

# **WESTMORELAND COAL COMPANY**

## **AUDIT COMMITTEE CHARTER**

### I. Audit Committee Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information provided by the Company to any governmental body or the public; the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that have been established by management and the Board; and the Company's auditing, accounting and financial reporting processes generally. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels. The Audit Committee's primary duties and responsibilities are to:

Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance.

Monitor the independence and direct the performance of the Company's independent auditors.

Provide an avenue of communication among the independent auditors, management, and the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. The Audit Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of such legal, accounting, or other consultants or experts.

### II. Audit Committee Composition and Meetings

The Audit Committee shall be comprised of three or more directors, each of whom shall be independent, as such term is defined by applicable law, the Rules and Regulations thereunder, and the Rules of the principal stock exchange on which the Company's securities are then traded (or if the Company's securities are not traded on the New York or American Stock Exchange, the Rules of NASDAQ). All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. At least one member of the Audit Committee shall be financially sophisticated, in that he or she shall have past employment experience in finance or accounting, requisite

professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities, and at least one member of the Committee (who may be the financially sophisticated member referred to in the preceding clause) shall be a "financial expert", as such term is defined by applicable SEC Rules.

Unless the Board elects a Chair of the Committee, the Committee shall elect a Chair by majority vote. Members of the Committee shall be selected by the Board and the Board may remove members of the Committee with or without cause. The compensation of the Committee shall be as determined by the Board.

Audit Committee members shall be elected by the Board. If an Audit Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet on at least a quarterly basis, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The agenda should be developed in consultation with management, other committee members, and independent auditors. The agenda should be consistent with this charter. The Committee shall meet privately in executive session at least annually with management, the independent auditors, and as a committee to discuss any matters that the Committee or each of these groups believe should be discussed privately. In addition, at least quarterly, the Committee or its Chair should communicate with management, and the Committee shall meet with the independent auditors' to review the Company's financial statements and significant findings based upon the auditors limited review procedures.

### III. Audit Committee Responsibilities and Duties

#### Review Procedures

To fulfill its responsibilities and duties, the Audit Committee shall:

Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval and have the document published at least every three years in accordance with SEC regulations.

Review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) requires discussion, and communicate to the Board of Directors its recommendation that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.

In consultation with management and independent auditors consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses, including the status of previous recommendations.

Review with financial management and the independent auditors the Company's quarterly financial results prior to the release of earnings and/or the Company's quarterly financial statements prior to filing or distribution. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 61.

### Independent Auditors

The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall be directly responsible for (i) appointing, evaluating, overseeing, and when necessary terminating any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company and (ii) setting the compensation of each such registered public accounting firm. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of any such registered public accounting firm. The Audit Committee shall review the independence and performance of the auditors and annually appoint the independent auditors or discharge the auditors when circumstances warrant.

The Audit Committee shall review and approve the fees and other significant compensation as negotiated by management to be paid to the independent auditors.

The Audit Committee shall ensure that it receives, from the independent auditors, a formal written statement delineating all relationships between the auditor and the Company, consistent with Independence Standards Board Standard 1, and the Audit Committee shall actively engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor. The Audit Committee shall take, or recommend that the full board take, appropriate action to oversee the independence of the outside auditor.

The Audit Committee shall review and approve the independent auditors' audit plan – discuss scope, staffing, locations, reliance upon management, and general audit approach. The Audit Committee should be satisfied that the audit plan is sufficiently detailed and covers any significant areas of concern that the Audit Committee may have.

Prior to releasing the year-end earnings and/or annual financial statements, the Audit Committee shall discuss the results of the audit with the independent auditors. The Audit Committee shall be directly responsible for resolving disagreements between management and the auditor regarding financial reporting.

The Audit Committee shall discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 61 and the management letter from the auditors containing comments and recommendations involving internal control and other operational matters. The Audit Committee shall, from time to time as appropriate, receive and consider the reports required to be made by the independent auditor regarding (i) critical accounting policies and practices; (ii) alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with the Company's management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and (iii) other material written communications between the independent auditor and the Company's management.

The Audit Committee shall consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

The Audit Committee shall preapprove audit services to be provided to the Company, whether provided by the Company's principal auditor or other firms, and all other services (review, attest and non-audit) to be provided to the Company by an independent auditor; provided, however, that de minimis non-audit services may be approved in accordance with applicable SEC rules. The Audit Committee shall cause the Company to disclose in its periodic SEC reports the approval by the Audit Committee of any non-audit services to be performed by its independent auditor.

#### Legal Compliance

On at least an annual basis, the Audit Committee shall review, with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

The Audit Committee shall review all reports concerning any fraud or regulatory noncompliance that occurs at the Company. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.

The Audit Committee shall receive and review the reports of the Company's Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended.

The Audit Committee shall review, with the Company's counsel, legal compliance matters including corporate securities trading policies.

### Other Audit Committee Responsibilities

The Audit Committee shall annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement. The report should state that the Audit Committee has reviewed and discussed the audited financial statements with management, discussed with the independent auditors the matters required to be discussed by SAS 61 and include a statement if based on this review if the Audit Committee recommended to the board to include the audited financial statements in the annual report filed with the SEC.

The Audit Committee shall establish and periodically review procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The Audit Committee shall perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.

The Audit Committee shall maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

The Audit Committee shall periodically perform self-assessment of the Audit Committee's performance.

The Audit Committee shall review financial and accounting personnel succession planning within the Company.

The Audit Committee shall oversee related party transactions entered into by the Company and potential conflicts of interest.