

## **Western Canadian Coal Corp.**

### **Committee of the Board**

#### **Terms of Reference**

##### **Nomination Committee**

The Nomination Committee is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. Prior to making a nomination, the Nomination Committee considers the balance of skills, knowledge and experience on the Board and, in light of this prepares a description of the role and capabilities required for a particular appointment. Taking this into account, the Nomination Committee identifies suitable candidates by considering candidates from a wide range of backgrounds based on merit and against objective criteria and taking care that appointees have enough time to devote to the position. The Nomination Committee may use open advertising or the services of external advisers to facilitate their search.

The Nomination Committee also reviews the structure, size and composition required of the Board compared to its current position and makes recommendations to the Board with regard to any changes. The Nomination Committee gives consideration to succession planning for directors and other senior executives in the course of its work. The Nomination Committee also annually assesses directors and makes recommendations to the Board concerning the re-election of any director at the conclusion of their specified term of office and the continuation in office of any director, having due regard to their performance and ability to continue to contribute to the Board. The Nomination Committee also recommends to the Board individual directors to serve as members or chairs of the Audit Committee and the Compensation Committee and any other committees established by the Board from time to time. The Nomination Committee ensures that new directors are formally advised as to what is expected of them and makes recommendations respecting orientation of new Board members and ongoing education of all Board members.

The Chairman of the Nomination Committee is appointed by the Board. The Nomination Committee meets when and if requested by the Chairman. The Nomination Committee is authorized to seek any information it requires from any employee of the Company and to obtain, at the Company's expense, outside professional advice in order to perform its duties.

During the financial year ended March 31, 2008, the Board of Directors exercised its discretion to consider matters relating to director nominations in meetings of the Board as a whole. Accordingly, the Chairman did not request any separate meetings of the Nomination Committee during that period.

## **Compensation Committee**

The Board has appointed a Compensation Committee with responsibility for determining the compensation of officers within the terms of the framework or broad policy determined and agreed with the Board for that purpose. The Compensation Committee reports formally to the Board making recommendations on individual officer compensation to the Board for its approval.

On an ongoing basis, the Board in consultation with the Compensation Committee considers the adequacy and form of director compensation taking into account the responsibilities and risks involved in being a director. In determining the appropriate level of compensation, the Board considers the types and amounts of compensation paid to directors of comparable public companies.

The terms of reference provide for the Compensation Committee to be made up, as far as practicable, of independent directors. Currently, the Compensation Committee is composed of three members, all of whom are independent directors. To ensure an objective process for determining compensation, the Compensation Committee's terms of reference also provide that no director or officer shall be involved in any decisions as to their own compensation.

The Compensation Committee is also responsible for determining in any year the overall amount of awards, if any, to be made under any share incentive plans and individual awards to executive officers and other senior management; approving the design of, targets for, and total annual payments under any performance related pay schemes; determining policy for, and the scope of, pension arrangements for executive officers and other senior management; reviewing termination arrangements and payments; annually reviewing compensation trends across the Company; overseeing major changes in employee benefit structures; determining policy for authorizing expense claims for executive officers and other senior management; ensuring compliance with regulatory requirements respecting disclosure of compensation; and, selecting and establishing the terms of reference for any compensation consultants retained to advise the Compensation Committee and to obtain current information about compensation in other companies.

The Compensation Committee has authority to commission any reports or surveys which it deems necessary to help it fulfill its obligations.

The Compensation Committee meets at least twice a year and at such other times as required. The Committee is authorized to seek any information it requires from any employee of the Company and to obtain, at the Company's expense, outside professional advice in order to perform its duties.

## **Audit Committee**

### **INTERPRETATION**

Definitions. In this Audit Committee Charter,

“Board” means the Board of Directors of the Company;

“Charter” means this Audit Committee Charter, as it may be amended from time to time;

“Committee” means the Audit Committee of the Company;

“Company” means Western Canadian Coal Corp.;

“NI 52-110” means National Instrument 52-110 – *Audit Committees*; and

“Nominated Adviser” means the nominated adviser of the Company appointed pursuant to the AIM Rules.

Independence. For the purposes of this Charter, a member of the Committee is independent if the member has no direct or indirect material relationship with the Company in accordance with section 1.4 of NI 52-110, which, among other things, provides that a material relationship is a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgement, subject to section 1.4 of NI 52-110.

Financial Literacy. For the purposes of this Charter, an individual is financially literate if, in accordance with NI 52-110, he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

### **OBJECTIVE OF THE AUDIT COMMITTEE CHARTER**

The Company shall have a Committee whose composition, authority and responsibilities shall be as set out in this Charter and as otherwise prescribed by applicable law.

The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through overseeing management’s conduct of the Company’s accounting and financial reporting process and systems of internal accounting and financial controls; selecting, retaining and monitoring the independence and performance of the Company’s external auditor, including overseeing the audits of the Company’s financial statements, and approving any non-audit services; and providing an avenue of communication among the external auditor, management and the Board.

### **MEMBERSHIP AND ATTENDANCE**

The Committee shall be appointed by the Board, on the recommendation of the Nominations Committee, and shall be comprised of at least three members.

Each member of the Committee shall be an independent director of the Company (subject to the exceptions permitted by NI 52-110). The Chairman of the Board shall not be a member of the Committee.

Each member of the Committee shall be financially literate (subject to the exceptions permitted by NI 52-110).

Care should be taken to minimize the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. (It is recommended that, where possible, the Committee Chairman and other members of the Committee should be rotated on a regular basis.) So far as is practicable, no committee member shall also be a member of both the Nomination and Compensation Committees of the Board.

The Board, on the recommendation of the Nomination Committee, shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.

The Committee may ask the Chairman of the Board, Chief Executive Officer, Chief Financial Officer and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.

The Committee shall invite a representative of the external auditor to attend and make presentations at such meetings of the Committee as it considers appropriate. The Committee shall, at least annually, meet separately with each of senior management, the Chief Financial Officer and the external auditor to discuss any matters that the Committee or each of these groups believes should be discussed privately.

#### **SECRETARY OF COMMITTEE**

The Secretary of the Committee shall be the Corporate Secretary of the Company or such other person as nominated by the Board.

#### **QUORUM**

The quorum necessary for the transaction of business shall be a majority. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

The Committee may also act by unanimous written consent of its members.

#### **FREQUENCY OF MEETINGS**

The Committee shall meet at least quarterly and at such other times as the Chairman of the Committee shall require, in particular for the purposes of reviewing the quarterly unaudited financial statements and the year-end audited financial statements of the Company.

Meetings will be arranged to tie in with the publication of the Company's financial statements, allowing at least five working days prior to a Board meeting where accounts or financial statements are to be approved.

Meetings can be requested by the external auditor if they consider one is necessary.

### **NOTICE OF MEETINGS**

Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof.

Notice of a meeting of the Committee may be given orally or by letter, electronic mail, facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting, unless such notice is otherwise waived in writing by all of the members of the Committee. The Committee Chairman shall prepare and circulate an agenda in advance of each meeting.

### **MINUTES OF MEETINGS**

The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to the Chairman and all members of the Board.

### **ANNUAL GENERAL MEETING**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

### **DUTIES**

The Committee should carry out the duties set forth below for the Company, major subsidiary undertakings and the group as a whole, as appropriate. The Committee's principal responsibility is one of oversight. The Company's management is responsible for preparing the Company's financial statements, and the Company's external auditor is responsible for auditing and/or reviewing those financial statements. In carrying out these oversight responsibilities, the Committee is not required to provide any expert or special assurance as to the Company's financial statements or any professional certification as to the external auditor's work.

### **FINANCIAL REPORTING**

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review, if applicable, summary financial statements, significant

financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

The Committee shall:

- (a) gain an understanding of the current areas of greatest financial risk and how management is managing these areas of risk effectively;
- (b) consider with the internal and external auditor any fraud, illegal acts, deficiencies in internal control or other similar issues;
- (c) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
- (d) review any legal matters that could significantly impact the financial statements.

In reviewing the annual financial statements, the Committee shall:

- (a) focus on judgmental areas, for example those involving valuation of assets and liabilities, warranty, product or environmental liability, litigation reserves, and other commitments and contingencies;
- (b) meet with management and the external auditor to review the financial statements and the results of the audit; and
- (c) review the other sections of the Company's annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Company and its operations.

The Committee shall remain briefed on how management develops preliminary announcements, interim financial information, MD&A statements, and analysts' briefings, and the extent to which the external auditor reviews such information.

The Committee shall assess the fairness of the preliminary and interim statements and disclosures, and obtain explanations from management and the internal and external auditor on whether:

- (a) actual financial results for the interim period varied significantly from budgeted or projected results;
- (b) changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Company's operations and financing practices;
- (c) generally accepted accounting principles have been consistently applied;
- (d) there are any actual or proposed changes in accounting or financial reporting practices;
- (e) there are any significant or unusual events or transactions;

- (f) the Company's financial and operating controls are functioning effectively;
- (g) the preliminary announcements and interim financial statements contain adequate and appropriate disclosures; and
- (h) there are any breaches of debt covenants.

The Committee shall review the Company's financial statements, MD&A and annual and interim earnings news releases before the Company publicly discloses them.

The Committee shall be satisfied that adequate procedures are in place for review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than those referred to in section immediately above, and periodically assess the adequacy of such procedures.

The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year to year basis and across the Company/group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the operating and financial review (MD&A) and the corporate governance statement (Management's Responsibility) (insofar as it relates to the audit and risk management).

The Committee shall review the annual financial statements of any pension funds, if applicable, where not reviewed by the Board as a whole.

## **INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS**

The Committee shall evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities.

The Committee shall review annually the adequacy and quality of the Company's financial and accounting staffing, the need for and scope of internal audit reviews, and the plan, budget and the designations of responsibilities for any internal audit.

The Committee shall review the performance and material findings of internal audit reviews.

The Committee shall review annually with the external auditor, any significant matters regarding the Company's internal controls and procedures over financial reporting that have come to their attention during the conduct of their annual audit, and review whether internal control recommendations made by the auditor have been implemented by management.

The Committee shall review and approve any statements to be included in the Company's annual report concerning internal controls and risk management.

The Committee shall review major risk exposures (whether financial, operating or otherwise) and the guidelines and policies that management has put in place to govern the process of monitoring, controlling and reporting such exposures.

## **WHISTLEBLOWING**

The Committee shall establish procedures for the receipt, retention and treatment of any complaints received by the Company regarding accounting, internal accounting controls or auditing matters, including procedures to enable confidential, anonymous submissions to be made by employees of the Company and its subsidiaries concerning questionable accounting or auditing matters.

## **EXTERNAL AUDIT**

The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of any disagreements between management and the external auditor regarding financial reporting.

The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval at the annual meeting of shareholders, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

In overseeing the relationship with the external auditor, the Committee shall, without limitation:

- (a) recommend to the Board for approval, their remuneration, and assess whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- (b) recommend to the Board for approval, their terms of engagement, and review any engagement letter issued at the start of each audit and the scope of the audit;
- (c) assess annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

- (d) satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
- (e) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditor of the Company;
- (f) monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
- (g) assess annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.

The Committee shall pre-approve all non-audit services to be provided by the external auditor<sup>1</sup> to the Company or its subsidiaries other than *de minimus* non-audit services referred to in section 2.4 of NL 52-110.

The Committee shall meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit.

The Committee shall review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.

The Committee shall review the findings of the audit with the external auditor. This shall include, without limitation, the following:

- (a) a discussion of any major issues which arose during the audit;
- (b) any accounting and audit judgments; and
- (c) levels of errors identified during the audit.

The Committee should ensure that significant findings and recommendations made by the external auditor are received and discussed on a timely basis. The Committee shall also review the effectiveness of the audit.

The Committee shall review any representation letter(s) requested by the external auditor before they are signed by management.

The Committee shall review the management letter and management's response to the auditor's findings and recommendations.

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<sup>1</sup> This responsibility may be delegated to one or more independent members of the Committee as outlined in NL 52-110, provided that any such pre-approval is presented to the Committee at its first scheduled meeting following such pre-approval.

## **REPORTING RESPONSIBILITIES**

The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and shall ensure the Board is made aware of matters that may significantly impact the financial condition or affairs of the Company's business.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its purview where action or improvement is needed.

The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report, and shall review and approve the section relating to the Committee in the Company's annual information form.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Committee shall review the effectiveness of the system for monitoring compliance with laws and regulations (including insider reporting) and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.

In carrying out its duties and responsibilities, the Committee shall give due consideration to applicable laws and regulations, including, without limitation, the policies and rules of the TSX Venture Exchange or the Toronto Stock Exchange (as applicable), the *Business Corporations Act*, (British Columbia), applicable Canadian securities laws, and the Combined Code and the requirements of the AIM Rules, as appropriate.

The Committee shall obtain regular updates from management and the Company's legal counsel regarding compliance matters.

The Committee shall be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

## **OTHER MATTERS**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members;
- (c) oversee any investigation of activities which are within its Charter and act as a court of the last resort; and
- (d) at least once a year, review its own performance, constitution and the terms of this Charter and ensure the Committee is operating effectively and recommend any changes it considers necessary to the Board for approval.

## **AUTHORITY**

The Committee is authorized:

- (a) to seek any information it requires from any employee of the Company (and all employees are directed to cooperate with any request made by the Committee) or external parties in order to perform its duties;
- (b) to obtain outside legal or other professional advice as deemed necessary and to set and authorize the compensation to be paid to such advisors;
- (c) to call any employee to be questioned at a meeting of the Committee as and when required; and
- (d) to communicate directly with the external auditor or any internal auditor.

### **CONFLICT**

In the event of any conflict between this Charter and any other relevant legal requirements, including those of the TSX Venture Exchange or the Toronto Stock Exchange (as applicable), the *Business Corporations Act* (British Columbia), applicable Canadian securities laws, and the Combined Code and the requirements of the AIM Rules, the Committee shall immediately bring the conflict to the attention of the Board which shall resolve such conflict upon consultation with the Company's legal advisors and the Nominated Adviser.