

CLOUD PEAK ENERGY INC.

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

July 2013

I. Purpose and Role

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Cloud Peak Energy Inc. (the “Company”) to provide assistance to the Board in fulfilling the Board’s oversight responsibility with respect to the Company. The Committee’s primary duties and responsibilities are to:

- Assist the Board in fulfilling its oversight responsibilities regarding:
 - the integrity of the Company’s financial statements, financial reports and other financial information filed with the Securities and Exchange Commission (the “SEC”);
 - the integrity and adequacy of the Company’s auditing, accounting and financial reporting processes and systems of internal control over financial reporting;
 - the Company’s compliance with legal and regulatory requirements, as more specifically defined in this Charter, including internal controls designed for that purpose;
 - the independence, qualifications and performance of the Company’s independent registered public accounting firm (the “Auditors”);
- oversee the performance of the Company’s internal audit function;
- provide an avenue of free, open and clear communication among the Auditors, the internal audit function, management, the Committee and the Board;
- prepare the Audit Committee report that SEC rules require be included in the Company’s annual proxy statement; and
- perform such other functions as the Board may assign to the Committee from time to time.

This Audit Committee charter (this “Charter”) has been adopted by the Board and may be amended by the Board from time to time in compliance with applicable laws, rules and regulations, including the applicable rules of the SEC and the New York Stock Exchange (the “NYSE”).

II. Composition and Organization of the Committee

The Committee shall consist of at least three directors, each of whom satisfies the independence criteria in Rule 10A-3 of the Securities Exchange Act of 1934, as amended, the

independence criteria of the NYSE and the *Guidelines on the Independence of the Directors* as set forth in Annex A of the Company's Corporate Governance Guidelines. Each member shall be financially literate, as interpreted by the Board in its business judgment. At least one member must have accounting or related financial management expertise (as defined by the NYSE), as interpreted by the Board in its business judgment, and be an "audit committee financial expert" (as defined by the SEC), as determined by the Board. The designation of any member of the Committee as an "audit committee financial expert" shall not impose any greater responsibility or liability on that person than the responsibility and liability imposed on such person as a member of the Committee generally, nor does it decrease the duties and obligations of any other member of the Committee or the Board. Notwithstanding the foregoing membership requirements, no action of the Committee shall be invalid by reason of any such requirement not being met at the time such action is taken.

The Nominating and Corporate Governance Committee or a subcommittee thereof shall recommend nominees for appointment to the Committee annually and as vacancies or newly created positions occur. Members of the Committee shall be appointed by the Board and shall serve for such term as the Board may determine. The Nominating and Corporate Governance Committee shall recommend, and the Board shall designate, one member of the Committee to act as Chairperson. The Secretary or an Assistant Secretary of the Company shall act as secretary to the Committee.

Committee members shall serve until their failure to qualify, resignation, retirement, removal by the Board or until their successors shall be duly appointed and qualified. A member of the Committee shall be deemed to have resigned from the Committee at such time that the member shall no longer be a director of the Company.

If a member serves on the audit committee of any other public company, the member must so inform the Committee. If a member serves on the audit committee of more than two other public companies (in addition to the Committee), the Committee shall recommend to the Board, and the Board shall determine, whether such simultaneous service would impair the ability of such member to effectively serve on the Committee.

III. Meetings of the Committee

The Committee shall meet at the call of its Chairperson, two or more members of the Committee or the Chairperson of the Board. Meetings of the Committee shall be held at such time and place, and upon such notice, as its Chairperson may determine, and may be in person or by telephone. The Committee shall maintain minutes of its meetings. The Committee shall meet at least quarterly to review the Company's annual and quarterly releases of financial results, and may meet more frequently if circumstances so dictate.

At each regular meeting, the Committee shall, at its discretion, meet separately with senior management, including the chief financial officer, the chief internal auditor and the Auditors to discuss any matters that the Committee or any of these parties believe should be discussed privately. The Committee may request any other member of the Board, any officer or employee of the Company, the Auditors or any other person whose presence the Committee believes to be necessary or appropriate to attend a meeting of the Committee or to meet with any

member of the Committee, subject to the maintenance of confidentiality where appropriate or required. In addition, the members of senior management, the chief internal auditor and the Auditors shall have access to the Committee to bring forward matters requiring urgent attention.

A majority of the Committee's members shall constitute a quorum. The Committee shall act on the affirmative vote of a majority of members present at a meeting at which a quorum is present. The Committee may also act by unanimous consent, either in writing or by electronic transmission, in lieu of a meeting. For purposes of this Charter, "electronic transmission" means any form of communication not directly involving the physical transmission of paper that creates a dated record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such recipient through an automated process.

The Committee may determine such additional rules and procedures as it believes are necessary or appropriate.

IV. Division of Responsibilities of the Committee, the Auditors and Management

The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board and report the results of its activities to the Board. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements and for the effectiveness of internal control over financial reporting. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies as well as internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The internal audit function is responsible for providing management and the Committee with ongoing assessments of the Company's risk management processes and systems of internal control. The Auditors are responsible for planning and carrying out audits of the Company's annual financial statements in accordance with generally accepted auditing standards, reviewing the Company's quarterly financial statements prior to the filing of each quarterly report, annually auditing the effectiveness of the Company's internal control over financial reporting and other auditing procedures.

V. Duties and Powers of the Committee

The Committee is delegated all authority of the Board as may be required or advisable to fulfill the purposes of the Committee. Without limiting the generality of the preceding statements, the Committee shall have the authority, and is entrusted with the responsibility, to take the following actions:

1. In respect of the Auditors:

- (i) to approve the appointment, compensation, retention, termination and other terms of engagement of the Auditors, having evaluated their performance;

- (ii) to review and pre-approve, or to adopt appropriate procedures to pre-approve, the Auditors' provision of audit and any non-audit services to the Company;
- (iii) to oversee the work of the Auditors (including the resolution of any disagreement between management and the Auditors regarding financial reporting), who shall report directly to the Committee, and to discuss and review the scope and plan of the annual audit, including discussing with the Auditors the Auditors' responsibilities and the responsibilities of management in the audit process;
- (iv) to obtain and review at least annually a formal written report from the Auditors describing: (1) the Auditors' internal quality-control procedures, (2) any material issues raised within the preceding five years by the Auditors' internal quality-control reviews, by peer reviews, or by any governmental or other inquiry or investigation relating to any audit conducted by the Auditors, and all steps taken to deal with such issues, (3) the independence, qualifications and performance of the Auditors and the relevant personnel of the Auditors, and (4) all relationships between the Auditors and the Company, including any relationships or services that may impact the quality of audit services or the objectivity and independence of the Auditors;
- (v) to discuss with the Auditors the report the Auditors are required to make to the Committee regarding (1) all critical accounting policies and practices to be used, (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Auditors, and (3) other material written communications between the Auditors and management, such as any management letter or schedule of unadjusted differences;
- (vi) to review with the Auditors any audit problems or difficulties, including any restrictions on the scope of the Auditors' activities or on access to requested information and any significant disagreements with management, and management's response thereto;
- (vii) to review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner;
- (viii) to review and approve any procedures on the hiring of employees or former employees of the Auditors, with a view to preserving Auditor independence;

- (ix) to consider whether, in order to assure continuing independence of the Auditors, it is appropriate to adopt a policy of rotating the Auditors on a regular basis;
- (x) to discuss with the Auditors major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles;
- (xi) to discuss with management and the Auditors any analyses or other written communications prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements; and
- (xii) to discuss with the Auditors any significant accounting adjustments that were noted or proposed by the Auditors but were rejected by management.

2. In respect of the Internal Audit Function:

- (i) to determine whether the internal audit function should be performed by employees of the Company or a third party;
- (ii) to determine if needed, and then review and approve the appointment of a chief internal auditor, which may be a third party, who will report and be directly accountable to the Committee;
- (iii) to receive regular reports on the activities of the internal audit function;
- (iv) to review the Company's internal audit plan; and
- (v) to review the degree of independence of the internal audit function and the adequacy of staffing and resources.

3. In respect of Financial Reporting, and Disclosure and Internal Controls:

- (i) to regularly review and discuss guidelines and policies governing the process by which management assesses and manages the Company's exposure to risk, and to discuss the Company's major financial risk exposures (including risk related to pension governance, funding and investments, coal price, fuel price and other commodity hedging activities, if any, insurance and foreign exchange, if material) and the steps management has taken to monitor and control such exposures;
- (ii) to review and discuss the Company's annual and quarterly regulatory filings and disclosures with management and the Auditors before they are

filed with securities authorities, including the annual audited and quarterly unaudited financial statements contained therein as well as the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";

- (iii) to review the Company's quarterly earnings press releases before their release to the public;
- (iv) to review and discuss with management and the Auditors other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards, including under Auditing Standard No. 16, *Communications with Audit Committees*, or any successor thereto, and based on this review and discussion, to recommend to the Board whether the Company's annual audited financial statements should be included in the Company's Annual Report on Form 10-K to be filed with the SEC;
- (v) to prepare the Audit Committee report that SEC rules require be included in the Company's annual proxy statement;
- (vi) to review any related party transactions and off-balance sheet transactions in accordance with Company policies;
- (vii) to discuss the kinds of financial information and earnings guidance to be provided, and the types of presentations made (paying particular attention to pro forma or non-generally accepted accounting principles information), to analysts, rating agencies and the public generally;
- (viii) to discuss with the Company's General Counsel and the Auditors, any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the Company's business, with a view to ensuring that all potential material claims against the Company have been properly evaluated, accounted for and disclosed;
- (ix) to recommend to the Board, where it deems appropriate, limits on management's authority to act without explicit Board approval;
- (x) to review the Company's disaster recovery plan;
- (xi) to review significant tax exposures and tax planning initiatives with a view to ensuring full compliance while minimizing tax costs and reviewing appropriate reserves; and
- (xii) to discuss with management and the Auditors the quality and adequacy of the Company's disclosure controls and procedures, internal control over financial reporting and internal auditing procedures, including any

significant deficiencies and material weaknesses in the design or operation of those controls which could adversely affect the Company's ability to record, process, summarize and report financial data, and the resolution of, or any special audit steps adopted in light of, significant deficiencies or material weaknesses, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

4. In respect of Corporate Governance:

- (i) to review periodically the content and application of the Company's *Code of Ethics for Principal Executive and Senior Financial Officers*;
- (ii) to review and establish procedures for (1) the receipt, retention, treatment and resolution of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- (iii) to conduct or authorize investigations into, if appropriate, or otherwise deal with internal Company complaints referred to it by the General Counsel or otherwise in respect of violations of the *Code of Conduct* and the *Code of Ethics for Principal Executive and Senior Financial Officers*, accounting or auditing matters or alleged breaches of securities laws, financial reporting requirements, fiduciary duties or other matters, and to present any findings to the Board;
- (iv) to review the activities of the Disclosure Committee of management assigned to review the functioning of the Company's disclosure controls and procedures;
- (v) to consider the effect of regulatory and accounting initiatives on the Company, including expected changes in accounting standards and processes that might have a material impact on the Company;
- (vi) to review with the full Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements and internal procedures, the performance and independence of the Auditors or the performance of the internal audit function, and to make such recommendations with respect to the foregoing and other matters as the Committee may deem necessary or appropriate;
- (vii) to review the scope and status of systems designed to promote Company compliance with laws, regulations and internal procedures through review

of reports from management, legal counsel and third parties as determined by the Committee;

- (viii) to prepare and review with the Board an annual performance evaluation of the Committee in such manner as the Committee (or other appropriate committee designated by the Board) deems appropriate;
- (ix) to review and recommend to the Board the appointment of senior financial officers; and
- (x) to review this Charter at least annually and recommend any changes to the Board.

VI. Delegation to Subcommittee

The Committee may, in its discretion and as appropriate, delegate duties and responsibilities to a member or to a subcommittee of the Committee.

VII. Resources and Authority; Function of the Committee

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to retain independent counsel, auditors, accountants or other experts or advisors, as it deems necessary or appropriate, without seeking approval of the Board or management. The Committee shall have sole authority to approve related fees and retention terms associated with the retention of any such firm or individual. The Company shall provide for appropriate funding, as determined by the Committee, for payment of (a) compensation to any independent registered public accounting firm engaged for the purpose of rendering or issuing an audit report or performing other audit, review or attest services for the Company; (b) compensation to any advisors employed by the Committee; and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

Each member of the Committee shall be paid the fee set by the Board for his or her services as a member, or Chairperson, as the case may be, of the Committee. Committee members shall be reimbursed by the Company for all reasonable expenses incurred in connection with their duties as Committee members.

Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by management and the Auditors as to any non-audit services provided by the Auditors to the Company and its subsidiaries.

VIII. Posting Requirement

The Company shall make this Charter available on or through the Company's website as required by applicable rules and regulations. In addition, the Company shall disclose in its annual proxy statement that a copy of this Charter is available on the Company's website and provide the website address.

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While the Committee members have the duties and responsibilities set forth in this Charter, nothing contained herein is intended to create, or should be construed as creating, any responsibility or liability of the Committee members, except to the extent otherwise provided under applicable federal or state law. Further, nothing in this Charter is intended to preclude or impair the protection provided in Section 141(e) of the Delaware General Corporation Law for good faith reliance by Committee members on reports or other information provided by others.