



Western Coal

BOARD OF DIRECTORS

TERMS OF REFERENCE

A. PURPOSE

The Board of Directors (the "Board") has the responsibility for the stewardship of the Company and to oversee the conduct of the business of the Company. The Board's fundamental objectives are to enhance and preserve long-term shareholder value, to ensure the Company meets its obligations on an ongoing basis and that the Company operates in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests its other stakeholders such as employees, customers and communities may have in the Company. In overseeing the conduct of the business, the Board, through the Chief Executive Officer, shall set the standards of conduct for the enterprise.

B. COMPOSITION, PROCEDURES AND ORGANIZATION

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chair, nominating candidates for election to the Board, constituting committees of the full Board and determining Director compensation. Subject to the Company's constating documents and the British Columbia Business Corporations Act, the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

The Board has determined that the Company requires seven directors to effectively manage the Company's affairs. The directors are elected annually at the Company's annual meeting of shareholders and must meet the requirements of applicable corporate and securities laws, rules and regulations, including those of applicable stock exchanges on which the Company's shares are listed ("Applicable Laws").

The majority of the directors and the Chair shall be independent as determined by Applicable Laws.

The Board shall meet at least 4 times per year and may also hold additional meetings as considered necessary. The independent directors shall meet, without members of management, at each regularly scheduled meeting.

The Board has developed a calendar of the activities to be undertaken by the Board for each meeting, attached as Appendix A.

C. DUTIES AND RESPONSIBILITIES

The Board's principal duties and responsibilities fall into a number of categories which are outlined below.

1. Legal Requirements

- (a) The Board has the responsibility to ensure that legal requirements have been met and documents and records have been properly prepared, approved and maintained;

- (b) The Board has the statutory responsibility to:
 - (i) supervise the management of the business and affairs of the Company;
 - (ii) act honestly and in good faith with a view to the best interests of the Company;
 - (iii) exercise the care, diligence and skill that reasonable, prudent people would exercise in comparable circumstances; and
 - (iv) act in accordance with its obligations contained in the British Columbia Business Corporations Act and the regulations thereto, the Company's constating documents, the Securities Act of each province and territory of Canada, the rules and regulations of stock exchanges on which is securities are listed, including without limitation the Toronto Stock Exchange and the London Alternative Investment Market, and other relevant and applicable legislation and regulations.

2. **Independence**

The Board has the responsibility to ensure that appropriate structures and procedures are in place to permit the Board to function independently of management.

3. **Strategy Determination**

The Board has the responsibility to:

- (a) at least annually, participate with management, in the development of, and ultimately approve, the Company's strategic plan, taking into account, among other things, the opportunities and risks of the Company's business;
- (b) approve annual capital and operating budgets that support the Company's ability to meet its strategic objectives;
- (c) approve the entering into, or withdrawing from, lines of business that are, or are likely to be, material to the Company;
- (d) approve financial and operating objectives used in determining compensation if they are different from the strategic, capital or operating plans referred to above;
- (e) approve material divestitures and acquisitions;
- (f) monitor the Company's progress towards its strategic objectives, and revise and alter its direction through management in light of changing circumstances;
- (g) conduct periodic reviews of human, technological and capital resources required to implement the Company's strategy and the regulatory, cultural or governmental constraints on the business; and
- (h) review, at every regularly scheduled Board meeting if feasible, recent developments that may affect the Company's strategy, and advise management on emerging trends and issues.

4. **Financial and Corporate Issues**

The Board has the responsibility:

- (a) to take reasonable steps to ensure the integrity and effectiveness of the Company's internal control and management information systems, including the evaluation and assessment of information provided by management and others (e.g., internal and external auditors) about the integrity and effectiveness of the Company's internal control and management information systems;
- (b) to review operating and financial performance relative to budgets and objectives;
- (c) to approve the annual financial statements and notes thereto, management's discussion & analysis of financial condition and results of operations contained in the annual report, the annual information form and the management information circular;
- (d) upon recommendation by the Audit Committee and subject to confirmation by the shareholders of the Company at each annual meeting, to appoint the external auditors for the Company and upon recommendation by the Audit Committee, to approve the auditor's fees for audit services; and
- (e) to approve significant contracts, transactions, and other arrangements or commitments that may be expected to have a material impact on the Company.

5. **Managing Risk**

The Board has the responsibility to understand the principal risks of the business in which the Company is engaged, to achieve a proper balance between risks incurred and the potential return to shareholders, and to ensure that there are systems in place which effectively monitor and manage those risks with a view to the long-term viability of the Company.

6. **Appointment, Training and Monitoring Senior Management**

The Board has the responsibility:

- (a) to appoint the Chief Executive Officer (the "CEO"), to monitor and assess CEO performance against corporate goals and objectives, to determine CEO compensation, considering the recommendations of the Compensation Committee, and to provide advice and counsel in the execution of the CEO's duties;
- (b) to approve the appointment and remuneration of all senior officers, acting upon the advice of the CEO;
- (c) to the extent possible, to satisfy itself as to the integrity of the CEO and other senior officers and satisfy itself that the CEO and other senior officers are creating a culture of integrity throughout the Company;
- (d) to approve certain decisions relating to senior management, including the:
 - (i) appointment and discharge of senior officers;

- (ii) compensation and benefits for senior officers;
 - (iii) acceptance by the CEO of any outside directorships on public companies or any significant public service commitments; and
 - (iv) employment, consulting, retirement and severance agreements, and other special arrangements proposed for senior officers; and
- (e) to ensure that adequate provision has been made to train and develop management and for the orderly succession of the CEO and the other senior officers.

7. **Policies, Procedures and Compliance**

The Board has the responsibility:

- (a) to ensure that the Company operates at all times within applicable laws and regulations and to the highest ethical and moral standards;
- (b) to approve and monitor compliance with significant policies and procedures by which the Company is operated;
- (c) to ensure the Company sets high environmental standards in its operations and is in compliance with environmental laws and legislation;
- (d) to ensure the Company has in place appropriate programs and policies for the health and safety of its employees in the workplace; and
- (e) to review significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment).

8. **Governance**

The Board has the responsibility:

- (a) to appoint Board committees, including an Audit Committee, and delegate to those committees any appropriate powers of the Board;
- (b) to review the size and composition required of the Board and approve nominations for candidates for election to the Board, with a view to ensuring that the Board is comprised of directors with the necessary skills and experience to facilitate effective decision-making;
- (c) to develop the Company's approach to corporate governance; and
- (d) to review annually its terms of reference and its performance and the performance of the Board committees, the Chair of the Board and the Chair of the committees to ensure that the Board and the committees are operating effectively.

9. **Reporting and Communication**

The Board has the responsibility:

- (a) to adopt a communication or disclosure policy for the Company and ensure that the Company has in place effective communication processes with shareholders and other stakeholders (including measures to enable stakeholders to communicate with the independent directors of the Board) and with financial, regulatory and other institutions and agencies;
- (b) to ensure that the financial performance of the Company is accurately reported to shareholders, other security holders and regulators on a timely and regular basis in accordance with all applicable securities laws, rules and regulations;
- (c) to ensure that the financial results are reported fairly and in accordance with generally accepted accounting principles and all applicable securities laws, rules and regulations;
- (d) to ensure the timely reporting of any other developments that have a significant and material impact on the value of the Company;
- (e) to approve the content of the Company's major communications to shareholders and the investing public, including the Interim/Annual Reports (including the financial statements and Management, Discussion and Analysis), the Management Information Circular (including the Compensation, Discussion and Analysis and disclosure of corporate governance practices), the Annual Information Form, any prospectuses that may be issued, and any significant information respecting the Company contained in any documents incorporated by reference in any such prospectuses; and
- (f) to report annually to shareholders on its stewardship of the affairs of the Company for the preceding year.

9. **Outside Consultants or Advisors**

At the Company's expense, the Board may retain, when it considers it necessary or desirable, outside consultants or advisors to advise the Board independently on any matter. The Board shall

have the sole authority to retain and terminate any such consultants or advisors, including sole authority to review a consultant's or advisor's fees and other retention terms.

Dated: February 2010

BOARD OF DIRECTORS

CALENDAR OF ACTIVITIES

Responsibility	Matter	June (year end)	Aug (Q1)	Nov (Q2)	Feb (Q3)	March/April (budget/ strategy)
<p align="center">CS CS CEO CFO AC Chair & CFO CEO & CFO Comp Chair/CEO Chair</p>	<p>Business to be conducted at each meeting:</p> <ul style="list-style-type: none"> • Approve minutes of previous meetings • Review Action Items • President’s Report: Operations, Corporate Development & Strategic Update • Review of Financial Results Year to Date & Annual Forecast • Approval of Audit Committee Report, Approval of Annual/Interim Financial Statements, MD&A and Press Release • Investor Relations Report • Approval of Stock Option Grants (as necessary) • In-Camera Meeting of Independent Directors 	X	X	X	X	X
Committee Chairs	<p>Approve Reports and Recommendations from:</p> <ul style="list-style-type: none"> • Corporate Governance & Compensation Committee • EHS Committee 	X	X	X	X	X
CGCC Chair	Review of CEO Performance and Approval of Compensation for CEO and Senior Officers	X				
Legal	Approval of 43-101 Report	X				

Legal	Approval of Annual Information Form	X				
CS	Approve Record Date and Date for Annual Meeting	X				
CS	Approval of Management Information Circular <ul style="list-style-type: none"> • Approve Nominees for Directors and Appointment of Auditors 		X			
CS	Appointment of Committees		X			
CS	Appointment of Officers		X			
CGCC Chair	Review of Executive Succession Planning and Development Programs		X			
CS	Annual Director Education Session			X		
CS	Review Terms of Reference and Calendar of Activities				X	
CS	Set Dates for Ensuing Year's Meetings				X	
CEO	Approve Strategic Plan					X
CFO	Approve Capital and Operating Budgets and Financial Plan					X
CFO	Risk Management Review <ul style="list-style-type: none"> • Review of Delegation of Authority 					X