

CLOUD PEAK ENERGY INC.

CORPORATE GOVERNANCE GUIDELINES

November 2009

The following Corporate Governance Guidelines (the “Guidelines”) have been adopted by the Board of Directors (the “Board”) of Cloud Peak Energy Inc. (the “Company”) to assist the Board in the exercise of its responsibilities. These Guidelines are not intended to change or interpret any federal or state law, or the Company’s certificate of incorporation or bylaws. These Guidelines are subject to modification from time to time by the Board in compliance with applicable laws, rules and regulations, including the applicable rules of the Securities and Exchange Commission (the “SEC”) and the New York Stock Exchange (the “NYSE”).

I. Composition and Organization of the Board:

A. Size of Board

The Nominating and Corporate Governance Committee of the Board maintains an overview of the desired size of the Board. The Board believes that it should generally have no fewer than three (3) directors and no more than fifteen (15) directors consistent with the limit in the Company’s bylaws. This range permits diversity without hindering effective discussion.

B. Selection of Members

The Nominating and Corporate Governance Committee of the Board directly or through a sub-committee, identifies and recommends to the Board the candidates for nomination as directors. Stockholders may propose nominees for consideration by submitting names and supporting information to the Secretary of the Company in accordance with the Company’s bylaws. The Board approves the final choice of candidates for nomination and election by the Stockholders.

C. Membership Criteria

The Nominating and Corporate Governance Committee will select nominees for the Board in accordance with the procedures and criteria set forth in these Guidelines and the Nominating and Corporate Governance Committee’s charter. The Board seeks a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board and the Company. In reviewing director candidates, the Nominating and Corporate Governance Committee will review each candidate’s qualifications for membership on the Board and take into account the competencies, skills and personal qualities required to add value to the Company and to the functioning of the Board and its committees such as independence, financial expertise, diversity, experience with businesses and other organizations of comparable size and the interplay of the candidate’s experience with the experience of other Board members.

D. No Specific Limitation on Other Board Service

The Board does not believe that its members should be prohibited from serving on boards or committees of other organizations, and the Board has not adopted any specific guidelines limiting such activities. However, the Nominating and Corporate Governance Committee and the full Board may take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendations to the Company's stockholders. Service on boards and/or committees of other organizations should be consistent with the charters of the various committees of the Board.

E. Independent Directors

The Board will have a majority of directors who satisfy the criteria for "independent directors" pursuant to the rules of the NYSE and the *Guidelines on the Independence of the Directors* as set forth in Annex A to these Guidelines.

F. Chairperson

The Board shall appoint its Chairperson and Vice-Chairperson (if one is to be appointed) from among the Company's directors. In the event that the Chairperson is a director who is an executive of the Company, the Board shall also appoint a lead director from among the non-executive directors to chair the Board at all meetings where management is absent and to assume other appropriate functions.

The Chairperson's responsibilities include the following:

- (a) presiding at meetings of stockholders and the Board;
- (b) providing leadership to enhance Board effectiveness and focus;
- (c) acting as liaison between the Board and management; and
- (d) overseeing the application of good corporate governance.

G. Retirement Age

A director who has attained the age of 72 prior to the annual meeting of stockholders in any year shall retire from office at such annual meeting.

H. Term of Directors

The directors are divided into three (3) classes. As a result, approximately one-third (1/3) of the directors will stand for election by the stockholders of the Company each year at the Company's annual meeting for three (3) year terms. The term of office of each director shall expire at the third annual meeting following his or her election.

II. Meetings of the Board:

A. Board Agenda

The Chairperson of the Board, in consultation with the appropriate members of management and with input of other directors as required, develops the agenda for Board meetings. The Chairperson of the Board will include in the agenda the presentation of any reports from the respective committees of the Board as appropriate.

B. Board Material Distribution

Information and materials that are important to the Board's understanding of the agenda items and related topics are distributed in advance of the meeting.

C. Board Meeting Frequency and Schedule

A minimum of four regularly-scheduled Board meetings shall be held each year. Additional meetings shall be held as necessary. The Chairperson of the Board, in consultation with the directors and management, will set the frequency and length of Board meetings. Board members may participate in additional meetings by means of conference calls or similar communications equipment by means of which all persons participating in the meeting can communicate with each other.

D. Management at Meetings

Management may participate by invitation to Board meetings and may make presentations to allow directors to gain additional understanding and insight into the Company's businesses.

E. *In-camera* Meetings

Every regular meeting of the Board shall include one or more in-camera sessions at which no executive directors or other members of senior management are present, to promote free and open discussion and communication among the non-executive directors.

III. Duties and Responsibilities of the Board:

In addition to its statutory responsibilities, the Board has the following duties and responsibilities:

1. reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions;
2. appointing the Chief Executive Officer of the Company, developing his or her position description, conducting an annual review of his or her performance as set forth in Section VIII and overseeing Chief Executive Officer succession planning;

3. in conjunction with management, identifying the principal risks of the Company's businesses and overseeing the implementation of appropriate systems to manage these risks;
4. requiring that appropriate structures and procedures are in place so that the Board and its committees can function independently of management;
5. providing a source of advice and counsel to management on critical and sensitive problems;
6. reviewing the Company's compliance with its public disclosure obligations;
7. ensuring that its expectations of management are understood, that the appropriate matters come before the Board and that the Board is kept informed of stockholder feedback;
8. verifying that members of senior management are of the calibre required for their roles, are adequately trained and monitored and that planning for their succession is ongoing;
9. conducting, through the Nominating and Corporate Governance Committee, an annual review of Board practices and Board, Chairperson and committee performance (including directors' individual contributions) to determine whether they are functioning effectively;
10. reviewing with the Compensation Committee the adequacy and form of the compensation of non-executive directors and ensuring their compensation adequately reflects the responsibilities and risks involved in being an effective director;
11. evaluating, through the Compensation Committee, the compensation of the Chief Executive Officer and other executive officers, including the Named Executive Officers, and ensuring that such compensation is competitive and measured according to the competitive compensation paid to such executives in the relevant comparable group;
12. selecting, upon the recommendation of the Nominating and Corporate Governance Committee or a sub-committee thereof, nominees for election as directors;
13. selecting the Chairperson of the Board;
14. reviewing with the Nominating and Corporate Governance Committee that the Board as a whole, the committees of the Board and the directors are capable of carrying out and do carry out their roles effectively;

15. requiring that new directors are provided with adequate education and orientation facilities;
16. discussing and developing the Company's approach to corporate governance in general, with the involvement of the Nominating and Corporate Governance Committee;
17. considering and approving any changes to the committee charters recommended by each committee; and
18. reviewing the Guidelines at least annually and approving any changes.

IV. Expected Qualities of Board Members:

Board members are expected to possess the following characteristics and traits:

1. demonstrate high ethical standards and integrity in their personal and professional dealings;
2. act honestly and in good faith with a view to the best interest of the Company;
3. devote sufficient time to the affairs of the Company and exercise care, diligence and skill in fulfilling their responsibilities both as Board members and as a committee member;
4. provide independent judgment on a broad range of issues;
5. understand and challenge the key business plans of the Company;
6. be willing to work in a team and be open to opinions of others;
7. raise the appropriate difficult questions and issues to facilitate active and effective participation in the deliberation of the Board and of each committee on which he or she serves;
8. make all reasonable efforts to attend all Board and committee meetings;
9. review the materials provided by management in advance of the Board and committee meetings;
10. inform the Chairperson and Vice-Chairperson (if applicable) of the Board before accepting membership on any other board of directors or audit committee and also inform them of any change in the director's interests that could affect his or her relationship to the Company.

V. Board Committees:

A. Number, Structure and Jurisdiction of Committees

The Board delegates certain of its functions to Committees, each of which has a written charter. There are three committees of the Board which are required by the New York Stock Exchange's Listed Company Manual: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Other Committees or sub-committees may be established at any time, from time to time, by Board resolution. The roles and responsibilities of each Committee are described in the respective committee charters. "Task Force" Committees may be established on an *ad hoc* basis to deal with specific subjects.

B. Independent Committee Members

Each of the Audit, Compensation and Nominating and Corporate Governance Committees will consist solely of independent directors as defined by the NYSE rules and SEC rules as applicable, and as set forth under the *Guidelines on the Independence of the Directors* attached hereto as Annex A, although the Board may take advantage of the NYSE's grace periods.

C. Committee Chairmen

The committees shall appoint their Chairperson from among the members of their respective committees. The Committee Chairperson's responsibilities include the following:

- presiding at meetings of the committee;
- providing leadership to enhance the effectiveness and focus of the committee;
- acting as liaison between the committee and management and the Board; and
- developing, in consultation with the appropriate members of management, the agenda for committee meetings.

D. Committee Report to Board

At the next Board meeting following each meeting of a committee, the committee Chairmen shall report to the Board on the committees' activities. Minutes of committee meetings are provided to all directors.

E. Charters

Each of the committees will have its own charter which will be approved by the full Board. The charter will, among other things, set forth the purposes and duties of the committee and provide for an annual performance evaluation of the committee.

F. Frequency and Length of Committee Meetings

The charters of the Audit Committee, Compensation Committee and the Nominating and the Corporate Governance Committee set forth the minimum number of required meetings of each of those committees per year. The Chairperson of any committee of the Board, in consultation with committee members, will determine the frequency and length of the meetings of the committee.

VI. Administrative Matters

A. Board Performance Assessment

The Board will ensure that regular formal assessments of the Board, its committees and the individual directors are carried out in order to enhance their performance.

B. Director Compensation

The Compensation Committee of the Board regularly reviews and makes recommendations on director compensation. Any proposed change to the compensation of directors should come upon the recommendation of the Compensation Committee, with discussion and approval by the Board.

C. Director Share Ownership

In order to ensure alignment of the interests of directors with those of stockholders, a portion of the directors fees paid to a non-executive director may be made in restricted stock units, being the economic equivalent of the common stock of the Company.

All non-executive directors must hold a minimum of the equivalent of three times their respective annual cash fees in the form of (i) common stock of the Company and/or (ii) restricted share units. Directors will have five years from the time of their first election to the Board to meet these stock ownership requirements.

D. Board Confidentiality

Directors will maintain the absolute confidentiality of the deliberations and decisions of the Board and information received at meetings, except as may be specified by the Chairperson or if the information is publicly disclosed by the Company.

E. Board Interaction with Third Parties

If a third party approaches a director on a matter of interest to the Company, the director should bring the matter to the attention of the Chairperson who shall determine whether this matter should be reviewed with management or should more appropriately be dealt with by the Board in an *in camera* session.

F. Communication with the Board

Stockholders and other constituencies may communicate with the Board and individual members by following the procedures outlined in the *Policy Regarding Communications From Stockholders*.

G. Code of Conduct

The Company has a comprehensive code of business conduct and ethics entitled the *Code of Conduct* that governs all employees of the Company as well as the directors.

VII. Director Orientation and Continuing Education

A. Orientation

Management will provide an orientation program for new directors to familiarize them with the Company's business, strategic plans, management team and significant legal, financial and accounting issues. In addition, new directors spend time with members of senior management, including those involved in the Company's business operations, so that they can become rapidly familiar with the Company, its issues, business and operations. Care is taken to ensure that new directors understand the roles and responsibilities of the Board and its committees, as well as the commitment level that the Company expects of its directors.

B. Continuing Education

As appropriate, the Company will endeavor to provide additional educational opportunities to directors to enable them to better perform their duties and to recognize and deal appropriately with issues that may arise.

VIII. Management Succession

A. Review of Chief Executive Officer

The Board, either directly or through one or more of its committees, will conduct an annual review of the performance of the Chief Executive Officer. The evaluation should be based on objective criteria, including performance of the Company's business, accomplishment of long-term strategic objectives, and development of management.

B. Succession Policy

The Board, either directly or through one or more of its committees, shall conduct an annual review of succession planning. The review shall focus on evaluating potential successors to the members of senior management, including the Chief Executive Officer.

IX. Access to Management, Employees and Independent Advisors

A. Access to Management

The Board shall have complete access to management and other Company employees (and to its outside counsel and auditors) to ensure that directors can ask questions and gather the information necessary to fulfill their duties. The Board may specify a protocol for making such inquiries. The Board encourages management to invite Company personnel to any Board meeting at which their presence and expertise would be helpful to the Board in considering matters under discussion.

B. Access to Independent Advisors

The Board shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to retain independent legal, financial, accounting and other advisors, as it deems appropriate, at the Company's cost and without seeking approval of management.

Guidelines on the Independence of the Directors

In order for a director to be deemed independent, the board of directors (the “Board”) must affirmatively determine that the director has no material relationship with the listed company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company). With respect to a determination of director independence, the Board and the Nominating and Corporate Governance Committee will broadly consider all relevant facts and circumstances and will apply the following standards:

- (1) Consistent with the applicable listing standards of the NYSE, a director will not be considered independent if:
 - (a) the director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer of the Company, except that employment as an interim Chairperson or CEO or other executive officer shall not disqualify a director from being considered independent following that employment;
 - (b) the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service with the Company); except that (i) compensation received by a director for former service as an interim Chairperson or CEO or other executive officer or (ii) compensation received by an immediate family member of the director for services as a non-executive employee of the Company need not be considered in determining independence under this test;
 - (c) the director (i) is a current partner or employed by a firm that is the Company’s internal or external auditor, (ii) has an immediate family member who is a current partner of such firm, (iii) has an immediate family member who is a current employee of such firm and personally works on the Company’s audit or (iv) was or has an immediate family member who was, within the last three years, a partner or employee of such firm and personally worked on the Company’s audit within that time;
 - (d) the director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company’s present executive officers at the same time serves or served on that company’s compensation committee; or
 - (e) the director is a current employee of another company (other than a tax exempt organization), or an immediate family member of the director is a current

executive officer of another company (other than a tax exempt organization), that makes payments to, or receives payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues (in applying this test, both the payments and the consolidated gross revenues to be measured will be those reported in the last completed fiscal year, and this test applies solely to the financial relationship between the Company and the director's (or immediate family member's) current employer – the former employment of the director or immediate family member need not be considered).

- (2) The following relationships will not in and of themselves be considered to be material relationships with the Company that would impair a director's independence (but will be considered as part of the overall independence determination for each director).
 - (a) If a director of the Company is an executive officer or an employee, or the director's immediate family member is an executive officer, of another company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, does not exceed the greater of \$1 million or 2% of such other company's consolidated gross revenues.
 - (b) If a director of the Company is an executive officer or employee of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of the indebtedness is less than 2% of the consolidated assets of the company wherein the director serves as an executive officer or employee.
 - (c) If a director is a limited partner, a non-managing member or occupies a similar position in an entity that does business with the Company, or has a shareholding in such entity which is not significant, and who, in each case, has no active role in sales to or in providing services to the Corporation and derives no direct material personal benefit from same.
 - (d) If a director of the Company is an executive officer of another company in which the Company owns an equity interest, and the amount of the equity interest held by the Company is less than 10% of the total stockholders' equity of the company at which the director serves as an executive officer.
 - (e) If a director of the Company serves as a director, officer or trustee of a charitable organization, and the Company's contributions to the organization in the most recently completed fiscal year are less than the greater of \$1 million or 2% of that organization's gross revenues.
- (3) For relationships not covered by paragraph (2) above, or for the relationships that are covered, but as to which the Board believes a director may nevertheless be independent, the determination of whether the relationship is material or not, and therefore whether the director would be independent, will be made by the Board.

- (4) While service by the Company's directors together on the boards of other companies does not, as such, affect their independence, no more than two directors may serve together on the board of another publicly-traded company.
- (5) A director will only be appointed as a member of the Audit Committee if he or she satisfies the independence criteria set forth in paragraph (1) above in addition to criteria under Rule 10A-3 under the Securities and Exchange Act of 1934, as amended, (the "Exchange Act") subject to the phase-in rules for companies initially listing securities on the NYSE, which require the Audit Committee to be fully independent within one year from the date of listing. In order to be independent under Rule 10A-3 of the Exchange Act, the director may not, (i) other than in his or her capacity as a member of the Audit Committee of the Board, the Board or any other Board Committee, accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries, provided that compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service); or (ii) be an affiliated person of the issuer or any of its subsidiaries.
- (6) The NYSE listed company manual provides that "as the concern is independence from management, the Exchange does not view ownership of even a significant amount of stock, by itself, as a bar to an independence finding." Accordingly, the Board believes that a director's independence should not be impaired solely because that director owns a large amount of the Company's stock or is affiliated or employed by an entity that owns a large amount of the Company's stock, absent the existence of other relationships.
- (7) For the purposes of these independence standards, an "immediate family member" includes a person's spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares such person's home, except individuals who are no longer immediate family members as a result of legal separation or divorce or those who have died or have become incapacitated.