago for final delivery to the customer.

7.4 Sales and Marketing

GCC's primary product is a low volatile HCC sold in the international markets. Minor amounts of thermal quality (oxidized) coal are produced and sold to another Canadian producer to be blended into their products and are ultimately shipped to international consumers.

Low volatile coking coals are typically used as a constituent in the coking coal blend. Primarily due to high wall pressures that occur when coking low volatile coals alone, slot coke ovens (majority of ovens) will blend low volatile coals with other coking coals to avoid damage to the ovens. Typically a coking coal blend can tolerate as much as 10% to 15% low volatile coal without compromising the resulting coke or the integrity of the coke ovens.

The following shows historical vessel invoiced tonnes for metallurgical (met) and thermal coals shipped off shore for FY 2009 through FY2012 (April 1 through September 20, 2011):

	Tonnes			Percent		
FY	**Met**	**Thermal**	**Total**	**Met**	**Thermal**	**Total**
2009	1,049,621	—	1,049,621	100.0	—	100.0
2010	1,626,177	107,233	1,733,410	93.8	6.2	100.0
2011	1,469,347	134,501	1,603,848	91.6	8.4	100.0
2012*	701,692	119,322	821,014	85.5	14.5	100.0

* 6 months

Source: GCC Shipped Vessel Qualities.

Historically, the majority of coal shipped is a metallurgical in nature, although the amount of thermal coal sold and shipped has risen steadily since FY2010. It is our opinion that the increase in thermal coal is most likely the result of higher amounts of oxidized coal produced recently.

Historical overall shipped product coal quality from GCC has been generally consistent as shown below:

	Met				Thermal			
	2009	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**
Invoiced Tonnes	1,049,621	1,626,177	1,480,254	701,692	—	107,233	123,594	119,322
Moisture (%)	9.25	9.32	9.22	7.60	—	—	6.80	8.84
Ash (%)	8.67	8.43	9.26	8.78	—	—	15.09	18.73
Volatile Matter (%)	17.50	17.26	17.83	18.08	—	—	14.07	17.61
Sulfur (%)	0.41	0.40	0.42	0.46	—	—	0.36	0.43
FSI	5.5	5.1	5.4	5.2	—	—	0.5	0.1

Source: GCC Shipped Vessel Qualities.

It is our understanding that there have been no quality related rejected shipments during the last three plus years.

Management is in the process of diversifying their customer base. A high proportion of the company metallurgical coal sales was concentrated in Asia during FY 2011 (approximately 73% of sales were to Asian customers). For FY 2012, shipments to Asia will likely drop to approximately 43% of total projected annual sales for FY 2012. Offsetting this loss was an increase in sales to Europe (up 13%) and establishment of sales to customers in South America (will account for 10% of total FY 2012 sales.

Detailed information regarding contracted sales is proprietary to GCC (i.e., commercially confidential). Discussions with GCC management indicate there are long-term relationships established with steel producers in Japan, Korea, and Taiwan.

The following shows a summary of committed sales volumes for FY 2012:

		Contract		FY 2012 Pricing ($/tonne)				Volume		
Product	**Type**	**Volume**	**Price**	**Q1**	**Q2**	**Q3**	**Q4**	**Committed**	**Uncommitted**	**Total**
Low Volatile Met*	Long Term	Annual	Annual	220.00	220.00	220.00	220.00	220,000	—	220,000
Low Volatile Met	Long Term	Annual	Annual	215.00	215.00	215.00	215.00	215,000	—	215,000
Low Volatile Met	Long Term	Annual	Quarter	316.80	298.00	268.00	—	150,000	—	150,000
Low Volatile Met	Long Term	Annual	Quarter	316.80	298.80	268.00	—	100,000	—	100,000
Low Volatile Met	Long Term	Annual	Quarter	N/A	293.80	270.75	—	105,000	—	105,000
Low Volatile Met	Carry Over	Annual	Annual	210.00	—	—	—	37,000	—	37,000
Met-High Ash	Long Term	Annual	Quarter	305.00	290.00	251.00	—	150,000	—	150,000
Low Volatile Met**	Carry Over	Spot	Annual	296.00	296.00	296.00	296.00	115,000	—	115,000
Low Volatile Met	Carry Over	Spot	Annual	175.00	—	—	—	73,500	—	73,500
Low Volatile Met	Spot	Spot	Spot	—	280.00	—	—	50,140	—	50,140
Low Volatile Met	Contract	Spot	Quarter	—	—	—	—	66,250	—	66,250
Thermal	Spot	Spot	Spot	93.60	—	—	—	200,000	—	200,000
Uncommitted								—	256,000	256,000
Total								1,481,890	256,000	1,737,890

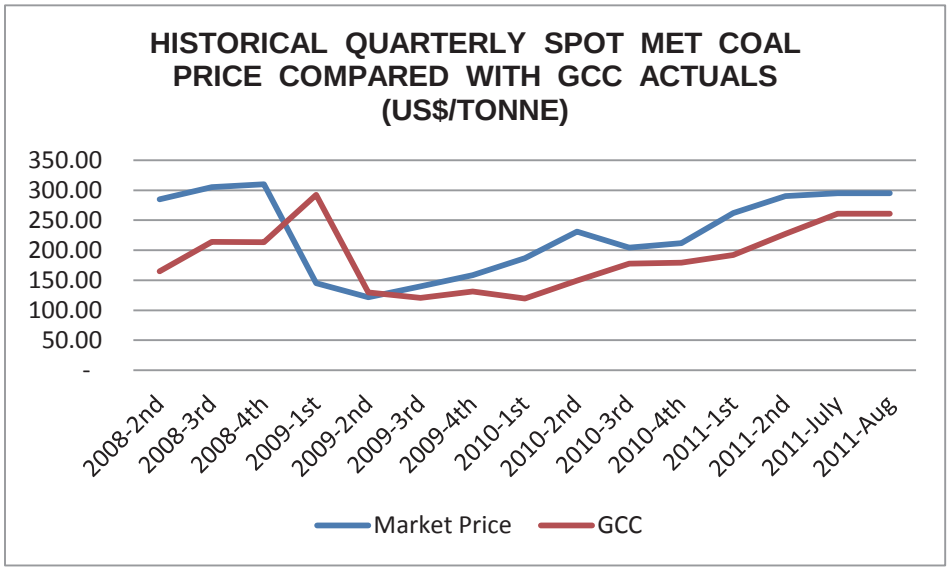
Note: Pricing is FOB vessel Vancouver unless otherwise noted

* Priced Free Carrier at mine

** Priced on a delivered basis

Approximately 64% (1.5 Mt) of the total projected FY 2012 sales are committed, as of 6 September 2011. Of that volume, approximately 975,000 tonnes are committed under agreements with annual volume requirements. Based on production to date, it appears that GCC will not achieve its projected annual saleable production quantities (2.2 Mt, including thermal coal) although production shortfalls will simply reduce the amount of uncommitted quantities.

Aside from quarterly volumes and prices contained in quarterly management reports, GCC did not provide details regarding historical metallurgical coal sales. BOYD has compared historical published prices for metallurgical coal from west coast Canada with GCC's actual average prices below:



Source: Platts International Coal Report

Published prices are quoted in US$ fobt vessel at port of embarkation; however, GCC prices are a blend of various contracts priced at various points along the supply chain. Generally, since early 2010, the GCC pricing has parallelled market and at a consistent market discount of approximately 20%. This could be a function to compare market price with blended average contract pricing. Quarterly company pricing for individual contracts in FY 2012 (fobt vessel) compares well with published market pricing shown in the chart above. Discussions with management indicate that their primary product is selling at a 5% to 7% discount to the quoted international prices.

7.4.1 Price Assumptions

BOYD was directed by Winsway to utilize forward coal price assumptions as prepared by Wood Mackenzie (dated November 2011) for financial modeling and valuation purposes in our Competent Person and Valuation Reports. The following are the Wood Mackenzie Coal Price Assumptions, which are expressed on a nominal basis:

	Calendar Year				
Coal Type	**2011**	**2012**	**2013**	**2014**	**2015**
	US$/Tonne (w/2% Per Annum Escalation)				
Australian HCC Benchmark	282.30	253.80	230.20	219.40	210.00
GCC Low Volatile HCC	273.83	246.19	223.29	212.82	203.70
Semi-Soft Coking Coal (NSW)	211.73	190.35	172.65	164.55	157.50
Canada PCI	225.84	203.04	184.16	175.52	168.00

GCC low volatile HCC is priced at a 3% discount to the Benchmark Pricing and, New South Wales semi-soft (which we assumed equivalent to Canadian semi-soft) and Canadian PCI are priced at a 25% and 20% discount, respectively. Wood Mackenzie has advised that post 2015 pricing will continue at the 2015 price adjusted for a 2% per annum escalation on a nominal basis.

Wood Mackenzie consented to the use of their forward price assumptions in this report. However, Wood Mackenzie stipulates that they do not undertake any duty of care to BOYD or any third party in respect of the Coal Price Assumptions referenced and used in this report, and disclaim all liability to the fullest extent permitted by law. BOYD acknowledges that Wood Mackenzie is a recognized expert in coal market analysis and price forecasting.

8.0 ENVIRONMENTAL REVIEW FOR PROJECT GRANDE CACHE

8.1 Introduction

Coal leases are granted by the Province of Alberta, giving the lessee the right to recover the coal. The Province retains ownership of the coal and receives a royalty on the coal recovered. Permits, mining licences, and other permissions necessary to mine the coal are also issued by the Province once the agencies are confident the laws and regulations are properly addressed in the license and permit applications, and that mining will not result in permanent degradation of the environment.

8.2 Leased Areas

GCC controls several lease blocks in the Grande Cache area of Alberta province. The leases are summarized below:

Summary of Alberta Province Coal Leases Controlled by GCC

Lease Number	Mining Area Designation	Area (ha)	Date Recorded
1300090001	No. 7	608	Sept. 6, 2000
1300090002	No. 8	496	Sept. 6, 2000
1303010775	No. 12 South B2	224	Jan. 31, 2003
1304020416	No. 2 & Part of No. 8	1,744	Feb. 2, 2004
1304020417	No. 12 South A No. 12 South B2	912	Feb. 2, 2004
1304020418	No. 9	8,720	Feb. 2, 2004
1304020419	No. 16	2,576	Feb. 2, 2004
1304091006	No. 2	192	Sept. 1, 2004
1306020563	No. 8 East	64	Feb. 17, 2006
1306020564	No. 9	416	Feb. 17, 2006
1306020565	No. 12 North 12 South B2 Underground	2,736	Feb. 17, 2006
1306080740	No. 5	1,792	Aug. 4, 2006
1306080741	No. 1	1,360	Aug. 4, 2006
1306080742	No. 1 North	864	Aug. 4, 2006
Total		22,704	

The first two leases encompassing the mining areas of No.7 and No.8 mines were obtained from the Province of Alberta following the declaration of receivership of SRCL and their subsequent loss of the leases. The provincial Alberta Energy reported in 2005 that the coal rights were not transferred to GCC from SRCL, but rather were issued anew by the department, as all former leases held by SRCL were cancelled and returned to the Crown.

The main office of GCC is located in Calgary, Alberta, Canada. GCC mine offices and coal handling operations are located approximately 20 km north of the town of Grande Cache in the Municipal District of Greenview, Alberta, Canada. The No. 7 underground operation (Lease 1300090001) is located within Townships 57 and 58, Ranges 8 and 9, 7 km southwest of the GCC CPP facility.

The No. 8 and No. 2 surface mine pit areas (Leases 1300090002 and 1304020416) are located in Sections 4, 5, 8, 9, 10, 14 to 23, 27, 28 in Township 58, Range 8, 7.5 km west-southwest of the CPP. The surface mines are located in rugged, scenic topography on the top and shoulders of the ridge between the Smoky River and Sheep Creek valleys.

No. 12 South Area (Leases 1304020417 & 1306020565) is located approximately 15 km west northwest of the CPP. This includes the active surface mine area, as well as the developing No. 12 South B2 underground operations, and the planned No. 12 South A underground operations. The coal leases cover portions of Sections 9, 10, 15 to 20, 30 in Township 58, Range 9 and Sections 2, and 8 to 10 in Township 58, Range 10.

No. 16 Area (Lease 1304020419) is located adjacent and north of the No. 12 South Mine within a coal lease covering portions of Sections 28 to 31 in Township 58, Range 9; Sections 5 and 6 in Township 59, Range 9; Section 36 in Township 58, Range 10; and Sections 1, 2, 9-12, 15, 16 in Township 59, Range 10.

8.3 History

McIntyre Porcupine Mines Ltd. began operations in the Smoky River Coalfield in 1969, associated with Canadian Utilities Ltd. 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 SRCL coal leases and permitted mining areas represented the major portion of the Smoky River Coalfield, covering approximately 37,475 ha (compared to 22,704 currently controlled by GCC). The SRCL operations in the Grande Cache area employed, on average, 400 people, although the number of employees was as high as 1,200. Most of the mine employees lived in the town of Grande Cache.

On 31 March 2000, SRCL, suffering from depressed coal market conditions and an ill-advised investment in long wall mining technology, (which was unsuitable for these mining conditions), was placed into receivership by a group of secured lenders. In its last year of operation, SRCL operated under plans approved by the Alberta Energy and Utilities Board (EUB) for Mine Permit No. 1765 (No. 5B-4 Underground Mine) and Mine Permit No. 1774 (No. 12 Surface Mine), and with an approval authorized through The Environmental Protection and Enhancement Act (EPEA [Approval No. 11929-01-01]).

GCC was incorporated in 2000 as a private Alberta corporation to reactivate coal mining and processing in the Grande Cache area on selected coal leases: Nos. 1300090001 (No. 7 Mine lease) and 1300090002 (No. 8 Mine lease). GCC was subsequently granted additional leases in 2003, 2004, and 2006, which, together with the No. 7 and No. 8 leases, provided the basis for a longer term mine project.

GCC had filed new applications for mining licences and mine permits with the EUB in 2001. While the leases give the rights to the coal to the lessee, mining licenses and permits must be obtained in order for the lessee to proceed with coal mining and recovery operations. Other required dispositions include a surface lease, miscellaneous license (MLL) for ancillary facilities, and a License to Occupy (LOC). On 22 January 2003, GCC (actually Grande Cache Coal Company, Inc at that time) received an Order in Council for Approval C 85-1A from the EUB for a transfer of permit and resumption of operations of the Coal Processing Plant No. 4, including all rights and obligations. GCC assumes this to mean all environmental responsibilities are now held by GCC. GCC received a new Permit No. C 2003-1 and mine number (1810) from the EUB on 31 January 2003, covering the areas of activity for the Grande Cache Coal Project which included the No. 7 mining area, haul road, and related infrastructure. Since that issuance, the permit has been amended twice to encompass the No. 12 South B2 and No. 8 surface mining areas, and to recognize the name change to Grande Cache Coal Corporation from Grande Cache Coal Company, Inc.

Surface pit for the No.12 South B2 Mine began operations by contract miner in August 2004 with ROM coal being trucked to the CPP the same month. In October 2004, the first rail shipments of clean coal product went to Westshore Terminal. Mining at the No. 7 underground operation commenced production of ROM coal in November 2004.

In November 2006, GCC ended its operating contract with North American Energy Partners, who had been tasked with developing the surface pit at the No. 12 South B2 Mine through the initial phases. In September 2007, operations at the No. 12 South B2 pit resumed with GCC employees and equipment.

In 2008, the EUB was split into two agencies: The Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC). The ERCB issued mining licenses for mining operations in the No. 12 South B2 area and in the No. 8 South, Middle and North Pits. Alberta Environment (AENV) issued the corresponding EPEA approvals (155804-00-03) as well as approvals under the Water Act (00227000-00-00) for the associated water management facilities. There are numerous approval numbers transferring individual water management facilities to GCC.

In November 2009, GCC filed an application for approval of the No. 12 South B2 underground mining operation with the ERCB and AENV. The application for the No. 12 South A Pit (Phase 1), originally filed in 2008, was re-submitted on 15 March 2010, to the ERCB and AENV, based on revised geotechnical, mine equipment and scheduling configurations. The previous application was cancelled. Former water discharge licenses 17805 and 15005 issued to SRCL were transferred to GCC as Approvals 00026791-00-00 and 00024333-00-00, respectively, on 12 December 2006.

Development of the No. 8 surface mining operation commenced in December 2009. The mine was to consist of three areas: the North Pit, The Middle Pit, and the South Pit. Timber clearing and salvage has been completed in the North, Middle, and South Pit areas. Timber from the South Pit was hauled to the Aseniwuche Winewak Nation (AWN) for use as firewood. Total disturbance for the three pits is 463.5 ha. More than 572,000 m^3 of soil was salvaged and stockpiled from the No. 8 area. This is to be used for final reclamation. Mining is currently active in the three pits.

In March 2011, GCC filed an application with the Alberta Energy for additional coal leases which will consolidate its presently held coal rights and enable GCC to undertake continued exploration and confirmation of coal reserves in support of its long range mine plan.

8.4 Coal Preparation

CPP No. 4, located in the Smoky River valley next to Highway 40 and the CN railway, is currently processing coal from the No. 7 underground operation and the No. 8 area surface operations. The plant area and facilities include ROM coal stockpiles and reclaim platform, a screening and crushing station, a CPP, a natural gas-fired clean coal thermal drying station, clean coal stockpiles, reject storage (disposal) area at Flood Creek, fine coal refuse ponds (currently being mined for a thermal coal product), shower/locker and administration buildings, pump stations, roads, conveyors, and a train load-out system.

The CPP was completed and operating in 1969. Under the previous owners (McIntyre), it had produced at rates of up to 3 Mtpa of product coal. The shipped product was a low-sulfur, low-volatile hard coking coal, containing 8.5% ash and 7% moisture. Since GCC commenced operations, the CPP has produced feed rates of up to 1.7 Mtpa ROM.

H.R. Milner Generating Station (Milner), located near the CPP, is owned by Maxim Power Inc. The 144 MW power plant is connected to the grid supplying northwestern Alberta. The plant was previously fed directly from the SRCL stockpiles, but the receivership of SRCL forced Milner Station to seek a new supplier. Now engaged in a new term contract, Milner Station only takes a limited amount of fuel (lower quality pond fines) from GCC.

8.5 Permitting and Licensing

Some coal reserves and resources are contingent on GCC successfully obtaining the required amendments to the current mine permits from government regulators. GCC has demonstrated their ability to obtain mine permits and subsequent amendments thereof. There is an apparent rapport with the responsible agencies and a familiarity with the methodology and procedures necessary for obtaining permits and amendments.

The continued operation of GCC assumes the successful and timely receipt of the necessary permits and amendments. If these permit amendments are not received, or if the amendments would contain stringent special conditions, then this could negatively affect the economics and possibly the reserve estimate.

It was previously noted that, while the permit amendment for the No. 8 open pit was approved in December 2009, mine licences for the continuing phases of this development beyond the immediate pit, were conditional on GCC fulfilling an agreed schedule of commitments. GCC has stated that the schedule has since been incorporated into the permit document, and thus is part of the ongoing implementation of the mine plan.

8.5.1 No. 12 South B2 Underground Operation

BOYD understands that the No. 12 South B2 deposit, which is located adjacent to the current No. 12 South open pit, is the successor underground mining operation to the No. 7 underground mining operation. The target coal seams can be readily accessed with mine adits from the current highwall in the No. 12 South pit. Benches to support this operation have been

constructed using waste rock from the adjacent surface pit. The required infrastructure for the mining operation includes water supply, electric power, opening support, and communications. An application for this mining development was submitted in November 2009. GCC announced the mine permit amendment's approval was granted on 21 July 2011. Permanent mine ventilation fan facilities are installed and operating. Coal transfer equipment is installed from the mine face to the surface stockpile area and is operational.

8.5.2 No. 12 South A Surface Area

In order to assure continuous coal availability and quality, the No. 12 South A surface pit has been designed as a continuation of prior mining activity in this area and in anticipation of the planned future underground development. This development is made economically viable by virtue of the recent higher coal prices.

An application to amend the mine permit and mine license to cover Phase 1 of the No. 12 South A surface pit was submitted in August 2008. An ERCB/AENV request for additional technical information was received in October 2008. An updated application was filed in March 2010, which also addressed the supplemental information request (SIR). Further SIRs have been received and were addressed in an application update submitted on 30 November 2011.

8.5.3 Future Planned Mining Areas

The No. 2, No. 16, and No. 12 North surface pits are planned to supplement or succeed the No. 8 and No. 12 South A surface pits. The No. 16 and No. 12 North pits are located in an environmentally sensitive area, which reportedly will require special actions to meet the AENV's concerns (EPEA Approval 155804-00-04). At present, future underground mining is planned to take place in the lower, shallower portion of the No. 12 South A deposit.

Coal resources in this region of Alberta Province are recognized by the Provincial government for their economic importance to the region. The region has been arranged into zones of various categorizations to balance coal mining activities and the aesthetic, natural and cultural values. There are four categories. The GCC operations and near-term planned operations are located in the Category 4 zone, which is the most tolerant of mining activities.

Category 3 permits mining but is more restrictive; Category 2 restricts mining to underground methods, and Category 1 prohibits mining of all types.

As of the date of this report, GCC is producing coal from the No. 7 underground operation, the No. 12 underground mine and the No. 8 surface operation. Development of the No. 8 East pits commenced in December 2009.

The development of the No. 12 South A surface pit has been delayed as the application for this mining area is still under regulatory review and is now scheduled for the start of FY 2013. The No. 2 pits, essentially continuations of previously mined outcrop pits, lie adjacent to the No. 8 pits and are planned by GCC to be brought into production in FY 2014. The No. 16 pits are scheduled to commence operations in 2019 once the No. 12 South A pits are nearing completion. GCC plans to develop No. 12 North area last.

The No. 7 underground operation will be completed in December 2011 or early 2012. GCC began moving mining crews from the No. 7 Mine to the No. 12 South B2 underground operation starting in August 2011 as the No.12 mine became operational. Plans moving forward are to continue underground operations in the remaining shallow dipping coal seams of the No. 12 South A area.

8.6 Coal Refuse Facilities and Plant Rejects Deposition

Three existing ponds have been used for the dewatering and storage of fine coal refuse. Recent stability studies reportedly gave no indication of immediate stability concerns with any of the impoundment dykes. GCC monitors stability and groundwater conditions. Historically, GCC has dredged the fine coal refuse from the ponds after a period of consolidation and dewatering, usually about one year. GCC then sells this material on an as-needed basis, as fuel to the Milner coal-fired power generating station. In essence, GCC reclaims the waste coal and sells it as a low-grade thermal coal. This has allowed them to operate over the years with limited fine reject storage area. Ramping up production from the CPP will place additional demands on the fine rejects area, as well as increase cycle times for the ponds, thus allowing less time for dewatering (higher moisture thermal product) and require additional equipment to dredge the ponds. Combined with the additional coal recovery expected from the CPP spirals, which would result in a higher ash content in the fine coal refuse, a potentially lower Btu fine coal refuse would have a lower value as a thermal reject product, and possibly affect the value to the point where it is no longer feasible to recover.

In response to the limited availability of storage volume for the fine plant rejects, GCC is now planning to dewater the majority of the fine coal refuse and co-disposing this with the coarse rejects, creating a so called combined refuse. This material is to be hauled to the Flood Creek disposal facility, which will be filled to capacity in the next two years (as of December 2010 there was 1,437,000 m^3 remaining). Prospects for increasing the capacity of the Flood Creek facility are limited as the area is bound by Flood Creek, the river, and the railroad. Flyash from the Milner power plant is also disposed in the Flood Creek facility, and consumes valuable storage space. For future rejects disposal, GCC is currently investigating the option of using the No. 8 open pit waste dumps to store the mixed rejects. Reject would be blended with removed overburden and placed in planned storage areas. GCC has also developed preliminary plans to place plant reject material in the E1B abandoned mining pit. This pit was left un-reclaimed by the previous miner. The Province of Alberta now has the obligation to reclaim this pit. As such, it would be appealing to the Province to have this disturbed site reclaimed by GCC. The modeled volume of the E1B pit is 5 million m^3. Additional storage has been studied for the abandoned pit in the South Pit Phase I area. This would provide approximately 3.1 million m^3 of storage volume for rejects, with the potential for an additional 10 million m^3 should the remaining coal reserves in the South Pit Phase II area prove to be not economically mineable.

BOYD appreciates that the capacity of the Flood Creek reject storage area is nearing its end. GCC has demonstrated the conceptual design of three additional storage areas which BOYD believes are viable and permissible. GCC is encouraged to move forward on the permitting of one or more of these areas.

Reserve estimates for GCC are based on the assumption that there will be a suitable deposition area for the plant rejects. Otherwise, the project will close or the coal will have to be sold as a raw product. Filling an abandoned pit would be a suitable option.

8.7 Water Management

The permit application prepared by/for GCC states that the seepage from the tailings ponds finds its way to the Smoky River. This is somewhat unusual in that most ponds of this type would be lined with hydraulically resistant material such that the ponds would not leak. BOYD has not been provided quality data for these discharges for our review. Our understanding from management discussions is that there are groundwater monitoring wells around the ponds, and they are used to measure groundwater levels and quality. In accordance with GCC's EPEA Approval, GCC has established a proper monitoring plan with qualitative data for the pond area and other areas. This includes a Tailings Pond and Plant Site Settling Pond Seepage Monitoring Program for groundwater monitoring including, at a minimum, the tailings ponds, plant site settling pond, and the Flood Creek Flyash Disposal Site."

Management reports that historically, water from the tailings ponds has not required chemical treatment in order to be suitable for discharge. In fact, GCC reports that there are no instances of acid mine drainage (AMD), often associated with coal mining, at any of the outfalls at the GCC mines or facilities. BOYD did not observe evidence of AMD during our November 2011 visit.

BOYD also understands that one of the tailings ponds has been filled and reclaimed. This pond lies between Pond 1 and Pond 3. The pond was reported to contain flyash.

All surface water that passes through the various mining areas must be collected and channeled to settling ponds to reduce total suspended solids content and other water quality parameters. These parameters must meet the limits set forth in the regulations and the EPEA approval before discharge to the natural drainage environment. Reuse water need not meet the approval requirements, but should meet plant and process water requirements. Likewise, groundwater collected in-pit must meet water quality guidelines before being discharged to the environment.

The EPEA Approval obligates GCC to operate the sanitary wastewater treatment plant, now 30 years old, to modern standards. The domestic potable water treatment plant must also meet all water quality standards.

There are working groups, such as the Selenium Working Group and the End Pit Lake Working Group, which meet to discuss the future effect of regulations likely to be promulgated towards these concerns.

GCC tracks toxic, hazardous, or petroleum waste and reports annually to EPEA on the amounts generated and their method of disposal. The majority of items such as lead-acid batteries, steel drums, used oil, contaminated diesel, and tires are taken by off-site recyclers. Other wastes such as hydrocarbon-contaminates waste solids and soils, contaminated grease and plastics, and glycol are shipped to approved off-site disposal areas.

8.8 Environmental Considerations

GCC 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, in accordance with EPEA Approval 155804-00-04. The EPEA Approval defines monitoring, reporting and data control requirements. GCC has a mine site based Environmental Department to carry out the responsibilities, terms and conditions outlined under the EPEA Approval.

GCC's area of operations must be contained within the boundaries of the approved mine licenses and permits as presented in the various applications by GCC and approved by ERCB. The EPEA Approval requires that land disturbed in connection with mining operations be reclaimed by GCC.

GCC manages chemicals and wastes, and other environmental concerns by the following measures:

- Replace existing non-compliant storage tanks at the plant site or provide secondary containment.
- Provide storage tanks for fuels and other hazardous materials which comply with the standards.
- Repair or replace existing asbestos materials in the processing plant such that all existing asbestos material is compliant or removed. This consists of removing 30 m of pipe coating in the coal drying facility, and coating the cement wallboard in the fire-valve shack of the breaker station.
- Remove polychlorinated bi-phenols (PCB) and PCB light fixture ballasts materials before plant startup, per agreement with the AENV.
- Update previous International Organization of Standardization (ISO) 9000 procedures such as implementing responsible waste disposal practices.
- Protect groundwater resources by minimizing area of disturbance, proper storage and containment of hazardous materials and waste, maintaining the water management plan, and monitoring groundwater levels and quality per the groundwater assessment results.
- Control erosion at the Two Camp Creek (No. 7 Mine) diversion channel.
- Incorporate properly designed drainage channels.
- Minimize water use by methods such as recycling.
- Monitor surface and groundwater, and comply with discharge criteria.
- Implement a Coal Dryer volatile organic compounds (VOC) and Particulate Matter Emission Reduction Assessment and Action Plan.

GCC has also committed to special mitigation measures to safeguard special wildlife which share this region including the Grizzly Bear, the Mountain Goat, and Caribou. The Caribou Migration Study, currently in progress, is addressing the migration routes through the No. 12 South B2 Phase I Mine and across Caw Ridge, and report findings annually. Radio-collared caribou are being monitored by a consultant for GCC. Recent mining blasts in the No. 12 South area had little effect on the caribou, according to monitoring data. Similarly, the Mt. Hamell Mountain Goat study is tracking the animals near active mining areas near No. 7 Mine on Mt. Hamell. GCC also contributes to the Foothills Grizzly Bear Project.

GCC'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 with 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). GCC's EPEA Approval requires GCC to maintain a Fisheries Monitoring Program for the Beaverdam Creek, the Smoky River, the Muskeg River and Sheep Creek whereby relative abundance, size class distribution and general health of the fish population is to be reported.

Other federal statutes that apply to GCC'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.

GCC has stated that it is not aware of any matters that would hinder its ability through the normal approval process to obtain or amend the mine permit, the mine licences and environmental approvals under which it is required to operate. The applications for the No. 12 South B2 underground operation and the No. 12 South A Pit have addressed the environmental sensitivities. The No. 12 South B2 application has been approved, while the No.12 South A application is currently under review by the regulatory agencies.

Concerns from public stakeholders must be addressed. The time required to obtain the permit amendment for the projects under application is difficult to predict with certainty. Approvals are subject to provisions which may arise from public hearings, and may extend or halt the approval process.

8.9 Reclamation Activities

GCC has an approved reclamation plan for land disturbed as a result of mining. Reclamation efforts to date have been confined to seeding of road fill areas and erosion control activities, as well as salvage and stockpile of soil materials that will be used later for capping of reclaimed sites. In Alberta, reclamation activities are governed by the plan approval issued through the EPEA. GCC's EPEA approval requires an additional approval for a Decommissioning and Land Reclamation Plan to reflect "as-built" conditions at the cessation of mining, as well as Mine Abandonment Approval from the ERCB.

Mine operators are required to submit an annual report to the ERCB and Alberta Environment, which includes a report on current reclamation activities. The most recent report dated, March 2011, lists a total disturbed area of 1,224.42 ha and a cumulative reclamation of 5.56 ha (as of year-end 2010). Inspectors from Alberta Environment regularly inspect sites to confirm compliance with approved reclamation plans.

The original No. 8 surface mining area was one of the first reclaimed mountain areas in Alberta to receive a Reclamation Certificate from the appropriate provincial authority. This demonstrates that reclamation in the Grande Cache mining area is achievable.

8.10 Reclamation Security

The Alberta Government requires a monetary security deposit be posted for mining reclamation obligations based on estimated costs to reclaim sites disturbed by mining. This requirement for security is often satisfied by posting letters of credit issued by a Canadian chartered bank. To date, GCC has fulfilled their obligations in this manner. The following table represents GCC's estimate of reclamation liabilities:

Mine Area	Land License	Disturbed Hectares	Cost/ha (C$)	Total Cost (C$)
Overpass Laydown	LOC 011231	0.43	30,101	12,943.43
No. 7 Access Road	LOC 040878	11.78	24,417	287,632.30
No. 8 Ridge Road	LOC 041045	6.45	15,575	100,458.80
Flood Creek Haul Rd	LOC 041174	4.66	13,541	63,101.06
Haul Road to No. 12 South	LOC 041175	47.92	9,486	454,569.10
Settling Ponds — No. 12 South	LOC 041333	11.40	10,093	115,060.20
Road to No 8 Explosives Plant	LOC 091061	0.76	6,624	5,034.24
No 8 South Oxbow Pond	LOC 090781	3.79	14,756	55,925.24
Road to No 11 Explosives Plant	LOC 100341	7.63	2,853	21,768.39
No 11 Mine Commun Tower Rd	LOC 100342	0.23	13,700	3,151.00
Reiff Terrace Road	LOC 110668	4.40	4,339	19,091.60
Flood Crk Ash Disposal Site	MLL 040067	20.85	29,443	613,886.60
Coal Prep. Plant Site	MLL 040071A	26.09	7,270	189,674.30
Tailings Ponds 1 & 3	MLL 040071B	16.43	15,578	255,946.50
Tailings Pond 4	MLL 040071C	9.92	75,705	750,993.60
No 8 Mine Commun Tower	MLL 040121	0.14	—	—
No 7 Mine Commun Tower	MLL 040131	0.16	60,106	9,616.96
Coal Stockpile Area 20 km	MLL 050103	1.62	2,981	4,829.22
No 8 Mine Fuel Deport	MLL 060055	—	—	—
Equipment Storage 16 km	MLL060055	0.89	3,577	3,183.53
No 8 Mine Explosives Site	MLL 090106	1.29	33,524	43,245.96
No 11 Mine Commun Tower	MLL 100031	0.28	12,691	3,553.48
No 11 Mine Explosives Plant	MLL 100030	0.98	10,303	10,096.94
Haul Road 0 km to 5.5 km	MSL 072051	20.18	7,024	141,744.30
Haul Road 10.9 km to S.C. Bridge	MSL 071329	6.34	14,981	94,979.54
Haul Road 16 km to 20.8 km	MSL 071330	6.85	14,249	97,605.65
No 7 Mine Portal	MSL 041504	11.50	186,978	2,150,247.00
No 8 Mine East	MSL 090924	382.01	12,315	4,704,453.00
No. 12 South B2	MSL 041986	244.18	18,596	4,540,771.00
Sheep Ck Bridge Demolition				623,000.00
Prep Plant Site Infrastructure				880,000.00
Reclamation Project Estimate Total				16,256,563

The estimate appears to be reasonable when compared to similar mining operations in similar settings. However, much depends on the mining plan and mining method utilized. For example, several abandoned mining pits can be backfilled with material excavated from advancing mining in

new areas, or from the reject material generated in the coal beneficiation process. When approached in this manner, much of the initial reclamation in the form of reestablishing pre-mining land profile is done in a matter of course in mining. A proper mine plan is required to advance this technique. Otherwise, reclamation would be costly. As an example, were operations to immediately discontinue, the cost to backfill the pits at No. 12 South and No. 8 East would be substantial.

8.11 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. 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.

A broad area of west central Alberta, including GCC's lease areas, has been identified as a traditional land use area by the AWN of Canada. The AWN strives to achieve economic enhancement for its constituents. GCC and the AWN signed a Community and Impact Benefit Agreement in November 2011 covering areas of mutual support.

To facilitate effective community communication with local householders in the community of Wanyandie Flats, GCC negotiates directly with individuals on concerns and actions identified through the Action Plan process.

GCC and the Métis Nation of Alberta, Association Local Council No. 1994, signed a MOU on December 22, 2008, regarding mutual support and agreement on goals relating to community relations, business opportunities, employment opportunities and training while respecting traditional land uses and the environmental. This MOU is scheduled for renewal in 2011. Both parties signed an interim agreement that preserves prior MOU commitments while a new community and Impact Agreement is negotiated. Both parties mutually benefit from this agreement and are actively engaged in its renewal.

9.0 ECONOMIC ANALYSIS

9.1 General

This Economic Analysis combines the various components of the economic models, including: production, capital expenditures, revenue, and mine-site operational cash costs. BOYD has presented a seven-year forward projection for the GCC operation.

The CPR reports cash cost of operations, including royalty, on a pre (income) tax basis. A LOM cash flow analysis will be included in a Valuation Report which will be submitted to Winsway under separate cover.

9.2 Annual Production Volumes

As described in previous sections of this report, in the BOYD mine plan we independently scheduled the surface and underground mines of GCC based on our opinions of equipment productivity for each area/seam, and preparation plant throughput. The following summarizes our projected annual coal production:

Estimated Annual ROM and Clean Coal Production

		Fiscal Year							
Units	**Mining Method**	**5 months***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Waste (000 bcm)	Surface Mines	10,311	30,727	33,652	39,475	48,633	48,750	48,750	47,390
ROM Production (000 tonnes)	Surface Mines	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816
	Underground Mines	255	346	741	670	556	941	931	941
	Thermal By-Product	16	123	23	73	139	82	85	88
	Total ROM	990	2,826	3,848	3,895	3,967	4,005	4,977	4,845
Clean Production (000 tonnes)	Surface Mines	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755
	Underground Mines	155	190	445	402	333	564	585	652
	Thermal By-Product	16	123	23	73	139	82	85	88
	Total Clean Product	643	1,832	2,504	2,660	2,921	2,853	3,512	3,495
	Calculated Average CPP Yield	64%	63%	65%	68%	73%	71%	70%	72%

* 5 Months are November 2011 through March 2012.

GCC management has targeted the operations to expand to 3.5 Mtpa. BOYD projects that this production level is achievable upon completion of a new CPP (which is projected to be complete by FY 2018).

Table 9.1, following this text, provides Estimated Annual ROM and Clean Coal Production.

9.3 Projected Capital Expenditures

BOYD has independently projected equipment CAPEX for both surface and underground mining based mine planning and scheduling. CAPEX estimates for surface mine development and infrastructure were completed by GCC management and incorporated in the June 2011 NI 43-101 Report. BOYD has completed an independent capital cost estimate for the new CPP. Other infrastructure items were reviewed and modified as warranted in BOYD's opinion.

Estimated Capital Expenditures by Category
C$ (000), Constant Dollar Values

Category	FY 2012*	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Surface Mine Equipment	2,100	45,350	16,275	83,875	103,025	36,075	12,200	7,200
Roads	1,000	10,000	5,000	—	5,000	—	—	—
Surface Mine Development and Pre-Strip	2,000	5,000	2,500	2,500	2,500	4,000	5,000	2,500
Underground Equipment	570	780	2,300	2,080	1,720	2,920	2,890	2,920
Underground Mine Development	1,000	5,000	—	—	—	—	2,000	2,000
Plant	6,000	12,500	3,000	7,000	30,000	5,000	3,000	3,000
Infrastructure	2,000	10,000	10,000	—	15,000	5,000	—	—
Other/Contingency	—	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Capital	14,670	92,130	42,575	98,955	160,745	56,495	28,590	21,120

* 5 Months November through March.

Table 9.2, following this text, provides details of BOYD's Estimated Capital Expenditures.

9.4 Estimated Revenue

The following summarizes projected sales prices. As directed by Winsway for use in this CPR, BOYD has used coal price assumptions as completed by a third party (Wood MacKenzie). The prices shown are stated in nominal US dollar values, which include a 2% annual escalation.

BOYD used the Wood MacKenzie coal price assumptions (calendar year basis) and revised them to a FY basis, as utilized by GCC. The following summarizes the nominal prices used in this CPR:

Coal Prices (US$/tonne), Nominal Dollar Values escalated at 2%

Category	(5 months) FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
HCC	257.24	240.46	220.68	210.54	204.72	208.81	212.99	217.25
Semi-soft	198.90	185.93	170.63	162.79	158.29	161.45	164.68	167.98
PCI	212.16	198.32	182.00	173.64	168.84	172.22	175.66	179.17
By-Product Thermal	84.86	79.33	72.80	69.46	67.54	8.89	70.26	71.67

Using annual coal production estimated by BOYD by product type and the coal prices shown, we have estimated total Gross Revenue (expressed in nominal US$), as follows:

US$ (000), Nominal Dollar Values

Category	(5 months) FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
HCC	161,289	411,038	547,312	533,016	559,241	556,681	673,609	695,683
Semi-soft	—	—	—	—	—	—	—	—
PCI	—	—	—	9,584	8,547	18,115	46,478	36,736
By-Product Thermal	1,358	9,757	1,674	5,070	9,388	5,649	5,972	6,307
Total Gross Revenue	162,647	420,795	548,986	547,670	577,176	580,445	726,059	738,726
US$/Product tonne	252.95	229.65	219.32	205.30	197.57	203.44	206.72	211.35

At the time of this CPR (effective 31 October 2011), the US/Canadian exchange rates were near par and were slightly fluctuating. Therefore, for the purpose of this report, we assumed an exchange rate of C$1.00: US$1.00 (equal).

Gross Revenue is reduced by distribution cash costs to adjust the reported coal price (FOB, port) to derive the equivalent FOB, mine pricing (revenue). The distribution costs are inclusive of: rail transportation, port charges (base and premium), commissions, testing, and demurrage and dispatch. The following summarizes distribution costs and the corresponding net revenue (Gross Revenue minus distribution Costs):

	Distribution Costs (C$ per product tonne)							
Category	**(5 months) FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Total Distribution Cost (C$ — 000)	19,450	59,094	91,992	96,420	105,900	103,426	127,318	128,451
Total Distribution Cost (C$/tonne)	30.25	32.25	36.75	36.25	36.25	36.25	36.25	36.75
Distribution Costs (C$ — 000), Nominal Dollar Values using 2% annual escalation	19,450	60,276	95,708	102,322	114,630	114,190	143,381	147,550
FOB Mine Revenue (C$ — 000), Nominal Dollar Values using 2% annual escalation	143,196	360,520	453,279	445,348	462,546	466,254	582,678	591,175

Table 9.3, following this text, provides BOYD's Estimated Annual Revenue.

9.5 Estimated Cash Costs

	C$ (000)							
Cost Category	**(5 months) FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Constant Dollar Values								
Surface Mining	51,634	134,074	161,059	210,027	266,589	288,244	294,652	293,892
Underground Mining	8,076	15,392	25,673	24,390	22,338	29,597	29,628	30,632
Processing	16,493	40,175	40,176	40,177	40,262	24,716	28,422	27,948
G&A — On-Site	6,250	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Royalties (First Tier Only)	1,432	3,605	4,533	4,453	4,625	4,663	5,827	5,912
Total Cash Cost of Mine Site Operations	83,885	208,246	246,441	294,047	348,814	362,220	373,529	373,384
C$ per Product Tonne	130.46	113.65	98.45	110.55	119.40	126.96	106.35	106.83
Nominal Dollar Values								
Total Cash Cost (C$ — 000)	83,885	212,411	256,396	312,046	377,568	399,919	420,654	428,900
C$ per Product Tonne	130.46	115.92	102.43	117.32	129.24	140.17	119.77	122.71

Table 9.4, following this text, provides BOYD's Estimated Cash Cost of Operations.

The surface mining, underground mining and processing costs are each discussed in detail within the appropriate chapters of this report. Our estimates of G&A and royalties are discussed in the following text. G&A is divided into two parts; mine site G&A and corporate (off-site) G&A. Mines site G&A is included within the mining category cost estimate.

G&A costs have been reviewed on a historical basis, and included in this report to account for expenses for the management of mine operations and the corporate office. BOYD has reviewed

GCC's historical Management's Discussion and Analysis (MD&A) reports, reviewed historical quarterly financial statements, had discussions with mine management, and considered the dynamics of future operations under a new ownership structure. Included in the historic off-site G&A structure is stockholder payments and other payments that are considered external to the future costs and cash flows under new ownership. Off-site G&A are not included in the CPR (but included in the Valuation report).

Royalties are estimated based on 1% of net revenue of marketable coal. There are additional provisions for royalties as part of the Crown coal leases which are dependent on net revenue of the coal mine when revenues equal or exceed the aggregate of the allowed cumulative project costs and a 10% return allowance. This will be evaluated as part of the Valuation Report. For the purposes of the CPR, BOYD has used to the base royalty, which is defined as 1% of net revenue.

9.6 Conclusions

The GCC operations will generate substantial positive cash flow over the seven-year period used in this CPR. We have not considered the transaction purchase price, closing costs, or any related financing in our analysis.

Following this text are:

Tables:

9.1: Estimated Annual ROM and Clean Coal Production
9.2: Estimated Capital Expenditures
9.3: Estimated Annual Revenue
9.4: Estimated Cash Cost of Operations

TABLE 9.1

ESTIMATED ANNUAL ROM AND CLEAN COAL PRODUCTION
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

			FY						
Units	Mine Area	2012 (5 mos.) Nov.–Mar.	2013	2014	2015	2016	2017	2018	2019
					Surface Mines				
Waste (000 bcm)	No.8 Mine	10,011	29,832	24,949	29,063	28,370	30,040	15,924	13,072
	No.2 Mine	—	—	3,887	3,000	7,412	6,921	21,114	22,645
	No.12 SA Mine	—	—	3,836	5,679	10,275	10,293	10,293	10,293
	No.12 North	—	—	—	—	107	77	—	—
	No.16 Mine	—	—	—	584	1,053	—	—	—
	Rehandle @ 3%	300	895	980	1,150	1,416	1,420	1,420	1,380
	Total Waste	10,311	30,727	33,652	39,475	48,633	48,750	48,750	47,390
ROM Production (000 tonnes)	No.8 Mine	719	2,357	3,084	2,960	2,954	2,468	2,609	1,293
	No.2 Mine	—	—	—	—	43	131	290	1,084
	No.12 South A Mine	—	—	—	192	274	383	1,062	1,439
	No.12 North	—	—	—	—	—	—	—	—
	No.16 Mine	—	—	—	—	—	—	—	—
	Subtotal ROM	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816
Thermal By-Product (from Oxidized Coal)		16	123	23	73	139	82	85	88
Strip Ratio (BCM/ROM tonne)		14.33	13.04	10.91	12.53	14.86	16.35	12.31	12.42
					Underground Mines				
ROM Production (000 tonnes)	No. 7 Mine	143	—	—	—	—	—	—	—
	No. 12 SB2 7 Seam	113	346	741	670	556	941	836	627
	No. 12 SB2 4 Seam	—	—	—	—	—	—	95	314
	Subtotal ROM	255	346	741	670	556	941	931	941
					Clean Coal Production by Product Type				
Surface Mines (000 tonnes)	HCC	472	1,519	2,036	2,130	2,398	2,102	2,577	2,550
	Semi-Soft	—	—	—	—	—	—	—	—
	PCI	—	—	—	55	51	105	265	205
	Subtotal Products	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755
Underground Mines (000 tonnes)	HCC	155	190	445	402	333	564	585	652
	Semi-Soft	—	—	—	—	—	—	—	—
	PCI	—	—	—	—	—	—	—	—
	Subtotal Products	155	190	445	402	333	564	585	652
Thermal By-Product (Sold)		16	123	23	73	139	82	85	88
	Total Products	643	1,832	2,503	2,660	2,921	2,853	3,512	3,495

TABLE 9.2

ESTIMATED CAPITAL EXPENDITURES
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

		C$ (000), and Constant Dollar Values							
Equipment Type/Mine Function	**Make/Model**	**FY 2012***	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Surface Equipment Capital (new and replacements)									
Drills	P&H 320XPC	—	6,000	—	—	—	—	—	—
Drills	PV271	—	—	—	—	—	—	—	—
Shovels	P&H 2800XPC	—	—	—	—	18,900	—	—	—
Shovels	PC5500	—	11,000	—	—	—	—	—	—
Shovels	PC3600	—	—	—	—	—	—	—	—
Haul trucks	830E AC	—	28,350	14,175	70,875	80,325	33,075	—	—
Haul trucks	CAT 777	—	—	—	—	3,000	—	7,000	5,000
Loaders	WA1200/L1350	—	—	—	4,200	—	—	—	—
Dozers	D10T	—	—	—	4,400	—	2,200	—	2,200
Graders	24M	—	—	—	4,400	—	—	4,400	—
RTD	CAT 834	800	—	800	—	800	800	800	—
Water Truck	CAT 777	1,300	—	1,300	—	—	—	—	—
Subtotal Surface Equipment Capital		2,100	45,350	16,275	83,875	103,025	36,075	12,200	7,200
Other Equipment and Mine Expansion									
Roads		1,000	10,000	5,000	—	5,000	—	—	—
Surface Mine Development and Pre-Strip		2,000	5,000	2,500	2,500	2,500	4,000	5,000	2,500
Underground Equipment		570	780	2,300	2,080	1,720	2,920	2,890	2,920
Underground Mine Development		1,000	5,000	—	—	—	—	2,000	2,000
Plant — New Plant		—	—	—	5,000	30,000	5,000	2,000	—
Plant — Other Plant		6,000	12,500	3,000	2,000	—	—	1,000	3,000
Infrastructure		2,000	10,000	10,000	—	15,000	5,000	—	—
Other/Contingency		—	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Subtotal Other Capital		12,570	46,780	26,300	15,080	57,720	20,420	16,390	13,920
Total Capital Expenditures		14,670	92,130	42,575	98,955	160,745	56,495	28,590	21,120

* 5 Months November through March.

TABLE 9.3

ESTIMATED ANNUAL REVENUE
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

Category		FY 2012[a]	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Coal Prices (US$/tonne), — Nominal Dollar Values									
HCC		257.24	240.46	220.68	210.54	204.72	208.81	212.99	217.25
Semi-soft		198.90	185.93	170.63	162.79	158.29	161.45	164.68	167.98
PCI		212.16	198.32	182.00	173.64	168.84	172.22	175.66	179.17
By-Product Thermal		84.86	79.33	72.80	69.46	67.54	68.89	70.26	71.67
Coal Production (Saleable Product — 000 tonnes)									
HCC		627	1,709	2,480	2,532	2,732	2,666	3,163	3,202
Semi-soft		—	—	—	—	—	—	—	—
PCI		—	—	—	55	51	105	265	205
By-Product Thermal		16	123	23	73	139	82	85	88
Total Sales		643	1,832	2,503	2,660	2,921	2,853	3,512	3,495
Oxidized		31	246	46	145	277	164	171	175
Inferred		1	59	152	452	562	428	1,108	945
Gross Revenue by Product Type (US$ — 000), Nominal Dollar Values									
HCC		161,289	411,038	547,312	533,016	559,241	556,681	673,609	695,683
Semi-soft		—	—	—	—	—	—	—	—
PCI		—	—	—	9,584	8,547	18,115	46,478	36,736
By-Product Thermal		1,358	9,757	1,674	5,070	9,388	5,649	5,972	6,307
Total Gross Revenue		162,647	420,796	548,987	547,670	577,176	580,445	726,059	738,725
US$/Product tonne		252.95	229.65	219.32	205.90	197.57	203.44	206.72	211.35
Conversion Factor (C$ v. US$)[b]	1.0								
Gross Revenue by Product Type (C$ — 000)									
HCC		161,289	411,038	547,312	533,016	559,241	556,681	673,609	695,683
Semi-soft		—	—	—	—	—	—	—	—
PCI		—	—	—	9,584	8,547	18,115	46,478	36,736
By-Product Thermal		1,358	9,757	1,674	5,070	9,388	5,649	5,972	6,307
Total Gross Revenue		162,647	420,796	548,987	547,670	577,176	580,445	726,059	738,725
Total Distribution Cost (C$ per product tonne)[c]		30.25	32.25	36.75	36.25	36.25	36.25	36.25	36.75
Total Distribution Cost (C$ — 000)		19,450	59,094	91,992	96,420	105,900	103,426	127,318	128,451
Nominal Dollar Values at 2% per year escalation: Total Distribution Costs at 2%		19,450	60,276	95,708	102,322	114,630	114,190	143,381	147,550
FOB, Mine Revenue (C$ — 000), Nominal Dollar Values		143,196	360,520	453,279	445,348	462,546	466,254	582,678	591,175

(a) 5 months

(b) Conversion Factor (C$ v. US$) 1.0

(c) Distribution costs include Rail, Port, Commissions, Testing, Demurrage, and Dispatch

TABLE 9.4

ESTIMATED CASH COST OF OPERATIONS
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
January 2012

Mine Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Production (000 — tonnes)								
ROM Surface	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816
ROM Surface — Thermal By-Product	16	123	23	73	139	82	85	88
ROM Underground	255	346	741	670	556	941	931	941
Total ROM Production	991	2,825	3,848	3,894	3,967	4,004	4,977	4,844
Total Raw Plant Feed (after breaker)	920	2,550	3,597	3,597	3,609	3,679	4,605	4,487
Total Product (000 — tonnes)	643	1,832	2,503	2,660	2,921	2,853	3,512	3,495
Cash Cost of Operations (C$ — 000) — Constant Dollar Values								
Surface Mining								
Drilling	1,028	3,527	3,862	6,133	7,555	7,574	7,574	7,362
Blasting	3,404	10,143	11,108	13,031	16,053	16,092	16,092	15,643
Waste Loading	3,996	11,717	13,005	16,000	19,411	19,542	19,542	18,875
Waste Haulage	18,601	50,262	56,679	86,163	121,670	136,013	124,523	118,289
Coal Loading	303	959	1,274	1,173	1,273	1,058	1,472	1,386
Coal Haulage & Forwarding	9,747	25,294	37,555	39,388	40,757	44,276	60,859	68,316
Aux. Equipment	7,820	14,684	16,568	20,746	25,096	26,091	26,157	25,687
Support	6,735	17,488	21,008	27,395	34,772	37,597	38,433	38,334
Subtotal Surface Mining Cost	51,634	134,074	161,059	210,027	266,589	288,244	294,652	293,892
(C$/bcm)	5.01	4.36	4.79	5.32	5.48	5.91	6.04	6.20
C$/ROM Surface Tonnes	70.22	54.07	51.84	65.13	78.15	94.09	72.83	75.29
Other Operations and Mine Related Costs								
Underground Mining	8,076	15,392	25,673	24,390	22,338	29,597	29,628	30,632
Processing	16,493	40,175	40,176	40,177	40,262	24,716	28,422	27,948
General & Administration — On Site	6,250	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Royalties (First Tier Only)	1,432	3,605	4,533	4,453	4,625	4,663	5,827	5,912
Subtotal Other Cost of Operations	32,250	74,172	85,382	84,021	82,225	73,975	78,877	79,491
Total Cash Operating Cost	83,884	208,246	246,440	294,048	348,814	362,219	373,529	373,383
Total Cash Operating Cost per ROM tonne (C$)	84.67	73.71	64.05	75.51	87.93	90.46	75.05	77.08
Total Cash Operating Cost per Product tonne (C$)	130.46	113.65	98.45	110.55	119.40	126.96	106.35	106.83
Distribution Costs*	19,450	59,094	91,992	96,420	105,900	103,426	127,318	128,451
Distribution Costs ($ per ton Product)	30.25	32.25	36.75	36.25	36.25	36.25	36.25	36.75
Total Cash Cost of Operations	103,334	267,340	338,432	390,468	454,714	465,644	500,848	501,834
Total Cash Cost (C$ per Product Tonne)	160.71	145.90	135.20	146.80	155.65	163.21	142.60	143.58
Capital Expenditures	14,670	92,130	42,575	98,955	160,745	56,495	28,590	21,120

* Distribution costs include Rail, Port, Commissions, Testing, Demurrage, and Despatch

10.0 RISK ASSESSMENT

10.1 Introduction

Coal mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of precise production, cost, and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters. Coal mining operations in western Canada have a demonstrated track record in sustaining consistent and predictable levels of performance.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation: geologic, operational, and market. For the purposes of this study and in accordance with SEHK guidelines, we define risk in three general categories of severity (i.e., consequence of risk ratings) as follows:

- Major Risk: A factor that would have a material adverse effect (15% to 20% or higher) on project cash flow for the risk assessment period, possibly leading to project failure, if the specific risk occurred and was not corrected.

- Moderate Risk: A factor that would have a significant adverse effect (10% to 15%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

- Minor Risk: A factor that would have minimal or no adverse effect (less than 10%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important, is the probability or likelihood that the specific risk will occur. For this study and as required by SEHK a seven-year period is considered the most critical for the following probability of occurrence ratings:

- Likely: Event is likely to occur.

- Possible: Event may occur.

- Unlikely: Event is unlikely to occur.

The overall risk assessment combines the previously discussed two components: severity and probability, to determine the final categorization of risk, as shown below:

Probability of Risk Occurring (within seven year)	Severity (Consequence) of Risk Overall Risk Assessment		
	Minor	**Moderate**	**Major**
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

10.2 General Assessment

BOYD independently assessed the GCC mining operations as a whole to be low to medium in overall risk for the following reasons:

- Risk of production is mitigated by GCC maintaining both underground and surface mining operations (with three pits) with five potential mining areas. Risk of mining in one area can be mitigated as additional areas are permitted for mining (Areas No. 2 and No. 12 South A) within the seven-year risk assessment period.

- Production throughput is restricted from the coal preparation perspective. The existing CPP is approaching 40 years old and has demonstrated limited throughput. GCC management has recognized this limitation and is in the process of capital upgrades to increase throughput. In addition, BOYD has allocated in our model additional capital, as described within this text, to construct a new state of art coal processing facility. We consider the risk to be low once this new plant is fully functional, provided that capital is allocated as planned.

- GCC is actively pursuing additional permits in areas and additional resource/reserve blocks not currently permitted, as well as obtaining additional data (with in-house drilling and public source data). This will increase the resource/reserve base and allow for flexibility in mining various areas simultaneously to take advantage of blending to maximize future product quality.

- Geologically, the GCC resources and reserves are in a complex depositional setting which places the risk in a medium category (depending on classification). However, additional drilling to improve the classification (upgrade the reliability) from a quantitative perspective will reduce this risk.

- Qualitative risk is dependent on drill core testing, pit samples, and corresponding blending studies. The current mine areas (No. 8 surface pits) are well defined within the No. 4 Seam and less defined for non-primary seams (Nos. 11/12). Areas to the north and west of the current mining areas are less defined. While quality discrepancies (relative to blending) have been identified, experience indicates that empirical data may differ from subjective information based on discussions with GCC management. We consider qualitative risk to be low to medium (depending on area and seam), this can be further mitigated with additional quality testing.

- GCC mining concessions are located in established coalfields where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.

- GCC has experienced management and technical capabilities to successfully operate their mines and to respond to operating interruptions and other event occurrences in a timely, professional, and proactive manner in order to minimize production and financial losses.

- Except for routine production risks, which all coal mine operators, both underground and surface may experience, BOYD has not identified any extraordinary risk issues related to the future operation of the GCC mine over the risk assessment period.

- While not anticipated (based on recent history), naturally occurring events such as flooding (at the preparation plant and rail load out facility) or an earthquake, could occur, but their impact would be regional in nature and not unique to GCC.

- The GCC mines produce low volatile hard coking, semi-soft and PCI coal products. The company has established markets for its products and risk of future sales is low based on the nature of the various producers and potential aspects of end-user relationships with this impending sale.

- GCC recognizes that regulations in this area can present risk but GCC has successfully managed compliance with the rules and regulations to date. GCC also plans to operate in multiple mining areas, such that an event in one mining area does not interfere with the operations of the others.

The following text provides an expanded discussion of mining-related risks and BOYD's assessment of the GCC risk profile.

10.3 Geologic Risk

10.3.1General Geologic Risk

The GCC mining concessions include multiple operating areas within +20,000 ha of coal bearing lands. The properties have been previously mined and product from the mining areas has a well-defined market. The deposit is classified geologically as moderate to complex and BOYD would rank this as a moderate to low risk. Definition of resource/reserve by area differs and reflected in our JORC classifications, as discussed in the resource/reserve chapter of this report. Additional core drilling and corresponding quality testing will be conducted during the normal course of business and will continually reduce the reliability and coal quality risk of this deposit.

10.3.2Unforeseen Geologic Anomalies

Unforeseen geologic anomalies that extend over large areas could disrupt both underground and/or surface mine operations. These unforeseen anomalies could include the following:

- Faulting and displacement.

- Oxidized zones (surface and along fault lines).

- Barren/Channel Areas (areas of thin or no coal).

The reserves as defined by JORC are reasonably defined by both drilling and mining experience. This minimizes risk of unforeseen geologic anomalies. Additional drilling of the expanded area will be done in advance of mining and will reduce overall risk by better definition.

Risk Assessment

Severity: Low to Moderate depending on Area
Probability: Unlikely to Possible
Overall: Low

10.4 Reserves

The estimated saleable reserves as defined in the Reserve section of this report exceed 88 Mt and are distributed over five defined mining areas. A summary of proven/probable reserves follows:

	Probable Reserves (Mt)	
	ROM	**Saleable**
Surface Mining Areas		
No. 8 Area	23.9	16.9
No. 12 South A Area	10.5	7.8
No. 2 Area	14.3	10.5
No. 16 Area	24.0	16.2
No. 12 North Area	43.7	30.8
Total	116.4	82.2
Underground Mining Areas		
No. 2 Area	0.2	0.1
No. 12 South B2 Area	8.3	5.8
Total	8.5	5.9
Grand Total	124.9	88.1

GCC has sufficient reserves in the current permitted areas (surface and underground) should unforeseen circumstances occur with adequate time to obtain permits for additional areas, in order to continue development in a logical mining progression. The No. 8 surface mine has three operating pits working simultaneously and production schedules could be quickly modified to mitigate risk.

Risk Assessment

Severity: Low to Moderate
Probability: Unlikely to Possible
Overall: Low

10.5 Operational Risks — Naturally Occurring Events

10.5.1 Weather

Extraordinary weather occurrences (e.g., excessive rainfall, snowfall, extreme cold) can result in disruption to the mining operations by power outages, equipment delays, loss of access into the mining pits (movement of mine personnel and movement of necessary supplies, such as fuel and parts) and transport of coal from the operating face to the loading facilities. The likelihood of extreme cold is most prevalent, but not unanticipated by GCC management. Weather delays due to cold weather are factored into operational planning and usually of limited duration.

The most significant weather related risk is the result of damage from the extreme weather conditions. Since these conditions are both normal occurrences and anticipated, precautions by GCC management are in-place to reduce the longer term effect of these occurrences due to physical damage to facilities and equipment.

10.5.2 Earthquakes

The concession areas and mine operations of GCC occur within a seismic area with a moderate probability of seismic activity. The operational structures and mine design (with appropriate geotechnical parameters) consider the probability of such events.

Risk Assessment

Any naturally occurring event(s) would affect the broader region where GCC mines are operated. Proper planning, scheduling and procedures help mitigate any safety considerations and minimize downtime of the operations.

Severity: Low to Moderate
Probability: Likely to Possible
Overall: Low to Moderate

10.6 Operational Production Risks

There are several types of operational risks associated with surface and underground coal mining; production related and event risk.

10.6.1 Production Risks

Underground

- Roof control issues and roof falls.
- Mining conditions (poor roof, floor, ribs, displacement faulting).
- Variations in seam consistency, thickness and structure.
- Failures or breakdowns of operating equipment and supporting infrastructure.

Surface

- Unstable ground resulting in wall failure.
- Displacement faulting.
- Oxidation of coal intrusions.
- Failures or breakdown of operating equipment and supporting infrastructure.
- Labor

The preceding conditions and circumstances can adversely affect production in the short term, but are not regarded as significant to the long-term operation of the mining operations. Mine-level management is experienced and capable in dealing with these risks. BOYD does not regard the issues listed above as being material to GCC's mining operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated in the event that one or more of the above issues occur.

The current labor market in western Canada is restricted due to the expansion of the Alberta Tar Sands projects with higher paying jobs. As discussed in Chapter 5.0, surface mine operations and planning turnover had been ranging between 25% to 31%. GCC has petitioned, and has been granted by the Canadian Government and Alberta Province, to hire and use expatriate workers to off-set turn-over and stabilize its workforce. Additionally, GCC has become proactive with the construction of low-cost housing to help retain its workforce.

Mine planning uses productivity parameters and cost experience which incorporate historic experience (including routine interruptions to the mining process).

Risk Assessment

Severity: Minor
Probability: Possible
Overall: Low

10.6.2Event Risks

The second type of risk is categorized as event risk. Items in this category are rare, but significant occurrences can result in impacting production activities and corresponding financial outcomes. Operational event risks also included naturally occurring events (see Section 10.5) fall into the "event risk" category.

10.6.2.1 Underground Event Risks

Underground mining operations are subject to certain event risks. These items are rare, but when an occurrence is confined to an individual mine it ultimately has a pronounced impact on production activities and corresponding financial outcomes for that mine. Following such events, all mines are typically subject to increased inspection/ examinations and subsequent penalties or actions imposed by the regional and/or national authorities. Our assessment of underground event risks are respective to the limited

available mine life in the No.7 mine as well as the generalized mine life in the No. 12 South B2 Mine. Examples of underground production-related event risks are:

- Major underground fires.
- Explosions.
- Flooding of the Underground Workings.

10.6.2.2 Major Underground Fires

The potential for major underground fires is significant in any underground coal mining operation due to the combustible nature of the material being mined and the industrial setting with machinery being used. Fires generally occur from explosions (see next page), equipment fires, belt conveyor system fires, or spontaneous combustion. Equipment fires rarely result in major mine fires due to available extinguishers and in-mine firefighting gear. A major event due to an out of control equipment fire is a potential but small risk.

Belt conveyor fires pose a higher order risk due to their extended and generally untended expanse. Belt conveyors by definition have moving parts, which can be prone to friction. Monitoring systems, effective belt patrol, maintenance programs, and firefighting systems are critical to avoiding major events. Generally, these measures are adequate to avoid belt fires, but the potential is always present if the systems are not managed properly.

The last major source of mine fires is spontaneous combustion, which is a common occurrence throughout the world mining industry. Spontaneous combustion typically occurs in areas that are not well ventilated, where the combination of self-heating and oxygen is adequate to support a sustained heating until a fire breaks out. In well-ventilated areas, the heat is carried away. In tightly sealed areas, the oxygen supply does not support sustained combustion.

GCC's underground mines have not been identified as being susceptible to spontaneous combustion as a result of higher rank coals occurring at relatively shallow depths of cover, and therefore the risk of this type of event is expected to be minimal. The potential for underground belt and equipment fires are also expected to be minimal with continued maintenance and management of the mine equipment and infrastructure.

10.6.2.3 Explosions

Coal mine explosions typically are initiated by methane ignitions followed by coal dust explosions. Coal dust itself does not typically ignite, although under certain conditions it is possible. The coals mined by GCC are generally rated as explosive in a dust form as is the case for nearly all coals in the world. The key to preventing explosions is the prevention of methane ignitions. In this regard, GCC's mines have a managed ventilation system. The GCC mines are using 130,000 cubic feet per minute (cfm), blowing ventilation system to dilute and exhaust methane from the mines. Present mining and associated ventilating practices are likely to be adequate, if the systems are managed in a prudent and methodical manner, and the atmosphere is periodically sampled and tested for explosive gas. The combination of these methods is critical to minimizing the potential for methane ignitions.

GCC mines were observed to utilize rock dust, which is commonly used in the US as an explosion deterrent. Rock dust is a method of suppressing coal dust explosions by applying a layer of pulverized limestone to exposed coal in the interior of a mine. The inert dust prevents the propagation coal dust and suppresses a potentially larger secondary explosion.

Assuming diligent practices continued to be used at the GCC mines, the risk of explosion can be minimized. The occasions of explosions have been relatively rare (although not eliminated) in the advanced international underground coal mining industries. Given present practices, the risk of an explosion is remote in our view.

10.6.2.4 Floods

Risk from floods occurring in the underground mine workings can take two forms. One possibility is intercepting unmapped flooded workings. These incidents have periodically occurred in every major coal mining country, including the US. Due to the limited propensity of historic underground mining in the region, and the remote locations of the GCC underground mines, the opportunity for intercepting unknown underground mining is minimal to none existing. Past mining is relatively well charted and future mining activity can leave protective barriers around abandoned mines with confidence. Accidental flooding from uncharted works has a low probability of occurring in the GCC mines.

A second risk arises from the potential inflow of ground water contained in faults and fissures and from surface and ground water entering the mine because of depillaring subsidence. GCC is highly cognizant of the potential disruption to mining activities and has an up-dip mining plan to alleviate water buildup. The general layout of the mine allows for the natural drainage of water to designated sumps where it is controlled prior to discharge. As a result, accumulation is not expected beyond localized nuisance pooling.

Based on observations at both the No. 7 Mine and the No. 12 South B2 Mine, we would rate the potential for disruption to mining operations from inrushes of water as minor. Water inflows experienced at the GCC mines are typical of the region and are within the capabilities of a managed pumping and drainage system. The underground mines have sufficient water-handling systems, which including gravity drainage.

10.7 External Risk — Regulation

Various levels of Provincial and federal government are involved in the promulgation and enforcement of regulations under which GCC mines must operated. These include operating standards and requirements, and the payment of fees and taxes. Governmental regulation policies are industry-wide (with the exception of Alberta Province regulations), and beyond the control of GCC. The company is responsible for operating mines and facilities in compliance with all governmental regulations now in effect (or any future regulations).

Based on BOYD's review, it is our opinion that GCC has implemented appropriate environmental protection measures in response to environmental protection laws. Several areas, including Area No. 16 and Area No. 12 North, are environmentally sensitive areas and have the attention of non-governmental organizations (NGO's). The area is rich in wildlife including moose, elk, mule, deer, caribou, bighorn sheep, grizzly bear, mountain goat, wolf, and eagle. Goat and caribou may be particularly sensitive to man's activities, so GCC has implemented special monitoring programs and annual reporting on their habits. Discussions with GCC management indicate there is

no serious impairment due to mining activities and that the issues can be mitigated and will not affect mining operations within the seven-year risk assessment period.

Coal reserves will decline as mine production continues and the ability of GCC to increase or sustain reserves is dependent on exploration and identifying coal occurrences in adjacent areas or other areas outside of the current GCC control. Areas No. 2, No. 12 South A, No. 12 North and No. 16 have yet to be permitted for mining. There is risk that additional time could be required to obtain permits for each mine area, particularly if unforeseen issues develop or if future regulations increase the time required for the permitting process. Albeit BOYD believes the risk is low from a timing perspective for the areas currently under consideration within the seven-year risk assessment period.

Passage of more restrictive or onerous government regulations could have adverse effects on the future GCC operations, but such a risk would be industry-wide and not definable at this time.

10.8 Market Risk

Achieving GCC cash flow projections over the seven-year assessment period depends on expanding coal sales at prices specified in the market and sales section of this CPR.

BOYD has reviewed mine plans and independently developed annual cash flow projections based on anticipated schedules and target projections from GCC management (which were modified to reflect BOYD opinion on coal processing throughput). There is a moderate risk that forecasted growth in output may not be reached in the time frame projected. It is common that expansion projects are delayed for a multitude of reasons. We have not identified any geological or mining-related issues during our review, but believe that the coal processing plant will need a brown-field replacement to a modern high-efficiency processing facility. This has been factored into this CPR reflecting our opinion. We believe the throughput with modifications is low to moderate depending on approval and allocation of funding for the proposed capital project.

Market risk is mitigated by the established nature of GCC's mines and customer base along with the pending sale which may result in an expanded customer base. We assess the market risk to be low to moderate depending on the Asian economy (the primary customer base for the GCC products).

Risk Assessment

Severity: Low to Moderate
Probability: Low
Overall: Low

10.9 Summary of BOYD's Risk Assessment (2012–2019)

	Risk Assessment		
	Severity	**Probability**	**Overall**
Geologic (General)	Low to Moderate	Unlikely	Low to Moderate
Unforeseen Anomalies	Low to Moderate	Unlikely to Possible	Low
Reserve Availability	Low to Moderate	Unlikely to Possible	Low to Moderate
Naturally Occurring Events			
— Weather	Minor to Major	Unlikely	Low
— Earthquakes	Low to Moderate	Likely to Possible	Low to Moderate
Routine Operational Risks (Adverse mining conditions, equipment outages)	Minor	Possible	Low
Major Events			
— Major Underground Fire	Minor to Major	Unlikely	Low
— Explosions	Minor to Major	Unlikely	Low
— Underground Flooding	Minor to Major	Unlikely	Low
Compliance to Existing Regulations	Minor to Major	Unlikely	Low
Marketing (Commercial)	Minor to Major	Unlikely	Low

ATTACHMENT A

CURRICULUM VITAE OF THE BOYD PROJECT TEAM

Ronald L. Lewis
Managing Director and COO

Summary of Expertise

Valuation of coal/mineral reserves and operating mining companies with specialized expertise in the areas of coal/mineral reserve estimation, surface and underground mineability analysis, and financial due diligence.

Experience

1971 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Directed an independent feasibility study for developing an underground longwall mining operation in the Pittsburgh Seam. Scope of Work included: confirmation drilling, geologic modeling, reserve estimation, mine layout, mine planning (raw/product coal production, employment, capital cost estimation, and operating cost estimation for a life-of-mine plan), and financial (discounted cash flow) analysis.

- Directed independent valuations of two of the largest US silica sand producers. Each company operated numerous quarries and related processing facilities in multiple states. Annual silica sand production was approximately 6.6 million tons and 3.1 million tons, respectively. Scope of work included audit review of estimated reserves, operations review, asset appraisal, overview of market, discounted cash flow valuation, and limited Phase I environmental audit.

- Directed an independent due diligence review involving the acquisition and merger of three mining companies (divisions) into a nominal 30-million-ton-per-year producer. Properties are located in Central and Northern Appalachia. Scope of work included confirmation of the reasonableness of estimated coal reserves, mining plans, and financial projections.

- With the approval of US Bankruptcy Court, directed an independent review of stone/mineral reserves, asset appraisal, and valuation of a nominal 25 million-ton-per year producer of limestone, lime, industrial sand, and other industrial minerals.

- Directed BOYD's work as the technical and financial advisor to the Unsecured Creditors Committee involved in a Bankruptcy Chapter 11, Central Appalachian coal mining company and land company.

- Directed a three-year assignment providing technical consultation to HMG Department of Trade and Industry (United Kingdom) relative to the privatization of British Coal Corporation (BCC). Scope of services covered BCC's existing underground collieries and opencast mines and included technical assessments of coal reserves and operations (mining conditions, practices and potential for cost reduction, independent mine projections), as well as an overview of marketing.

Experience — Continued

- Provided ongoing technical and financial consultation for senior lender group to a major US coal producer (50 million tons per year) with operations in Central Appalachia, the Midwest, and Colorado. Scope of work included mine/business plan validation, evaluation of strategic operating issues, etc.

- Completed a due diligence study in preparation of syndication of loan for new property acquisition using existing Gulf Coast and Great Plains lignite mines as security.

- Directed on-site inspection and assessment of future mining plan requirements such as production forecasts, capital expenditures, and operating cost estimates by year for a 20-year plan. Also included in the overall scope of work were coal reserve estimation, asset appraisal, and review of present operations. Eight major Australian surface mines were evaluated; aggregate production was between 25 million and 30 million tons per year. Report was prepared for acquisition of one mining company and consolidation into overall surface coal mining operations.

- Assessed a major US producer of limestone and lime for use by lenders in debt restructuring. The overall scope of work included a review of reserves, mining and lime facilities, development of 10-year business plan, market price forecast, and valuation using a discounted cash flow method.

- Completed a due diligence review of a major nominal 45-million-tons-per-year German brown coal producer as the fuel source for four mine-mouth electricity generating stations. Principal mining equipment included bucket wheel excavators, bucket chain excavators, and overburden cross-pit bridges. The overall scope of work included a review of reserves and the existing mining operation, and ultimately, the valuation of the mining company.

- Managed a comprehensive 15-volume study covering design and implementation of an on-site exploration program, geological investigation of the multiple-bedded lignite deposit, assessment of raw and washed coal quality, preliminary mine feasibility of alternative surface and underground mining systems, examination of in-country mining capability and training requirements, analysis of alternative transportation systems, assessment of environmental impact of new coal mine development, and completion of a detailed master mine plan incorporating both modern surface mining and limited mechanization underground mines. Separate cost centers were fully developed for surface mine, underground mine, common facilities, and infrastructure. Annual estimates were prepared for coal production, labor requirements (expatriate and nationals), capital cost, and operating cash cost.

Experience — Continued

- Performed a series of coal reserve studies and accompanying valuations covering approximately one billion tons of coal (20 to 25 properties) located in the eastern United States. Studies were used as a basis for subsequent disposition program.

- Performed an independent technical assessment of an existing opencast coal mine in the Republic of Zambia. Scope of work included technical assessment of all mining, coal handling and processing, and marketing (forecast of future sales), as well as direct on-site assistance with equipment maintenance, coal preparation plant operations, aerial ropeway maintenance, and mine planning.

Foreign Consulting Experience

Australia, Canada, Colombia, Commonwealth of The Bahamas, Germany, Jamaica, Pakistan, Republic of South Africa, Republic of Zambia, Thailand, United Kingdom

Education

1971 B.S.: Civil Engineering, University of Pittsburgh

Registration and Certificates

Registered Professional Mining Engineer — Alabama, Kentucky, Ohio, Pennsylvania, and West Virginia

Certified Member of the American Institute of Minerals Appraisers

Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc.

Publications and Papers

2009 Overview of the Central Appalachian Coal Region, November 8–9; McCloskey US Coal Imports Conference.

2006 US Market Dynamics — Trends in Northern and Central Appalachian Coal Producing Regions, November 29–30; McCloskey US Coal Imports 06 Conference.

2005 Implications of a Bull Market on Reserve Acquisition, September 28; McGuire Woods LLP 2005 Coal Industry Briefing.

2003 Overview of Northern and Central Appalachian Coal Regions, November 12–13; McCloskey US Coal Imports Conference.

2003 Private and Public US Coal Companies, Review and Financing Structure, April 1; The 11th Annual Platts Coal Properties & Investment Conference.

2000 The Ownership Changes in the US Coal Industry and the Effects on the International Coal Market, as presented at the 1st US International Coal Conference, June 12.

Publications and Papers — Continued

1998 Bauxite Mining: A Synergistic Opportunity (for Business and Government); September; 12th International Symposium; International Committee for Study of Bauxites, Alumina and Aluminum (ICSOBA); Delphi, Greece.

1998 Co-author, Due Diligence Requirements for Coal Property Acquisition, March 25; Sixth Annual Coal Outlook Coal Properties Buying and Selling Conference, St. Petersburg, Florida.

1996 "Coal Property Evaluation Factors," presented at the Coal Outlook Seminar Evaluating, Buying & Selling Coal Properties, March 28–29.

1994 "Black Powder — An Explosion in Market Demand," COAL Magazine, September.

1993 Independent Review: 10 Collieries Under Consultation, British Coal Corporation, United Kingdom, March; HMSO ISBN 011 515329 2.

1993 Independent Analysis: 21 Closure Review Collieries, British Coal Corporation, United Kingdom, January; HMSO ISBN 011 514990 2.

1988 RESERVES — The Practical Approach to Determining What You Have, January; Fifteenth Annual West Virginia Mining Symposium.

1986 Lakhra Coal Project Mine Development Plan, February; The First Pakistan National Coal Conference, Sind Province, Pakistan.

Thaddeus J. Sobek
Project Manager

Summary of Expertise

Thirty-seven years as mine engineering consultant with extensive international due diligence experience. Primary job focus has centered on surface mine planning and design, mine feasibility, cost analysis, operational analysis and auditing, equipment application and productivity analysis, and equipment appraisal.

Experience

1975 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Interim Project Manager for Mongolia Energy Corporation (MEC) from January through June 2010 based in Beijing, China. Responsible for work assignments of MEC's Beijing Office relative to mine development of the Khushuut coal mine located in western Mongolia. Organized work functions and development of project GANTT charts in order to fast track MEC's corporate directives. Reported directly to the office of the CEO and provided opinions on various components of mine development, coal contracts, and mining contracts. The Project Manager assignment was transferred to incoming COO in June 2010.

- Performed an in-depth review of detailed coal mining operations in South Gobi, Mongolia. This review included determining the basis of reserve and quality estimates, reviewing mine planning and scheduling reports, updating projected operating cost and capital cost projections, environmental impact statements, and a review of mine operations and transportation routes. Our scope was to opine on the reasonableness and reliability of ongoing efforts to be utilized as submission to the Toronto Stock Exchange.

- Project Manager for feasibility study on a greenfield project located in Sumatra, Indonesia. This mine will be designated to produce up to 10 Mtpa of a low calorific value coal (to an on-site power plant). Study includes development of a computerized geologic model, mine plan and schedule to meet proposed power plant requirements, development of infrastructure needs, and all associated OPEX and CAPEX for the financial analysis.

- Performed and managed mine modeling, scheduling, and projections of equipment, labor, and all infrastructure related components required for development of a 3 to 8 Mtpa mining operation in the Khovd Province of western Mongolia. Various models were developed to determine ideal quality blending and mix of product to yield the best value for the potential mine. A competent person's report was completed for submission to the Hong Kong Stock Exchange as well as potential investors to the project.

Experience — Continued

- Conducted an independent review and audit of contract services to provide lifting, banking and blending at rail stockpile facility. Assessed suitability and adequacy of contractor equipment to perform required services versus actual performance. Findings were used as part of expert witness testimony in Nova Scotia Supreme Court.

- Conducted a due diligence review of a start-up metallurgical coal operation in British Columbia, Canada. Review included reserve and quality verification, assessment of material handling system and proposed wash plant, and review of capital and operating cost projections.

- Performed a series of due diligence functions relative to the potential acquisition of an active western Maryland mining operation, including site drilling supervision, permit review, equipment appraisal, and discussions with management relative to property, reserves, equipment and operating costs. Based on key operating parameters (projected operating costs relative to equipment and mine scheduling) developed sensitivities of alternative cash flows (and Net Present Values) based on variable projection rates and realization.

- Reviewed accounting practices and methodology relative to advance stripping deferral of a large open-pit mine located in Cesar Department, Colombia. Conducted a site visit to confirm volume (bank cubic meters and tonnage), survey and estimating processes. Met with site management, geologic and engineering personnel to review the software and modeling procedures utilized in the advance stripping deferral accounts. Tracked the process of general ledger accounting through assignment of unit costs as they relate to recovery of coal reserves underlying areas that have been stripped in advance.

- Performed an extensive technical review of active opencut operations and undeveloped coal reserves located in Inner Mongolia, Shaanxi and Shanxi Provinces, China. Conducted site visits to active coal mining operations, met with senior management to discuss historic and planned future operations. Discussions included review of coal reserves, geologic conditions (key parameters that effect mining and coal seam recovery), staffing structure and labor force distribution, historic operating costs, equipment performance and future equipment requirements, and projected future schedules and costs. Reviewed financial projections and business plan provided by the company for reasonableness and the likelihood of successful attainment.

Experience — Continued

- Performed a due diligence review of a greenfield start-up of a large lignite surface mine operation. The mine utilizes a large dragline and supplies a mine-mouth independent power project (IPP). Review provided a basis for IPP financing.

- Evaluated alternative mine plans to develop lignite reserves for a mine in Harrison County, Texas. Reviewed and critiqued stand-alone delivered fuel costs, opined on attractiveness of acquiring an adjacent operation, and determined the cost reduction potential of current contract operator. Provided input on possible concessions regarding negotiations with contract miner, and assessed the risks of rebidding current contract versus renegotiation.

- Conducted a technical review of an 18-million-tonne-per-annum Australian opencut operation. Provided advice and opinions on appropriateness of mining techniques and practices, condition of mine operation and equipment (4 large bucket wheel excavators), equipment productivity and relative efficiency, adequacy of coal reserves, and ability to mine to provide a continuous fuel supply at a production rate of 28 million tonnes per annum to an on-site power station.

- Performed conceptual and detailed mine design to determine optimum surface mining method for a proposed Thailand mine. Annual plans included various combinations of draglines, bucket wheel excavators, shovels, trucks and crushing/conveying systems. Utilized Medsystem software to perform geologic modeling, mine planning and sequencing. Developed productivity, scheduling and costing utilizing various in-house and spreadsheet programs. Performed hydrologic and geotechnical analyses and integrated into results based on source data provided by client. Developed projected staffing, equipment selection, operating and capital costs to determine overall project feasibility.

- Developed a mining plan for a reserve located in Rains and Woods Counties, Texas. Recommended equipment, forecasted annual production, and estimated capital and operating costs for mine design compatible with an adjacent reserve. Designed reclamation plan to comply with state and federal regulations as interpreted at the time of the study.

- Developed a 6-million-ton-per-year open-pit mine plan, including optimization of mine schedules, equipment selection, labor derivation, labor costing, material and supplies costing, and projection of capital expenditures. The project, located in Colombia, included computerized mine scheduling and cost analysis.

Experience — Continued

- Reviewed technical aspects of current mining practices (which utilize shovel/trucks and front-end loaders/trucks), and presented opinions and alternatives for the most effective utilization of equipment. Analyzed future mine plans developed by the client, and provided the optimum production of the property located in Boone County, West Virginia.

- Performed numerous overviews of operations in the Eastern and Central United States to determine their abilities to perform and supply coal and/or limestone per commitment (utility and/or financial) as to quantity and quality. A typical review included obtaining adequate documentation and interpreting data to verify quantity and quality of reserve. Inspected equipment and facility to determine relative productivity and reliability to continuously supply committed quantities. Provided opinions and critique based on history of operation and reliability as a future supplier.

Foreign Consulting Experience Australia, Bulgaria, Canada, Colombia, India, Indonesia, Mongolia, Pakistan, People's Republic of China, Thailand

Education 1976 B.S.: Civil Engineering, University of Pittsburgh

Registration and Certificates Registered Professional Engineer — Pennsylvania, currently being renewed

Memberships Registered Member, Society for Mining, Metallurgy, and Exploration, Inc.

Christian J. Breckenridge
Senior Mining Engineer

Summary of Expertise

Seventeen years of mining industry experience in various project management and engineering capacities with focus on mine design, feasibility analysis, project construction management, and liability assessment. Projects have included evaluation of both underground and surface mining operations, with emphasis on longwall, room-and-pillar, highwall, contour, and area mining methods. Projects emphsis has included financial, operational, and geologic/reserve modeling. I have worked extensively in the development of forward-looking financially driven projections for integration in executive strategies.

Managed or facilitated underground and surface mining valuation projects, both domestic and international. Practical experience at underground mines using longwall mining technology, continuous miner (CM) advance mining, CM continuous haulage, and CM retreat mining practices.

Consulting experience in acquisition evaluations, analysis of business plans, economic and feasibility studies, mine/project construction management, production forecasting, implementation of practical mining solutions, and litigation support.

Experience

2005 to Present — John T. Boyd Company, Mining and Geological Consultants.

- BOYD team member assigned to provide mine planning and scheduling services for an international conglomerate regarding feed stock coal operations for a proposed Coal to Liquids facility in central People's Republic of China. Project focused on current mine operation and ability for sustained production throughout an extended (30-year) mining plan. Specific and numerous technical and economic issues were assessed and were included in an inclusive economic model for analysis of overall feed stock supply feasibility. Issues included application of longwall technology with extreme depths, steep dip seam gradients, and likely operational effects of various equipment choices in the site-specific situations. Provided the BOYD team with production model outputs and sensitivity iterations to develop a better understanding of the operation's likely behavior in the simulated production scenario.

- Managed a team of BOYD experts in providing ongoing advisory services for mining valuation and industry insight to unsecured creditors in a bankruptcy case. Services included valuation of operations, reserves, and non-reserve assets. Provided periodic reports regarding debtors' surface and underground mining operations. Advised the Unsecure Creditors Committee on issues concerning mine operation valuation, and assistance with mine cost and cash flow analysis for the committee's legal counsel.

Experience — Continued

- Project manager providing expert witness and litigation support for a coal supply force majeure case. The coal supply force majeure was made by a company claiming mining conditions had eliminated their ability to supply committed tonnage for the remainder of the contract. At the client's request, we have initiated an evaluation of the alleged causes and provided expert insight into various aspects of the case.

- Provided professional services for preparation of the Mineral Expert's Report (MER) regarding independent assessment of reserves, operations, and strategic business plans. Assessment were performed for financial advisors in conjunction with an Initial Public Offerings on the London, Warsaw, and Prague stock exchanges. These projects included review of coke works, mine works, and operation support systems. Equipment and capacity reviews, health and safety reviews, and environmental rehabilitation reviews were also conducted.

- Prepared findings and recommendations regarding the prefeasibility assessment of a proposed underground mine located in Eastern Europe. The project was performed for a large underground hard coal mine operator to determine if expansion plans were justified on an economic basis. Prepared preliminary assessment of multiple-level mine development of this deep (in excess of 1,100 m deep) longwall mine reserve. The project included multiple seams of varying thickness. Project work also included development of a preliminary indicative model supporting the construction development of the operation under favorable metallurgical market conditions, with consideration of long development lead times and high initial capitalized costs.

- Managed various evaluation teams of technical specialists from BOYD to provide an audit of existing coal, limestone, and specialty mineral resource projects for potential target acquisitions by various clients. Developed professional opinions and provided technical reports to advise client as to financial reasonableness. Provided opinions regarding mining plans, operation throughput capabilities, company organization structure, review of marketing and sales projections, and review of internal operating plans. Conducted analysis of historic cost and production information and developed future operating and financial models based on these analyses.

Experience — Continued

- Managed confidential evaluation of multiple longwall, single longwall, and room-and-pillar mines as a potential acquisition target for domestic and international joint venture projects. Developed and provided clients with detailed ongoing communications for long-term projects to assist with strategy development in advance of formal report submission. Conducted mine site visits to assess conditions of the mine, mine infrastructure, mining equipment, and geologic conditions and gather historic financial and production data for use as the basis for independent valuation. Provided opinions regarding reasonableness of available property reserve estimates. Evaluated underground mining practices, including product transportation, workforce streamlining, mine rehabilitation efforts, water handling, and macro ventilation control strategies. Conducted preliminary review of compliance and liability issues, analyzed mining and forward business plans of the subject acquisition targets, and developed probable value range for operations.

- Managed confidential strategic assessment of future mining projections of underground longwall and room-and pillar mines. Conducted assessments to determine enterprise valuation for entities which included multiple production centers assuming various operational sensitivities to advise the client as to the range of operational outcomes and their associated economic consequences. Instituted on-site observations to form operating opinions relative to geology and mining hazards. Assessed current operations to develop insight into the complexity of the mine and the risks and opportunities for value impact. Included market assessments as a tool to predict financial performance and applied these theories to the various sensitivities. These results were applied to economic models to determine an array of possible financial outcomes.

- Evaluation of a 6-million-ton-per-year fuel supply facility from a greenfield property. Reviewed mining plans and financial projections in relation to development schedules and necessary operating permits. Performed an independent assessment of coal reserves and provided adjustments to production and capital estimates as deemed appropriate based on observations and data review.

- Participated in a comprehensive analysis of the underground coal industry in the Czech Republic. Evaluated coal reserves, mining plans, and long-term projections.

Experience — Continued

2003 to 2005 — Moody and Associates, Inc.

- Responsibilities included management of engineering activities for the company. Provided preparation of engineering documents and designs for permits, client feasibility studies, and project forecasting. Direct technician support efforts for acquiring data relative to projects, and managed the end use of data for quality assurance in final submittal to the client. Scheduled work and tracked progress to manage project operations and costs for permitting and design issues for timely submittal to client.

2000 to 2003 — Maple Creek Mining, Inc.

- Responsibilities involved underground engineering as well as technical support for health, safety, and environmental permitting requirements with both state and federal regulatory agencies for the longwall mining operation. Includes mine engineer duties to ensure production, transportation, processing, and delivery of coal product to various contractual obligations. As part of the engineering team, worked to assist and advise mine managers in the development of mining models to forecast long-range plans. Responsible for management of property affairs, including landowner liaison for mine damage mitigation before, during, and after mining events. Responsible to ensure that home damage as a result of mining activity was maintained in a proper manner.

- Project Engineer, High Quality Mine. Development and installation of longwall mine facilities located in Washington County, Pennsylvania. Duties included: developing and managing a critical path model for construction events, interacting with project contractors to verify day-to-day operation schedules were on, making engineering checks infield, verifying quality control, and recommending adjustments to resolve issues not considered in the initial engineering and approval stages of the project.

1999 to 2000 — Canterbury Coal Company.

- Responsible for managing and preparing underground and surface permit requirements for state and federal regulatory agencies. Mining and Reclamation, as well as Health and Safety permits were facilitated for two active coal mining operations. Managed five-person staff to facilitate day-to-day operations of maintaining water quality of treated mine water discharge and mapping of underground and surface mining facilities. Provided long and short-range production plans inclusive of coal quality, quantity, major capital expenditure timing, and long-term expense requirements. Coordinated planning agendas with company president, mine managers, corporate engineering vice president, and company owner.

Experience — Continued

- Managed engineering aspects of various highwall miner operations in the No. 8 and No. 9 coal seams of eastern Ohio. Facilitated acquisition studies of highwall miner operation locations, derived conceptual layouts and maintained projections for highwall mining pit operations, maintained production and maintenance reporting for operation tracking, completed state and federal operating permits, and verified seam reserve recovery for production projections.

- Manager of Belmont Coal, Inc. Responsible for permitting and engineering functions for three active contracted stripping projects and two inactive stripping projects. Special projects for Belmont Coal included the identification and feasibility analysis of potential new stripping operations. Implementation of highwall mining equipment and coordination of state environmental regulatory agencies.

1994 to 1999 — The Ohio Valley Coal Company, Powhatan No. 6 Mine.

- Mining and Permit Engineering Assignments — Prepared and filed permits for state and federal regulatory agencies for surface and underground mining operations. Operations were located in West Virginia, Ohio, Kentucky, and Pennsylvania.

- Acquisition Team Assignments — Responsible for geologic and quality modeling, production forecasting, cost prediction, product marketability, mine life estimation, and financing options for mines and properties that have potential to add to growth and development. Evaluated over 20 projects in three years, with five successful acquisitions. The combined acquisitions effectively doubled the size of the enterprise.

- Project Engineering Assignments — Estimating project cost, bid proposals, project specifications, awarding contracts, scheduling, overseeing construction, and inspection of workmanship during and after construction. Projects included the installation of ventilation air shafts, the mechanical installation of mine escape equipment, and excavation work for surface and underground mining facilities.

- Management Assignment — Assigned to manage Land Restoration, Inc., to oversee day-to-day operations, including water treatment, water discharge compliance, sediment pond slurry processing, heavy equipment machine maintenance, water treatment plant machine maintenance, scheduling and receiving of supplies, supervision of two employees, outside contracting firms, and scheduling of security personnel.

Experience — Continued

- Scrap Metal Liquidation Assignment — In charge of maintaining an account for scrap metal liquidation, scheduling transportation, and evaluating special large size scrap metal demolition projects.

- Energy Resources, Inc., Permitting Engineer Assignment — Assigned to Energy Resources, Inc., to performed permitting duties for surface mine activities. Permitting responsibilities included permit renewals, reclamation bond calculation and release procedures, major permit revisions, computerization of permit mapping, and negotiations with state environmental agencies.

- Industrial Engineer and Operational Engineer Assignments — Participated in team-oriented time studies and observational studies for both underground and surface mining operations. Study methods included time motion studies, method and sequence studies, personnel evaluation of training studies, machine productivity studies, and motivation of participation activities.

1990 to 1994 — Various Engineering Assistant Assignments.

- The Ohio Valley Coal Company, Powhatan No. 6 Mine. Participated in feasibility evaluation of a potential fly ash disposal operation.

- CONSOL Inc. — Bailey Mine — Participated in various underground mining operational activities.

- CONSOL Inc. — Dilworth Mine — Map and drafting work, production support, long-range planning, production modeling, and underground surveying Conducted extensive time studies with industrial engineering department, and completed various computer analysis of mine monitoring data.

Education 1994 BS: Mining Engineering, West Virginia University

Registration and Certificates Registered Professional Engineer in the State of Ohio and the State of Pennsylvania.

Memberships Society of Mining Engineers — Registered Member

West Virginia University Alumni Association

Robert J. Farmer
Director of Advanced Computer Services

Summary of Expertise

Experienced mining engineer with extensive computer training in geologic modeling, resource and reserve estimation, underground and surface mine design, production scheduling, and financial modeling. Expertise in modeling coal, industrial minerals, base metals, and gold deposits and mines using Datamine, MaxiPit, MineScape, MineSight, SurvCADD, Vulcan, Whittle, XERAS, XPAC, and other software packages. A recognized expert in computerized geoscience modeling. A Competent Person (JORC Code) and a Qualified Person (NI43-101) in the preparation and reporting of coal resources and coal reserves.

Experience

1998 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Estimated JORC-compliant coal resources for potential surface mineable deposit located in East Kalimantan, Indonesia. Work included development of computerized geologic model and estimation of coal resources using MineScape software.

- Prepared JORC-compliant coal resources estimate for potential surface mineable deposit located in Central Kalimantan, Indonesia. Work included development of computerized geologic model and estimation of coal resources using MineScape software.

- Conducted an independent assessment of client-prepared estimates of Powder River Basin coal reserves and resources controlled by large international mining company. The desktop review was preformed with respect to JORC and SEC reporting guidelines and included examining, on a test basis, geologic, economic, and technical evidence supporting the reported estimates, as well as assessing the methodology and practices applied in formulating the estimates.

- Prepared feasibility study for a proposed greenfield surface coal mining project located in Sumatra, Indonesia. Study included the development of a computerized geologic model, resource and reserve estimates, mine plans, and production schedules to meet proposed power plant feed and export sales requirements.

- Conducted line-by-line audit of client's reserve models prepared using Runge XPAC software. Provided corrections and recommendations aimed at improving the model's reliability and performance.

- Assessed the adequacy of client's existing geologic models and prepared new models using MineScape software where warranted. Prepared coal resource and reserve estimates by classification and ownership for independent audit of client's international coal holdings.

Experience — Continued

- Prepared SEC-compliant estimates of coal resources and reserves by mining method, classification, and ownership for independent audit of client's Australian coal holdings. Converted client's existing Mine geologic models or prepared new models using Vulcan software where warranted. Developed software program for estimating and classifying resources and reserves based on geologic confidence.

- Performed Independent Technical Review of client's Chinese molybdenum mining and processing operations in support of Initial Public Offering on The Stock Exchange of Hong Kong. Prepared independent estimates of molybdenum resources and reserves using Vulcan and Whittle software for client's openpit mines in accordance with international (JORC) reporting standards.

- Revised client's internal engineering and accounting practices relating to the deferral and expensing of waste drilling/blasting and stripping costs incurred at an openpit coal mine located in Colombia.

- Assessed and restated molybdenum resources for planned openpit molybdenum mine located in Mongolia. Developed geologic model for the deposit using MineScape software and prepared optimized pit designs using Whittle software. All work was prepared in accordance with international (JORC) resource estimation and reporting requirements.

- Prepared topographic model of intermediate and final pit designs for an opencast coal mine in Colombia. Designed in-pit and ex-pit waste dumps. Performed volumetric calculations for determination of optimal final dump elevations.

- Participated in strategic life-of-mine planning exercises for an openpit molybdenum mine in Idaho, USA. Developed optimized final pit designs, pushback and production schedules, and revenue estimates using MineSight and Whittle. Exercises were completed to evaluate competitive standing in global market.

- Prepared an independent review of mines and major undeveloped reserve areas in southwestern Pennsylvania, eastern Ohio, and northern West Virginia. Assessed publicly available mining and reserve data supplemented by nonconfidential data from BOYD's internal files. Developed a GIS-based database detailing the select coal seam information from the subject area.

- Conducted independent review of existing geologic model and mining plans for an openpit molybdenum mine located in Idaho, USA. Proposed alternate (optimized) pit designs, pushbacks, and production schedules using MineSight and Whittle.

Experience — Continued

- Developed user-friendly, interactive GIS-based coal-lease management system. The self-contained system allowed the user to query, analyze, and publish mining-related hydrological, biological, geological, and cadastral data.

- Participated as geologic modeling advisor on behalf of a utility in litigation with lignite supplier. Role included development of reserve model for auditing purposes and opinions relative to imprudent modeling practices relating to lignite quantity/quality projections. Modeled and analyzed overburden geochemistry to facilitate appropriate placement of deleterious spoil materials. Modeled graded soil chemistry for remediation plan development. Additional work included the development of computer-based courtroom exhibits, including a three-dimensional simulation of dragline equipment and operations, interactive GIS-based maps, and animations depicting mining/surface conditions.

- Evaluated coal reserves of a 15-million-tonne-per-annum lignite mine located in Indonesia. Developed geologic model of coal seams using Vulcan software. Generated reserves and coal quality estimates for use in mine planning exercises.

- Prepared geologic block model of steeply dipping, highly folded multi-seam coal deposit for existing surface coal operation in Indonesia. Provided on-site training for English-as-a-second-language personnel in theories and application of modeling techniques using MineScape.

- Developed geologic model of steeply dipping coal deposit for an existing surface coal mine in Venezuela. Audited client's Minex geologic model using Vulcan software. Designed pit expansion and prepared production schedules for five-year mining plan.

- Created detailed geologic and mining reserve model of complex multi-seam/multi-split coal deposit in Russian Far East. Developed suitable mining and spoil dump sequences for life-of-mine planning exercises.

Experience — Continued

1997 to 1998 — MAPTEK Canada Limited, Mississauga, Ontario.

- Managed a profitable Canadian operation of international software development company, MAPTEK Pty Ltd, including supervision of marketing, support, and programming staff for Canada-wide sales/ support of geological modeling and mine planning software.

- Provided client support, training, and consultation in geological modeling, ore/resource estimation (utilizing advanced Geostatistical methods), underground and opencut mine design, and mine/ production scheduling for various base and precious metal properties, including copper/zinc, gold, iron, nickel, potash, and uranium.

1994 to 1997 — Westmin Resources, Campbell River, British Columbia.

- Supplied critical path planning solutions to Operations and Management to attain or better production schedules for a 1.2-million-tonne-per-annum underground poly-metallic mining complex (three mines). Provided accurate and attainable short- and long-term development and production schedules to attain budgeted production tonnes and grades.

- Developed and maintained accurate and accessible mine production database and management information systems. Monitored, analyzed, and reported mine productivity data to inform Management, Operations, Technical, and Mill departments of production statistics and attainment of scheduled production.

- Developed short- and long-term reserve estimates, production plans, and development plans for new 350,000-tonne-per-annum longhole stoping/cut- and-fill, poly-metallic underground mine using Mintec's MineSight/MEDSYSTEM.

Foreign Consulting Experience

Australia, Canada, Colombia, Indonesia, Mongolia, People's Republic of China, Republic of South Africa, Venezuela

Education

1994 B.Sc.: Mining Engineering, Queen's University at Kingston

Computer Skills

Software Packages: ArcGIS (ArcMap), AutoCAD, Datamine, MaxiPit, MineScape, MineSight (MEDSYSTEM), MS Office, MS Project, SurvCADD, TALPAC, Vulcan, Whittle, XPAC, XERES

Memberships

Licensed Professional Engineer (Ontario, Canada)
Registered Member, Society for Mining, Metallurgy, and Exploration, Inc.

Awards

2004 J. W. Woomer (Coal Young Engineer's) Award — SME Coal & Energy Division.

2003 John T. Boyd Memorial (Young Engineer's) Award — SME Pittsburgh Section.

Publications and Papers

2004 Quantifying the Reserve Dilemma in the Central Appalachian Mining Region, presented to The Society for Mining, Metallurgy and Exploration, Inc., February 23–25.

2003 GIS-Based Subsidence Liability Modeling, presented to The Society for Mining, Metallurgy and Exploration, Inc., Pittsburgh Section, May 8.

2000 Geological Modeling and Mine Planning for the Digital Age, presented to The Society for Mining, Metallurgy and Exploration, Inc., Central Appalachian Section, June 8–10.

1997 Blast Design using Vulcan Software, proceedings of the 1997 Denver Users Conference, KRJA Systems Inc./MAPTEK, Denver, Colorado.

1996 The Battle-Gap Mine: a Practical Example of using MineSight as an Underground Mine Design Tool, proceedings of the 13th Annual MEDSYSTEM User's Seminar, Tucson, Arizona, April. Author/ Presenter.

1996 Environmental Effects of Mining, Contributing Editor; St. Lucie Press, Delray Beach, Florida.

Thomas G. Simonetti
Senior Environmental Engineer

Summary of Expertise

Thirty-one years of professional experience in the domestic and international mining industry. Broad and varied background concentrated on environmental engineering as applied to mining. Experience in mine planning, reserves, economic analysis, regulatory permit preparation/ acquisition, stormwater control, groundwater hydrology, erosion and sediment control, mine closure cost analysis, reclamation and restoration, acid mine drainage treatment design, reject storage area design, perpetual discharge analysis and mitigation, social and economic impact assessment, and environmental risk assessment considering US, EU, and World Bank guidelines.

Experience

1989 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Performed environmental liability assessments of surface mining and underground mining operations in California, Colorado, Illinois, Kentucky, Louisiana, Mississippi, Missouri, Montana, New Jersey, Ohio, Oklahoma, Pennsylvania, Texas, Utah, and West Virginia. Areas of emphasis included final highwall reclamation, perpetual water treatment evaluation, groundwater contamination, sealing, demolition, reclamation, TSCA/RCRA/CWA compliance, monitoring, and record keeping.

- Prepared mine closure plans and cost summaries for underground coal mines in Pennsylvania, West Virginia, Kentucky, and Colorado. Plans and cost estimates covered structure demolition, reclamation, sealing, hazardous material disposal, and perpetual water treatment.

- Developed final highwall reclamation and facilities closure cost estimates of a large Montana open-cast mine for a public utility in contract litigation. Estimated proportion of contract responsibility, future mining conditions, slope reduction requirements, facilities demolition and removal, and hazardous materials liability in preparation for expert witness testimony.

- Appeared before the zoning commission of Fayette County, Pennsylvania, in expert testimony on possible effects of surface mining on local and regional groundwater and surface water resources.

- Designed and implemented investigations into claims of groundwater and surface water pollution at several abandoned underground mine sites in Pennsylvania. Located and installed monitoring wells and monitoring boreholes, constructed geologic sections, correlated sample data, and characterized aquifers. Optimized water treatment schemes when required for efficient, economic pool maintenance.

Experience — Continued

- Generated conceptual design and a permit application for a 4.3-million-gallon-per-day mine drainage treatment plant. Project included mass balanced flow diagram, chemical consumption, pipe design, basin configuration, and sludge disposal.

- Conducted an environmental impact evaluation of a large surface coal mine on a remote rural community in southeastern Zambia, Africa. The study included reclamation, water treatment, storm water diversion, sampling and analysis, community water supply and sewage, social services, and community infrastructure. Transfer of technical skills and knowledge was a key directive.

- Assessed environmental compliance and liabilities associated with over 100 federal abandoned and active coal mines and related facilities in Nova Scotia for the government of Canada. Investigated liabilities for groundwater pollution, mining reclamation, perpetual mine discharge, hazardous waste, storage tanks, and refuse disposal area closure in anticipation of privatization procedures.

- Reviewed reports and data pertaining to a due diligence investigation of three underground and two surface mining facilities in northwestern Estonia. Large state-owned oil shale mines were visited and evaluated based on their compliance with national environmental and safety laws as well as international (EU) rules and regulations. Project included evaluation of water treatment facilities, waste storage area, and subsidence effects due to mining. Privatization of the mines and its captive railroad were the objectives.

- Evaluated draft permit applications prepared for a regional water authority in western Florida for compliance with applicable laws and general engineering standards. The proposed 11 billion gallon storage reservoir required assessment relative to capacity, integrity, stability, and environmental soundness. Water quality, with particular emphasis on eutrophication and biological nuisance control, was a major focus. Migration of proposed treatment chemicals and biological toxins was assessed. Testimony as expert witness before a panel of arbitrators was required.

- Prepared an Environmental Due Diligence report on a very large surface coal mine in eastern Bulgaria for a consortium of international banks. Waste management, mine site restoration, water pollution control, and coal ash disposal were among the areas investigated. The facility performance was measured against Bulgarian, as well as World Bank and EU guidelines and standards. Over $1 billion in financing was sought and ultimately realized.

Experience — Continued

- Evaluated the environmental performance of the largest coal producer in the People's Republic of China. Visited surface and underground mines, as well as surface support facilities including preparation plants, coal waste disposal areas and water treatment plants. Performance was measured against World Bank approved guidelines for mining. This work was conducted in anticipation of a public stock offering.

- Evaluated the operations of several water treatment plants in a multiple mine/multiple seam scenario constructed for the perpetual treatment of mine water at an abandoned mine complex in Pennsylvania. Study involved assessing the operation of each of five plants for efficiency in power consumption, chemical use, choice of chemical, manpower, and pool control effectiveness. One plant was eliminated by rerouting mine water, increasing efficiency at other plants and improving mine pool control schemes.

- Evaluated past mining practices and provided expert opinion on historical reclamation standards and regulations for a large clay, sand and lignite mine in central California. Landowner was seeking several million dollars in reclamation accruals for past actions by the miner. Study involved development of an historical time line of reclamation laws, lease agreements, standards of industry practice and past/current status of property with regard to restoration and/or continued mining by others.

- Provided expert witness testimony supporting the issuance of a TPDES discharge permit for a new mining complex. Testified in the Texas State Office of Administrative Hearings (SOAH No. 582-02-3008) on the mechanism for the formation of ARD, alkaline mine drainage, radionuclides and dioxins emissions, toxic metals, and water management. Permits were issued.

1983 to 1989 — Kitt Energy Corporation, a subsidiary of BP America, McMurray, Pennsylvania.

Environmental Coordinator

- Managing agents for LTV Steel Corporation.

- Consultants to Old Ben Coal Company.

- Consultants to Pike Coal Company.

Experience — Continued

- Completed the mine closure plans for three Pennsylvania mining ventures. Responsibility included inventory, sampling, and ultimate disposal of all PCB equipment in compliance with applicable TSCA and D.O.T. regulations, sampling and ultimate disposal of hazardous materials and asbestos in compliance with applicable regulations; and underground storage tank compliance. Developed mine closure reclamation plans in pursuit of Pennsylvania DER approval. Prepared plans, drawings, specifications for all reclamation phases, and developed budget estimates. Supervised the closure operations as project engineer.

- Designed and supervised reclamation and abandonment of a 200-acre coal refuse area including two slurry impoundments in Pennsylvania. Tasks included developing plans for regrading to stable profile, performing computer modeling of hydrologic system for diversion, collection, and wetlands justification; preparing specifications and designs; and acquired DER and MSHA approval. Developed estimates and submitted budgets for approval. As construction manager, supervised conversion of two slurry ponds to wetlands with approval from U.S. Fish and Wildlife Commission, the Pennsylvania DER, MSHA and Pennsylvania Game Commission. Received special recognition for this project.

- Responsible for the design, regulatory approval, budgeting, specification, construction supervision, start-up, and worker training for a 500,000-gallon-per-day acid drainage treatment facility, including the design and construction of a sludge removal system.

- Developed the In-Line Aeration Treatment System (ILS), which is now widely used in the industry to treat AMD. Also, developed a mobile treatment unit for AMD utilizing the principles developed from the ILS. This system incorporates a venturi aerator, variable rate chemical injection pump, pH feedback loop, and programmable controls. Patent No. 4,749,497 was issued for this unit in 1985 as a process patent because of its unique reaction efficiency.

1976 to 1983 — Republic Steel Corporation, Cleveland, Ohio.

- Environmental Field and Laboratory Technician, Meadowlands, Pennsylvania.

Foreign Consulting Experience

Bulgaria, Canada, Estonia, Indonesia, Mongolia, Republic of Zambia, People's Republic of China

Education

1989 M.S.: Civil Engineering, University of Pittsburgh
1976 B.S.: Biology, University of Pittsburgh

Registration and Certificates	Registered Professional Engineer — Pennsylvania
	Registered Founding Member — Society of Mining Engineers
	MSHA Certified Impoundment Inspector
Memberships	American Society for Testing and Materials (ASTM)
	American Society of Mining and Reclamation (ASMR)
	State Director, Washington County Chapter of Pennsylvania Society of Professional Engineers
	American Institute of Mining Engineers, National Ground Water Association
Awards and Patents	Reclamation Award — Pennsylvania Coal Association, Russellton Mine Refuse Area Wetlands and Reclamation Project.
	United States Patent No. 4,749,497 — Process Patent for dissolved metals oxidation and computer controlled acid neutralization/metal precipitation system.

Frank A. Hilty
Senior Mining Consultant

Summary of Expertise

Extensive experience with the review of coal supply agreements and their price adjustment mechanisms. Broad-based knowledge in coal preparation, market pricing of coal, economic analysis of mining ventures, and fuel planning.

Experience

1993 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Completed an independent review of a central Pennsylvanian waste coal-burning facility's future fuel and limestone supply plan. Our review included assessment of the future availability of fuel for the project, reasonableness of the project's fuel supply plan, comments on the adequacy of the project's ash utilization plan, and assessment of the current limestone supply for the project.

- Project manager for an independent technical due diligence review and Phase 1 environmental site assessment for a central Pennsylvanian coal producer, and a fuel supply review for an affiliated power producer. Our review included assessment of the mine reserves, operations, and business plan for each of more than two dozen mining operations, and an assessment of the company's environmental liabilities. Additionally, the fuel supply plan and strategy for an affiliated power plant was reviewed.

- Estimated near-term rail transportation rates for a Midwestern power producer. Commented on reasonableness of the rail carrier's proposed rates replacing expiring contract rates.

- Provided a fair market value (FMV) of a Central Appalachian preparation plant. Estimated FMV is based on depreciated replacement cost and income analysis approaches.

- Assisted client in acquisition due diligence for a central Pennsylvanian power facility. Coordinated a multiple fuel sampling program at the generating facility to estimate plant heat rate. Client used our results in a plant optimization model.

- Completed a fuel supply due diligence for selected waste fuel and coal-fired generation stations located in Pennsylvania, New Jersey, and Florida. Tasks included a review or the existing long-term fuel supply plants for each generation station. Reviewed the current fuel supply contracts, waste reserve holdings, contract price projections, and market price forecasts for uncommitted volumes. Overview of regional coal availability for selected coal-fired generating stations. Client used information in financial models and bid submission.

Experience — Continued

- Developed a preliminary fuel plan based on controlled waste fuel resources for a proposed waste coal-fired power facility. Fuel plan quality ranges were used for boiler design and estimated delivered prices were used in the economic evaluation of the project.

- Performed a due diligence review of a waste fuel Independent Power Plant fuel management plan. Reviewed existing fuel supply agreements from a technical standpoint to determine adequacy of supply during the period of financing. Our analysis contributed to the successful financing of the project at more than $150 million.

- Assisted in development of anthracite culm bank mine plans, including translation of core drilling quality data into mine bench quality. Utilized washability data obtained during BOYD-supervised exploration programs and estimated recovery of various culm banks.

- Performed waste fuel supply due diligence for a utility client contemplating investment in a waste fuel Independent Power Plant. Evaluated current fuel supply plans and provided alternate plans based on our understanding of the project and regional fuel supply sources.

- Assisted in litigation support for a southeastern utility supporting its claim of gross inequity under an existing coal supply agreement. Work scope included a technical review of the utility's current coal supply agreements and those of the coal mining company. Arbitration outcome resulted in nearly a $3.00 per ton delivered coal price reduction to the utility.

- Prepared a competitor analysis for an international utility acquisition. Tasks included evaluation of a particular coal supplier's dominance in the coal-producing region, and supplier's operating mines, as well as the supplier's dominance of deliveries to selected Midwestern generating stations. Our analysis contributed to the successful acquisition of the utility at a price of $7 billion.

- Provided a fuel supply review for a large northeastern generating station targeted for acquisition. Assignment included a review of the current fuel supply plan and a 25-year delivered price forecast under various fueling scenarios. Current costs and forecast of clean air compliance (sulfur dioxide allowances) were also provided. Our analysis contributed to the successful acquisition of more than 1,500 MW of generating assets.

Experience — Continued

- Prepared a due diligence review of the potential reserves available for recovery for a proposed 500-MW generating station in the Appalachian region. Included were estimates of probable costs associated with a 30-year mine plan, environmental costs, and risks associated with the project.

- Evaluated the adequacy of the coal stockpile for an international Independent Power Plant. Various cases of primary fuel supply interruption were examined to determine if the more than 1,000-MW plant could maintain adequate fuel levels to assure plant operation. As a result of our analysis, the utility was able to reduce the size of the coal stockpile without adversely affecting the plant's ability to generate electricity.

- Reviewed contracts currently in force between various mining contractors and British Coal Corporation. Assisted in the valuation of contracts, current and future opencast sites, and disposal points for the privatization of British Coal's assets. Assisted in the preparation of regional reports of British Coal's operations.

- Assisted in the development of a fuel procurement manual (policy and procedure) and long-term fuel plan for a Midwestern utility.

- Prepared a fuel due diligence review for deliveries to a northeastern generating station targeted for acquisition. Our analysis included 20-year delivered fuel price forecasts to the generating station from coal sources in Appalachia and the anthracite region and for petroleum coke. Commented on the reasonableness of the station's current fuel supply plan. Our analysis contributed to the successful acquisition of the power plant by a Midwestern utility.

- Completed an international bauxite analysis as part of an expert's report assessing the delivered price of bauxite from various sources to an aluminum smelter located in the Ukraine. Analysis included review of the smelter's recent bauxite supply contracts. Report was prepared as part of our client's submittal for arbitration before the London Metals Exchange. A settlement was reached prior to arbitration in the favor of our client for more than US$5 million.

- Reviewed the transportation and port facilities for a Chinese coal supplier. Provided comments regarding the ability of the mainline railway, port facilities, and associated infrastructure to meet the company's production growth projections.

Experience — Continued

- Completed a market study of coals from various supply regions: Australia, Colombia, Indonesia, South Africa, and the United States for deliveries to Puerto Rico. Estimated long-term steam coal prices from the various coal sources and delivered coal price to an Independent Power Plant for a 20-year period. Developed ocean transport cost estimates and evaluated vessels needed to access port facilities.

- Performed a market study of coals available from five supply regions — Australia, Colombia, Indonesia, South Africa, and the United States — to power stations in the United Kingdom. Estimates of delivered coal price, including inland and ocean transportation, were provided.

- Prepared a long-term delivered price forecast for solid fuel delivered to a potential repowering project in the US Gulf Coast. Estimated fuel availability and 20-year price forecasts for Midwest-produced and imported coal, and petcoke delivered to the project site.

- Prepared a five-year, high sulfur stoker coal price projection for a Midwestern industrial consumer. Evaluated stoker coal availability and pricing for the consumer's upcoming contract renewal negotiations. Analysis allowed our client to negotiate a new three-year agreement with their supplier, minimizing price increases.

1989 to 1991 — ALCOA Technical Center, New Kensington, Pittsburgh, Pennsylvania.

- Technician.

1983 to 1989 — The Pennsylvania State University, Mineral Processing Laboratory.

- Student and laboratory technician.

Foreign Consulting Experience

Canada, Colombia, Mexico, United Kingdom, Venezuela, People's Republic of China

Education

2008 MBA: Finance, Waynesburg University.
1998 BS: Mining Engineering, The Pennsylvania State University.

Publications

American Coal Council article, "We Can See Clearer Now!", April 2005.

World Coal article, "Future Demands of Southern Powder River Basin Coal", October 2001.

Joseph G. Jandrasits
Senior Business Analyst

Summary of Expertise

Executive with over 26 years of financial and management experience in the areas of accounting, auditing, financial analysis, planning, acquisitions, divestitures, and special projects along with an engineering background. Proven track record of not just "getting the job done," but consistently exceeding expectations on both an individual and team level. Possesses strong work ethic. Excellent analytical, oral, and written communication skills.

Experience

2010 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Performed financial and cost analyses, specifically enterprise valuations, operational cost reviews, due diligence reviews, mineral valuations, and evaluations of financial projections.
- Developed financial models for NPV and NPC analyses.
- Involved with international projects in Canada, Columbia, India, Republic of South Africa, and The Gambia.
- Worked on projects with mining operations in anthracite coal, bituminous coal, crushed stone, sand & gravel, and mineral sands.

2009 to 2010 — Independent Consultant, Abingdon, Virginia.

- Performed financial due diligence reviews and evaluations.
- Prepared FAS 143, Accounting for Asset Retirement Obligations, accounting analysis, and journal entries.

2005 to 2009 — Central Coal Company, Bristol, Virginia. Assistant Controller.

- Responsible for the general accounting, accounts payable, payroll accounting, financial reporting, and planning for a JV with CONSOL Energy. Additional responsibilities included liaising with external auditors, regulatory compliance, financial analysis, and accounting/reporting for other private companies. Utilized Sage PFW Business, FRx, and Crystal Reporting accounting software.
- Successfully managed a three-day accounting close and reporting timetable to CONSOL Energy.

Experience — Continued

2004 to 2005 — Teleflex Automotive Group, Lebanon, Virginia. Controller.

- Responsible for the general accounting, sales accounting, accounts payable, payroll accounting, accounts receivable, financial reporting, and planning for the Lebanon Plant with a staff of two administrative employees and a direct reporting line to the Plant Manager.

1985 to 2004 — The Brink's Company (formerly The Pittston Company), Richmond, Virginia.

- Controller/Assistant Controller, Pittston Coal Company, Lebanon, Virginia, 1995–2004. Promoted to Controller in 2000. Managed the functional areas of general accounting, sales accounting, accounts payable, accounts receivable, financial reporting, and records retention for 40 companies with a staff consisting of 3 direct report managers, 6 accounting professionals, and 11 administrative/clerical employees with a direct reporting line to the Chief Financial Officer. Additional responsibilities included internal and external management reporting, liaising with external auditors, regulatory compliance, planning, acquisition and divestiture analysis, statutory employee benefit analysis, and financial analysis. Utilized GEAC, Hyperion, and Solomon accounting software.

- Maintained the department's high quantity and quality of output over a period of time when the staff was reduced from 30 to 20 employees and Pittston's non-core businesses were sold.

- Reduced accounting close and reporting timetable to The Pittston Company by two days (20%) during a period of staff reductions.

- Assigned to the Coal Management Team responsible for sale of the non-core businesses of the Pittston Coal Company with the responsibility for the preparation of pro forma financial statements and presentation of financial data to potential buyers.

- Manager, Special Projects, The Pittston Company, Lebanon, Virginia, 1993–1995. Delegated special assignments and projects by the Vice President of Taxes and Controllership. Analyzed various statutory employee benefits costs for The Pittston Company subsidiaries of Coal, Brink's, and Brink's Home Security (BHS).

- Served as integral member of an Acquisition Financial Due Diligence Team.

Experience — Continued

- Manager, Southern Audit Region, The Pittston Company, Lebanon, Virginia, 1989–1993. Managed staff of four professionals with a direct reporting line to the Director of Internal Audit. In addition to auditing Coal's mining, oil and gas, mining/construction supply businesses and Brink's Home Security, the department participated in "Blitz" audits of Brink's and BAX Global (subsidiary) operations in various locations in the United States. Assisted the external auditors with the year-end audit of the coal subsidiary. Assisted with additional special projects as requested by senior Pittston Corporate and Coal subsidiary management.

- Managed audit region responsible for the Coal and BHS subsidiaries, which represented 33% of revenues and 50% of operating profits for The Pittston Company.

- Administered regional office and generated savings of 15% over regional office operating costs.

- Financial Analyst, Pittston Coal Group, Inc., Lebanon, Virginia, 1985–1989. Managed capital budgets in excess of $30 million and deferred budgets of over $4 million annually. Performed and reviewed financial analyses on a variety of operational and capital projects with a direct reporting line to the Vice President of Finance, Pittston Coal Corp.

- Assigned to a Coal Group/Corporate Communications Taskforce that improved the flow of information between the two management staffs.

- Participated in contract negotiation analyses and other sensitive special assignments.

1978 to 1981 — Consolidation Coal Company, McMurray, Pennsylvania

- Mining Engineer at the Mathies Mine.

- Mining Engineer at the Montour #4 Mine.

Education

MBA: Finance/minor in Accounting, University of Pittsburgh, Katz Graduate School of Business, Pittsburgh, Pennsylvania.

M.S.: Mining Engineering, Columbia University, Henry Krumb School of Mines, New York City, New York.

B.A.: Geology/minor in Secondary Education, Queens College of City University of New York, New York City, New York.

Continuing Education	Dale Carnegie Effective Speaking and Human Relations Course
Memberships	Society for Mining, Metallurgy, and Exploration, Inc. — Professional Member

VALUATION REPORT
GRANDE CACHE COAL CORPORATION

Alberta, Canada

Prepared For

WINSWAY COKING COAL HOLDINGS LIMITED

By

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh, Pennsylvania, USA

Report No. 3550.3
FEBRUARY 2012

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Mining and Geological Consultants

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James W. Boyd

President and CEO
John T. Boyd II

Managing Director and COO
Ronald L. Lewis

Vice Presidents
Richard L. Bate
James F. Kvitkovich
Russell P. Moran
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13 February 2012
File: 3550.3

Winsway Coking Coal Holdings Limited
Akara Building
24 DeCastro Street
Wickham's Cay 1, Road Town
Tortola, BVI

Attention: The Board of Directors

Subject: Valuation Report
Grande Cache Coal Corporation
Alberta, Canada

Dear Sirs:

John T. Boyd Company (BOYD) was engaged on 15 September 2011 to complete an independent valuation of Grande Cache Coal Corporation (GCC), including the company's surface and underground mining and related operations. Our Valuation Report (VR) is prepared to support your filing on The Stock Exchange of Hong Kong Limited (SEHK). The basis of coal resource and reserve reporting is the JORC Code and the valuation preparation is the VALMIN Code.

The reader is referred to a companion Competent Person's Report (CPR) prepared by BOYD in January 2012, which provides the basis of the estimated coal reserves, mine plans, and related economics used to prepare this VR.

Respectfully submitted:

JOHN T. BOYD COMPANY
By:

Ronald L. Lewis
Managing Director and COO
Competent Evaluator

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LETTER OF TRANSMITTAL

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Attachment A: Curriculum Vitae of Ronald L. Lewis

GLOSSARY AND DEFINITIONS

Competent Evaluator	A Competent Person undertaking mineral valuations that satisfy SEHK rule 18.23.
Competent Person	Person satisfying SEHK rules 18.21 and 18.22.
DCF	Discounted Cash Flow.
Depreciated Replacement Value	The current value of a fixed or personal property/equipment asset to an ongoing mining operation calculated by multiplying the current (new) cost of an asset by its percentage of remaining life. Percentage of remaining life is determined by dividing estimated remaining asset life by the assigned original useful life: $$DRV = NC \times \left[\frac{RL}{UL} \right]$$ DRV: Depreciated replacement value NC: New cost RL: Remaining life UL: Useful original life

Remaining life is the appraiser's judgment regarding such factors as age, operating schedule, maintenance history, obsolescence, condition, remaining mine life, and overall useful life of the asset. If the asset is useful to the remaining mine life, then the asset must be replaced. If mine life is shorter than remaining life, the installed useful life of the asset ends with termination of mining (with possibly some salvage value remaining).

This method yields the highest value for the asset, predicated on the premium paid for a required asset which is installed and in-service as part of an ongoing business. Depreciated replacement value has no relationship to accounting practices (book value) or to prevailing market conditions for used mining equipment.

Expert. . . . . May be either:

a) an "Independent individual" who prepares and accepts responsibility for a Report, or

b) a "Representative Expert" who is the nominated representative of a legally constituted body. He or she supervises the preparation of a Report and accepts responsibility for it on behalf of that body.

Independent Individual Expert:

a) must be Competent in and have had at least ten years of relevant and recent general mining experience in the mining industry, as may be appropriate;

b) have had at least five years of relevant and recent experience in the assessment and/or valuation of mineral assets or securities, as may be appropriate;

c) hold appropriate licenses;

d) be a member of an appropriate professional association having an enforceable code of ethics.

Representative Expert: should preferably have the same length of experience and degree of competence as is required of an Independent Individual Expert. If this is not the case, he or she must engage a "Senior Specialist" who:

a) is competent and has had at least ten years of relevant and recent experience in the mining industry, as may be appropriate;

	b) has had at least five years of relevant and recent experience in the assessment and/or valuation of mineral assets and securities, as may be appropriate;
	c) holds the appropriate licenses;
	d) is a member of an appropriate professional association having an enforceable code of ethics.
Feasibility Study	A comprehensive design and costing study of the selected option for the development of a mineral project in which appropriate assessments have been made of realistically assumed geological, mining, metallurgical, economic, marketing, legal, environmental, social, governmental, engineering, operational, and all other relevant factors, which are considered in enough detail to demonstrate at the time of reporting that extraction is reasonably justified and the factors reasonably serve as the basis for a final decision by a financial institution to finance the development of the project.
Fair Market Value	The amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the mineral asset should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently, and without compulsion.
Gross Cash Flow	Revenue less operating cash cost; can be determined on a pre-tax (income tax) or a post-tax basis.
Indicated Resource	That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a reasonable level of confidence.
Inferred Resource	That part of a mineral Resource for which tonnage, grade, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling, and assumed but not verified geological and/or grade continuity.
JORC	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time.
LOM	Life of Mine.
Measured Resource	That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a high level of confidence.

Mineral	Any naturally occurring material found in or on the earth's crust that is useful to and/or has a value placed on it by humankind, excluding crude oil, natural gas, coal-based methane, tar sands, and oil-shale, which are classified as Petroleum as defined in D35.
Mineral Asset	All property, including but not limited to real property, intellectual property, mining, and exploration tenements held or acquired in connection with the exploration of, the development of, and the production from those tenements together with all plant, equipment, and infrastructure owned or acquired for the development, extraction, and processing of minerals in connection with those tenements. Most Mineral Assets can be classified as either: **Exploration Areas:** properties where mineralization may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified. **Advanced Exploration Areas:** properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching, or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralization present and encouragement that further work will elevate one or more of the prospects to the resource category. **Pre-Development Projects:** properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance, and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further Valuation, Technical Assessment, delineation, or advanced exploration is being undertaken. **Development Projects:** properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels. **Operating Mines:** mineral properties, particularly mines and processing plants, that have been commissioned and are in production.
Net Cash Flow	Gross Cash Flow less Capital Cost; can be expressed on a pre-tax (income tax) or post-tax basis.

NPV	Net present value.
Off-Mine-Site Selling Costs	Includes all transportation and sales components necessary to reach final point of dispatch (truck to rail dispatch, dispatch to port, port fees, rail fees, G&A, sales, commissions, taxes, and/or miscellaneous fees).
Organization	A self-regulatory organization of professional individuals in the mining or petroleum industry which admits individuals on the basis of their academic qualifications and experience, requires compliance with professional standards of competence and ethics established by the organization, and has disciplinary powers, including the power to suspend or expel a member.
Prefeasibility Study	A comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method for underground mining, or the pit configuration for an open pit, has been established and an effective method of mineral processing has been determined. It includes a financial analysis based on realistically assumed or reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are enough for a Competent Person, acting reasonably, to determine if all or part of the mineral Resource may be classified as a mineral Reserve.
Probable Reserve	With regard to minerals, the economically mineable part of a Measured Resource.
Professional Association (VALMIN)	A self-regulating body such as one of engineers or geoscientists or both that: a) has been given authority or recognition by statute; b) admits members primarily on the basis of their academic qualification and professional experience; c) requires compliance with professional standards of expertise and behavior according to a code of ethics established by the association; and d) has enforceable disciplinary powers, including that of suspension or expulsion of a member, should its code of ethics be breached.
Proved Reserve	With regard to minerals, the economically mineable part of a Measured Resource.

Recognised Professional Organisation (HKSE)	a self-regulatory organisation of professional individuals in the mining industry which admits individuals on the basis of their academic qualifications and experience, requires compliance with professional standards of competence and ethics established by the organisation and has disciplinary powers including the power to suspend or expel a member.
Reserve	With regard to minerals, the economically mineable part of a Measured, and/or Indicated Resource, taking into account diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments to a minimum of Prefeasibility Study must have been carried out. Mineral Reserves are subdivided in order of increasing confidence into Probable Reserves and Proved Reserves. Note: although the term Mineral Reserve is used throughout this Chapter, it is recognized that the term Ore Reserve is used in the JORC Code.
Resources	With regard to minerals, a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality, and quantity that there are reasonable prospects for their eventual economic extraction. The location, quantity, grade, geological characteristics, and continuity of a mineral Resource are known, estimated, or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated, and Measured Resources, as defined in the JORC Code.
ROM	Run-of-Mine, the as-mined material as it leaves the mine, including the recoverable portion of the coal seam and OSD.
Risk	The chance of an event occurring that will have an impact on objectives. A risk may be quantifiable in terms of the likelihood of loss, less than expected returns, or an undesirable outcome.
Scoping Study	A preliminary evaluation of a mineral project, including an assessment of the economic viability of mineral Resources. Scoping studies should include forecast production schedules and cost estimates based on data under which the Resources are identified.
Specialist	An individual who may be retained by the Expert to prepare sections of Reports concerning matters about which the Expert is not personally Competent. Specialists must accept responsibility for the sections of the reports they prepare.
Technical Value	An assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by an Expert or Specialist, excluding any premium or discount to account for such factors as market or strategic considerations.

Tenement	Any form of title or right such as license, permit, or lease granted by the responsible government in accordance with its mining legislation that confers on the holder certain rights to explore for and/or extract minerals that may be, or is known to be contained under the surface of the land. "Tenure" and "Title" have the same connotation as a "Tenement." All references to Tenements should be qualified by denoting its type (e.g., "mining" license or "exploration" Tenement).
VALMIN Code	The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (2005 edition) as prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Geoscientists, and the Mineral Industry Consultants Association, as amended from time to time.
Valuation Report	The public valuation report prepared by a Competent Evaluator on Mineral or Petroleum Assets in compliance with SEHK rule 18.34 and the applicable Reporting Standard, as modified by this Chapter. It may form part of a Competent Person's Report.
Valuation Date	The reference date on which the monetary amount of a Valuation in "dollars of that day" terms is current. This date could be different from the dates of completion or signing of the Report or the cut-off date of available data.

1.0 INTRODUCTION

1.1 Scope of Work/Purpose

This independent valuation of GCC was prepared for The Board of Directors of Winsway Coking Coal Holdings Limited (Winsway) for use in its public filing with SEHK. In preparation of this report, we have filed a companion report: Competent Person's Report 'Grande Cache Coal Corporation', prepared by BOYD in January 2012 (referred to as CPR). The valuation date for this study is 31 October 2011 (which is the approximate date of the signing agreement between Winsway and GCC and most recent mine limits when the report commenced). This report is prepared in accordance with SEHK Chapter 18 and the VALMIN Code.

1.2 Assets Summary Description

The underlying GCC assets work together to generate the cash flow being valued as the enterprise value of GCC. The following reserve areas, surface and underground mining operations located near Grande Cache, Alberta, Canada, are included in the life-of-mine (LOM) plan:

	Status as of 31 October 2011
Surface Mining Areas:	
No. 8	Active (Pits North, Central, and South)
No. 12 South A	Inactive reserve
No. 2	Inactive reserve
No. 16	Inactive reserve
No. 12 North	Inactive reserve
Underground Mining Areas:	
No. 7	Active (depillaring mode)
No. 12 South B2	Active (development mode)

The enterprise value is inclusive of all equipment, labor, processing, and shipping facilities required to produce a clean product and delivery to the appropriate point for shipment to the various customers.

1.3 Source Data

The reader of this report is referred to the January 2012 CPR for a listing of source data used to prepare the supporting CPR document. For the purposes of this VR, BOYD had access to the IntraLinks, Inc. Data Room, discussions with both corporate and mine-site personal and additional source data as required to complete our analysis, which included:

- Discussions with GCC management regarding off-site (Corporate) general and administration (G&A).

- Discussions with GCC management regarding mine-site G&A and environmental accretion calculations.

- Utilization of previous work completed as part of the due diligence work completed by other consultants on behalf of Winsway. This work reviewed royalty, depreciation, and income tax calculations, which were then used by BOYD to develop the after-tax discounted cash flow annual projections used in this report.

1.4 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. Our consultancy services have been provided on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Contract negotiations
- Market and transport analyses
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

BOYD also possesses extensive computer and software systems to evaluate resources, reserves, and mine plans including Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region of the US. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, China. Our website, www.jtboyd.com, has additional details.

We have extensive experience in preparing Competent Persons and Independent Financial Technical Review Reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of SEHK, London Stock Exchange (LSE), and NI 43-101 (Canadian Requirements), JORC Code, US Securities and Exchange Commission (SEC) Rules, etc. We are familiar with the level of effort required by international investors and financial institutions.

Among our Chinese Initial Public Offering (IPO) projects, we represented Shenhua Group Corporation as their Technical Advisor for their successful IPO on the SEHK. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling, rail and ocean transport facilities, and economics. Shenhua Group Corporation's reserve holdings were evaluated according to JORC Code and SEHK Rule 18 requirements. We subsequently prepared four resource studies commissioned by Shenhua Group Corporation for material acquisition SEHK filings.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry. The coal mining operations of British Coal were successfully privatized. We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers, for SEC filings.

Our work in the Western Canadian coal fields began in the 1950s and continues today. Approximately 100 studies have been completed including reports on coal properties, which are now controlled by GCC.

1.5 Competent Evaluator and Specialists

The Competent Evaluator for this VR is Mr. Ronald L. Lewis, who is serving as Representative Expert as defined by VALMIN. Mr. Lewis meets all SEHK Rule 18.23 Requirements.

- Employed by BOYD for over 40 years, currently serving as Chief Operating Officer (COO) and overall Managing Director (MD).

- Relevant experience includes: oversight of all BOYD consulting activities and senior management approval of BOYD work products, direct participation in mining and mineral resource/reserve and valuation assignments.

- Independently recognized expert in mineral valuation serving as an expert witness in over 40 legal proceedings.

- Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. (a Recognized Professional Organization [RPO] and a Recognized Overseas Professional Organization [ROPO] under the JORC Code), and a registered Professional Engineer in the United States.

Mr. Lewis has directed and participated in the preparation of this VR, and accepts responsibility for the Report on behalf of BOYD. Mr. Lewis' Curriculum Vitae is shown in Attachment A, following the report.

Key Senior Specialists who assisted Mr. Lewis are:

Mr. Thaddeus J. Sobek — Senior Engineer — Senior Mining Engineer, BS-Civil Engineering/Project Manager and Surface Mining Analyst

Mr. Sobek has over 37 years of relevant experience in mining consultancy with a focus on surface mining including numerous coal projects involving moderate to complex geology (similar to GCC). Similar project locations have included: western Canada (in addition to GCC), Colombia (South America), Mongolia (Asia), and Indonesia. As a Registered Member of the Society of Mining, Metallurgy and Exploration, Inc., Mr. Sobek complies with RPO/ROPO requirements.

Mr. Sobek was the Project Manager and led Competent Persons in preparing the CPR and assisted in this VR.

Mr. Christian J. Breckenridge — Senior Engineer, BS-Mining Engineering/Underground Mining Analyst

Mr. Breckenridge has 16 years of mining industry experience in various project management and engineering capacities with focus on mine design, feasibility analysis, project construction management, and liability assessment. Projects have included evaluation of both underground and surface mining operations, with emphasis on longwall, room-and-pillar, highwall, contour, and area mining methods. Projects have included financial, operational, and geologic/reserve modeling efforts to assist with the development of forward-looking financially driven projections. In the GCC CPR, Mr. Breckenridge was responsible for evaluating underground coal mining operations including current mining practices, review of the GCC underground mine plans, and preparation of forward underground mine plans including annual ROM and product tonnage, capital cost estimate, and operating cost estimates. Mr. Breckenridge is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person under the JORC code.

Mr. Robert J. Farmer — Director of Advanced Computer Services, B.Sc.-Mining Engineer/ Geologic Modeling and Resource/Reserve Estimation

Experienced mining engineer with extensive computer training in geologic modeling, resource and reserve estimation, underground and surface mine design, production scheduling, and financial modeling. Expertise in modeling coal, industrial minerals, base metals, and gold deposits and mines using Datamine, MaxiPit, MineScape, MineSight, SurvCADD, Vulcan, Whittle, XERAS, XPAC, and other software packages. A Competent Person as defined in the JORC Code and a Qualified Person (NI 43-101) in the preparation and reporting of coal resources and coal reserves. Mr. Farmer is a recognized expert in computerized geosciences modeling.

Resource/reserve and mining projections developed by Mr. Farmer, as shown in the CPR, are used in developing the annual cash flow projection shown in this VR.

Mr. Thomas G. Simonetti — Senior Environmental Engineer, MS-Civil Engineer, BS-Biology/Environmental Review

Mr. Simonetti has over 31 years of professional experience in the domestic and international mining industry. Broad and varied background concentrated on environmental engineering as applied to mining. Experience in mine planning, reserves, economic analysis, regulatory permit preparation/acquisition, stormwater control, groundwater hydrology, erosion and sediment control, mine closure cost analysis, reclamation and restoration, acid mine drainage treatment design, reject storage area design, perpetual discharge analysis and mitigation, social and economic impact assessment, and environmental risk assessment considering US, EU, and World Bank guidelines. Mr. Simonetti's responsibilities regarding the GCC CPR included a site tour to observe mine site conditions, review of current permit status and an assessment of future permitting needs and related environmental risks.

Mr. Frank A. Hilty — Senior Mining Consultant, MBA-Finance, BS-Mining Engineer/Coal Preparation Plant Review and Market and Transport Analyst

Extensive experience with the review of coal supply agreements and their price adjustment mechanisms. Broad-based knowledge in coal preparation, market pricing of coal, economic analysis of mining ventures, and fuel planning. Mr. Hilty's responsibility regarding the GCC CPR included an assessment of the existing CPP, and review of coal sales and off mine site transportation and port services.

Mr. Joseph G. Jandrasits — Senior Business Analyst-MBA-Finance/Minor in Accounting, MS-Mining Engineering, BA-Cost and Cash Flow Analyst

Mr. Jandrasits has over 26 years of financial and management experience in the areas of accounting, auditing, financial analysis, planning, acquisitions, divestitures, and special projects along with an engineering background. Regarding the GCC CPR, Mr. Jandrasits was responsible for review and analysis of historic costs and development of the financial model, including pre- and after-tax cash flow estimates and DCF-NPV analysis.

1.6 Certification of Competent Evaluator

As evidenced by Mr. Lewis' signature to this report, he certifies that, to the best of his knowledge and belief:

- The statements of fact contained in this Report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, and BOYD's impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- I (Mr. Lewis), nor BOYD, have any role in the management or governance of Winsway.
- I (Mr. Lewis), nor BOYD, have no present or prospective interest in GCC or the company's assets that are the subject of this Report, and I, nor BOYD, have no personal interest with respect to the parties involved.
- I, nor BOYD, have no bias with respect to any property that is the subject of this report or to the parties involved in this assignment.
- BOYD's engagement in this assignment was not contingent upon developing or reporting predetermined results.
- BOYD's compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- VR analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the VALMIN Code.

- I have not made a personal inspection of the property that is the subject of the report, but representatives of BOYD have visited the GCC mines and operation in conjunction with the preparation of the CPR submitted under separate cover.

BOYD, the specified contributors in the preparation of the BOYD CPR and VR, and Mr. Lewis consent to the use of this VR by the Board of Winsway in their pending circular.

1.7 Reporting Considerations

BOYD is a privately owned consultancy firm with headquarters in the United States. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation.

The underlying basis of this VR was developed from the CPR as previously discussed. The CPR relied on data, including geologic models, operating data, and any other information as provided by GCC, GCC's consultant, and Winsway/Wood Mackenzie. We have assumed the first principle data (e.g., drill hole measurements, coal analyses, etc.) to be true and accurate. We have exercised reasonable care in reviewing the information provided. Our technical review has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by GCC with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. Our expertise is in technical and financial mining issues and BOYD is not qualified, nor do we represent that any of our findings include matters of a legal or accounting nature.

We have assumed Winsway will invest necessary capital and management/staff/worker personnel to fund the mine plan as shown, and to achieve the assigned performance levels. However, the ability of GCC, or any mine operator, to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, the securing of required approvals and permits in a timely manner, etc.

Although we believe all findings and conclusions to be reasonable, we do not warrant this report in any manner, express or implied.

While this report addresses technical (e.g., reserve, mining, etc.) and financial (operating costs, capital costs, revenues, etc.) issues, qualified legal expertise is required to verify existing exploration and mining rights to the various areas.

Following this page is Figure 1.1, Map Showing Grande Cache Coal Corporation Lease Control.

Respectfully submitted,
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1-8

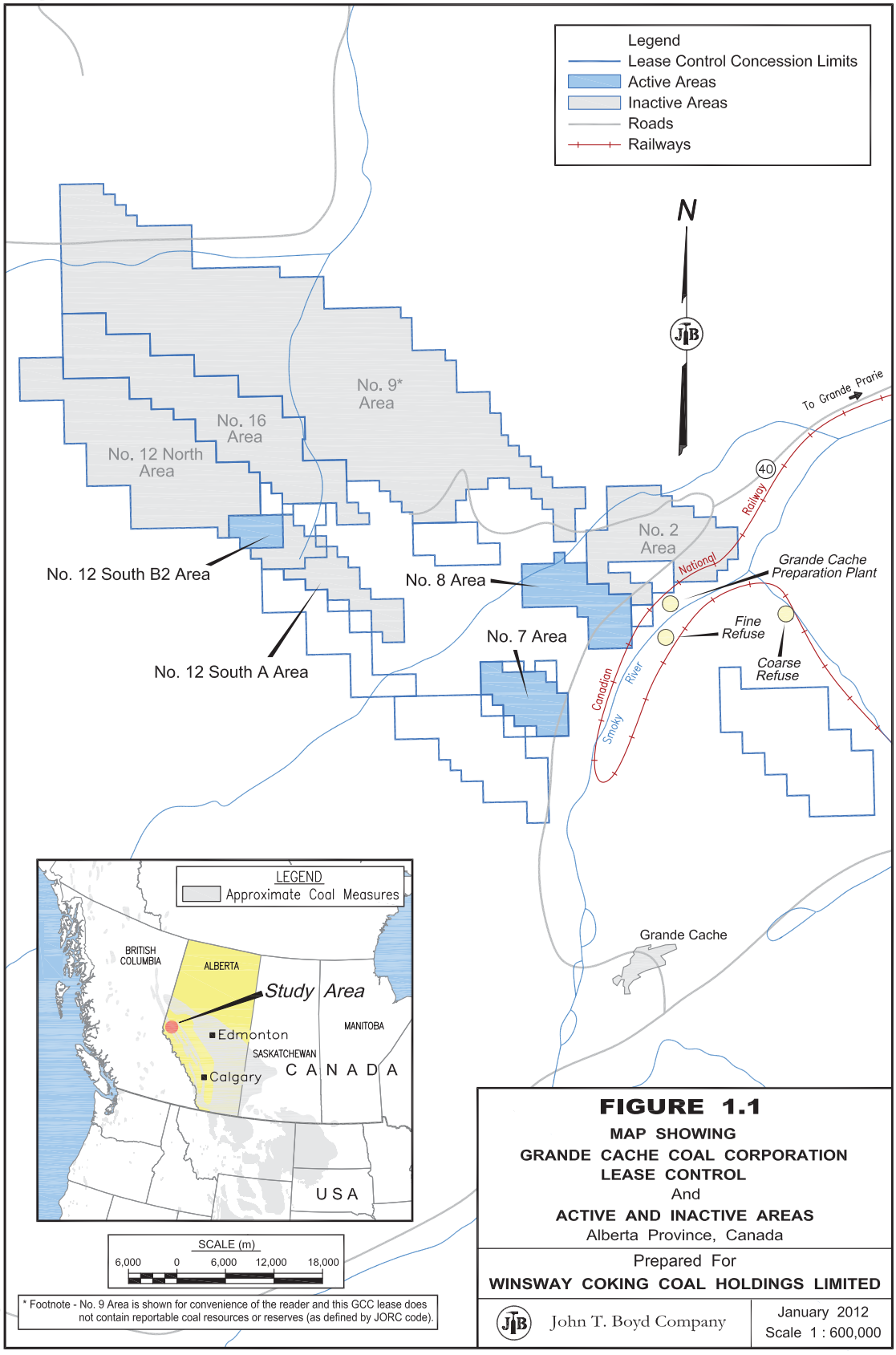

FIGURE 1.1

MAP SHOWING
GRANDE CACHE COAL CORPORATION
LEASE CONTROL
And
ACTIVE AND INACTIVE AREAS
Alberta Province, Canada

Prepared For
WINSWAY COKING COAL HOLDINGS LIMITED

John T. Boyd Company

January 2012
Scale 1 : 600,000

2.0 VALUATION OPINION

The assignment of this report is to opine on the Fair Market Value (FMV) of GCC as of 31 October 2011.

2.1 Fair Market Value Opinion

To arrive at our independent expert opinion of Fair Market Value, we initially developed LOM projections for the defined coal reserves and completed a DCF-NPV analysis (as presented in Sections 4.3 to 4.6) to develop a base case DCF-NPV Technical Value of C$527 million on an after-tax basis (and C$701 million on a pre-tax basis). Nomenclature used by VALMIN classifies this as the Technical Value since this DCF analysis does not consider the premium currently applicable for western Canadian coking coal mining companies. Based on comparable sales, the value of GCC is between C$1,159 and C$1,382 million.

Considering both valuation methods and the current market environment for western Canadian coking coal properties, we (Mr. Lewis and BOYD) conclude the Fair Market Value of GCC is C$860 million (preferred value), with a probable range of between C$527 and C$1,200 million.

2.2 Technical Value

According to our DCF analysis, the Base Technical Value of the GCC existing and planned mining and related operations (on a total company enterprise value, debt free basis) is C$701 million on a pre-tax basis, and C$527 million on an after-tax basis.

We developed LOM plans for each mine that provide the foundation of the cash flow projections. Level of study of the LOM plans is considered to be between feasibility and prefeasibility, depending on the specific mine area. All plans are limited to defined JORC Code qualified Proven and Probable Reserves (as developed by BOYD in the CPR).

The major valuation parameters and assumptions used to develop our base FMV are as follows:

1. Annual coal production, operating cost, and capital expenditures are derived from the LOM plan for each mine as developed by GCC, with subsequent review and modification by BOYD, in the case of underground, and by BOYD using pit shells provided by GCC (via their consultant) and independent scheduling by BOYD, in the case of open pit.

2. All costs and prices are expressed in nominal Canadian values (C$).

3. Annual cash flow projections are calculated on both a pre-tax and an after-tax basis, with annual capital expenditures deducted in the year incurred. Our interpretation of Canadian tax rates were applied in the after-tax case.

4. Discounting is completed using a fixed rate of 10% with mid-year discounting.

The use of a 10% annual discount rate is based on the Competent Evaluator's judgment and experience considering:

- GCC is a fully developed and operating coal mining and sales business.
- International standards (i.e., guidelines specified by the US federal government when valuing federally owned coals specify the use of a 10% discount rate).

Research of discount rates used by research analysts valuing western Canadian coal producers use discount rates of 8% and 10%.

5. In accordance with VALMIN, we initially determined the Technical Value using the income approach and then used Comparable Sales to determine if transaction prices warranted a premium above Technical Value (which was confirmed). While BOYD concluded a Market Transaction based value of $1.2 billion could be supported, the Competent Evaluator's independent judgment was a lower premium (equal to 50% of premium differential) was appropriate.

2.3 Sensitivity Analysis

We have completed a series of sensitivity discounted cash flow-net present value (DCF-NPV) technical value calculations using the following variables applied to the specified Base Case LOM plan and revenue FMV parameters:

		NPV or C$ (Millions)	
		Pre-Tax	**After-Tax**
Base Case		701	527
Sensitivities			
Net Realization (1)	10%	1,127	851
Net Realization (1)	5%	914	690
Net Realization (1)	-5%	487	362
Net Realization (1)	-10%	244	172
Cash Operating (2)	10%	392	285
Cash Operating (2)	5%	554	412
Cash Operating (2)	-5%	847	640
Cash Operating (2)	-10%	994	751
CAPEX	10%	651	486
CAPEX	5%	676	506
CAPEX	-5%	725	547
CAPEX	-10%	749	567

(1) Gross revenue less distribution cost.
(2) Includes surface mining, underground mining, processing, and on-site G&A cash costs. Excludes off-site G&A.

Variations of up to +/– 10% is commonly used in valuation sensitivity analyses and informs the reader of the material effect on value when key drivers vary by 10%, which is considered a reasonable bracket for a status quo ongoing mining operation.

2.4 Market (Comparable Sales) Valuation

Within the context of the Market Approach to valuation, BOYD compared the acquisition price of GCC with reported total consideration paid by Walter Energy, Inc. for its April 2011 purchase of Western Coal Corp. (WCC). As shown below, the nominal metrics (benchmarks) of the WCC transaction support the price paid by Winsway/Marubeni:

	Transaction	
	WCC*	**GCC**
Reported		
Total Consideration (US$ millions)	3,746	985
Annual Production — 2011 (tonnes-millions)		
Coking/PCI	3.9e	1.44
Thermal	1.5e	0.23
Total	5.4e	1.67
Reserves — Product Coal (tonnes-millions)		
Coking/PCI	105.2e	88.1
Thermal	41.9e	—
Total	147.1e	88.1
Valuation Metrics/Benchmarks		
US$/Tonne of Annual Production		
Coking/PCI Only	960	684
Total Production	694	590
US$/Tonne of Reserve		
Coking/PCI Only	35.61	11.18
Total Reserve	25.49	11.18

e = estimated (WCC reports annual production and reserves on a ROM basis; numbers shown are estimated by BOYD based on our industry knowledge).

* *Source:* Walter Energy, Inc. web-site (Legacy Western Coal Corp. Press Release).

It should also be noted that Walter Energy, Inc. booked US$277,404,000 (of the US$3,746,202,000 total consideration) as "Goodwill."

If the valuation metrics of the WCC transaction are applied to the GCC annual production and reserves, the value of GCC is between US$1.16 and over $3 billion.

	Tonnes (millions)	**Metric (US$/tonne)**	**Valuation (US$-millions)**
Reserves			
CI/Coking	88.1	35.61	3,137
Total	88.1	25.49	2,246
Annual Production			
PCI/Coking	1.44	960	1,382
Total	1.67	694	1,159

We consider the indicated values associated with the reserve metric to be unrealistic.

3.0 SUMMARY OF ASSETS

3.1 Introduction

A detailed description of the GCC mining operations is contained in the companion report: 'Competent Person's Report, Grande Cache Coal Corporation, January 2012', as prepared by BOYD. This chapter provides a summary of the GCC mining assets and enterprise in this independent VR over the life of the JORC defined reserve base.

GCC is an Alberta based coal mining operation that primarily produces a metallurgical (coking) coal for the export market. GCC is listed on the Toronto Stock Exchange with corporate offices located in Calgary, Canada. Coking coal from GCC is strategically located with established logistics and infrastructure. Saleable product is transported from the GCC rail load-out via the Canadian National Railway (CN) to the Westshore Terminal (1,084 km) on the Pacific coast (British Columbia) for shipment to Asian customers. Minor coking coal tonnages are also transported eastward to the Thunder Bay Terminal (1,538 km) on the Great Lakes for shipment to eastbound customers.

GCC operates on a fiscal year (FY) basis ending 31 March. Historic and forecast information is presented on a FY basis (unless otherwise noted) and valuation is based on a nominal Canadian Dollar basis.

3.2 Resources and Reserves

3.2.1 Operations

The LOM plan for GCC consists of the active and planned mining operations listed in the following table:

Mine Area	Mining Method	Operating Status
No. 2	Surface	Planned
No. 7	Underground	Active
No. 8	Surface	Active
No. 12 North	Surface	Planned
No. 12 South A	Surface	Planned
No. 12 South B2	Underground	Active
No. 16	Surface	Planned

3.2.2 Geology

The geologic setting or nature of the coal deposits controlled by GCC is judged to vary from moderate to complex. The active and planned mining areas reviewed are located within the Smoky River coal field. Coal seams of economic interest occur in the Lower Cretaceous-aged Grande Cache Member of the Gates Formation. There are seven coal seams that are considered to be economically mineable within defined reserve areas, including the Nos. 4 through 8, 10, and 11 seams.

3.2.3 Resources

The BOYD estimate of in place coal resources controlled by GCC, as of 31 October 2011, is shown in the following:

	In-Place Resources (Mt) by Classification				
	Measured	Indicated	Measured + Indicated	Inferred	Total
Surface Mining Areas:					
No. 8	9.9	26.9	36.8	12.9	49.7
No. 12 South A	8.7	11.7	20.4	2.5	22.9
No. 2	10.0	16.9	26.9	10.7	37.6
No. 16	12.5	18.0	30.5	2.8	33.3
No. 12 North	26.2	21.7	47.9	3.0	50.9
Total-Surface Areas	67.3	95.2	162.5	31.9	194.4
Underground Mining Areas:					
No. 7	0.2	—	0.2	0.7	0.9
No. 12 South B2	8.4	3.2	11.6	—	11.6
Total-Underground Areas	8.6	3.2	11.8	0.7	12.5
Grand Total	75.9	98.4	174.3	32.6	206.9

The estimates of coal resources stated above have been prepared in accordance with the JORC Code.

While one could reasonably expect that the majority of Inferred Coal Reserves would upgrade the Indicated Mineral Resources with continued exploration, due to the uncertainty of Inferred Coal Resources, it should not be assumed that such upgrading will always occur.

GCC has identified additional potential resources and/or reserves that have not been a part of the current model. Basic drill hole and quality data are not readily available in GCC files, but available through local governmental agencies from the previous operators. It would require substantial time (i.e, 3 to 6 months) to obtain, correlate, and input the additional data into the geologic model to determine the additional resources and/or reserves.

3.2.4 Reserves

Our estimate of the Probable Reserves controlled by GCC, as of 31 October 2011, is summarized in the following:

	Probable Reserves (Mt)		
	In-Place	**ROM**	**Saleable**
Surface Mining Areas:			
No. 8	24.2	23.9	16.9
No. 12 South A	10.7	10.5	7.8
No. 2	14.5	14.3	10.5
No. 16	24.8	24.0	16.2
No. 12 North	44.8	43.7	30.8
Total-Surface Areas	119.0	116.4	82.2
Underground Mining Areas:			
No. 7	0.2	0.2	0.1
No. 12 South B2	10.4	8.3	5.8
Total-Underground	10.6	8.5	5.9
Grand Total	129.6	124.9	88.1

The preceding estimates of coal reserves have been prepared in accordance with the JORC Code, but used existing pit shells for the open pit reserve areas, as developed by or for GCC.

Oxidized outcrop coals are recovered where of acceptable quality, stockpiled and sold on a raw coal (unwashed basis). All remaining (unoxidized) run-of-mine (ROM) coals are selectively mined and stockpiled by quality, after passing through the rotary breaker raw coals of an acceptable quality by-pass the coal preparation plant (CPP) and report to the product coal stockpile. Remaining raw coal from the rotary breaker is mechanically washed using the onsite CPP with the washed coal reporting to the product coal stockpile. GCC currently produces a hard coking coal (HCC) product. Average product coal quality for the last four years is shown below:

	Product	
	Metallurgical	**Thermal**
Moisture (%)	9.0	7.8
Ash (%)	8.8	16.9
Volatile Matter (%)	17.6	15.8
Sulfur (%)	0.4	0.4
FSI	5.3	0.3

3.2.5 Coal Quality

In general, the rank of the GCC coal reserves can be categorized as low-volatile bituminous based on the American Society for Testing and Materials (ASTM) coal classification system.

The in-seam raw coal quality is reported as follows:

Characteristic	Typical Range
Ash % (adb)	11.5 to 37.4
Volatile Matter % (adb)	14.5 to 20.5
Free Swelling Index (FSI)	1.8 to 5.8

3.3 Underground Mine Operations

3.3.1 Background

The Smoky River Coal Basin is a mature mining area, where significant mining activity has occurred for several decades. In the last 10 years, underground mining operations have been planned, implemented, and exhausted in the course of normal operations by GCC. While underground mining activities in the region are well known, there has not been the propensity of underground mines when compared to regional surface mining operations. GCC's underground operations represent a large portion of all underground mining in Canada. As a result, it is critical for GCC to retain their key underground mining staff as well as continue to recruit and develop a new replacement workforce. Retention and development of personnel having specialized underground skills, such as mechanics, electricians, and managers, should remain a priority during any corporate transition.

3.3.2 Historical Cash Costs

Underground mining cash costs estimates have been developed based on BOYD's review of recent historical quarterly and monthly cost statements and our independent experience and judgment. Summarized production costs have been provided for FY 2009, 2010, 2011, and year-to-date (YTD) 2012. Detailed production costs have been provided for FY 2010, 2011, and YTD 2012. We have not independently audited the cost statements, but have studied their variability in conjunction with historical production trends, and available underground mine mapping. Historical underground direct mining costs on a ROM basis range between $30.07 and $46.44 per ROM tonne on a quarterly basis from FY 2009 through FY 2011, and have averaged $42.30 per ROM tonne during this same period. Based on BOYD's projections of mining costs, future direct mining cash cost is expected to average $34.13 per ROM tonne over the next seven years. These production costs are dependent on the cycle of multiple production units in development and depillaring type operations, and by mine(s) being operated in any given year.

3.3.3 Future Mines

An engineered mining plan for the No 12 South B2 underground mine, supported with corresponding geological models has been developed by GCC's underground management team. This offers the most appropriate basis for projecting future performance. The GCC technical staff, with the assistance of their technical consultants, have prepared and publicly presented long-range underground mining plans for the No. 7/8 Seam and No. 4 Seam respectively. Tonnage, revenue, and cost figures provided by GCC were reviewed and considered as the starting point in the BOYD cost analysis. Considering the implementation of the new mining methods, a 15% to 20% increase in production could be achieved, on average. The cost and production projections developed by BOYD for this report, while being variable, account for these added efficiencies. Achieving a ROM production in excess of 900,000 ROM tonnes per year is considered reasonable. This would allow the operations to increase to a 75,000 tonnes per month (0.9 million ROM tonnes per annum [tpa]) for the aggregate production from multiple operating sections.

Future development of an additional underground mine, No. 12 South A7, is anticipated by GCC, and would be needed by 2023, as a replacement underground production source for the No. 12 South B2 Mine. While GCC has not identified these reserves in recent NI 43-101 reports, they have verbally indicated that the resource is reasonably available. The resource is expected to be included in future reserve and resource reports once additional reserve analysis have been preformed, and detailed mining plans and projections have been developed. Neither GCC nor BOYD has developed detailed mining plans for this future underground mining area, and as such, the inclusion of the production in a LOM plan is regarded as hypothetical at this time. It is BOYD's opinion that the addition of a follow-up underground mine is important to alleviate expansion issues for the surface mines at that time. The availability of existing underground equipment from the depleted No. 12 South B2 (No. 4 Seam) Mine in FY 2023 will be a key asset to economically support the development of the proposed underground operation. BOYD regards the new underground mine as the most realistic opportunity to perpetuate the current production scheme.

3.4 Surface Mine Operations

3.4.1 Surface Mine Areas

BOYD's independent review of the surface mining operations was based on an evaluation of LOM plans. Surface mine operations and status are summarized as follows:

Mine Area	Status
No. 8 Pits	Permitted, Licenses and currently active.
No. 2 Pit	Permit application pending with pit anticipated to be in production by FY 2014.
No. 12 South A Pit	Permit application pending with pit anticipated to be in production by FY 2015.
No. 16 Pit	Mine plan re-designed based on updated exploration results; application pending completion of mine plan. Anticipated production start date is FY 2020.
No. 12 North Pits	Additional drilling required and no applications have been made at this time. Anticipated production start date is FY 2022 to FY 2026.

During the normal course of business in Canada permits and mining licenses will continually (in increments) be applied for, amended, and issued. As reported by GCC management, no permit or license has historically been denied it.

3.4.2 Equipment Complement

GCC employs truck and shovel mining equipment and methods which are typical of open pit coal mines. The company has recently updated its surface mining fleet to enable the planned increase in production rates. Equipment types currently employed are:

- Large 36 m^3, 27 m^3 and 21 m^3 shovel/excavators.
- Rear dump trucks with 220-tonne and 90-tonne capacity.
- Blast hole drills, 35 cm diameter.
- Track dozers for coal cleaning, shovel support, as well as road and waste dump construction.
- Road graders for haul road construction and maintenance.
- Front-end loaders (20 m^3) for coal loading and back-up for shovels.
- Backhoes for coal cleaning and ditching for water control.
- Miscellaneous support equipment to maintain a 24/7 operation.

GCC has upgraded their equipment fleet over the last several years with the acquisition of approximately $135 million in equipment.

3.4.3 Workforce

The operations workforce is unionized and represented by the United Mine Workers of America (UMWA). The current five-year labor contract is scheduled to expire 16 May 2015. Average annual contractual wage increases are between 2.5% and 3.0% over the remainder of the contract. The following table shows Surface Mine and Other Operational workforce by department:

Department	**No. of Personnel**
Surface Operations	181
Coal Haul	21
Surface Maintenance	79
Warehouse and Purchasing	11
Environmental Health & Safety (EH&S)	22
Accounting and Information Technology	7
Engineering	21
Human Resources	7
Senior Management	11
Calgary (corporate)	29
Total	389*

* *Plant and underground workforce consists of 247 employees and is discussed in their respective chapters.*

Annual employee turnover ranges between 24.9% to over 31%, which is excessive and will directly result in lower productivity, continual safety issues with a young inexperienced work force, and ultimately increased production costs. Remedies by GCC management being investigated and attempted are:

— Providing affordable housing by constructing company condominiums.
— Developing a 7-day on and 7-day off (or 10-day on and 10-day off) rotation.

3.4.4 Historic Production

Surface mine production has been consistent since GCC has restarted operations and produced approximately 1.4 ROM Mt in FY 2011. Historic production beginning in FY 2009 is summarized as follows:

		Fiscal Year			
Category	**Units**	**2009**	**2010**	**2011**	**2012 (6 months.)***
Operating Days		363	348	363	183
Waste Material Moved	bcm**-000	7,045	7,129	13,919	11,604
ROM Mined	tonnes-000				
Met	ROM	1,379	1,254	1,145	722
Thermal		2	149	207	99
Total		1,381	1,402	1,352	821
ROM Strip Ratio		5.1	5.1	10.3	14.1
Production Metrics					
Waste Mined	bcm/day	19,407	20,486	38,345	63,407
ROM Mined	ROM tonne/ day	3,805	4,030	3,725	4,487

Note: GCC does not report the net product tonnes of production for the individual mine or by mining method.

* *6 months April through September 2011*
** *Bank cubic meters.*

GCC has experienced production related issues in an attempt to increase production (FY 2012). It is our opinion, based on discussions with GCC management, that the causes of GCC's inability to meet target production include: labor due to turnover, geological issues, and throughput of the existing CPP. BOYD opines that productivity should increase as operators and management work through the learning curve of new equipment and modifications are made to increase CPP throughput capacity.

Market conditions are driving the plan to increase coking coal production. BOYD projects surface mine production at 2.4 Mt (ROM) in FY 2012, increasing to 3.9 Mt (ROM) by FY 2016. This assumes a new CPP is constructed.

3.4.5 Historic Surface Mine Costs

GCC provided Quarterly Financial Reports for FY 2009 through second quarter FY 2012 and are summarized as follows:

	Fiscal Year			
Surface Mine Direct Cash Cost	**2009**	**2010**	**2011**	**2012 (6 months.)***
C$000	59,471	36,027	54,231	48,804
C$/bcm	8.44	5.05	3.90	4.21
C$/ROM tonne mined				
Metallurgical Only	43.13	28.73	47.36	67.60
Met and Thermal	43.06	25.70	40.11	59.44

* *6 months April through September 2011*

However, historic costs may and should not be reflective of future performance.

3.4.6 Future Mines

Future surface mine operations were projected to meet throughput targets developed by GCC management and modified by BOYD based on our opinion of CPP capacity. Ultimately, to meet target projections, BOYD included the construction of a new high-efficiency CPP (discussed in Section 3.5).

BOYD utilized scheduling software to develop LOM plans by area, seam and quality type. Blending was incorporated into the plan when appropriate and depending on the area and seam mined.

Direct mine cash costs were projected for the LOM and incorporated into the project economics. The surface mine production schedule, estimated capital expenditures, and mine cost projections are shown in the subsequent Section 3.7.

3.5 Coal Preparation Plant

- The existing CPP was constructed in the late 1960s and put in operation during 1969. The plant is currently more than 40 years old and, with few updates, remains in the same configuration as when constructed.

- Significant capital expenditures have been directed toward the preparation plant and ancillary facilities in recent years with plans for additional capital spending in the near-term. BOYD believes these improvements may provide some improvement to plant operation; however, it is unclear if the planned capital projects, once complete, will allow the facility to consistently operate at or more than the targeted 6,800 hours annually or meet future clean coal production goals (3.5 Mtpa).

- The company indicates that CPP operating costs will decrease from the current C$27.58 per clean tonne (April through October 2011) to the C$18.00 per clean tonne level once all plant improvements are operational with further decreases (C$10.00 to C$12.00 per tonne) projected once clean coal volumes increase. It is likely that some of the issues associated with the plant operation will be addressed with near-term upgrades; however, it is our opinion the projected capital improvements to the CPP will not allow the facility to achieve the company's estimates of operating cost savings.

- BOYD recommends and assumes that a modern high efficiency CPP will be built as an integral part of future expansion to 3.5 Mtpa product coal. It is our view that a new preparation plant would enable the reduction of required labor, increase coal fines recovery, reduce disposal of fines in the current coal sedimentation ponds, provide an efficient facility capable of consistently operating at or near rated throughput capacity, and reduce overall preparation costs.

- BOYD's estimate of a budgetary capital cost to replace the preparation plant is approximately $42 million. This cost would be inclusive of building a plant structure sufficient to house a facility capable of producing 3.5 Mtp (clean) and support an additional module to expand to the 5.0 Mtpa clean coal production level sought by Consortium in the later years.

3.6 Transportation

- Shipping at the 3.5 Mtpa (plus 10% for thermal output) level will require approximately one unit train every 1 1/2 days. It is our understanding that the only other user of the CN railway trackage sewing GCC's rail loadout is Milner power plant (receives approximately 800,000 tpy) located adjacent to GCC. If Milner power plant is able to construct the additional unit it is proposing (will require 3 Mtpa), rail capacity may become an issue.

- Rail transportation costs as per the current CN agreement are commercially confidential. While provided to and used by BOYD in our analysis, they cannot be disclosed. The current contract expires on 31 March 2012. The company indicates that negotiations for the new agreement will begin by the end of calendar year 2011. It is our understanding that the CN prefers two-year agreements although GCC would like to have a longer term if escalation mechanisms are advantageous. Negotiations are still in progress at the time of this report.

- GCC ships metallurgical as well as most thermal output through Westshore Terminal, located in Vancouver, British Columbia, which is the largest exporting bulk terminal in North America. Recent expansions have increased the overall annual throughput capacity to approximately 31 Mt.

- Management has entered into a 20-year agreement for terminal services commencing on 1 April 2011. Westshore will provide for shipping services for up to 2.4 Mtpa (beginning the 2014/2015 contact year) exclusively through the terminal. Total storage availability for GCC produced coal is approximately 160,000 tonnes.

- Pricing and other provisions of the Westshore agreement are commercially confidential, but made available to BOYD for use in our analysis. This agreement does include a base price, annual escalation, and an incremental additional premium depending on coal sales price.

3.7 Project Economics

3.7.1 Annual Production Projections

The following summarizes estimated annual ROM and Clean Coal Production for the LOM related to the GCC mine operations:

	Estimated ROM and Clean Coal Production FISCAL YEAR										
Units	**2012***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018–2022**	**2023–2027**	**2028–2032**	**2033–2037**	**2038–2043**
						Surface Mines					
Waste (000 bcm)	10,311	30,727	33,652	39,475	48,633	48,750	45,015	39,948	25,497	25,252	16,925
ROM Production (000 tonnes)	719	2,357	3,084	3,152	3,272	2,982	3,829	4,222	5,154	3,838	2,607
Thermal By-Product (000 tonnes)**	16	123	23	73	139	82	173	195	179	184	47
Strip Ratio (BCM/ROM Tonne)	14.33	13.04	10.91	12.53	14.86	16.35	12.05	9.85	5.52	6.81	8.20
						Underground Mines					
ROM Production (000 tonnes)	255	346	741	670	556	941	912	72	—	—	—
Saleable Product (000 tonnes)											
HCC	627	1,709	2,480	2,532	2,732	2,666	2,586	998	964	196	24
Semi-Soft	—	—	—	—	—	—	540	1,660	1,592	1,925	1,508
PCI	—	—	—	55	51	105	322	385	1,013	659	268
Subtotal Products	627	1,709	2,480	2,587	2,782	2,771	3,448	3,043	3,570	2,781	1,801
Thermal By-Product (Sold)**	16	123	23	73	139	82	153	212	183	184	47
TOTAL Products	643	1,832	2,503	2,660	2,921	2,853	3,601	3,255	3,752	2,965	1,848

* *5 months, November 2011 through March 2012.*

** *By Product from oxidized coal*

GCC management has targeted the operations to expand to 3.5 Mtpa and BOYD projects that this is achievable upon completion of a new CPP in FY 2018. Table 3.1, following this text, provides detailed annual projections for production by area and mining type.

3.7.2 Projected Capital Expenditures

The following provides BOYD's estimate of capital expenditures for new and replacement equipment and infrastructure:

	Estimated Capital Expenditures FISCAL YEAR — C$ (000)										
Item	**2012***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018–2022**	**2023–2027**	**2028–2032**	**2033–2037**	**2038–2043**
Total Capital — Constant Dollar Basis											
Surface Equipment Capital	2,100	45,350	16,275	83,875	103,025	36,075	6,160	26,990	17,870	4,220	4,750
Roads	1,000	10,000	5,000	—	5,000	—	3,000	3,000	—	—	—
Surface Mine Development and Pre-Strip	2,000	5,000	2,500	2,500	2,500	4,000	4,800	1,000	500	—	—
Underground Equipment	570	780	2,300	2,080	1,720	2,920	2,830	224	—	—	—
Underground Mine Development	1,000	5,000	—	—	—	—	800	—	—	—	—
Plant — New Plant	—	—	—	5,000	30,000	5,000	400	—	—	—	—
Plant — Other Plant	6,000	12,500	3,000	2,000	—	—	2,600	3,000	3,800	2,600	1,333
Infrastructure	2,000	10,000	10,000	—	15,000	5,000	—	—	—	—	—
Other/Contingency	—	3,500	3,500	3,500	3,500	3,500	3,500	3,320	2,420	1,500	700
Subtotal Other Capital	12,570	46,780	26,300	15,080	57,720	20,420	17,930	10,544	6,720	4,100	2,033
Total Capital — Escalated @2% per annum											
Surface Equipment Capital	2,100	46,257	16,933	89,009	111,518	39,830	7,073	34,760	24,971	6,685	8,108
Roads	1,000	10,200	5,202	—	5,412	—	3,609	4,038	—	—	—
Surface Mine Development and Pre-Strip	2,000	5,100	2,601	2,653	2,706	4,416	5,657	1,346	743	—	—
Underground Equipment	570	796	2,393	2,207	1,862	3,224	3,314	279	—	—	—
Underground Mine Development	1,000	5,100	—	—	—	—	910	—	—	—	—
Plant — New Plant	—	—	—	5,306	32,473	5,520	450	—	—	—	—
Plant — Other Plant	6,000	12,750	3,121	2,122	—	—	3,066	3,882	5,385	4,083	2,323
Infrastructure	2,000	10,200	10,404	—	16,236	5,520	—	—	—	—	—
Other/Contingency	—	3,570	3,641	3,714	3,789	3,864	4,102	4,287	3,447	2,354	1,232
Total Capital Escalated	14,670	93,973	44,295	105,012	173,996	62,375	28,182	48,591	34,546	13,121	11,662

* *5 Months, November 2011 through March 2012*

Capital expenditures for the LOM are shown both on a constant and nominal (escalated at 2% per annum) dollar values. Table 3.2, following this that provides detailed annual projections for equipment and infrastructure capital.

3.7.3 Estimated Revenue

As directed by Winsway, BOYD utilized coking coal price assumptions provided and prepared by Wood Mackenzie (effective November 1, 2011). Price assumptions provided are on a nominal basis reflecting a 2% annual escalation. BOYD has adjusted prices from a calendar year basis to a FY basis as follows:

Coal Prices (US$/Tonne), Nominal Dollar Values

	FISCAL YEAR										
Category	**2012***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018–2022**	**2023–2027**	**2028–2032**	**2033–2037**	**2038–2043**
Coal Prices (US$/tonne — Nominal at 2% escalation)**											
HCC	257.24	240.46	220.68	210.54	204.72	208.81	221.68	244.75	270.23	298.35	332.74
Semi-soft	198.90	185.93	170.63	162.79	158.29	161.45	171.40	189.24	208.94	230.69	257.28
PCI	212.16	198.32	182.00	173.64	168.84	172.22	182.83	201.86	222.87	246.06	274.43
By-Product Thermal	84.86	79.33	72.80	69.46	67.54	68.89	73.13	80.74	89.15	98.43	109.77
Coal Production (Saleable Product — 000 tonnes)											
HCC	627	1,709	2,480	2,532	2,732	2,666	2,586	998	964	196	24
Semi-soft	—	—	—	—	—	—	540	1,660	1,592	1,925	1,508
PCI	—	—	—	55	51	105	322	385	1,013	659	268
By-Product Thermal	16	123	23	73	139	82	153	212	183	184	47
Total Sales	643	1,832	2,503	2,660	2,921	2,853	3,601	3,255	3,752	2,965	1,848
Oxidized	31	246	46	145	277	164	347	391	357	368	95

* *5 months, November 2011 through March 2012*

** *Provided by Wood Mackenzie (November 2011)*

Winsway has indemnified BOYD in regards to our use of third party (Wood MacKenzie) coking coal price assumptions.

Based on the above price assumptions, the following reflect Gross Revenues for the LOM operations based on the previously listed coal production schedule:

Estimated Annual Revenues, Nominal Dollar Values

	FISCAL YEAR										
Category	**2012***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018–2022**	**2023–2027**	**2028–2032**	**2033–2037**	**2038–2043**
Gross Revenue by Product Type (US$ — 000)											
HCC	161,289	411,038	547,312	533,016	559,241	556,681	568,645	243,592	255,106	58,893	8,007
Semi-soft	—	—	—	—	—	—	95,415	312,028	337,214	446,924	390,638
PCI	—	—	—	9,584	8,547	18,115	58,775	77,761	227,359	161,166	73,544
By-Product Thermal	1,358	9,757	1,674	5,070	9,388	5,649	11,302	17,092	16,163	17,987	5,126
Total Gross Revenue	162,647	420,796	548,987	547,670	577,176	580,445	734,137	650,473	835,842	684,969	477,315
US$/Product tonne	252.95	229.65	219.32	205.90	197.57	203.44	203.23	200.76	223.26	230.00	255.09
Gross Revenue (C$ — 000) @ 1.0 converson factor	162,647	420,796	548,987	547,670	577,176	580,445	734,137	650,473	835,842	684,969	477,315

* *5 months, November 2011 through March 2012*

An exchange rate of C$1.00: US$1.00 is used in this VR. Gross revenue is reduced by off-site cost to provide net revenue (free on board [FOB], mine). The following summarizes off-site cost and net revenue:

Estimated Distribution Costs

	FISCAL YEAR										
Category	**2012***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018–2022**	**2023–2027**	**2028–2032**	**2033–2037**	**2038–2043**
Total Distribution Cost (C$ per product tonne)**	30.25	32.25	36.75	36.25	36.25	36.25	36.35	36.45	37.15	37.25	37.25
Total Distribution Cost (C$ — 000)	19,450	59,094	91,992	96,420	105,900	103,426	131,029	118,368	139,327	110,434	68,843
Total Distribution Costs (Nominal Dollar Values @ 2% per annum)	19,450	60,276	95,708	102,322	114,630	114,190	153,412	152,571	199,454	174,671	121,708
FOB, Mine Revenue (C$ — 000), Nominal Dollar Values	143,196	360,520	453,279	445,348	462,546	466,254	580,725	497,903	636,388	510,299	355,607

* *5 months, November 2011 through March 2012*

** *Distribution costs include Rail, Port, Commissions, Testing, Demurrage, and Despatch*

Table 3.3, following this chapter, provides detailed annual projections for coal price, revenue, distribution cost, and FOB mine revenue for the LOM.

BOYD's estimated cash cost of operations, inclusive of surface mining, underground mining, processing, G&A and royalties (tier 1 only), is summarized as follows:

Estimated Cash Cost of Mine Operations

	FISCAL YEAR										
Mine Category	**2012***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018–2022**	**2023–2027**	**2028–2032**	**2033–2037**	**2038–2043**
Surface Mining Cost	51,634	134,074	161,059	210,027	266,589	288,244	271,952	237,271	229,137	203,917	141,888
(C$/bcm)	4.77	4.14	4.49	5.03	5.23	5.67	5.74	5.52	8.72	7.31	7.55
C$/ROM Surface Tonnes	70.22	54.07	51.84	65.13	78.15	94.09	68.91	54.93	44.54	51.53	60.22
Other Operations and Mine Related Costs											
Underground Mining	8,076	15,392	25,673	24,390	22,338	29,597	29,654	2,044	—	—	
Processing	16,493	40,175	40,176	40,177	40,262	24,716	27,945	26,317	29,584	24,585	19,905
General & Administration — On Site	6,250	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Royalties (First Tier Only)	1,432	3,605	4,533	4,453	4,625	4,663	5,807	4,979	6,364	5,103	3,556
Subtotal Other Cost of Operations	32,250	74,172	85,382	84,021	82,225	73,975	78,407	48,340	50,948	44,688	38,461
Total Cash Operating Cost	83,884	208,246	246,440	294,048	348,814	362,219	350,358	285,611	280,085	248,605	180,349
Total Cash Operating Cost (C$ per ROM tonne)	84.67	73.71	64.05	75.51	87.93	90.46	71.94	65.11	54.25	62.78	76.72
Total Cash Operating Cost	**130.46**	**113.65**	**98.45**	**110.55**	**119.40**	**126.96**	**98.20**	**90.33**	**76.81**	**85.28**	**110.99**
Distribution Costs**	19,450	59,094	91,992	96,420	105,900	103,426	131,029	118,368	139,327	110,434	68,843
Distribution Costs (C$ per product tonne)	30.25	32.25	36.75	36.25	36.25	36.25	36.15	36.60	37.10	37.25	37.25
TOTAL CASH COST OF OPERATIONS	103,334	267,340	338,432	390,468	454,714	465,644	481,387	403,979	419,411	359,039	249,192
TOTAL CASH COST (C$ per product tonne)	**160.71**	**145.90**	**135.20**	**146.80**	**155.65**	**163.21**	**134.35**	**126.93**	**113.91**	**122.53**	**148.24**

* *5 months, November 2011 through March 2012*

** *Distribution costs include Rail, Port, Commissions, Testing, Demurrage, and Despatch*

GCC will generate substantial pre (income) tax cash flow during each year of the projection. Table 3.4, following this chapter, provides the estimated annual cash cost of mine operations for the LOM. These text represent mine-site cash costs of operations.

3.8 Closing

BOYD has reviewed GCC as a standalone business and evaluated the long-term economic viability based on GCC management and Winsway guidance to increase production to the targeted 3.5 Mtpa (clean product). As discussed in the CPR, BOYD increased production to 3.5 Mtpa based on our inclusion of a new CPP being constructed. Our view is more conservative than GCC management which opines the existing CPP can achieve the 3.5 Mtpa production level.

BOYD understands that the Board of Directors will review all recommendations including an analysis to determine the synergies of the interrelationship of GCC with Winsway's China operations. Our understanding is that Winsway is considering shipping ROM coal to China to process in existing CPP facilities and the evaluation will consider the acquisition in terms of providing the highest production rate and profitability for the combined business entity. It would be difficult for BOYD to

assess all possible alternatives should Winsway choose not to adopt our recommendations and for BOYD to provide an analysis of each possibility in this VR. In our opinion, the BOYD VR provides a conservative and realistic independent view of GCC.

A general risk assessment of GCC is included in the CPR which we refer the reader to review as part of this valuation.

Following this page are:

Tables

3.1 Estimated Annual ROM and Clean Coal Production
3.2 Estimated Capital Expenditures
3.3 Estimated Annual Revenue
3.4 Estimated Cash Cost of Operations

TABLE 3.1

ESTIMATED ANNUAL ROM AND CLEAN COAL PRODUCTION
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
February 2012

		FISCAL YEAR																														
Units	**Mine Area**	**2012 ***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**	**2041**	**2042**	**2043**
																	Surface Mines																
Waste (000 bcm)	No.8 Mine	10,011	29,832	24,949	29,063	28,370	30,040	15,924	13,072	8,213	9,471	12,895	11,834	5,346	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	No.2 Mine	—	—	3,887	3,000	7,412	6,921	21,114	22,645	13,006	17,047	17,047	15,644	14,770	14,449	17,047	15,921	17,094	12,479	3,191	1,283	—	—	—	—	—	—	—	—	—	—	—	—
	No.12 SA Mine	—	—	3,836	5,679	10,275	10,293	10,293	10,293	10,321	10,293	10,293	9,446	8,918	8,585	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	No.12 North	—	—	—	—	107	77	—	—	882	—	—	—	—	—	—	5,225	7,317	5,721	7,455	9,709	8,351	17,047	17,047	17,047	17,094	15,427	14,941	17,047	17,094	17,047	17,047	15,379
	No.16 Mine	—	—	—	584	1,053	—	—	—	1,092	9,021	5,598	5,193	10,676	14,581	16,937	19,353	16,627	14,489	8,087	9,144	2,826	7,036	7,297	7,327	10,657	6,604	38	—	—	—	—	—
	Rehandle @ 3%	300	895	980	1,150	1,416	1,420	1,420	1,380	1,005	1,375	1,375	1,264	1,191	1,128	1,020	1,215	1,231	981	562	604	335	722	730	731	833	661	449	511	513	511	511	461
	Total Waste	10,311	30,727	33,652	39,475	48,633	48,750	48,750	47,390	34,519	47,207	47,207	43,381	40,901	38,743	35,004	41,714	42,269	33,670	19,295	20,741	11,513	24,806	25,074	25,105	28,583	22,692	15,428	17,558	17,606	17,558	17,558	15,841
ROM Production (000 tonnes)	No.8 Mine	719	2,357	3,084	2,960	2,954	2,468	2,609	1,293	1,602	1,002	687	1,130	1,032	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	No.2 Mine	—	—	—	—	43	131	290	1,084	1,315	1,348	1,542	1,705	1,055	925	953	561	1,101	1,662	267	293	—	—	—	—	—	—	—	—	—	—	—	—
	No.12 SA Mine	—	—	—	192	274	383	1,062	1,439	1,633	68	174	1,009	1,430	2,842	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	No.12 North	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	201	1,031	1,701	3,771	2,673	4,509	3,148	2,443	1,977	2,657	3,997	3,716	1,583	1,426	1,469	2,800	4,616
	No.16 Mine	—	—	—	—	—	—	—	—	79	1,120	797	760	1,453	1,399	2,245	2,411	1,255	2,388	2,028	2,392	699	686	1,007	1,168	965	1,142	31	—	—	—	—	—
	Subtotal ROM	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816	4,630	3,539	3,201	4,603	4,969	5,166	3,197	3,173	3,386	5,750	6,066	5,358	5,207	3,835	3,450	3,145	3,621	5,139	3,747	1,583	1,426	1,469	2,800	4,616
Thermal By-Product (from Oxidized Coal)		16	123	23	73	139	82	85	88	160	336	197	138	171	221	220	227	301	266	145	121	60	236	200	217	154	112	47	46	127	36	28	—
Strip Ratio (BCM/ROM Tonne)		14.33	13.04	10.91	12.53	14.86	16.35	12.31	12.42	7.46	13.34	14.75	9.42	8.23	7.50	10.95	13.15	12.48	5.86	3.18	3.87	2.21	6.47	7.27	7.98	7.89	4.42	4.12	11.09	12.35	11.96	6.27	3.43
																	Underground Mines																
ROM Production (000 tonnes)	No. 7 Mine	143	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	No.12 SB2 7 Seam	113	346	741	670	556	941	836	627	314	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	No.12 SB2 4 Seam	—	—	—	—	—	—	95	314	599	941	836	361	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Subtotal ROM	255	346	741	670	556	941	931	941	912	941	836	361	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
																	Clean Coal Production by Product Type																
Surface Mines (000 tonnes)	HCC	472	1,519	2,036	2,130	2,398	2,102	2,577	2,550	2,858	1,807	1,187	871	1,384	983	1,091	661	1,531	2,449	372	389	78	127	204	122	338	191	27	49	28	—	20	22
	Semi-Soft	—	—	—	—	—	—	—	—	—	353	783	2,047	1,596	2,115	957	1,268	404	708	2,285	2,170	2,396	1,560	1,340	1,980	1,981	2,765	2,019	912	821	924	1,586	2,787
	PCI	—	—	—	55	51	105	265	205	697	260	183	212	382	807	224	300	446	726	1,570	1,328	998	1,032	1,021	104	302	837	591	148	63	89	237	482
	Subtotal Surface	472	1,519	2,036	2,185	2,449	2,207	2,842	2,755	3,555	2,421	2,153	3,130	3,362	3,906	2,272	2,230	2,381	3,883	4,227	3,886	3,472	2,719	2,565	2,206	2,621	3,793	2,637	1,109	912	1,013	1,842	3,292
Underground Mines (000 tonnes)	HCC	155	190	445	402	333	564	585	652	715	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Semi-Soft	—	—	—	—	—	—	—	—	—	828	736	318	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	PCI	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Subtotal Underground	155	190	445	402	333	564	585	652	715	828	736	318	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Thermal By-Product (Sold)		16	123	23	73	139	82	85	88	160	216	216	216	194	216	216	216	216	216	216	205	60	216	216	216	159	112	47	46	127	36	28	—
	TOTAL Product	643	1,832	2,503	2,660	2,921	2,853	3,512	3,495	4,430	3,464	3,105	3,664	3,556	4,122	2,488	2,446	2,597	4,099	4,443	4,091	3,532	2,935	2,781	2,422	2,780	3,905	2,684	1,155	1,039	1,049	1,870	3,292

* *5 months, November 2011 through March 2012*

TABLE 3.2

ESTIMATED CAPITAL EXPENDITURES
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
February 2012

		FISCAL YEAR — C$ (000)																															
Item	**Make/Model**	**2012 ***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**	**2041**	**2042**	**2043**
Surface Equipment Capital (new and replacements)																																	
Drills	P&H 320XPC	—	6,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Drills	PV271	—	—	—	—	—	—	—	—	—	—	—	4,800	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Shovels	P&H 2800XPC	—	—	—	—	18,900	—	—	—	—	—	—	—	—	—	—	—	—	18,900	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Shovels	PC5500	—	11,000	—	—	—	—	—	—	—	—	—	—	11,000	—	5,500	—	—	—	—	—	—	—	—	—	—	5,500	—	—	—	—	—	—
Shovels	PC3600	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,500	—	—	—	—	—	—	—	—	—	—	—	—
Haul trucks	830E AC	—	28,350	14,175	70,875	80,325	33,075	—	—	—	—	—	—	—	85,050	—	—	28,350	—	—	—	—	—	—	—	—	—	28,500	—	—	—	—
Haul trucks	CAT 777	—	—	—	—	3,000	—	7,000	5,000	7,000	—	—	8,000	2,000	6,000	—	—	6,000	1,000	4,000	—	—	—	6,000	—	—	—	—	—	—	—	—	—
Loaders	WA1200/L1350	—	—	—	4,200	—	—	—	—	—	—	—	—	—	—	—	—	—	8,400	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dozers	D10T	—	—	—	4,400	—	2,200	—	2,200	4,400	—	—	2,200	—	2,200	—	2,200	—	4,400	—	—	2,200	—	2,200	—	—	2,200	—	—	—	—	—	—
Graders	24M	—	—	—	4,400	—	—	4,400	—	—	—	—	—	—	—	4,400	—	—	—	—	—	—	—	4,400	—	—	—	—	—	—	—	—	—
RTD	CAT 834	800	—	800	—	800	800	800	—	—	—	—	800	800	—	—	—	—	—	800	800	—	—	—	—	—	800	—	—	—	—	—	—
Water Truck	CAT 777	1,300	—	1,300	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal Surface Equipment Capital		2,100	45,350	16,275	83,875	103,025	36,075	12,200	7,200	11,400	—	—	15,800	13,800	93,250	9,900	2,200	40,350	32,700	4,800	9,300	2,200	—	12,600	—	—	8,500	—	28,500	—	—	—	—
Other Equipment and Mine Expansion																																	
Roads		1,000	10,000	5,000	—	5,000	—	—	—	—	10,000	5,000	—	—	—	—	15,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Surface Mine Development and Pre-Strip		2,000	5,000	2,500	2,500	2,500	4,000	5,000	2,500	5,000	4,000	7,500	—	—	—	—	5,000	—	—	—	—	2,500	—	—	—	—	—	—	—	—	—	—	—
Underground Equipment		570	780	2,300	2,080	1,720	2,920	2,890	2,920	2,830	2,920	2,590	1,120	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Underground Mine Development		1,000	5,000	—	—	—	—	2,000	2,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Plant — New Plant		—	—	—	5,000	30,000	5,000	2,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Plant — Other Plant		6,000	12,500	3,000	2,000	—	—	1,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	7,000	3,000	3,000	3,000	3,000	2,000	5,000	2,000	2,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000
Infrastructure		2,000	10,000	10,000	—	15,000	5,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other/Contingency		—	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	2,600	2,600	2,600	2,600	2,600	1,700	1,700	1,700	1,700	1,700	700	700	700	700	700	700	700
Subtotal Other Capital		12,570	46,780	26,300	15,080	57,720	20,420	16,390	13,920	14,330	23,420	21,590	7,620	6,500	6,500	6,500	25,600	9,600	5,600	5,600	5,600	7,200	3,700	6,700	3,700	3,700	2,700	2,700	2,700	1,700	1,700	1,700	1,700
TOTAL CAPITAL EXPENDITURES		14,670	92,130	42,575	98,955	160,745	56,495	28,590	21,120	25,730	23,420	21,590	23,420	20,300	99,750	16,400	27,800	49,950	38,300	10,400	14,900	9,400	3,700	19,300	3,700	3,700	11,200	2,700	31,200	1,700	1,700	1,700	1,700
Escalation Factor	2%	—	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Total Capital Escalated		14,670	93,973	44,295	105,012	173,996	62,375	32,197	24,260	30,147	27,989	26,318	29,120	25,745	129,037	21,639	37,415	68,571	53,629	14,854	21,706	13,968	5,608	29,837	5,835	5,951	18,375	4,518	53,255	2,960	3,019	3,079	3,141
Total Capital Escalated																																	
Surface Equipment Capital		2,100	46,257	16,933	89,009	111,518	39,830	13,739	8,271	13,357	—	—	19,645	17,502	120,629	13,063	2,961	55,392	45,788	6,856	13,548	3,269	—	19,479	—	—	13,945	—	48,646	—	—	—	—
Roads		1,000	10,200	5,202	—	5,412	—	—	—	—	11,951	6,095	—	—	—	—	20,188	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Surface Mine Development and Pre-Strip		2,000	5,100	2,601	2,653	2,706	4,416	5,631	2,872	5,858	4,780	9,142	—	—	—	—	6,729	—	—	—	—	3,715	—	—	—	—	—	—	—	—	—	—	—
Underground Equipment		570	796	2,393	2,207	1,862	3,224	3,255	3,354	3,316	3,490	3,157	1,393	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Underground Mine Development		1,000	5,100	—	—	—	—	2,252	2,297	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Plant — New Plant		—	—	—	5,306	32,473	5,520	2,252	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Plant — Other Plant		6,000	12,750	3,121	2,122	—	—	1,126	3,446	3,515	3,585	3,657	3,730	3,805	3,881	3,958	4,038	9,609	4,201	4,285	4,370	4,458	3,031	7,730	3,154	3,217	3,281	3,347	3,414	1,741	1,776	1,811	1,848
Infrastructure		2,000	10,200	10,404	—	16,236	5,520	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other/Contingency		—	3,570	3,641	3,714	3,789	3,864	3,942	4,020	4,101	4,183	4,266	4,352	4,439	4,528	4,618	3,499	3,569	3,641	3,713	3,788	2,526	2,577	2,628	2,681	2,734	1,148	1,171	1,195	1,219	1,243	1,268	1,293
Total Capital Escalated		**14,670**	**93,973**	**44,295**	**105,012**	**173,996**	**62,375**	**32,197**	**24,260**	**30,147**	**27,989**	**26,318**	**29,120**	**25,745**	**129,037**	**21,639**	**37,415**	**68,571**	**53,629**	**14,854**	**21,706**	**13,968**	**5,608**	**29,837**	**5,835**	**5,951**	**18,375**	**4,518**	**53,255**	**2,960**	**3,019**	**3,079**	**3,141**

* *Months, November 2011 through March 2012.*

TABLE 3.3

ESTIMATED ANNUAL REVENUE
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
February 2012

| | | FISCAL YEAR | | |

TABLE 3.4

ESTIMATED CASH COST OF OPERATIONS
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
February 2012

	FISCAL YEAR																																
Mine Category	**2012 ***	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**	**2041**	**2042**	**2043**
Production (000 — tonnes)																																	
ROM Surface	719	2,357	3,084	3,152	3,272	2,982	3,961	3,816	4,630	3,539	3,201	4,603	4,969	5,166	3,197	3,173	3,386	5,750	6,066	5,358	5,207	3,835	3,450	3,145	3,621	5,139	3,747	1,583	1,426	1,469	2,800	4,616
ROM Surface — Thermal By-Product	16	123	23	73	139	82	85	88	160	336	197	138	171	221	220	227	301	266	145	121	60	236	200	217	154	112	47	46	127	36	28	—
ROM Underground	255	346	741	670	556	941	931	941	912	941	836	361	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total ROM Production	991	2,825	3,848	3,894	3,967	4,004	4,977	4,844	5,702	4,815	4,234	5,102	5,140	5,387	3,417	3,400	3,687	6,016	6,211	5,479	5,267	4,071	3,650	3,362	3,775	5,251	3,794	1,629	1,553	1,505	2,828	4,616
Total Raw Plant Feed (after breaker)	920	2,550	3,597	3,597	3,609	3,679	4,605	4,487	5,249	4,255	3,835	4,716	4,721	4,908	3,038	3,014	3,217	5,463	5,763	5,091	4,947	3,643	3,278	2,988	3,440	4,882	3,559	1,504	1,355	1,395	2,660	4,385
Total Product (000 — tonnes)	643	1,832	2,503	2,660	2,921	2,853	3,512	3,495	4,430	3,584	3,086	3,586	3,533	4,127	2,492	2,457	2,682	4,149	4,372	4,007	3,532	2,955	2,765	2,423	2,775	3,905	2,684	1,155	1,039	1,049	1,870	3,292
	Cash Cost of Operations (C$ — 000) — Constant Dollars																																
Surface Mining																																	
Drilling	1,028	3,527	3,862	6,133	7,555	7,574	7,574	7,362	5,363	7,334	7,334	6,740	6,354	6,019	5,438	6,481	6,567	5,231	2,998	3,222	1,789	3,854	3,896	3,900	4,441	3,525	2,397	2,728	2,735	2,728	2,728	2,461
Blasting	3,404	10,143	11,108	13,031	16,053	16,092	16,092	15,643	11,395	15,583	15,583	14,320	13,501	12,789	11,555	13,770	13,953	11,114	6,369	6,846	3,800	8,188	8,277	8,287	9,435	7,491	5,093	5,796	5,812	5,796	5,796	5,229
Waste Loading	3,996	11,717	13,005	16,000	19,411	19,542	19,542	18,875	13,225	18,873	18,561	16,594	15,598	14,810	13,413	15,895	16,098	12,887	7,377	7,905	4,401	9,467	9,606	9,621	11,410	8,618	5,901	6,723	6,742	6,723	6,723	6,060
Waste Haulage	18,601	50,262	56,679	86,163	121,670	136,013	124,523	118,289	84,105	90,748	91,840	73,606	58,107	56,392	48,973	64,394	74,419	54,566	29,540	30,019	16,627	45,288	46,730	41,787	45,827	31,270	27,964	33,996	27,393	25,875	24,965	20,540
Coal Loading	303	959	1,274	1,173	1,273	1,058	1,472	1,386	1,975	1,420	1,176	1,877	2,143	2,325	1,382	1,266	1,488	2,630	2,676	2,211	2,043	1,458	1,278	1,170	1,309	2,175	1,666	564	566	511	1,032	1,630
Coal Haulage & Forwarding	9,747	25,294	37,555	39,388	40,757	44,276	60,859	68,316	79,484	65,792	59,759	76,099	83,868	99,761	59,243	61,209	62,008	106,667	122,312	107,664	109,185	80,407	72,346	65,957	75,938	105,758	77,143	32,600	29,361	30,236	57,648	95,036
Aux. Equipment	7,820	14,684	16,568	20,746	25,096	26,091	26,157	25,687	20,113	24,378	36,580	34,755	33,514	33,581	30,349	35,497	36,333	35,354	31,091	30,763	28,095	31,574	31,346	30,784	32,948	31,232	28,098	26,769	26,318	26,201	27,471	28,531
Support and Other	6,735	17,488	21,008	27,395	34,772	37,597	38,433	38,334	32,349	33,619	34,625	33,598	31,963	33,851	25,553	29,777	31,630	34,267	30,354	28,295	24,891	27,035	26,021	24,226	27,196	28,510	22,239	16,376	14,839	14,710	18,954	23,923
Subtotal Surface Mining Cost	51,634	134,074	161,059	210,027	266,589	288,244	294,652	293,892	248,008	257,748	265,458	257,588	245,048	259,528	195,905	228,287	242,496	262,717	232,716	216,925	190,829	207,272	199,498	185,733	208,504	218,579	170,499	125,553	113,766	112,780	145,317	183,409
(C$/bcm)	4.77	4.14	4.49	5.03	5.23	5.67	5.71	5.86	6.56	5.18	5.36	5.52	5.51	6.12	5.25	5.19	5.43	6.95	9.85	8.83	12.53	7.52	7.24	6.79	6.69	8.29	9.42	6.72	6.11	6.06	7.43	9.58
C$/ROM Surface Tonnes	70.22	54.07	51.84	65.13	78.15	94.09	72.83	75.29	51.78	66.52	78.13	54.33	47.67	48.18	57.33	67.15	65.77	43.67	37.47	39.59	36.23	50.92	54.66	55.24	55.23	41.63	44.94	77.06	73.26	74.96	51.39	39.74
Other Operations and Mine Related Costs																																	
Underground Mining	8,076	15,392	25,673	24,390	22,338	29,597	29,628	30,632	30,689	31,886	25,437	10,220	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Processing	16,493	40,175	40,176	40,177	40,262	24,716	28,422	27,948	30,996	27,021	25,340	28,865	28,883	29,631	22,150	22,057	22,868	31,851	33,052	30,362	29,787	24,571	23,110	21,953	23,761	29,528	24,237	16,017	15,419	15,580	20,639	27,540
General & Administration — On Site	6,250	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Royalties (First Tier Only)	1,432	3,605	4,533	4,453	4,625	4,663	5,827	5,912	7,401	5,294	4,603	5,298	5,553	6,277	3,985	3,781	4,597	7,571	7,135	6,676	5,840	4,809	4,695	3,976	4,939	7,096	4,944	2,144	1,817	1,991	3,706	6,733
Subtotal Other Cost of Operations	32,250	74,172	85,382	84,021	82,225	73,975	78,877	79,491	84,085	79,201	70,380	59,383	49,436	50,908	41,135	40,838	42,465	54,422	55,188	52,039	50,627	44,380	42,805	40,928	43,701	51,625	44,181	33,161	32,236	32,572	39,346	49,273
Total Cash Operating Cost	83,884	208,246	246,440	294,048	348,814	362,219	373,529	373,383	332,093	336,949	335,838	316,970	294,484	310,436	237,041	269,125	284,961	317,139	287,903	268,964	241,456	251,652	242,303	226,661	252,204	270,204	214,681	158,714	146,003	145,352	184,663	232,682
Total Cash Operating Cost (C$ per ROM tonne)	84.67	73.71	64.05	75.51	87.93	90.46	75.05	77.08	58.24	69.98	79.32	62.12	57.29	57.63	69.36	79.16	77.28	52.71	46.35	49.09	45.84	61.82	66.38	67.41	66.80	51.46	56.59	97.41	94.01	96.61	65.30	50.41
Total Cash Operating Cost (C$ per ROM tonne)	**130.46**	**113.65**	**98.45**	**110.55**	**119.40**	**126.96**	**106.35**	**106.83**	**74.97**	**94.00**	**108.84**	**88.40**	**83.36**	**75.23**	**95.12**	**109.54**	**106.27**	**76.45**	**65.86**	**67.12**	**68.36**	**85.16**	**87.63**	**93.53**	**90.88**	**69.20**	**80.00**	**137.36**	**140.54**	**138.61**	**98.74**	**70.68**
Distribution Costs **	19,450	59,094	91,992	96,420	105,900	103,426	127,318	128,451	162,796	125,588	110,991	130,979	128,889	149,410	92,678	89,882	96,723	152,672	163,272	152,390	131,577	109,334	103,592	90,230	103,557	145,458	99,966	43,039	38,699	39,061	69,664	122,630
Distribution Costs (C$ per product tonne)	30.25	32.25	36.75	36.25	36.25	36.25	36.25	36.75	36.75	35.04	35.97	36.53	36.49	36.21	37.19	36.59	36.07	36.80	37.35	38.03	37.25	37.00	37.47	37.23	37.32	37.25	37.25	37.25	37.25	37.25	37.25	37.25
TOTAL CASH COST OF OPERATIONS	103,334	267,340	338,432	390,468	454,714	465,644	500,848	501,834	494,889	462,536	446,829	447,949	423,373	459,846	329,719	359,007	381,685	469,811	451,175	421,354	373,033	360,986	345,895	316,891	355,762	415,662	314,647	201,753	184,701	184,413	254,327	355,312
TOTAL CASH COST (C$ per product tonne)	**160.71**	**145.90**	**135.20**	**146.80**	**155.65**	**163.21**	**142.60**	**143.58**	**111.72**	**129.04**	**144.81**	**124.92**	**119.85**	**111.43**	**132.31**	**146.13**	**142.33**	**113.25**	**103.20**	**105.15**	**105.61**	**122.15**	**125.10**	**130.77**	**128.20**	**106.45**	**117.25**	**174.61**	**177.79**	**175.86**	**135.99**	**107.93**
Capital Expenditures	**14,670**	**92,130**	**42,575**	**98,955**	**160,745**	**56,495**	**28,590**	**21,120**	**25,730**	**23,420**	**21,590**	**23,420**	**20,300**	**99,750**	**16,400**	**27,800**	**49,950**	**38,300**	**10,400**	**14,900**	**9,400**	**3,700**	**19,300**	**3,700**	**3,700**	**11,200**	**2,700**	**31,200**	**1,700**	**1,700**	**1,700**	**1,700**
Capital Expenditures — Escalated	**14,670**	**93,973**	**44,295**	**105,012**	**173,996**	**62,375**	**32,197**	**24,260**	**30,147**	**27,989**	**26,318**	**29,120**	**25,745**	**129,037**	**21,639**	**37,415**	**68,571**	**53,629**	**14,854**	**21,706**	**13,968**	**5,608**	**29,837**	**5,835**	**5,951**	**18,375**	**4,518**	**53,255**	**2,960**	**3,019**	**3,079**	**3,141**
Escalation Factor 2%	—	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Total Cash Operating Cost w/o Royalty	82,452	204,641	241,907	289,595	344,189	357,556	367,702	367,471	324,693	331,654	331,235	311,672	288,931	304,159	233,056	265,344	280,364	309,568	280,768	262,287	235,617	246,843	237,608	222,685	247,265	263,107	209,737	156,569	144,185	143,360	180,957	225,949
Escalated Total Cash Operating Cost w/o Royalty	**82,452**	**208,734**	**251,680**	**307,320**	**372,561**	**394,771**	**414,093**	**422,109**	**380,429**	**396,358**	**403,773**	**387,525**	**366,434**	**393,462**	**307,512**	**357,118**	**384,880**	**433,470**	**401,006**	**382,103**	**350,114**	**374,132**	**367,337**	**351,152**	**397,710**	**431,656**	**350,977**	**267,246**	**251,030**	**254,586**	**327,778**	**417,461**

* *5 months, November 2011 through March 2012.*

** *Distribution costs include Rail, Port, Commissions, Testing, Demurrage, and Despatch*

Note: Cash Cost of Operations include mine—site cash cost only and exclude off—site costs, interest (income or expense), etc.

4.0 VALUATION

4.1 Introduction

The assignment of this report is to opine on GCC coal mining and related operations and coal reserve holdings as of 31 October 2011. Our valuation represents the FMV of GCC on an ongoing, debt free basis. Following are the three generally accepted methods for valuing coal and coal-producing assets.

Replacement Cost

Replacement Cost determines the value of the coal asset by first calculating the new cost to replicate the asset to its condition on the Valuation Date, then adjusting plant and equipment to a depreciated replacement value basis. In the case of undeveloped mineral holdings, the new cost would include exploration and mining right fees, exploration, technical studies, and other site development work. Although the Replacement Cost method has application in some situations (i.e., normally when valuing fixed assets and/or undeveloped mineral holdings), it seldom is appropriate when valuing developed or operating coal properties.

Market Transaction/Comparable Sales Method

Market Transaction/Comparable Sales method involves a comparison of the coal or mineral lands under study with transactions involving similar property interests that were sold in the open market. The known comparable sale(s) are, ideally, contemporaneous and include reserves having similar geologic and quality characteristics and are located in the general vicinity of the property being valued. The comparable sales approach, where comparisons are reasonably direct, is an acceptable method of appraisal. If direct comparable sales are not available, data from other mineral property sales can still be valuable to the appraiser. A general review, even though direct comparisons may not be possible, still provides insight into market activity, the number and nature of potential buyers and sellers, the level of market activity, range of prices paid, etc. This information is important in considering how a potential buyer would evaluate a property. The ability to use the Market Transaction method relies on both the availability of recent comparable transactions and an in-depth knowledge of the details of each transaction (e.g., assets conveyed, associated debt and liabilities, structure of payment, etc.).

Income Method

Income method uses a DCF operational analysis to estimate the NPV of projected cash flow of the existing or planned mining operation. In the case of an operating mining business, such as GCC, the annual revenues and expenses are estimated for the mine over its remaining operating life, given realistic assumptions regarding mining plans, markets, etc.

The revenues, less capital expenditures and operating costs, derive the net cash flow from the property on a pre-tax basis. Deducting income taxes results in an after tax free cash flow estimate. When the projected annual free cash flows are discounted at an appropriate rate, it will yield the NPV amount a willing buyer would pay for the business, including reserves, equipment and facilities, sales agreements, and other assets incorporated into the cash flow model.

4.2 Valuation Method Selected

Our expert opinion of Market Value considers both the DCF-NPV and Market/Comparable Sale methods. All procedures used in this VR are considered to be in accordance with VALMIN and the associated definition of FMV.

The Income Method of mineral valuation is used in this report based on the fact GCC is an operating coal mining company generating substantial cash flow, and controlling necessary coal reserves to sustain the business for an extended period Our valuation opinion is based on a site (mine) specific analysis of each operation's projected cost over its remaining mine life. Only JORC qualified reserves (i.e., sufficiently explored to be classified as either Proven Reserve or Probable Reserve) are included under mine plan and cash flow projections used in this report. Reliability of forward mine plans (production and economics) is considered low to moderate risk. Results of the DCF-NPV analysis are considered to be a Technical Value determination.

To better assess Market Value, we have also completed a comparative analysis of the Winsway/ GCC transaction with the similar sale of Western Coal Corporation (WCC) to Walter Energy, Inc. in April 2011 (Section 4.7).

As a point of reference, the GCC stock capitalization as of October 28, 2011, totaled C$577 million. In comparison to the Winsway acquisition price of C$985 million, there is a 70% premium being paid. In the acquisition of a public stock company, it is common practice that the acquiring party pay a premium to create an incentive for the stockholders to sell. Comparing the share price paid by Walter Energy to acquire WCC (C$11.50/share), with prices in effect prior to the announced acquisition (i.e., $4.15/share to $5.92/share [low to high] in September 2010 and $5.83/share to $7.27/ share in October 2010), Walter Energy paid a share premium of between 37% and 64%.

4.3 Technical Value Determination Procedure

As shown in Chapter 3 of this report (and detailed in the separate independent CPR also prepared by BOYD), we have developed LOM plans for each mine that provide the foundation of the cash flow projections. Level of study of the LOM plans is considered to vary from Feasibility to Prefeasibility, depending on the individual mine block (area).

The following valuation parameters and assumptions are used to develop our base Technical Value:

1. Annual coal production, operating cost, and capital expenditures are derived from the LOM plan (developed by BOYD) for each mine. A summary of BOYD's LOM plan is shown in Tables 3.1 through 3.4, in the preceding chapter.

2. As directed by Winsway, BOYD has used forward coal price assumptions, as prepared by Wood Mackenzie, in preparing our cash flow estimates and projections.

3. All costs are expressed in nominal Canadian dollar values.

4. Annual cash flow projections are calculated on both a pre-tax and an after-tax basis, with annual capital expenditures deducted in the year incurred. Taxes are calculated by BOYD based on interpretation of Canadian tax regulations applicable to GCC.

The following provides our basis for income tax calculations:

1. Canadian Statutory Tax Rates utilized in income tax calculations were:

    a. Federal General Corporate Rate:

        i. Beginning January 1, 2011: 16.5%

        ii. Beginning January 1, 2012: 15.0%

2. The estimated opening tax pools utilized in income tax calculations were as of October 31, 2011, and provided by GCC management.

5. Discounting is completed using a fixed (discount) rate of 10% per annum, applied mid-year. Mid-year discounting is considered to be appropriate because revenues, costs, and cash flows are generated throughout the year.

6. Corporate G&A costs are based on historical costs as detailed in discussions with GCC corporate management.

7. Decommissioning (reclamation/environmental) costs are projected in the last year of mine operation, and costs are estimated in accretion calculations.

8. Capital leases are assumed to be debt and excluded in this valuation.

Occurrences of Proven Reserve and Probable Reserve are comingled, and it is not technically possible to develop mine plans based solely on Proven Reserves.

4.4 Coal Pricing

GCC sells its coal production to a variety of customers. Virtually all coal is dispatched from the mine site rail load-out and transported 1,084 km to the Westshore Terminal near Vancouver, Canada, for export. In order to assess (analyze) the GCC operations on a mine site basis, BOYD requested and received details regarding current and forward rail transport and port handling costs. While we cannot disclose specific information for rail and port costs (due to commercial confidentiality reasons), BOYD did use this information to adjust the FOB Port, Wood Mackenzie forward coal pricing to an FOB, mine basis (i.e., deduct off mine site distribution costs). For valuation purposes we have also assumed an exchange rate parity (US$1.00: C$1.00).

See Table 3.3, in the preceding chapter, for the estimated coal prices, FOB, mine, By-Product type.

Netback FOB mine-gate coal price = coal sale price, FOB Port — off-mine-site distribution cost.

4.5 Base Case Technical Value

As shown on Table 4.1 Independent Valuation, Discounted Cash Flow — Base Case, following this text, GCC Mining and Related Operations, the total Base Technical Value of GCC is C$701 million on a pre-tax basis and C$527 million on an after-tax basis, using a 10% annual discount rate applied to annual cash flow expressed in nominal dollars.

4.6 Sensitivity Analysis of Technical Value

To provide guidance on the probable range in Technical Value, we completed a series of sensitivity DCF-NPV calculations using the following variables to the specified Base Case FMV parameters:

Case		NPV @ 10% (C$ Millions) Pre-Tax	After-Tax
Base Case		701	527
Sensitivities			
Net Realization (1)	+10%	1,127	851
Net Realization (1)	-10%	245	172
Cash Operating Cost (2)	+10%	392	285
Cash Operating Cost (2)	-10%	994	751
CAPEX	+10%	651	486
CAPEX	-10%	749	567

(1) Gross revenue less distribution cost.

(2) Includes surface mining, underground mining, processing, and on-site G&A cash costs. Excludes off-site G&A.

Variations of up to +/– 10% is commonly used in valuation sensitivity analyses and informs the reader of the material effect on value when key drivers vary by 10%, which is considered a reasonable bracket for a status quo ongoing mining operation.

4.7 Comparable Sale (Market Approach)

4.7.1 Walter Energy, Inc. Acquisition of Western Coal Corp (WCC).

On 1 April 2011, Walter Energy, Inc (Walter) completed the stock purchase of WCC. While WCC holdings included smaller, secondary mining operations and coal reserve holdings in West Virginia (US) and Wales (United Kingdom), the primary asset acquired was the WCC mining and related operations, and coal holdings, located in northern British Columbia (Canada). The principal coal product produced by WCC was coking coal for a sale into the export markets. Walter's financial statement for the WCC transaction reports a total consideration of US$3,746,202,000. Estimated WCC 2011 coal production was 5.1 Mtpa and reported coal reserves totaled an estimated 147.1 Mt on a product coal basis.

4.7.2 Comparison to GCC

The table below provides comparative metrics of the Walter/WCC and Winsway — Marubeni/GCC transactions:

	Transaction	
	WCC*	**GCC**
Reported		
Total Consideration (US$ millions)	3,746	985
Annual Production — 2011 (tonnes-millions)		
Coking/PCI	3.9e	1.44
Thermal	1.5e	0.23
Total	5.4e	1.67
Reserves — Product Coal (tonnes-millions)		
Coking/PCI	105.2e	88.1
Thermal	41.9e	—
Total	147.1e	88.1
Valuation Metrics/Benchmarks		
US$/Tonne of Annual Production		
Coking/PCI Only	960	684
Total Produciton	694	590
US$/Tonne of Reserve		
Coking/PCI Only	35.61	11.18
Total Reserve	25.49	11.18

e = estimated (WCC reports annual production in Canada and all reserves on a ROM basis; numbers shown are on a product basis and are estimated by BOYD based on our review of underlying NI 43-101 WCC reports and our industry knowledge). BOYD took into consideration that ROM mined in some areas of WCC is washed, and/or sold on a raw basis.

* *Source:* Walter Energy, Inc. website: (Legacy Western Coal Corp Press Releases).

If the valuation metrics of the WCC transaction are applied to the GCC annual production and reserves, the value of GCC is between US$1.16 and over US$3 billion.

	Tonnes (millions)	**Metric (US$/tonne)**	**Valuation (US$-millions)**
Reserves			
PCI/Coking	88.1	35.61	3,137
Total	88.1	25.49	2,246
Annual Production			
PCI/Coking	1.44	960	1,382
Total	1.67	694	1,159

We consider the indicated values associated with the reserve metric to be unrealistic.

Specifically, the WCC transaction provides an excellent "comparable sale" for our use in the valuation of GCC. In effect, WCC is simply a larger version of GCC since both companies are actively mining, use the same mining methods, produce the same qualities of coals, operate in similar geologic formations, and both are located in the Rocky Mountain foothills. In addition, both sales are contemporaneous.

4.7.3 Other Valuation Considerations

Based on WCC benchmark metrics, the Comparable Sales based value of GCC could range from $1,159M to $3,137M. BOYD eliminates the two high end values and concludes the appropriate comparable sale value is $1.2 billion. Deducting Technical Value ($527M), the potential premium is $673, which BOYD concludes is excessive. In our expert judgment, we reduced the assigned premium to $333M (approximately 50% of potential premium).

Use of the Comparable Sale reserve metric (benchmark) base on unit value ($/tonne reserve) resulted in a value range of $2,246M to $3,137M — which BOYD concluded was not reasonable based on a Technical Value multiple. This elevated Comparable Sale Value(s) — based on reserve metric — is attributed to the difference in ratio of annual production to total reserve (i.e., WCC @ 27.2 versus GCC @ 52.8). BOYD's approach substantially lowers our FMV conclusion ($860M) below the indicative Comparable Sales Values.

The probable range represents the Technical Value ($527M), without any premium, and the BOYD opinion of an appropriate value based solely on Comparable Sale ($1,200M). In our opinion, these are reasonable brackets (ranges) to use in this case.

4.8 Fair Market Value Opinion

To arrive at our independent expert opinion of Fair Market Value, we initially developed LOM projections for the defined coal reserves and completed a DCF-NPV analysis (as presented in Sections 4.3 to 4.6) to develop a base case DCF-NPV value of C$527 million on an after-tax basis. Nomenclature used by VALMIN classifies this as the Technical Value since this DCF analysis does not consider the premium currently applicable for western Canadian coking coal mining companies. Based on comparable sales, the value of GCC is between C$1,159 and C$1,382 million.

Considering both valuation methods and the current market environment for western Canadian coking coal properties, we (Mr. Lewis and BOYD) conclude the Fair Market Value of GCC is C$860 million (preferred value), with a probable range of between C$527 and C$1,200 million.

Following this page is Table 4.1, Independent Technical Value Discounted Cash flow — Base Case.

TABLE 4.1

INDEPENDENT TECHNICAL VALUE DISCOUNTED CASH FLOW — BASE CASE
GRANDE CACHE COAL CORPORATION
Alberta, Canada
Prepared for
WINSWAY COKING COAL HOLDINGS LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
February 2012

	FISCAL YEAR — (C$000, UNLESS OTHERWISE NOTED)																														
	2012*	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Total Production — (000's tonnes)	643	1,832	2,503	2,660	2,921	2,853	3,512	3,495	4,430	3,464	3,105	3,664	3,556	4,122	2,488	2,446	2,597	4,099	4,443	4,091	3,532	2,935	2,781	2,422	2,780	3,905	2,684	1,155	1,039	1,049	1,870	3,292
Total Gross Revenue	162,647	420,796	548,987	547,670	577,176	580,445	726,059	738,725	930,809	679,497	595,595	692,672	718,782	821,007	520,807	499,100	592,506	970,859	946,704	889,629	779,512	646,582	629,641	539,840	660,501	948,283	661,682	287,876	249,111	268,494	496,829	899,896
Total Distribution Cost — Escalated	(19,450)	(60,276)	(95,708)	(102,322)	(114,630)	(114,190)	(143,381)	(147,550)	(190,741)	(150,089)	(135,298)	(162,856)	(163,463)	(193,277)	(122,287)	(120,969)	(132,781)	(213,778)	(233,192)	(222,003)	(195,516)	(165,715)	(160,151)	(142,283)	(166,565)	(238,639)	(167,285)	(73,464)	(67,375)	(69,366)	(126,186)	(226,569)
FOB, Mine Revenue, Nominal	143,196	360,520	453,279	445,348	462,546	466,254	582,678	591,175	740,068	529,408	460,297	529,815	555,319	627,730	398,520	378,131	459,725	757,081	713,512	667,626	583,996	480,867	469,490	397,557	493,935	709,643	494,397	214,413	181,735	199,128	370,643	673,327
Cash Operating Cost — Escalated	(82,452)	(208,734)	(251,680)	(307,320)	(372,561)	(394,771)	(414,093)	(422,109)	(380,429)	(396,358)	(403,773)	(387,525)	(366,434)	(393,462)	(307,512)	(357,118)	(384,880)	(433,470)	(401,006)	(382,103)	(350,114)	(374,132)	(367,337)	(351,152)	(397,710)	(431,656)	(350,977)	(267,246)	(251,030)	(254,586)	(327,778)	(417,461)
Other Costs																																
Off-Site G&A Cost — Escalated	(5,000)	(12,362)	(12,736)	(13,120)	(13,517)	(13,925)	(14,345)	(14,779)	(15,225)	(15,685)	(16,158)	(16,646)	(17,149)	(17,667)	(18,200)	(18,750)	(19,316)	(19,900)	(20,501)	(21,120)	(21,758)	(22,415)	(23,092)	(23,789)	(24,507)	(25,248)	(26,010)	(26,530)	(27,061)	(27,602)	(28,154)	(28,717)
1st Tier Royalty Payment	(1,432)	(3,605)	(4,533)	(4,453)	(4,625)	(4,663)	(5,827)	(5,912)	(7,401)	(5,294)	(4,603)	(5,298)	(5,553)	(6,277)	(3,985)	(3,781)	(4,597)	(7,571)	(7,135)	(6,676)	(5,840)	(4,809)	(4,695)	(3,976)	(4,939)	(7,096)	(4,944)	(2,144)	(1,817)	(1,991)	(3,706)	(6,733)
2nd Tier Royalty Payment	—	—	—	—	—	—	—	—	—	—	—	(3,074)	(15,723)	(7,749)	(4,502)	—	—	(16,427)	(32,554)	(28,461)	(23,278)	(7,658)	(4,015)	(192)	(5,923)	(27,216)	(12,852)	—	—	—	—	—
Total Cash Operating Cost	(88,884)	(224,702)	(268,949)	(324,894)	(390,703)	(413,358)	(434,265)	(442,800)	(403,055)	(417,337)	(424,534)	(412,544)	(404,859)	(425,155)	(334,200)	(379,650)	(408,793)	(477,367)	(461,196)	(438,360)	(400,990)	(409,013)	(399,139)	(379,109)	(433,080)	(491,215)	(394,783)	(295,921)	(279,908)	(284,179)	(359,638)	(452,911)
Total Cash Operating Cost — (C$/t)	138.24	122.63	107.44	122.15	133.74	144.88	123.64	126.69	90.99	120.46	136.74	112.60	113.87	103.15	134.32	155.23	157.43	116.47	103.81	107.15	113.52	139.35	143.52	156.51	155.78	125.79	147.11	256.11	269.43	271.00	192.30	137.58
Total Cash Cost of Operations	(108,334)	(284,977)	(364,657)	(427,216)	(505,333)	(527,549)	(577,646)	(590,349)	(593,796)	(567,426)	(559,832)	(575,400)	(568,321)	(618,432)	(456,487)	(500,619)	(541,574)	(691,144)	(694,389)	(660,364)	(596,505)	(574,727)	(559,290)	(521,392)	(599,646)	(729,855)	(562,068)	(369,384)	(347,284)	(353,545)	(485,824)	(679,480)
Total Cash Cost of Operations (C$/t)	168.49	155.52	145.68	160.62	172.98	184.90	164.47	168.90	134.05	163.78	180.32	157.05	159.84	150.04	183.47	204.69	208.57	168.63	156.30	161.42	168.87	195.81	201.11	215.25	215.70	186.91	209.44	319.70	334.28	337.15	259.78	206.40
EBITDA	54,312	135,819	184,330	120,454	71,843	52,896	148,413	148,376	337,013	112,071	35,763	117,272	150,460	202,575	64,320	(1,519)	50,932	279,714	252,315	229,266	183,006	71,855	70,351	18,448	60,855	218,428	99,614	(81,508)	(98,173)	(85,051)	11,005	220,416
Capital Expenditures (Escalated)	(14,670)	(93,973)	(44,295)	(105,012)	(173,996)	(62,375)	(32,197)	(24,260)	(30,147)	(27,989)	(26,318)	(29,120)	(25,745)	(129,037)	(21,639)	(37,415)	(68,571)	(53,629)	(14,854)	(21,706)	(13,968)	(5,608)	(29,837)	(5,835)	(5,951)	(18,375)	(4,518)	(53,255)	(2,960)	(3,019)	(3,079)	(3,141)
Reclamation (Restricted Cash, Escalated)	(321)	(934)	(1,303)	(1,411)	(1,581)	(1,576)	(1,978)	(2,008)	(2,595)	(2,070)	(1,892)	(2,278)	(2,255)	(2,666)	(1,641)	(1,646)	(1,782)	(2,869)	(3,172)	(2,981)	(2,624)	(2,225)	(2,149)	(1,910)	(2,236)	(3,202)	(2,246)	(987)	(904)	(931)	(1,694)	(3,041)
Cash Tax	—	(6,551)	(33,802)	(17,372)	—	—	(13,246)	(20,078)	(69,149)	(12,499)	—	(17,188)	(29,748)	(39,902)	(3,308)	—	—	(48,865)	(50,841)	(46,989)	(36,217)	(11,009)	(11,258)	—	(9,874)	(50,267)	(20,931)	—	—	—	—	—
Pre tax — NPV																																
EBITDA	54,312	135,819	184,330	120,454	71,843	52,896	148,413	148,376	337,013	112,071	35,763	117,272	150,460	202,575	64,320	(1,519)	50,932	279,714	252,315	229,266	183,006	71,855	70,351	18,448	60,855	218,428	99,614	(81,508)	(98,173)	(85,051)	11,005	220,416
Reclamation — Restricted Cash — Escalated	(321)	(934)	(1,303)	(1,411)	(1,581)	(1,576)	(1,978)	(2,008)	(2,595)	(2,070)	(1,892)	(2,278)	(2,255)	(2,666)	(1,641)	(1,646)	(1,782)	(2,869)	(3,172)	(2,981)	(2,624)	(2,225)	(2,149)	(1,910)	(2,236)	(3,202)	(2,246)	(987)	(904)	(931)	(1,694)	(3,041)
Total Capital Expenditures	(14,670)	(93,973)	(44,295)	(105,012)	(173,996)	(62,375)	(32,197)	(24,260)	(30,147)	(27,989)	(26,318)	(29,120)	(25,745)	(129,037)	(21,639)	(37,415)	(68,571)	(53,629)	(14,854)	(21,706)	(13,968)	(5,608)	(29,837)	(5,835)	(5,951)	(18,375)	(4,518)	(53,255)	(2,960)	(3,019)	(3,079)	(3,141)
Total Pre-Tax Free Cash Flow	39,321	40,912	138,732	14,031	(103,734)	(11,055)	114,239	122,108	304,271	82,012	7,553	85,874	122,460	70,871	41,039	(40,580)	(19,421)	223,216	234,289	204,579	166,414	64,022	38,364	10,704	52,668	196,851	92,850	(135,749)	(102,036)	(89,000)	6,232	214,234
Discounted Pre-Tax Free Cash Flow — (10% DCF)																																
Annual Pre-tax NPV	38,548	37,489	115,569	10,626	(71,417)	(6,919)	64,999	63,160	143,077	35,059	2,935	30,338	39,331	20,693	10,893	(9,792)	(4,260)	44,514	42,475	33,717	24,934	8,720	4,750	1,205	5,390	18,313	7,853	(10,437)	(7,132)	(5,655)	360	11,250
Cumulative Pre-tax NPV	38,548	76,037	191,606	202,232	130,815	123,897	188,896	252,056	395,133	430,191	433,126	463,465	502,795	523,488	534,381	524,589	520,329	564,843	607,318	641,035	665,969	674,689	679,440	680,644	686,034	704,348	712,200	701,763	694,631	688,976	689,336	700,586
Life of Mine Plan — Pre tax NPV FY 2043		700,586																														
After-tax — NPV																																
EBITDA	54,312	135,819	184,330	120,454	71,843	52,896	148,413	148,376	337,013	112,071	35,763	117,272	150,460	202,575	64,320	(1,519)	50,932	279,714	252,315	229,266	183,006	71,855	70,351	18,448	60,855	218,428	99,614	(81,508)	(98,173)	(85,051)	11,005	220,416
Reclamation — Restricted Cash — Escalated	(321)	(934)	(1,303)	(1,411)	(1,581)	(1,576)	(1,978)	(2,008)	(2,595)	(2,070)	(1,892)	(2,278)	(2,255)	(2,666)	(1,641)	(1,646)	(1,782)	(2,869)	(3,172)	(2,981)	(2,624)	(2,225)	(2,149)	(1,910)	(2,236)	(3,202)	(2,246)	(987)	(904)	(931)	(1,694)	(3,041)
Cash Tax	—	(6,551)	(33,802)	(17,372)	—	—	(13,246)	(20,078)	(69,149)	(12,499)	—	(17,188)	(29,748)	(39,902)	(3,308)	—	—	(48,865)	(50,841)	(46,989)	(36,217)	(11,009)	(11,258)	—	(9,874)	(50,267)	(20,931)	—	—	—	—	—
Total Capital Expenditures	(14,670)	(93,973)	(44,295)	(105,012)	(173,996)	(62,375)	(32,197)	(24,260)	(30,147)	(27,989)	(26,318)	(29,120)	(25,745)	(129,037)	(21,639)	(37,415)	(68,571)	(53,629)	(14,854)	(21,706)	(13,968)	(5,608)	(29,837)	(5,835)	(5,951)	(18,375)	(4,518)	(53,255)	(2,960)	(3,019)	(3,079)	(3,141)
Total After Tax Free Cash Flow	39,321	34,360	104,930	(3,341)	(103,734)	(11,055)	100,993	102,030	235,122	69,513	7,553	68,686	92,712	30,970	37,731	(40,580)	(19,421)	174,351	183,448	157,590	130,197	53,013	27,106	10,704	42,794	146,584	71,919	(135,749)	(102,036)	(89,000)	6,232	214,234
Discounted After Tax Free Cash Flow — (10% DCF)																																
Annual After tax NPV	38,548	31,486	87,411	(2,530)	(71,417)	(6,919)	57,463	52,775	110,561	29,715	2,935	24,266	29,776	9,042	10,015	(9,792)	(4,260)	34,769	33,258	25,973	19,507	7,221	3,356	1,205	4,379	13,637	6,083	(10,437)	(7,132)	(5,655)	360	11,250
Cumulative After tax NPV	38,548	70,034	157,445	154,914	83,498	76,579	134,042	186,817	297,378	327,093	330,028	354,294	384,070	393,113	403,127	393,335	389,075	423,845	457,103	483,075	502,583	509,803	513,160	514,365	518,744	532,381	538,464	528,026	520,894	515,239	515,599	526,849
Life of Mine Plan — After tax NPV FY 2043		526,849																														

* *5 months, November 2011 through March 2012*

ATTACHMENT A

CURRICULUM VITAE OF RONALD L. LEWIS

Ronald L. Lewis
Managing Director and COO

Summary of Expertise

Valuation of coal/mineral reserves and operating mining companies with specialized expertise in the areas of coal/mineral reserve estimation, surface and underground mineability analysis, and financial due diligence.

Experience

1971 to Date — John T. Boyd Company, Mining and Geological Consultants.

- Directed an independent feasibility study for developing an underground longwall mining operation in the Pittsburgh Seam. Scope of Work included: confirmation drilling, geologic modeling, reserve estimation, mine layout, mine planning (raw/product coal production, employment, capital cost estimation, and operating cost estimation for a life-of-mine plan), and financial (discounted cash flow) analysis.

- Directed independent valuations of two of the largest US silica sand producers. Each company operated numerous quarries and related processing facilities in multiple states. Annual silica sand production was approximately 6.6 million tons and 3.1 million tons, respectively. Scope of work included audit review of estimated reserves, operations review, asset appraisal, overview of market, discounted cash flow valuation, and limited Phase I environmental audit.

- Directed an independent due diligence review involving the acquisition and merger of three mining companies (divisions) into a nominal 30-million-ton-per-year producer. Properties are located in Central and Northern Appalachia. Scope of work included confirmation of the reasonableness of estimated coal reserves, mining plans, and financial projections.

- With the approval of US Bankruptcy Court, directed an independent review of stone/mineral reserves, asset appraisal, and valuation of a nominal 25 million-ton-per year producer of limestone, lime, industrial sand, and other industrial minerals.

- Directed BOYD's work as the technical and financial advisor to the Unsecured Creditors Committee involved in a Bankruptcy Chapter 11, Central Appalachian coal mining company and land company.

- Directed a three-year assignment providing technical consultation to HMG Department of Trade and Industry (United Kingdom) relative to the privatization of British Coal Corporation (BCC). Scope of services covered BCC's existing underground collieries and opencast mines and included technical assessments of coal reserves and operations (mining conditions, practices and potential for cost reduction, independent mine projections), as well as an overview of marketing.

Experience — Continued

- Provided ongoing technical and financial consultation for senior lender group to a major US coal producer (50 million tons per year) with operations in Central Appalachia, the Midwest, and Colorado. Scope of work included mine/business plan validation, evaluation of strategic operating issues, etc.

- Completed a due diligence study in preparation of syndication of loan for new property acquisition using existing Gulf Coast and Great Plains lignite mines as security.

- Directed on-site inspection and assessment of future mining plan requirements such as production forecasts, capital expenditures, and operating cost estimates by year for a 20-year plan. Also included in the overall scope of work were coal reserve estimation, asset appraisal, and review of present operations. Eight major Australian surface mines were evaluated; aggregate production was between 25 million and 30 million tons per year. Report was prepared for acquisition of one mining company and consolidation into overall surface coal mining operations.

- Assessed a major US producer of limestone and lime for use by lenders in debt restructuring. The overall scope of work included a review of reserves, mining and lime facilities, development of 10-year business plan, market price forecast, and valuation using a discounted cash flow method.

- Completed a due diligence review of a major nominal 45-million-tons-per-year German brown coal producer as the fuel source for four mine-mouth electricity generating stations. Principal mining equipment included bucket wheel excavators, bucket chain excavators, and overburden cross-pit bridges. The overall scope of work included a review of reserves and the existing mining operation, and ultimately, the valuation of the mining company.

- Managed a comprehensive 15-volume study covering design and implementation of an on-site exploration program, geological investigation of the multiple-bedded lignite deposit, assessment of raw and washed coal quality, preliminary mine feasibility of alternative surface and underground mining systems, examination of in-country mining capability and training requirements, analysis of alternative transportation systems, assessment of environmental impact of new coal mine development, and completion of a detailed master mine plan incorporating both modern surface mining and limited mechanization underground mines. Separate cost centers were fully developed for surface mine, underground mine, common facilities, and infrastructure. Annual estimates were prepared for coal production, labor requirements (expatriate and nationals), capital cost, and operating cash cost.

Experience — Continued

- Performed a series of coal reserve studies and accompanying valuations covering approximately one billion tons of coal (20 to 25 properties) located in the eastern United States. Studies were used as a basis for subsequent disposition program.

- Performed an independent technical assessment of an existing opencast coal mine in the Republic of Zambia. Scope of work included technical assessment of all mining, coal handling and processing, and marketing (forecast of future sales), as well as direct on-site assistance with equipment maintenance, coal preparation plant operations, aerial ropeway maintenance, and mine planning.

Foreign Consulting Experience

Australia, Canada, Colombia, Commonwealth of The Bahamas, Germany, Jamaica, Pakistan, Republic of South Africa, Republic of Zambia, Thailand, United Kingdom

Education

1971 B.S.: Civil Engineering, University of Pittsburgh

Registration and Certificates

Registered Professional Mining Engineer — Alabama, Kentucky, Ohio, Pennsylvania, and West Virginia

Certified Member of the American Institute of Minerals Appraisers

Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc.

Publications and Papers

2009 Overview of the Central Appalachian Coal Region, November 8–9; McCloskey US Coal Imports Conference.

2006 US Market Dynamics — Trends in Northern and Central Appalachian Coal Producing Regions, November 29–30; McCloskey US Coal Imports 06 Conference.

2005 Implications of a Bull Market on Reserve Acquisition, September 28; McGuire Woods LLP 2005 Coal Industry Briefing.

2003 Overview of Northern and Central Appalachian Coal Regions, November 12–13; McCloskey US Coal Imports Conference.

2003 Private and Public US Coal Companies, Review and Financing Structure, April 1; The 11th Annual Platts Coal Properties & Investment Conference.

2000 The Ownership Changes in the US Coal Industry and the Effects on the International Coal Market, as presented at the 1st US International Coal Conference, June 12.

Publications and Papers — Continued

1998 Bauxite Mining: A Synergistic Opportunity (for Business and Government); September; 12th International Symposium; International Committee for Study of Bauxites, Alumina and Aluminum (ICSOBA); Delphi, Greece.

1998 Co-author, Due Diligence Requirements for Coal Property Acquisition, March 25; Sixth Annual Coal Outlook Coal Properties Buying and Selling Conference, St. Petersburg, Florida.

1996 "Coal Property Evaluation Factors," presented at the Coal Outlook Seminar Evaluating, Buying & Selling Coal Properties, March 28–29.

1994 "Black Powder — An Explosion in Market Demand," COAL Magazine, September.

1993 Independent Review: 10 Collieries Under Consultation, British Coal Corporation, United Kingdom, March; HMSO ISBN 011 515329 2.

1993 Independent Analysis: 21 Closure Review Collieries, British Coal Corporation, United Kingdom, January; HMSO ISBN 011 514990 2.

1988 RESERVES — The Practical Approach to Determining What You Have, January; Fifteenth Annual West Virginia Mining Symposium.

1986 Lakhra Coal Project Mine Development Plan, February; The First Pakistan National Coal Conference, Sind Province, Pakistan.

Ronald L. Lewis – Chief Operating Officer and Managing Director

Record of Expert Witness Testimony

Date(s) Testimony	Body/Agency Testified Before	Subject of Testimony	Client/Law Firm
2011	Deposition regarding valuation of Jones Fork Complex located in Easton, Kentuckyand rebuttal comments regarding Bishopsite located in southern West Virginia	1. Valuation of assets and liabilities received by KFC/Justice in a 2009 settlement with Consol Energy Inc.	Frost Brown Todd/Justice, et.al.
2011	Three-member arbitration panel convened in Charleston, West Virginia (coal leasedispute).	1. Coal tonnage estimate, probable mining schedule and royalty income value.	Trust of Carl Del Signore/Leo Wm. Dunn, Jr.— P.A.
2010	Deposition regarding valuation of coal underlying a property located in Athens County, Ohio.	1. Coal valuation associated with construction of State Route 33 By-pass	ODOT/Attorney General of Ohio
2009	Hearing testimony regarding mining rights conveyed in deed of coal severance. Court of Common Pleas of Allegheny County, Pennsylvania Civil Div. No. 2008-021518	1. Industry Standard interpretation of mining rights conveyed (owned) by Plaintiff.	Department of Law, County of Allegheny (Pennsylvania)
2009	Trial testimony regarding valuation of 83% interest in Pittsburgh Seam within 16.08-acre tract. Court of Common Pleas of Greene County, Pennsylvania Civil Div. No. A.D. 658-2005	1. Valuation Pittsburgh Seam with underground mining rights.	Dickie, McCamey & Chilcote, P.C. CONSOL Energy Inc.
2007	Deposition regarding alleged damages incurred by Harrison Fuel, Inc. and reasonableness of related coal procurement practices of Allegheny Energy Service Corporation. Circuit Court of Marion County, West Virginia, Civil Action No. 01-C-279. Harrison Fuel, Inc., a West Virginia Corporation, and Jeffery C. Votaw, Plaintiffs v. Allegheny Energy Service Corporation, et al.		Robinson & McElwee, PLLC Dinsmore & Shohl LLP Allegheny Energy Service Corporation
2006	Deposition regarding monetary damages incurred by Drummond Company, Inc. As a result of denial of underground mining rights due to Corridor X taking by the State of Alabama. Case No. CV-2001-0936-JLM & Case No. CV-2003-2403-PR	1. Value of underground mineable coal owned by Drummond and lost as a result of State of Alabama taking for Corridor X including direct taking of owned fee properties and inverse taking of owned mineral only properties.	Starnes & Atchison, LLP/ Drummond Company

Date(s) Testimony	Body/Agency Testified Before	Subject of Testimony	Client/Law Firm
2005	Deposition regarding monetary damages incurred by Drummond Company, Inc. as a Result of Denial of Surface Mining Rightsby United Land and the Unauthorized Removal of Coal.	1. Coal Market Value Related to Unauthorized Coal Removal 2. Lost Profit Due to Loss of Coal Sales Resulting from Denial of Mining Rights	Starnes & Atchison, LLP/ Drummond Company
2005	Deposition regarding value of coal interests of RTG, Inc., et al, lost due to regulatory taking by the state of Ohio	1. Value of lost coal interests	Porter Wright Morris & Arthur LLP/RTG, Inc., et al
2004	Deposition and Testimony regarding value of White Mountain Mining Co., LLC, Raleigh County, WV. US Bankruptcy Court for the Southern District of Western Virginia Chapter 11 — Case No. 02-50480	1. Value of Equity Ownership	Covington & Burling/Congelton LLC
2003	Deposition related to United States District Court for the District of Delaware. Case No. 02-1445-GMS	1. Valuation of Selected Assets of Centennial Resources, Inc.	Skadden, Arps, Meagher & Flom LLP
2003	Deposition regarding value of Surface Mineable Coal/Clay Corridor X Taking Case No. CV2001-36 Drummond Company, Inc. vs State of Alabama	1. Value of Surface Mineable Coal/Clay owned by Drummond and lost as a result of State of Alabama taking for Corridor X Highway, Walker County, Alabama.	Starnes & Atchison LLP/ Drummond Company
2003	Deposition regarding Value of Elk Horn Coal Corporation of Pen Holdings	1. Value and Ability of the reorganized Elk Horn Coal Company to repay the restructured debt to secured and unsecured creditors of Pen Holdings.	Unsecured Creditors Committee of Pen Holdings/Baker, Donelson, Bearman, Caldwell & Berkowitz; Aiken, Gump, Strauss, Hauer & Feld, L.L.P.
2003	Deposition and expert testimony regarding arbitration between Appalachian Mining, Inc./Pittston Coal Sales vs Quintain Resources, Inc. and Orion Power Midwest	1. Force Majeure related to idling MAG Deep Mine (December 1995) and absence of economically mineable coal (June 2001).	Hunton & Williams/Appalachian Mining, Inc.
2002	Deposition related to: Arbitration between CONSOL Energy Inc. and Rowland Land Company regarding Coal Lease	1. Lost Coal Allegation by Lessor	Steptoe & Johnson/CONSOL Energy Inc.

Date(s) Testimony	Body/Agency Testified Before	Subject of Testimony	Client/Law Firm
2002	Deposition and Testimony related to: Pennsylvania Mining Commission Allegheny County Hearing Appraisal of Support Coal Mon Valley Expressway Pennsylvania Turnpike Commission vs Clairton Slag Inc.	1. Valuation of Coal, Pittsburgh Seam	Howard M. Louik, Esq. Clairton Slag, Inc.
2001	Deposition related to: Commonwealth of Kentucky 26th Judicial District Harlan Circuit Court Civil Action No. 00-CI-01015 The Jacobe Company, et al. vs Commonwealth of Kentucky	1. Valuation of No. 14 Coal Seam, Black Mountain area	Commonwealth of Kentucky/ Woodward, Hobson & Fulton, L.L.P.
2000	Expert Testimony — Court of Common Pleas of Allegheny County, Pennsylvania Civil Division No. GD92-8514 Estate of Mike Mazzaro, et al. vs The County of Allegheny	1. Site assessment, Parcel 392, Pittsburgh International Airport	County of Allegheny; Goehring, Rutter & Boehm
1999	Arbitrator Party Arbitrator Charleston, WV	1. Coal lease dispute; Alderson Heirs, Lessor	Arch Coal, Inc. Jackson & Kelly
1999	Deposition related to: Court of Common Pleas of Franklin County, Ohio Charles Geoglein, et al. vs Ohio Department of Transportation Case Number 97CVH10-9174	1. Technical Underground Mineability and Economic Merchantability of No. 8A Coal Seam, Meigs County, Ohio	Ohio Department of Transportation
1997	Testimony related to: Court of Common Pleas, Allegheny County, Pennsylvania	1. Economic mineability of coal and limestone, Pittsburgh International Airport	Goehring, Rutter & Boehm County of Allegheny, Department of Aviation
1997	Deposition related to: Schuylkill Skyport Inn, Inc., et al. vs JohnW. Rich, Jr., et al. Civil Action No. 95-CV-3128 U.S. District Court for the Eastern District of Pennsylvania	1. Rebuttal of Surface Mine Operating Issues	Pelino & Lentz Reading Anthracite Company
1997	Court of Common Pleas Orphans Court No. 63-74-942 Washington County, Pennsylvania	1. Business Prudency of Coal Land Management, Expert Witness Testimony	Robert L. Ceisler, Esq. Paul Ciaffoni Estate
1996	Court of Common Pleas Washington County, Pennsylvania Civil Division	1. Property (Coal) Tax Appeal, Valuation of Coal Holdings	Rose, Schmidt, Hasley & DiSalle, P.C. Kanawha & Hocking Coal & Coke Co.
1996	Board of Viewers Allegheny County, Pennsylvania	1. Mineral occurrence and commercial mineability, Greater Pittsburgh International Airport property 2. Fair Market Value of remaining Pittsburgh Seam coal	County of Allegheny Department of Aviation/ Goehring, Rutter & Boehm

Date(s) Testimony	Body/Agency Testified Before	Subject of Testimony	Client/Law Firm
1995	Deposition related to: Alma Land Company, et al.vs Clipper Coal Corporation, et al.Common wealth of Kentucky Pike Circuit Court Case No. 93-CI-1616	1. Valuation of Lost Business Opportunity	Greenbaum Doll & McDonald PLLC Alma Land Company
1995	Deposition & Trial Testimony Holmes Limestone Companyet al. vs United States of America Case Nos. 5:93 CV 1622, 1623, 1624,1625	1. Definition of coal as it applies to federal excise tax	Buckingham, Doolittle and Burroughs Holmes Limestone Company
1995	Property Tax Appeal Greene County, Pennsylvania	1. Fair Market Value of Undeveloped Pittsburgh Seam Reserves	Pennsylvania Power & Light Company
1995	Property Tax Appeal Washington County, Pennsylvania	1. Fair Market Value of Undeveloped Pittsburgh Seam Reserves	Allegheny Pittsburgh Coal Company
1992	House of Commons Trade and Industry Committee United Kingdom	1. Cost reduction potential of British Coal Corporation's Underground Collieries	Department of Trade and Industry United Kingdom
1991	Wetzel County Tax Appeal Board West Virginia	1. Fair market value of Puckett Investment's coal holdings (Pittsburgh and Sewickley Seams)	Puckett Investment Company & Western Pocahontas Properties, Ltd.
1991	Arbitration Board	1. Opinion on economically recoverable coal as related to existing coal lease	Crowell & Moring/Sahara Coal Company
1989	Wetzel County Tax Appeal Board West Virginia	1. Fair market value of Puckett Investment's coal holdings (Pittsburgh and Sewickley Seams)	Puckett Investment Company
1988	Greene County Court Waynesburg, Pennsylvania	1. Fair market value of Warwick Mine's Sewickley Seam coal reserves (county tax appeal)	Duquesne Light Company
1987	Monongalia County Commissioners	1. Proposed West Virginia State Coal Assessment Regulations	Consolidation Coal Company
1986	Greene County Court Waynesburg, Pennsylvania	1. Fair market value of Sewickley coal seam (county tax appeal)	CNG Coal Company
1982	Federal District Court Pikeville, Kentucky	1. Estimate of recoverable coal reserves — Toptiki Mine 2. Review of previous engineering reports	MAPCO Inc. Coal Division

Date(s) Testimony	Body/Agency Testified Before	Subject of Testimony	Client/Law Firm
1981, 1982, & 1983	Belmont County (Ohio) Court St. Clairsville, Ohio	1. Coal reserve damages resulting from Ohio DOT appropriation of Interstate 470, Tarbet, Dewey, and Flag tracts	Ohio Department of Transportation
1979	Federal Bankruptcy Court Dayton, Ohio	1. Valuation of Consumers Coal Company, Kentucky Prince Coal Company	The Cincinnati Gas & Electric Company
1978	Federal District Court	1. Impact of SMCRA regulations on the surface coal mining industry in Indiana	Indiana Coal Association
1977		1. Coal recovery during surface mining — Howard tract	Falcon Coal Company
1976	Pittsburgh, Pennsylvania	1. Coal damage/mineability of old underground mine workings on Woods Coal Company tract	Pennsylvania Department of Transportation

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST

(a) Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

Name of Directors	Name of corporation	Nature of interest	Aggregate number of Shares or underlying Shares	Approximate percentage of interest in the corporation
Wang Xingchun[(1)]	The Company	Personal interest and interest of controlled corporation	1,852,484,109	49.10%
	Winsway Mongolian Transportation Pte. Ltd.	Beneficial owner	1	10%
Zhu Hongchan[(3)]	The Company	Personal interest	10,345,000	0.27%
Cui Yong[(2)]	The Company	Personal interest and interest of controlled corporation	34,232,000	0.91%
Yasuhisa Yamamoto[(4)]	The Company	Personal Interest	8,469,000	0.22%
Apolonius Struijk[(3)]	The Company	Personal Interest	8,115,000	0.22%
James Downing	The Company	Personal Interest	329,000	0.01%
George Jay Hambro	The Company	Personal Interest	129,000	0.003%

Note:

(1) Mr. Wang indirectly holds the entire issued share capital of Winsway International Petroleum & Chemicals and Winsway Resources Holdings and is deemed to be interested in the 208,106,421 Shares and 1,627,043,688 Shares held by Winsway International Petroleum & Chemicals and Winsway Resources Holdings, respectively. In addition, Mr. Wang holds an option to subscribe for 17,334,000 Shares under the Pre-IPO Option Scheme.

(2) Mr. Cui Yong holds the entire issued share capital of Ray Splendid Limited and is deemed to be interested in the 26,002,000 Shares held by Ray Splendid Limited. In addition, Mr. Cui holds an option to subscribe for 8,230,000 Shares under the Pre-IPO Option Scheme.

(3) Options to subscribe for 10,345,000 Shares and 8,115,000 Shares are held by Ms. Zhu Hongchan and Mr. Apolonius Struijk respectively under the Pre-IPO Option Scheme.

(4) Mr. Yasuhisa Yamamoto holds 400,000 Shares and an option to subscribe for 8,069,000 Shares under the Pre-IPO Option Scheme.

Save as disclosed above, as of the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the Shares or underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to sections 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

(b) **Substantial Shareholders who have interests or short positions which are discloseable under Division 2 and 3 of Part XV of the SFO**

As of the Latest Practicable Date, Shareholders who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Name of Corporation	Nature of interest	Aggregate number of Shares	Approximate percentage of interest in the corporation
Mr. Wang	The Company	Personal interest and interest of controlled corporation	1,852,484,109	49.10%
Winsway Group Holdings Limited	The Company	Interest of controlled corporation	1,835,150,109	48.64%
Winsway Petroleum Holdings Limited	The Company	Interest of controlled corporation	208,106,421	5.52%

Name of Shareholder	Name of Corporation	Nature of interest	Aggregate number of Shares	Approximate percentage of interest in the corporation
Winsway International Petroleum & Chemicals	The Company	Beneficial owner	208,106,421	5.52%
Winsway Resources Holdings	The Company	Beneficial owner	1,627,043,688	43.12%
Peabody Energy	The Company	Beneficial owner	193,363,378	5.12%

Note:

(1) Mr. Wang indirectly holds the entire issued share capital of Winsway International Petroleum & Chemicals and Winsway Resources Holdings and is deemed to be interested in the 208,106,421 Shares and 1,627,043,688 Shares held by Winsway International Petroleum & Chemicals and Winsway Resources Holdings, respectively. In addition, Mr. Wang holds an option to subscribe for 17,334,000 Shares under the Pre-IPO Option Scheme.

(2) Winsway Group Holdings Limited indirectly holds the entire issued share capital of Winsway International Petroleum & Chemicals and directly holds the entire issued share capital of Winsway Resources Holdings and is deemed to be interested in the 208,106,421 Shares and 1,627,043,688 Shares held by Winsway International Petroleum & Chemicals and Winsway Resources Holdings, respectively.

(3) Winsway Petroleum Holdings Limited holds the entire issued share capital of Winsway International Petroleum & Chemicals Limited and is deemed to be interested in the 208,106,421 Shares held by Winsway International Petroleum & Chemicals Limited.

Save as disclosed above, as of the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions representing 5% or more of the issued share capital of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. SHARE OPTIONS

The Company adopted the Pre-IPO Option Scheme before its listing on the Hong Kong Stock Exchange, on 30 June 2010, to recognise the contribution of certain of the Directors and employees of the Company and of its parent company group whom the Board considers to have contributed to the growth of the Group and/or to the listing of Shares of the Company on the Hong Kong Stock Exchange.

According to the rules of the Pre-IPO Option Scheme (the "**Scheme Rules**"), the Pre-IPO Option Scheme shall be valid and effective for a period of 5 years from 30 June 2010 (the "**Adoption Date**"). Options granted under the Pre-IPO Option Scheme will vest every three months over a period of five years commencing from 1 April 2010 (the "**Initial Vesting Date**") in equal portions (5% each) on the first day of each three-month period (a "**Vesting Date**") after the Initial Vesting Date.

Pursuant to the Pre-IPO Option Scheme, options to subscribe for 107,945,000 Shares were granted on 30 June 2010, representing approximately 2.86% of the issued share capital of the Company as of the Latest Practicable Date. Among these options, options to subscribe for 52,093,000 Shares were granted to the Directors. A summary of the movements of the outstanding options up to the Latest Practicable Date were as follows:

Grantee	Options granted as at 30 June 2010	Options exercised during the period	Options lapsed/ cancelled during the period	Options held as of the Latest Practicable Date
Directors				
Wang Xingchun	17,334,000	—	—	17,334,000
Zhu Hongchan	10,345,000	—	—	10,345,000
Cui Yong	8,230,000	—	—	8,230,000
Yasuhisa Yamamoto	8,069,000	—	—	8,069,000
Apolonius Struijk	8,115,000	—	—	8,115,000
Others				
Employees	55,852,000	2,760,337	—	53,091,663
Total	107,945,000	2,760,337	—	105,184,663

Save as disclosed above, as of the Latest Practicable Date, the Company, its holding companies or any of its subsidiaries or fellow subsidiaries, was not a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

4. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service contract with the Company for an initial term of three years commencing from 7 September 2010 and each of the non-executive Directors other than Mr. Delbert Lee Lobb, Jr. entered into a letter of appointment with the Company for an initial term of three years commencing from 7 September 2010. Mr. Delbert Lee Lobb, Jr. entered into a letter of appointment with the Company for an initial term from 16 January 2012 until the next following annual general meeting of the Company in which he will be subject to re-election. Each of the independent non-executive Directors entered into a letter of appointment with the Company for an initial term of three years commencing from the commencing date as set out in the respective letter of appointment.

5. DIRECTORS' INTEREST IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE ENLARGED GROUP

As of the Latest Practicable Date, save as disclosed:

(a) none of the Directors, directly or indirectly, had any interest in any assets which have since 31 December 2010 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors is materially interested in any contract or arrangement subsisting at the dated of this circular which is significant to the business of the Enlarged Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in any business which competes or likely to compete, either directly or indirectly, with our Group.

7. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
KPMG	Certified public accountants
PricewaterhouseCoopers LLP, Calgary, Alberta, Canada	Chartered Accountants
John T. Boyd Company	Independent technical adviser

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report/letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, all the experts above were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Enlarged Group) had been entered into by any member of the Enlarged Group within the two years preceding the Latest Practicable Date:

(a) a subscription agreement dated 30 March 2010 entered into among Winstar, Winsway Resources Holdings, Winsway International Petroleum & Chemicals, the Company, and Mr. Wang pursuant to which the Company issued 363,636,364 redeemable convertible preference shares to Winstar at a consideration of US$60,000,000;

(b) a subscription agreement dated 30 March 2010 entered into among Coppermine Resources Limited ("Coppermine"), Silver Grant International Industries Limited ("Silver Grant"), Winsway Resources Holdings, Winsway International Petroleum & Chemicals, the Company, and Mr. Wang pursuant to which each of Coppermine and Silver Grant subscribed for Convertible Bonds in the principal amount of US$25,000,000 respectively and in aggregate of US$50,000,000;

(c) a share charge over our Shares dated 20 April 2010 executed by Winsway Resources Holdings (as chargor), Winstar (as chargee) and the Company which was released on 24 September 2010;

(d) a share charge over our Shares dated 20 April 2010 executed by Winsway Resources Holdings (as chargor), Silver Grant (as chargee) and the Company which was released on 24 September 2010;

(e) a share charge over our Shares dated 20 April 2010 executed by Winsway Resources Holdings (as chargor), Coppermine (as chargee) and the Company which was released on 24 September 2010;

(f) a subscription agreement dated 22 April 2010 entered into among ITOCHU Corporation, Winsway Resources Holdings, Winsway International Petroleum & Chemicals, the Company, and Mr. Wang pursuant which ITOCHU Corporation subscribed for Convertible Bonds in the principal amount of US$10,000,000;

(g) an equity transfer agreement dated 18 May 2010 entered into between 重慶滙澤石油化工有限公司 (Chongqing Huize Petrochemicals Co., Ltd.*)("Chongqing Huize") and Cheer Top Enterprise Limited ("Cheer Top") pursuant to which Cheer Top acquired 2% equity interest in 北京永暉投資管理有限公司 (Beijing Winsway Investment Management Co., Ltd.*) from Chongqing Huize at a consideration of US$686,078;

(h) an equity transfer agreement dated 20 May 2010 entered into between 浙江誠暉化工有限公司 (Zhejiang Chenghui Chemical Co., Ltd.*) ("Chenghui Chemical") and Inner Mongolia Haotong pursuant to which Inner Mongolia Haotong acquired 99% equity interest in 綏芬河永暉能源有限公司 (Suifenhe Winsway Resources Co., Ltd.*) ("Suifenhe Winsway") from Chenghui Chemical at a consideration of RMB9.9 million;

(i) an equity transfer agreement dated 20 May 2010 entered into between Mr. Li Ming and Inner Mongolia Haotong pursuant to which Inner Mongolia Haotong acquired 1% equity interest in Suifenhe Winsway from Mr. Li Ming at a consideration of RMB0.1 million;

(j) an equity transfer agreement dated 12 May 2010 entered into between Chenghui Chemical and Inner Mongolia Haotong pursuant to which Chenghui Chemical transferred 99% equity interest in 滿洲里浩通能源有限公司 (Manzhouli Haotong Energy Co., Ltd.*) ("Manzhouli Haotong") to Inner Mongolia Haotong at a consideration of RMB9.9 million;

(k) an equity transfer agreement dated 12 May 2010 entered into between Mr. Li Ming and Inner Mongolia Haotong pursuant to which Inner Mongolia Haotong acquired 1% equity interest in Manzhouli Haotong from Mr. Li Ming at a consideration of RMB0.1 million;

(l) an agreement relating to the sale and purchase of 50% of the issued share capital of Peabody-Winsway JV dated 29 June 2010 entered into between Polo Resources Coóperatief and Lucky Colour pursuant to which Lucky Colour acquired 50% interest in Peabody-Winsway JV at a consideration of US$35 million;

(m) a cooperation and facilitation fee agreement dated 29 June 2010 entered into among the Company, Lucky Colour, Peabody Holland and Peabody Energy pursuant to which Peabody Holland agreed to execute the deed of release and termination entered into among Polo Resources Coóperatief, Peabody-Winsway JV, Peabody Holland, Peabody Energy and Polo Resources dated 29 June 2010 and consented to, and waived any and all rights of pre-emption and other restrictions on transfer and rights of veto in respect of the transfer by Polo Resources Coóperatief to Lucky Colour of its 50% interest in Peabody-Winsway JV. The Company agreed to pay to Peabody Energy a facilitation fee of US$10 million upon successful listing of the Company on the Main Board of the Hong Kong Stock Exchange which was satisfied by the issue to Peabody Energy of 20,988,378 Shares on 11 October 2010;

(n) a share pledge over all the shares held by Lucky Colour in Peabody-Winsway JV dated 16 July 2010 executed by Lucky Colour (as pledgor), Peabody Holland (as pledgee), and Peabody-Winsway JV;

(o) a joint venture and shareholders agreement dated 29 June 2010 entered into among Peabody Holland, Lucky Colour and Peabody-Winsway JV in relation to Peabody-Winsway JV;

(p) a deed of guarantee dated 29 June 2010 entered into among the Company (as guarantor), Peabody Holland and Peabody Energy pursuant to which the Company guaranteed full, prompt and complete performance by Lucky Colour and/or its affiliates of all of their respective obligations under or arising out of or in connection with the cooperation and facilitation fee agreement (per (m) above), the share pledge (per (n) above) and the joint venture agreement (per (o) above);

(q) a deed of guarantee dated 29 June 2010 entered into among Peabody Energy (as guarantor), Lucky Colour and the Company pursuant to which Peabody Energy guaranteed full, prompt and complete performance by Peabody Holland and/or its affiliates of all of their respective obligation under or arising out of or in connection with the cooperation and facilitation fee agreement (per (m) above) and the joint venture agreement (per (o) above);

(r) an amended and restated strategic alliance agreement dated 1 September 2010 entered into between Color Future and Moveday pursuant to which Color Future or its designated company shall provide Moveday with a loan for the use by Moveday to purchase vehicles for providing coal transportation service in Mongolia exclusively to Color Future or its designated company during a term of 10 years commencing from 21 December 2009;

(s) a loan agreement dated 10 April 2010 entered into between the Company and Moveday (the "Moveday Loan Agreement") pursuant to which the Company agreed to lend to Moveday up to US$40 million which shall be used exclusively by Moveday for vehicle purchase or lease purposes only. The interest rate for such loan shall be LIBOR+3%. Moveday is obliged to pay off the loan in five years starting from 18 months after the receiving of the loan, with US$8 million per annum and interest payable semi-annually in arrears;

(t) an equity transfer agreement dated 22 July 2010 entered into between Inner Mongolia Haotong and Mongolia Hutie pursuant to which Inner Mongolia Haotong transferred its equity interest in 二連浩特浩通能源有限公司 (Erlianhaote Haotong Energy Co., Ltd.*) to Mongolia Hutie at a consideration of RMB46,735,000;

(u) a supplementary deed dated 15 September 2010 between Moveday and Color Furture pursuant to which Moveday will pay default interest on any overdue principal and/or interest under the Moveday Loan Agreement dated 10 April 2010 between Moveday and Color Future. If Moveday is unable to pay the principal or interest when due, Color Future has the right to set off the transportation service fee which Color Future should pay Moveday for the transportation services provided to Color Future against such overdue amounts;

(v) a supplementary agreement to the agreement related to the sale and purchase of 50% of the issued share capital of Peabody-Polo Resources B.V. (the "JVA") dated 16 September 2010 entered into between Polo Resources Coóperatief, Lucky Colour and Polo Australasia Limited pursuant to which Polo Resources Coóperatief, Lucky Colour and Polo Australasia Limited agree to amend the JVA so that the Company shall pay Polo Resources Coóperatief US$20 million in cash on or before the third business day after the IPO of the Company as settlement of the balance of the consideration payable to Polo Resources Coóperatief;

(w) the Hong Kong Underwriting Agreement (as defined in the Prospectus);

(x) a Non-competition Deed (as defined in the Prospectus);

(y) a deed of indemnity dated 22 September 2010 entered into between the Company and Mr. Wang under which Mr. Wang undertakes to indemnify the Company in respect of certain tax and property-related liabilities for the benefit of the Group as more particularly set out in the Prospectus;

(z) the capital contribution agreement dated 8 January 2011 entered into among the Company and 14 other parties in relation to the establishment of 內蒙古華遠現代物流有限責任公司 (Inner Mongolia Huayuan Logistic Company Limited);

(aa) a purchase agreement dated 1 April 2011 entered into among the Company, Deutsche Bank AG, Singapore Branch, Merrill Lynch International, Goldman Sachs (Asia) L.L.C., ICBC International Capital Limited, and ICBC International Securities Limited relating to the issue of the Notes;

(bb) the Indenture;

(cc) a share charge dated 8 April 2011 entered into between Winsway Coking Coal (HK) Holdings Limited (as chargor) and Deutsche Bank Trust Company Americas (as chargee) pursuant to the Indenture;

(dd) a share charge dated 8 April 2011 entered into between Reach Goal Management Ltd. (as chargor) and Deutsche Bank Trust Company Americas (as chargee) pursuant to the Indenture;

(ee) a share charge dated 8 April 2011 entered into between Cheer Top (as chargor) and Deutsche Bank Trust Company Americas (as chargee) pursuant to the Indenture;

(ff) a share charge dated 8 April 2011 entered into between the Company (as chargor) and Deutsche Bank Trust Company Americas (as chargee) pursuant to the Indenture;

(gg) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as chargee), and Eternal International Logistics Limited (as company) pursuant to the Indenture;

(hh) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as chargee), and Million Super Star Limited (as company) pursuant to the Indenture;

(ii) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as chargee), and More Richway Limited (as company) pursuant to the Indenture;

(jj) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as chargee), and Winsway Coking Coal (HK) Holdings Limited (as company) pursuant to the Indenture;

(kk) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as chargee), and Winsway Coking Coal Logistics Co., Limited (as company) pursuant to the Indenture;

(ll) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as collateral agent) in respect of shares in Winsway Mongolian Transportation Pte., Ltd. pursuant to the Indenture;

(mm) a share charge dated 8 April 2011 entered into among the Company (as chargor), Deutsche Bank Trust Company Americas (as collateral agent) in respect of shares in Winsway Resources Holdings Private Limited pursuant to the Indenture;

(nn) a share charge dated 8 April 2011 entered into among the Company (as mortgagor), Deutsche Bank Trust Company Americas (as mortgagee) in respect of shares in Winsway Australia Pty Ltd pursuant to the Indenture;

(oo) the co-operation agreement dated 25 October 2011 entered into between the Company and Marubeni for the purpose of setting out the terms on which the parties will co-operate in relation to the proposed acquisition of the Target;

(pp) the Arrangement Agreement;

(qq) the Arrangement Execution Agreement;

(rr) the Target Voting Agreements;

(ss) the Winsway Support Agreement;

(tt) the Shareholders Agreement;

(uu) a shareholder protection rights plan agreement dated 27 May 2005 and amended and restated as of 30 June 2011 and 5 August 2011 between the Target and Computershare Trust Corporation of Canada for the purpose of ensuring, to the extent possible, that all the Target Shareholders are treated equally and equitably in connection with any takeover bid for the Target and discouraging discriminatory, coercive or unfair takeovers of the Target; and

(vv) the Facilities Agreement.

Note: The English names of the PRC entities or organisations or individuals mentioned in this circular marked "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, to the best of the Director's knowledge, information and belief and based on information provided by the Target, neither the Target nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors or the Target to be pending or threatened against the Target as at the Latest Practicable Date.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the Company's principal place of the business in Hong Kong at Suite 4602A, Cheung Kong Center, 2 Queen's Road Central, Hong Kong from the date of this circular for a period of 14 days:

(a) the memorandum of association and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(c) the Prospectus;

(d) the published annual report of the Company for the financial year ended 31 December 2010;

(e) the Target's audited consolidated financial statements for the financial years ended 31 March 2009, 31 March 2010 and 31 March 2011 prepared in accordance with Canadian GAAP together with reconciliation notes, and the Target's audited consolidated interim financial statements for the six months ended 30 September, 2011 prepared in accordance with IFRS as set out in Appendix II(A) to this circular;

(f) the report from KPMG in relation to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the Competent Person's Report prepared by the Competent Person as set out in Appendix V to this circular;

(h) the Valuation Report prepared by the Valuer as set out in Appendix VI to this circular;

(i) the letters of consent referred to in the paragraph headed "Qualification and Consents of Experts" in this appendix; and

(j) the service contracts of Directors referred to in the paragraph headed "Directors' Service Contracts" in this appendix.

11. MISCELLANEOUS

(a) The secretary of the Company is Ms. Cao Xinyi, a member of the Hong Kong Institute of Certified Public Accountants;

(b) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

WINSWAY®

WINSWAY COKING COAL HOLDINGS LIMITED
永暉焦煤股份有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1733)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Winsway Coking Coal Holdings Limited (the "Company") will be held at Grand Ballroom — Granville, Lobby level, Conrad, Pacific Place, 88 Queensway, Hong Kong on 28 February 2012 at 9:00 a.m. to consider and, if thought fit, approve the following resolutions as resolutions of members of the Company, with or without amendments:

RESOLUTIONS OF MEMBERS

1. "THAT:

(A) the arrangement agreement dated 31 October 2011 entered into between 1629835 Alberta Ltd. (the "Purchaser"), a non wholly-owned subsidiary of the Company, and Grande Cache Coal Corporation (the "Target") in relation to the acquisition (the "Acquisition") by the Purchaser, by way of a plan of arrangement under the *Business Corporations Act* (Alberta), of all of the outstanding common shares in the Target for C$10.00 per share in cash ("Arrangement Agreement") (a copy of which has been produced to this meeting marked "A" and initialled by the chairman of this meeting for the purpose of identification) and all the transactions contemplated thereunder and agreements entered into by the Company in connection therewith, including but not limited to, the Company's entry into the joint venture with Marubeni Corporation for the formation of the Purchaser for the purpose of the Acquisition and the agreements set out in items (oo) to (tt) and (vv) in the paragraph headed "Material Contracts" in Appendix VII to the circular to shareholders of the Company dated 13 February 2012, be and are hereby confirmed, approved and ratified; and

(B) the directors of the Company be and are hereby authorised, for and on behalf of the Company, to approve, execute, deliver and exercise all documents, and to affix the seal of the Company thereon where required in accordance with the articles of association of the Company, and do all such acts, matters and things as they in their absolute discretion consider necessary, desirable or expedient to carry out and give effect to any or all transactions contemplated, and the exercise or enforcement of rights, under the Arrangement Agreement or documents contemplated thereunder or in connection therewith, and to make and agree such variations to the Arrangement Agreement or documents contemplated thereunder or in connection therewith as they in their absolute discretion may deem necessary, desirable or appropriate and in the interests of the Company."

By Order of the Board of
Winsway Coking Coal Holdings Limited
Wang Xingchun
Chairman

Hong Kong, 13 February 2012

Principal place of business in Hong Kong:
Suite 4602A, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Registered Office:
Akara Bldg.
24 De Castro Street
Wickhams Cay 1
Road Town, Tortola
British Virgin Islands

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. Votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend and vote in his stead.

2. A form of proxy is enclosed. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be duly completed and signed in accordance with the instructions printed thereon and deposited with the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and in such event, that form of proxy shall be deemed to be revoked.

3. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the Company's register of members in respect of the relevant joint holding.

4. As at the date of this notice, the executive directors of the Company are Mr. Wang Xingchun, Ms. Zhu Hongchan, Mr. Yasuhisa Yamamoto, Mr. Apolonius Struijk and Mr. Cui Yong, the non-executive directors of the Company are Mr. Delbert Lee Lobb, Jr., Mr. Liu Qingchun and Mr. Lu Chuan and the independent non-executive directors of the Company are Mr. James Downing, Mr. Ng Yuk Keung, Mr. Wang Wenfu and Mr. George Jay Hambro.