Company Highlights

The United States produced about 1 billion tons of coal, which generated approximately 43 percent of U.S. electricity in 2011.\(^1\) Cloud Peak Energy’s 2011 coal sales of 98.7 million tons supplied approximately 4 percent of the nation’s electricity.

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\(^1\)U.S. Energy Information Administration, Monthly Energy Review (February 2012); Electric Power Monthly (February 2012).

\(^2\)Reconciliation tables for Adjusted EBITDA are included on page 29.

\(^3\)Includes tons sold from Antelope, Cordero Rojo and Spring Creek mines.
Welcome to Cloud Peak Energy’s 2011 Annual Corporate Report. The purpose of this report is to update you on our business performance in 2011 and the outlook for 2012. There is a particular focus on our commitment to run our operations safely and responsibly at all times, so we can efficiently produce coal and work to maximize the long-term value of our business. Our corporate values are based on safety, environmental stewardship, achieving economic prosperity and social responsibility.

Cloud Peak Energy is the only major coal producer with all its operations in the Powder River Basin (PRB) of Wyoming and Montana and is the only company headquartered in Wyoming that is listed on the New York Stock Exchange. We employ approximately 1,600 people and shipped 95.6 million tons from our three owned and operated mines in 2011. Approximately 4 percent of the nation’s electricity is generated by coal from our three operated mines, Antelope, Cordero Rojo and Spring Creek, and our 50 percent nonoperating interest in the Decker Mine.

Safety and Environmental Performance

During 2011 our nearly 1,400 full-time mine site employees suffered 17 reportable injuries. This resulted in Cloud Peak Energy having a Mine Safety and Health Administration (MSHA) All Injury Frequency Rate (AIFR) of 1.18. That is a rate of 1.18 reportable injuries per 200,000 mine site employee hours worked. This was a disappointing increase from our 2010 AIFR of 0.58. Thankfully, the injuries were relatively minor. We continue to keep safety as a core value and will continue to work toward our goal of zero injuries.

In 2011 we reclaimed 827 acres at our three owned and operated mines and have finished a large part of essential prework for the final topsoil replacement and revegetation efforts planned in 2012. Cloud Peak Energy’s Environmental Management System was recertified under the internationally recognized ISO-14001 standard. In June 2011 we were honored to receive the prestigious Good Neighbor Award from the Wyoming Department of Environmental Quality. The award recognized our work in collaborative education outreach in reclamation, biodiversity and mining skills, and our responsible stewardship in several neighboring communities.

2011 Review

We had a very successful 2011, with sales of 95.6 million tons from our three operated mines. Shipments were driven by increased Asian exports and stable domestic demand for PRB coal. According to the U.S. Energy Information Administration, approximately 43 percent of U.S. electricity was produced from coal last year.

Our 2011 revenues were $1.55 billion and Adjusted EBITDA (defined on page 29) was $352 million. Our net income was $190 million. For the full year, average revenue per ton from our three company-operated mines was $12.92, up from $12.32 in 2010. Our reported average cost of production for the year was $9.12 per ton, which was up from $8.57 per ton in 2010. The increase was driven by higher diesel prices (up 35 percent from 2010), rising strip ratios and an increase in repair and maintenance costs.

The operations ran well during the year without any significant issues. This was a major achievement as the very wet spring made operating conditions difficult and caused disruptions to rail services that lasted from May to September. We completed several major maintenance projects and invested capital to improve operating efficiency and overcome increasing strip ratios. Our ongoing asset maintenance programs helped to lengthen equipment life and reduce unplanned outages. Due to good operational performance at the Cordero Rojo Mine, it was possible to complete the earthwork for the Belle Fourche River diversion with our own equipment, avoiding significant planned contractor costs. We also continued to work on business improvement projects, several of which are described later in this report.

Our cash flow from operations was $297 million. Capital expenditures, including capitalized interest, were $143 million, up from $92 million in 2010. Of this capital, $31.5 million was invested in two additional electric shovels: a new Caterpillar 7495 shovel at the Spring Creek Mine and a refurbished P&H 2800XP shovel at the Antelope Mine, both of which will help allow us to maintain production in the face of rising strip ratios. An additional $133 million was spent on federal coal lease installment payments during the year. We finished the year with total unrestricted cash and investments of $479 million.
During 2011 we exported 4.7 million tons to Asian customers through the Westshore and Ridley Terminals in British Columbia, Canada. This is up from 3.3 million export tons in 2010. These exports generally came from the Spring Creek Mine in the northern PRB of southeast Montana. This mine has higher energy coal than mines in the southern PRB and is approximately 200 miles closer to the terminals, giving it a quality and rail freight advantage over southern PRB mines. Demand for our coal from Asian utilities remains strong, but sales continue to be limited by West Coast export terminal capacity. We are working with several different groups trying to develop terminal projects and are hopeful that additional capacity will become available in the next few years. Increased export capacity and favorable market conditions would position us well to significantly increase exports, which would create new jobs and tax revenues in Montana and Wyoming.

**Reserves**

The Antelope Mine was awarded the two West Antelope II federal leases during the year, which contained a total of 383 million tons of coal and allowed access to 81 million tons of previously leased coal. After shipping a total of 97.2 million tons of coal, we ended the year with 1,367 million tons of reserves (including our 50 percent interest in the Decker Mine). This is an increase in reserves of approximately 40 percent compared to 2010. We currently expect the Maysdorf II lease, which is contiguous with our Cordero Rojo Mine, to come up for bid in late 2012 or early 2013.

**Outlook**

In 2011 we continued to build the financial and operational strength of the company, which along with the reserve additions, should position us well to grow the company in the future. The operations are in good shape going into 2012, with a high quality, experienced team of employees who continue to find ways to improve our company’s performance. The external environment we face in 2012 and beyond may not be as favorable. Regulatory uncertainty, the warm winter and low natural gas prices have depressed domestic coal prices since October of last year. As most of our 2012 sales are already contracted, we should be well placed; although if low prices and weakened demand persist through the year, they will impact our financial performance.

The many actions taken by government bodies and nongovernmental organizations (NGOs) to reduce the amount of domestic electricity produced from coal are an ongoing concern. Cloud Peak Energy advocates for coherent federal legislation that will allow the U.S. to continue to enjoy the long-standing benefits of low cost energy while meeting environmental concerns in an achievable time frame. The current uncoordinated regulatory and legal approach runs the risk of increasing energy costs, reducing economic growth and job creation and not meeting environmental objectives. Cloud Peak Energy will continue to work with our stakeholders to try and help legislators make informed decisions when they are considering the critical and complex issues around the country’s energy policy.

**Concluding Thoughts**

I am very pleased with the performance of Cloud Peak Energy during our second year as a public company. The only disappointment was the increase in the number of injuries suffered by our mine site employees, which we will focus on reducing in 2012. During 2011 we grew our export sales, increased our reserve position, invested in the business and ran the operations well, which delivered a strong financial performance with record Adjusted EBITDA of $352 million. This performance is due to the combined efforts of all our employees. We are now looking to build on our success and financial strength to explore ways to acquire additional reserves and grow the company.

I would like to thank all our stakeholders – from our employees, customers and contractors to our Board of Directors and Stockholders and those of you in the communities we are part of – who helped make 2011 such a success for Cloud Peak Energy. As you read through the report, please do not hesitate to contact us with any questions or comments. Our contact information is listed on the back, and any feedback to the report is welcomed.

**Colin Marshall**

President and Chief Executive Officer
Overview

Cloud Peak Energy Inc. is headquartered in Wyoming and is the only major U.S. coal producer with all its operations in the Powder River Basin (PRB), the lowest cost and largest coal producing region of the nation. As one of the safest coal producers in the nation, Cloud Peak Energy produces low sulfur, subbituminous coal. The company owns and operates three surface coal mines in the PRB. The Antelope and Cordero Rojo mines are located in Wyoming, and the Spring Creek Mine is located near Decker, Montana. The company also owns a 50 percent nonoperating interest in the Decker Mine, also located near Decker, Montana. With approximately 1,600 full-time employees, the company is widely recognized for its exemplary performance in its safety and environmental programs. Cloud Peak Energy is a sustainable fuel supplier for approximately 4 percent of the nation’s electricity. Cloud Peak Energy has corporate offices in Gillette, Wyoming, and Broomfield, Colorado.

Where We Stand...

Climate Change

Cloud Peak Energy believe that the political realities of the debate on various climate change initiatives and their possible impacts on our industry must be addressed. We therefore believe there must be balanced and ongoing scientific and economic debates on the various aspects of climate change. This process should provide a solid information base for decision-makers. In both political and scientific considerations, decision-makers need to understand the full economic, social and energy security impacts of their actions and decisions related to climate change.

Any climate change initiative or CO₂ reduction milestone must specify the actions needed to reduce CO₂ emissions and where those emission reductions will occur. We believe that carbon capture and sequestration is a key technology that will allow for CO₂ reductions and for the continued use of economic carbon-based fuels without economic dislocation for the nation. We are continuing to work in Wyoming to develop the legal framework essential for progressing carbon capture and sequestration on a commercial scale.

Energy Policies

The U.S. has an abundant, low cost supply of coal and natural gas. This provides the nation an opportunity to achieve a high degree of energy independence and competitive economic advantage, with significant domestic investment and job creation – but only if state and federal energy policies allow this to happen. According to the U.S. Environmental Protection Agency¹, despite increases in the nation’s gross domestic product, vehicle miles traveled, energy consumption and the U.S. population, total emissions of the six principal air pollutants decreased 67 percent from 1980 to 2010. Continuing advances in combustion technologies and emission controls will extend the three-decade trend of environmental impact improvements in relation to total energy demand.

All state and national energy policies should establish clear statements of principle that recognize fossil fuels as a key part of the economic structure. We believe that America needs stable policies to foster long-term capital investment in energy.

Any energy policy should establish simple and straightforward decision-making processes that provide certainty related to energy development, use and marketing. Energy issues involve long-term decisions and significant capital investments. Policies should emphasize efficient and timely decision-making processes on energy-related matters.

Any national energy policy should provide for a level playing field between competing energy sources, taking into account economic, environmental and social benefits, and should provide no special concessions to one over the other. The policy should promote sensible and balanced decision-making for all commercial-scale energy development sources. When analyzing relative advantages and disadvantages for the various energy resources, a balanced approach will include considerations of life-cycle energy/carbon analyses and assessments of relative impacts on the existing and projected grid systems.

Recognizing the diverse energy resources of the nation, national energy policy should establish certainty and clear processes for resolution of any conflicts that arise in development of multiple resources in the same area. As a means of promoting diverse energy development, the processes must be unbiased, commercially predictable and provide equitable solutions without litigation.

An energy policy needs to ensure a stable framework of regulation, taxation, development and distribution opportunities for all forms of energy to ensure long-term investments in energy development. Supporting energy regulations need to comprehensively address economic, environmental and social impacts.

2011 Approach

The company believes that all injuries and occupational illnesses are preventable. This drives a proactive approach to prevent injuries and work-related illnesses and to learn from the incidents that have occurred. The Cloud Peak Energy Health, Safety and Training group is responsible for developing and implementing specific health and safety strategies that guide the skills and behaviors needed to create an occupational injury-free and illness-free workplace. As part of this approach, Cloud Peak Energy incorporated a 2011 Health and Safety Action Plan and ensured all leaders have defined health and safety goals in their personal performance plans. Safety performance is a significant factor in all employee bonus programs.

2011 Health and Safety Highlights

Certifications

Cloud Peak Energy maintained international OHSAS-18001 certification of its Health, Safety and Environmental (HSE) Management System following a HSE Business Conformance Audit conducted by a third party auditor.

Incident Reporting and Investigations

In 2011 Cloud Peak Energy implemented HSE Management software to improve incident management. This software allows employees to enter incident details and have the information immediately available across all Cloud Peak Energy properties. This quick communication of lessons learned and corrective actions improves incident awareness and reduces the likelihood of reoccurrence. The HSE Management Application also addresses risk management, audit tracking, management of change and action management. Each of these new tools is aimed at reducing duplication and improving user access to key HSE Management System processes.

Employee and Contractor Training

Cloud Peak Energy continues education and training programs with employees and contractors that focus on understanding of our standards, safety rules and safe work procedures. Cloud Peak Energy hosted several Contractor Health, Safety and Environmental Training sessions in 2011. We are actively working with our contractor community to continuously improve contractor safety awareness and performance.

Explore Wellness

Cloud Peak Energy continued to promote the benefits of a healthy lifestyle through our Explore Wellness program. As a result, the company saw employee participation increase to 85 percent in the wellness program in 2011 compared to 82 percent in 2010. Participation in the program means employees either complete the company-offered wellness testing or a yearly physical. Please turn to page 17 to read more about the Explore Wellness program.

2011 Safety Performance

According to MSHA data, Cloud Peak Energy’s AIFR of 1.18 for 2011 was among the lowest of the large U.S. coal producers. The company’s vision is a commitment to continuously work toward zero injuries.
2011 Approach
Cloud Peak Energy integrates all facets of the business with the goals of ensuring regulatory and internal environmental compliance and meeting our environmental targets. The company’s Health, Safety and Environmental Management System provides the framework and direction for managing our programs in those areas.

The company has built a strong compliance history and has a solid foundation of environmental programs. Our Environmental Management System (EMS) and its implementation have been externally certified since 2005 as meeting or exceeding the internationally recognized ISO-14001 standard and were most recently recertified through an independent audit that was conducted in November 2011. The auditors highlighted numerous commendations – one of which recognized the salvaging of cottonwoods at Antelope Mine as a significant habitat improvement project that will provide habitat for raptors and songbirds. The Cloud Peak Energy EMS continues to be improved through a system of internal suggestions, frequent monitoring and internal and external auditing. Please see page 23 of this report for more details on our approach to environmental stewardship.

Environmental Performance
Cloud Peak Energy’s environmental target-setting process continues to be based on the benefits of projects that bring reductions in our energy use and corresponding decreases in emissions of greenhouse gases. Project-based targets are often linked to business improvement activities and also capture the energy and emission reduction benefits. The 2011 mine site projects that captured these benefits included increasing haul truck payloads, allowing us to reduce haul truck operating hours; purchasing larger, more productive haul trucks at Antelope Mine; and installing high-efficiency dozer blades that improve dozer productivity.

Emphasis on the quality and progress of reclamation continues to be a priority with strong management support and aggressive reclamation targets. Reclamation and associated bonds continue to be closely monitored. In recent years, additional emphasis has been placed on seeking bond release. In 2011 several bond release packages totaling 2,846 acres were submitted by the company and approved by the respective regulatory agencies, resulting in bond reduction.

Cloud Peak Energy continues to emphasize reclamation of mined lands, as demonstrated by the 2011 performance that was 7 percent better than target (please see the targets summary table following this section). While the electricity use reduction target was not met in 2011, the associated targets for diesel use reduction and greenhouse gas emission reductions were more than met, 233 percent and 80 percent better than target, respectively.

Cloud Peak Energy 2011 Environmental Targets

<table>
<thead>
<tr>
<th>Objective</th>
<th>Target</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land stewardship: Reclaim 770 acres</td>
<td>Reclaimed 827 acres</td>
<td></td>
</tr>
<tr>
<td>Maximize reclamation acres</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce energy use: Projects to reduce diesel use by 205 kgal</td>
<td>Reduced by 683 kgal</td>
<td></td>
</tr>
<tr>
<td>Reduce energy use: Projects to reduce electrical use by 187,110 kWh</td>
<td>Increased electrical use by 2,813,728 kWh but offset by corresponding projects to gain reduction in diesel fuel1</td>
<td></td>
</tr>
<tr>
<td>Reduce greenhouse gas emissions: Projects to reduce greenhouse gas emissions by 2.5 kt CO₂-e</td>
<td>Reduced by 4.7 kt CO₂-e</td>
<td></td>
</tr>
<tr>
<td>No environmental citations</td>
<td>No environmental citations</td>
<td>1 Notice of Violation2</td>
</tr>
</tbody>
</table>

1. Efficiency improvements were made that increased the use of electricity but resulted in a substantial decrease in diesel use. An overall reduction in energy units of over 524,000 Btus was realized as well as reducing an additional 2.5 kt CO₂-e of greenhouse gases.
2. Cloud Peak Energy received a Notice of Violation for a minor unauthorized discharge of treated water at its Sequatchie Valley Mine in Tennessee which is not an operating site. The discharge was made in conjunction with water management efforts with no more significance associated with the State of Tennessee regulatory action than general water management activities at a CO2-Mine.
Cloud Peak Energy runs safe, reliable operations that are highly productive, well maintained and cost competitive.

**About Our Operations**

Cloud Peak Energy runs safe, reliable operations that are highly productive, well maintained and cost competitive. We implement preventative maintenance and rebuild programs and regularly upgrade our equipment. Our maintenance programs also utilize procedures designed to enhance the efficiencies of our operations. We focus on executing risk reduction strategies and tactics through standardized inspections and audits from in-house planning specialists. The company’s rebuild and planning programs help to reduce rebuild costs and increase repair quality on heavy equipment for all Cloud Peak Energy owned and operated mines.

**Reliability of Supply**

As of December 31, 2011, Cloud Peak Energy controlled approximately 1.37 billion tons of proven and probable reserves. All of our proven and probable reserves are classified as thermal coal. In 2011 the company entered into two separate federal coal leases with the Bureau of Land Management for our Antelope Mine. These leases increased our proven and probable reserves by approximately 383 million tons in 2011.

The following table summarizes our coal reserves that are classified as proven or probable and the “quality” (average sulfur content and average Btu per pound) of our coal reserves as of December 31, 2011:

<table>
<thead>
<tr>
<th>Mine</th>
<th>Total Proven &amp; Probable Reserves (nearest million, in tons)</th>
<th>Average Btu per lb (^1)</th>
<th>Average Sulfur Content %</th>
<th>Average Sulfur Content (lbs SO2/mmBtu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antelope</td>
<td>683</td>
<td>8,875</td>
<td>0.23</td>
<td>0.52</td>
</tr>
<tr>
<td>Cordero Rojo</td>
<td>370</td>
<td>8,425</td>
<td>0.29</td>
<td>0.69</td>
</tr>
<tr>
<td>Spring Creek</td>
<td>311</td>
<td>9,350</td>
<td>0.33</td>
<td>0.71</td>
</tr>
<tr>
<td>Decker(^2)</td>
<td>3</td>
<td>9,450</td>
<td>0.41</td>
<td>0.87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,367</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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1. Average Btu per pound includes weight of moisture in the coal on an as-sold basis.
2. Based on our 50 percent nonoperating interest.
General Information

The Antelope Mine is located in the southern end of the PRB, approximately 60 miles south of Gillette, Wyoming. The mine extracts thermal coal from the Anderson and Canyon Seams, with up to 44 and 36 feet, respectively, in thickness. Antelope mined and shipped 37.1 million tons of low sulfur, 8,880 Btu coal in 2011. Coal mined from Antelope is shipped primarily to electric utilities in the midwest, southwest and southeast United States.

2011 Highlights

West Antelope II LBAs

During the second quarter of 2011, Cloud Peak Energy was the successful bidder for the West Antelope II North and West Antelope II South Coal Tracts in the PRB. The tracts have favorable geologic conditions and increased our year-end 2011 proven and probable reserves by approximately 383 million tons. With the addition of these federal leases, we also gained access to approximately 81 million tons of coal in an adjacent state of Wyoming coal lease that we controlled but was not previously included in our reserves estimates, resulting in a combined total increase of 464 million tons. As previously disclosed, the West Antelope II leases are subject to pending legal challenges against the Bureau of Land Management and the Secretary of the Interior by environmental organizations.
In April 2011 Antelope Mine purchased a used P&H 2800XP shovel in order to assist with the increasing strip ratios at the Antelope Mine. A project team was formed to disassemble the shovel, transport the components to Wyoming, refurbish components and reassemble the shovel at Antelope Mine. The shovel was completed and placed into production in January 2012. The project totaled 42,600 man-hours with a perfect safety record. Designed for a 37-cubic yard dipper and productivity of 3,200 cubic yards per hour, the P&H 2800XP shovel will help Antelope Mine achieve production goals for 2012 and beyond.

Cloud Peak Energy and Antelope Mine Featured in Coal Age

Cloud Peak Energy and Antelope Mine were highlighted in the June 2011 issue of Coal Age, an industry publication. Featured as the front page article, the story focused on the company’s planned maintenance and centralized dispatch and monitoring system; our expanding exports; and Antelope Mine. The story gave an impressive account of how, despite limited coal storage capacity, the mine efficiently produces coal and meets the needs of our customers for a consistent supply source.
Cloud Peak Energy is committed to producing coal in a sustainable manner, with emphasis on health, safety and the environment.
The Cordero Rojo Mine extracts thermal coal from the Wyodak Seam, which ranges from approximately 55 to 70 feet in thickness.

**General Information**

The Cordero Rojo Mine is located approximately 25 miles south of Gillette, Wyoming. The mine extracts thermal coal from the Wyodak Seam, which ranges from approximately 55 to 70 feet in thickness. Cordero Rojo Mine mined and shipped approximately 39.5 million tons of low sulfur, 8,400 Btu coal. Coal mined from Cordero Rojo is primarily shipped to electric utilities in the west, midwest and southeast United States.

**2011 Highlights**

**Belle Fourche Diversion Project and Drop Structure**

The Cordero Rojo Mine successfully diverted the Belle Fourche River around mining operations in 2011. The project began in 2004 when the mine successfully reconstructed segments of the river on areas that had been mined, which included 180 acres of floodplains and 464 various planted trees. For these efforts, Cordero Rojo Mine received the 2006 Excellence in Surface Coal Mining and Reclamation award from the Wyoming Department of Environmental Quality.

In 2011 the mine continued the project by changing the course of the river over a distance of 6,200 feet, utilizing a large channel, a drop structure and storm water management structures, which are designed to release the water flow into the reconstructed river channel that was completed in 2004. This tie-in marks the completion of the first phase of river reclamation, which will eventually return it to its original course as mining is completed in the area.

Advanced design elements were used for the 2011 project, which helped enhance water quality protection and water quantity preservation for downstream users through highly effective erosion control and flood management measures. Most notably, the site used a dragline and dozers for a significant portion of material movement. Using the dragline saved several months of construction time, allowed for timely completion of the diversion project and produced significant cost savings in contractor construction costs.

**Hilight/T-7 Road Relocation**

Cordero Rojo Mine relocated a section of Campbell County T-7 Road in 2011, which allows the company to continue mining in the T-7 Pit. Cloud Peak Energy worked collaboratively with the Campbell County Public Works Engineering Division to design the project and successfully constructed the new road to meet the county’s requirements. The project shifted the corner of the Hilight County Road and the T-7 Road north approximately 2,200 feet and required the construction of 1.6 miles of new road. The construction was completed within budget, on time and without any lost-time injuries.

**Mine Entrance Enhancements**

Cordero Rojo Mine made a number of enhancements to its mine entrance and parking areas in order to decrease congestion and improve safety in front of the administration building and areas with heavy foot traffic. The mine moved its entrance closer to the county T-7 Road to separate vendor and visitor traffic from the employee parking lot. The project also included the relocation of some warehouse storage, moving the mine vehicle parking area and improving the access to the truck scale located near the entrance security building. Construction began in June 2011 and was completed in November 2011. No safety incidents occurred during the project, and it was completed on time and on budget.

Cloud Peak Energy
The Spring Creek Mine extracts thermal coal from the Anderson-Dietz Seam, which averages approximately 80 feet in thickness.

General Information
The Spring Creek Mine is located in Montana approximately 35 miles north of Sheridan, Wyoming. The mine extracts thermal coal from the Anderson-Dietz Seam, which averages approximately 80 feet in thickness. The Spring Creek Mine shipped approximately 19.1 million tons of low sulfur, 9,240 Btu coal in 2011. Coal mined from Spring Creek is shipped primarily to electric utilities and industrial customers in the northwest, midwest, northeast and southwest United States, various Canadian provinces and exported to Asian utility customers via the Westshore and Ridley terminals in British Columbia, Canada.

2011 Highlights
New Caterpillar 7495 Shovel
Spring Creek Mine bought a new Caterpillar 7495 overburden shovel in 2011 in order to increase overburden removal and stripping capabilities. Construction formally began in October and was completed with zero safety incidents in December. The shovel has a 61-cubic yard dipper, with shovel design capacity of up to 80 yards and will move approximately 4,000 cubic yards per hour. This shovel was the first production unit in the world built under the Caterpillar brand; in November 2010, Caterpillar bought Bucyrus International.

New Komatsu PC1250 Backhoe
In 2011 Spring Creek Mine purchased a new Komatsu PC1250 track-mounted backhoe. The backhoe was placed into service in August 2011. The machine’s primary purpose is to cut the highwall for the dragline, which improves highwall safety and dragline productivity. The backhoe also allows dozers to push material directly across the pit, resulting in higher dozer productivity.
Cloud Peak Energy owns a 50 percent nonoperating interest in Decker Coal Company, which is located in Montana.

**General Information**

Cloud Peak Energy owns a 50 percent nonoperating interest in Decker Coal Company, which is located in Montana. The other 50 percent mine owner has responsibility for the day-to-day operations. In November 2011 a U.S. subsidiary of the Australian energy company, Ambre Energy Limited, acquired the other 50 percent interest in Decker Coal Company from Level 3 Communications, Inc.
Domestic

Most of Cloud Peak Energy’s customers are domestic electrical utilities – our coal goes to over 108 individual power plants located primarily in the midwest and south central U.S. We also sell to foreign electrical utilities, industrial coal users and third party brokers. The company focuses on building long-term relationships with our customers through reliable performance and a commitment to customer service. Our coal is primarily sold on a mine-specific basis through request-for-proposal and tender processes. Transportation of the coal from our mine to the power plant or factories where it is used can be one of the largest components of a purchaser’s total cost. Coal used for domestic consumption is generally sold free on board (FOB) at the mine, and the purchaser of the coal generally pays the transportation costs.

A majority of our coal is shipped to large and midsized generators who supply a significant portion of the electricity in their respective regions. We also supply coal to a significant number of smaller industrial customers that produce and manufacture other products such as cement, beet sugar, timber and other commodities.

The below map shows the percentage of our shipped tons of coal by state of destination during 2011 from coal produced at the three mines we own and operate.
International

Cloud Peak Energy’s international customers are mainly in the Asian Pacific markets. Cloud Peak Energy has supplied export coal from Spring Creek Mine over the last five years with key advantages being the mine’s geographic location relative to Pacific Northwest terminals and the suitability of the coal for many Asian power plants. In 2011 we also shipped a vessel through the Great Lakes and some coal through the Gulf of Mexico to be blended with other eastern coals, ultimately transported to Europe. For our international sales, Cloud Peak Energy typically holds rail and terminal contracts and sells the coal when the customer’s vessel is loaded.

We transport our coal primarily to these terminals through our own rail and terminal agreements. Our international customers are generally responsible for paying the cost of ocean freight.

To help ensure export terminal capacity for a portion of our anticipated export sales, in 2011 we entered into a long-term throughput contract with Westshore Terminals Limited Partnership, an export terminal located near Vancouver, British Columbia, that expires in 2023.

Growth in Exports Over Last Five Years

Year ended December 31, 2011

Asian Exports
(in millions of tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.1</td>
<td>0.7</td>
<td>1.6</td>
<td>33</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Cloud Peak Energy
Responsibility Stewardship

Responsible stewardship plays an important part in how Cloud Peak Energy conducts business. From the way we operate our mines, to the health and safety of our employees, to the well-being of our neighbors and communities, to the condition of the environment, the company is continually setting and achieving goals to improve the way we mine coal.

Business Stewardship

Ethics and Compliance Program

Cloud Peak Energy’s long-term success depends on us operating responsibly and fulfilling our commitment to work ethically, safely and in compliance with the laws and regulations that govern our business activities. Cloud Peak Energy has established a robust ethics and compliance program designed to maintain best corporate practices and to further our commitment to satisfy legal and regulatory requirements. The focus of our program is on prevention.

Learning Management System

Cloud Peak Energy understands that developing core competencies and skills in the workforce is an essential part of its success. Consequently, Cloud Peak Energy uses a web-based Learning Management System (LMS) to track and deliver training based on specific employee requirements. Example trainings include electrical requalification classes for the Mine Safety and Health Association and Basic Dragline Controls for operators. The system allows the company to track and manage field-based skills as well as training carried out centrally. A key goal is to improve collaboration and alignment between sites.

Business Improvement

Cloud Peak Energy utilizes a formal, structured approach to improve our business. Many of the safety and cost reduction projects and improvement areas mentioned in this report are a direct result of this improvement philosophy. Examples of our improvement activities include:

- Overall truck payloads were improved by increasing the number of haul trucks filled to capacity without overloading.

- The risk of engine failures on haul trucks and support equipment was reduced by using data from oil and filter analysis programs to schedule maintenance for haul trucks and support equipment before catastrophic failures occurred.

- Cloud Peak Energy also assisted a vendor in designing and installing several new parts aimed to minimize engine oil leaks.

Health, Safety and Wellness

Safety Program

Cloud Peak Energy is committed to producing coal in a sustainable manner, with emphasis on health, safety and the environment.
We encourage all individuals to be actively engaged in the vision of a total safety culture, which includes a clear understanding and belief that all injuries and occupational illnesses are preventable, and everyone is directly responsible for preventing them.

Safety Spotlight
The following spotlight demonstrates Cloud Peak Energy’s proactive approach to eliminating incidents in the area of fatigue management:

Cloud Peak Energy formed a team designed to eliminate fatigue-related incidents through training programs and implementing a measurement system to help manage fatigue when it occurs. The company first implemented a comprehensive education program for employees and family members to manage fatigue. Follow-up sessions continue to be offered at the operations.

The team also reviewed potential technical solutions and found an available technology that measures eye movement and sleep events. This system works by alerting a haul truck operator who closes his/her eyes for 1.5 seconds while traveling a minimum of 6 miles an hour.

The alert consists of an audible alarm and activating an electronic motor that vibrates the operator’s seat. In August 2011 seven test units were installed on haul trucks across the three Cloud Peak Energy sites. Fatigue incidents per shift have decreased by approximately 60 percent since the first month of operation. Cloud Peak Energy is planning to install this technology in all haul trucks once the trial is complete.

Explore Wellness Program
Cloud Peak Energy believes in improving the health of its employees. We are committed to providing quality benefits to help employees cost-effectively manage their health care needs and those of their family.

Cloud Peak Energy promotes a healthy lifestyle through our Explore Wellness program which involves free wellness visits, wellness testing, confidential health risk assessments and health advice and coaching. The program aims to help Cloud Peak Energy employees and families to commit to and maintain lifestyle changes that will result in happier and healthier lives. In December 2011 the company hired a health and wellness specialist to assist in these efforts.
The communities in which Cloud Peak Energy has its mines and office locations play a significant role in our success. Our employees live there, a large portion of our principal activities occur there and they are neighbors to our operations. Our communities include the towns of Douglas, Wright, Gillette and Sheridan in Wyoming; Billings in Montana; and Broomfield in Colorado.

Cloud Peak Energy supports the communities in which it operates in a number of ways. We encourage volunteerism among our employees, maintain a matching gifts program, provide a mechanism for organizations to directly approach us for funding and conduct and respond to community needs assessments, which allow community leaders to set key priorities.

**Employee Volunteerism**

Community leadership and involvement have become hallmark characteristics of our employees. Cloud Peak Energy employees serve on boards, volunteer as coaches for local sports teams and are involved in a wide range of other community organizations. One example is Donnell Nichols, Rebuild Shop Mechanic, who volunteers on the Bricks for Vets Committee of the Powder River Basin in Wyoming. The mission of this group is to give residents the opportunity to honor veterans for their services in the U.S. Armed Forces. In 2011 Bricks for Vets sold granite bricks that will be used to build a memorial wall in Lasting Legacy Memorial Park in Gillette. The bricks will be inscribed with the names of veterans. Donnell volunteered his time engraving names onto the bricks. Another example is Mike Earnst, a Surveyor at Antelope Mine. Mike is president of the Laramie Peak Humane Society, an animal shelter based in Douglas, and gives many hours of time to the cause. Many more employees, like Donnell and Mike, give their time and support to worthwhile organizations in each of our communities.

**Matching Gift Program**

Cloud Peak Energy has a matching gift program that encourages involvement in local community organizations and individual support for nonprofit, tax-exempt organizations. The program allows employees to secure company funding to match their own financial support for diverse charitable organizations throughout the U.S. In 2011 the company contributed approximately $45,000 in matching funds.

**Cloud Peak Energy Contributions Program**

Another way we support local organizations is through the Cloud Peak Energy contributions program. One part of the program allows organizations to approach the company seeking contributions. The company has administrators and a committee of Cloud Peak Energy employee volunteers who administer funds to these organizations. We invested more than $620,000 of contributions toward community programs and efforts in total for 2011.

**Wyoming**

As a result of previous community needs assessments, Cloud Peak Energy continues to support important partnerships with and sponsorships for the numerous service organizations supported by the Wyoming Community Foundation, the substance abuse prevention provided by the Wyoming Meth Project and the education outreach by Audubon Wyoming, among others. Other sponsorships included those for organizations that raise money to fight cancer, such as Relay for Life of Campbell County.

We were also proud to be involved in and provide sponsorships for community-specific projects in Wyoming, including the following examples:

**Douglas, Wyoming**

**Douglas Youth Hockey Association**

The Douglas Youth Hockey Association provides ice hockey opportunities for the youth of Douglas. Cloud Peak Energy’s contribution helped provide a positive environment for families to spend time together participating in a health-improving activity.

**Douglas Intermediate School Programs – Reading Rocks and Too Good for Drugs**

In 2011 Cloud Peak Energy was a proud supporter of the Reading Rocks summer program, an incentive program that encouraged school-wide reading activities. Students earned payments for improved reading performance, which they could donate to buy new...
uniforms for the “Sunny Singers,” the school’s select choir. Cloud Peak Energy continues to be a loyal supporter of the Reading Rocks program and efforts to improve literacy skills.

Too Good for Drugs is a substance abuse prevention program for fifth and seventh graders. The program teaches goal setting and decision-making skills in an effort to eliminate drug use and violence. As a contributor to this program, Cloud Peak Energy supports students in living healthy, drug-free lifestyles.

**Campbell County and Gillette, Wyoming**

**SkillsUSA**
The SkillsUSA program helps prepare high school and college students for careers in trade, technical and skilled service occupations. During 2011 Cloud Peak Energy employees continued strong involvement in the regional SkillsUSA events in Wyoming, particularly for the Gillette and Douglas areas. Beyond promoting youth interest in welding and fabrication skills that are critical to mine maintenance, SkillsUSA students also produce beneficial community service items through the results of their skills projects.

**Youth Emergency Services**
Cloud Peak Energy continued our partnership and support for the critical services of the Youth Emergency Services, an organization that provides shelter and developmental alternatives for youth in the community and aims to reduce substance abuse and its impacts in the region.

**Campbell County Senior Center**
Cloud Peak Energy is proud to provide meals at the senior center on several days throughout the year. Cloud Peak Energy employees volunteer to serve lunch and spend time with the seniors.

**Sheridan, Wyoming**

**Volunteers of America Northern Rockies**
Volunteers of America is a national, nonprofit organization dedicated to helping those in need rebuild their lives and reach their full potential. Established in Sheridan in 1985, Volunteers of America Northern Rockies provides services, such as affordable housing, community enhancement and health care services, to the people of Wyoming and Montana.

“I wanted to let Cloud Peak Energy know how much we appreciated your donation to our reading project this spring. We thank you so much for supporting our efforts to improve literacy among our students.”  ~Deb Hansen, Douglas Intermediate School

**MONTANA**

In 2011 Cloud Peak Energy supported organizations in Montana active in the areas of business and economic development, education, youth skill development and substance abuse avoidance. Some of these organizations are the Asia-Pacific Economic Cooperation, the Montana Council of Economic Education, the Montana Leadership Council and the Montana Meth Project. We were also privileged to assist in early response flood relief efforts for southeast Montana and northern Wyoming residents.

**Disaster Relief Effort for Flood Victims in Montana**
The spring of 2011 brought significant flooding to parts of northeast Wyoming and southeast Montana. Seeing our neighbors in need, Cloud Peak Energy employees quickly organized supplies to help provide first response relief. With the assistance of the Sheridan Senior Center...
Communities

County Chamber of Commerce, supplies were gathered and delivered to flood relief shelters at Little Big Horn College in Crow Agency and Montana State University-Billings. The company also provided funds to the American Red Cross of Montana and the Montana Food Bank, organizations providing food and shelter to the flood victims. As a result of the company’s actions, the Sheridan County Chamber of Commerce named Cloud Peak Energy the 2011 Business of the Year.

Billings, Montana

Community Involvement

Cloud Peak Energy completed a Billings Community Needs Assessment (CNA) in 2011. The survey results helped Cloud Peak Energy focus its efforts on needs identified by the community, such as programs to address substance abuse and homelessness. The company also finalized the formation of a Billings Contributions Advisory Committee during 2011. The committee is comprised of a broad spectrum of community leaders with diverse community experience and has been instrumental in identifying effective community programs to address the needs identified in the CNA.

Homelessness

Homelessness is one of the major areas of concern identified in the CNA for the residents of Yellowstone County and the city of Billings. Through the guidance of our Billings Community Advisory Committee, Cloud Peak Energy has been able to support nonprofit organizations that focus on homeless issues. The Interfaith Hospitality Network (IHN) supports homeless families by providing shelter, meals and other comprehensive services. As part of our direct involvement, Cloud Peak Energy participated in their Cardboard Box City fundraiser in Billings, where youth created their own cardboard box dwellings and slept in them for a night to learn more about homeless issues.

Colorado

Broomfield, Colorado

Voices on Canvas

Voices on Canvas is an organization that offers youth opportunities to learn expressive dialogue through artistic expression and essential skills in communication, leadership and civic responsibility. Cloud Peak Energy was pleased to sponsor Voices on Canvas to create centerpieces for the Broomfield office holiday party.

Cloud Peak Energy receives the Good Neighbor Award from Wyoming Regulatory Agency

On June 24, 2011, Cloud Peak Energy received a prestigious Good Neighbor Award from the Wyoming Department of Environmental Quality. The award was presented for outstanding achievement related to collaborative education outreach in reclamation, biodiversity and mining skills, and our responsible stewardship in several neighboring communities.

Examples of the education outreach include working with the U.S. Fish and Wildlife Service to run a shrub establishment workshop as well as developing museum and interactive displays on mine land reclamation. A school-age interactive display was developed that allows students to experience and participate in the phases of open-pit mine reclamation. Community outreach examples include participation in and support for programs promoting economic development and community sustainability, such as the Campbell County Economic Development Corporation, Big Sky Economic Development Corporation and Chambers of Commerce in each neighboring community.
Cloud Peak Energy provides significant contributions to the national economy, as well as to the economies of Montana and Wyoming. From taxes and royalties paid, to community contributions and goods and services purchased, to employee compensation, the company not only contributes at a national and state level but also in local communities and among businesses in our operating states.

2011 Taxes and Royalties

The following is a brief breakdown of payment categories for 2011 federal and state taxes and royalties and federal coal lease payments.

(in millions)

<table>
<thead>
<tr>
<th>Federal Government Total</th>
<th>$ 207</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portion Retained by Federal Government</td>
<td>$ 143</td>
</tr>
<tr>
<td>(Subtotal of black lung excise tax, abandoned mine reclamation fee and 51 percent of federal royalty)</td>
<td></td>
</tr>
<tr>
<td>Portion Distributed to States:</td>
<td></td>
</tr>
<tr>
<td>Wyoming</td>
<td>$ 52</td>
</tr>
<tr>
<td>Montana</td>
<td>$ 12</td>
</tr>
<tr>
<td>(49 percent of federal royalty)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State and Local Government Direct Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyoming</td>
</tr>
<tr>
<td>Montana1</td>
</tr>
<tr>
<td>(Subtotal of state royalty, state excise tax, county gross proceeds tax and county property tax)</td>
</tr>
</tbody>
</table>

| Total Tax and Royalty Received by Wyoming | $ 162 |
| Total Tax and Royalty Received by Montana1 | $ 60 |
| (Total federal, state and local taxes and royalties received by the states) |
| Private Royalty | $ 5 |
| Total Tax and Royalty | $ 370 |

1 Includes 50 percent nonoperating interest in Decker Mine.

Note: These amounts represent accrued taxes and royalties payable on 2011 operations. This differs from amounts actually paid during 2011, which would have included payments for operations in 2009 through 2011. No federal coal lease payments are included in the above amounts.

Federal Coal Lease Payments Made (in millions):

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>$93</td>
<td>$64</td>
<td>$133</td>
<td></td>
</tr>
</tbody>
</table>

Committed Future Federal Coal Lease Payments (in millions):

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$129</td>
<td>$79</td>
<td>$69</td>
<td>$69</td>
<td></td>
</tr>
</tbody>
</table>

Community Contributions and Purchased Goods and Services

Cloud Peak Energy is proud to support our communities, work with our local businesses and purchase goods and services in Montana and Wyoming. In 2011 Cloud Peak Energy expenditures for Wyoming totaled $276 million and for Montana the total was $17 million.

Average Compensation

Average employee compensation, including benefits, was approximately $105,000 throughout our three owned and operated mine sites. In 2011 the amount of state income tax withheld and paid to Montana was approximately $980,000.
GOVERNMENT AFFAIRS

State and federal laws and regulations apply to Cloud Peak Energy operations, including mining and reclamation, environmental compliance, marketing and financial reporting. The Government Affairs group represents the company before state legislative bodies, regulatory agencies and the U.S. Congress in efforts to ensure pertinent laws are practical and appropriate. Providing timely and accurate information on how current and proposed government actions potentially impact our company and industry helps ensure that government decision-makers are informed before laws and policies are finalized. Toward that purpose, Cloud Peak Energy is a member of several state, regional and national trade associations, such as the National Mining Association, Rocky Mountain Coal Mining Institute, Western Business Roundtable, Coal Utilization Research Council, Montana Coal Council and Wyoming Mining Association. Participation in these organizations facilitates shared industry views and positions on government actions and energy policies.
Cloud Peak Energy operates under seven internal environmental standards: acid rock drainage, air quality, closure management, greenhouse gas, hazardous waste, reclamation and water use quality. These standards establish the principles the company follows to implement leading programs that protect air and water resources and surpass regulatory requirements. Key focus areas to meet our goals, improve our practices and remain compliant are:

**Auditing and Monitoring**

Cloud Peak Energy mine sites continue to be audited annually under ISO-14001, both internally and externally, in order to help ensure our performance meets regulatory requirements. Environmental performance is reported regularly to the Cloud Peak Energy management team, including progress in meeting environmental targets. An annual system review is conducted and presented to senior management to help ensure the system remains appropriate and that it continues to provide the necessary framework for achieving environmental objectives.

Cloud Peak Energy took additional steps in 2011 to improve its environmental performance. One of the key enhancements to our management system involved additional internal reviews and audits of compliance with environmental regulations. The Health, Safety and Environmental (HSE) groups also completed implementation of a new HSE management application that facilitates continual improvement across the business and is a key tool in managing HSE risks. This new solution allows for more efficient updating and reporting processes for all HSE management areas.

**Environmental Incident Management**

Cloud Peak Energy is committed to complying with the regulations and licenses governing our business activities. That commitment is evident in our focus to minimize spills and maintain strong containment mechanisms for any spills that may occur. Spills were minimized in 2011, and none left the confines of designed controls.

**Environmental Awards**

Cloud Peak Energy has received numerous state and national awards in the environmental area. Most recently, the company received the Wyoming Good Neighbor Award for outstanding achievement related to collaborative education outreach on reclamation, biodiversity and mining skills. To read more about the Good Neighbor Award, see page 20 of this report.

**Environmental Targets**

Every year the company sets targets in many areas, including energy use, greenhouse gas emissions and land stewardship, among others. Through these targets and other environmental practices, we work to implement continuous improvement that is recognized through our certification under the ISO-14001 standard. The table on page 6 shows representative target areas and actual performance in each category for 2011.

**Biodiversity**

Through extensive baseline studies and monitoring efforts, Cloud Peak Energy has a strong knowledge of the ecosystems and species in our mining permit areas and peripheral areas. This information is incorporated into detailed reclamation and conservation plans that focus on habitat establishment in the post-mine landscape. Field applications of this approach include: advanced monitoring and mitigation measures, innovative reclamation techniques that have created quality wildlife habitat on reclamation, playa reconstruction, shrub establishment in reclamation and establishment of topographic and habitat diversity in reclamation.

**Shrub Establishment Workshop**

In May 2011 Cloud Peak Energy and the Antelope Mine held a shrub establishment workshop at the request of the U.S. Fish and Wildlife Service to share details with 30 participants from federal and state agencies on how the reclamation and shrub success at the mine has been accomplished. Preparation for this workshop was part of the broader Cloud Peak Energy reclamation education activities that were recognized by the Wyoming Department of Environmental Quality through their 2011 Good Neighbor Award.

Shrubs are considered important winter forage for sage-grouse, mule deer, antelope and other wildlife. Shrubs also create microhabitats for many other species of plants and animals. Reclamation stands with developed shrub communities also improve habitat for greater sage-grouse, a candidate species for federal listing under the Endangered Species Act by the U.S. Fish and Wildlife Service.
Native shrubs have very specific habitat preferences and germination requirements with generally poor natural germination rates. They are physically difficult to handle because of small seed size and the very high percentages of impurities in commercial seed supplies. To address these issues, Antelope developed a phased shrub establishment approach to consistently reestablish shrub habitat from seed. This approach involves the use of landform design, topsoil handling and target seeding technology. Antelope Mine’s success in establishing consistent stands of targeted shrubs, even during drought years, earned them a prestigious national reclamation award in 2010 from the Office of Surface Mining and the National Mining Association.

Agencies participating in the Cloud Peak Energy and Antelope Mine workshop included the U.S. Fish and Wildlife Service, Bureau of Land Management, Natural Resources Conservation Service, Wyoming Department of Environmental Quality and Wyoming Game and Fish Department.

Greater Sage-Grouse Conservation Approaches

Cloud Peak Energy continued cooperative efforts with the Thunder Basin Grassland Prairie Ecosystem Association in development of greater sage-grouse conservation approaches specifically adapted to northeast Wyoming, an area encompassing our Antelope and Cordero Rojo mines. In 2011 the company also participated with the association in radio-tracking greater sage-grouse to better understand their unique habitat needs in northeastern Wyoming. The project has provided useful data and will continue in 2012 with support and involvement from the company. The data will be used to refine conservation measures and implementation plans for a Candidate Conservation Agreement with Assurances and a Candidate Conservation Agreement that are under development with federal agencies. Those agreements would include conservation measures for greater sage-grouse and seven other regional species.

Raptor Habitat Work

During 2011 Antelope Mine continued to establish perching, nesting and/or roosting sites in reclamation for hawks and eagles. The mine has developed techniques providing stable groupings of tree snags for this purpose. The mine is establishing these snag sites in the vicinity of diverse habitats providing a broad prey base for raptors. Some of these sites are in the vicinity of black-tailed prairie dog towns relocated onto reclamation to establish mountain plover habitat. This combination of raptor and prairie dog features in reclamation should provide a strongly diverse predator-prey ecological complex within the reclamation landscape.

Cordero Rojo Mine also established snags near reclamation in 2011. These were comprised of some trees from a planted windbreak that the mine removed from the mining advance as part of an action approved by the U.S. Fish and Wildlife Service. The windbreak had been previously used intermittently for overnight resting by some of the bald eagles that overwinter in the Powder River Basin. The snag feature, in addition to the one hundred large trees already planted along the Belle Fourche River reclamation on site and hundreds more planned there, will help provide replacement raptor habitat.

Land Use

The company focuses on setting maximum practical reclamation targets encouraging topsoiling and/or seeding disturbed lands quickly after mining is complete. Land disturbed by mining is continuously reclaimed in sequences concurrent with mining (also known as contemporaneous reclamation). The reclamation targets are site-specifically determined at each mine according to the site mine plan and are centered on maximizing reclamation acres.

In 2011 Cloud Peak Energy operations outperformed the aggregated contemporaneous reclamation target by more than 7 percent, reclaiming 827 acres against a target of 770 acres. The 2011 reclamation area was equivalent to 81 percent of the area affected by mining during the year, a 4 percent increase from 2010. Development of site-specific reclamation plans will continue to encourage reclamation rate improvements while accounting for site operational considerations.
**Waste Management**

Cloud Peak Energy’s waste minimization program continues to reduce the volume of hazardous waste generated. Each mine site generated less than 220 pounds of hazardous waste on a monthly basis, maintaining the status of Conditionally Exempt Small Quantity Generator. Cloud Peak Energy uses a combination of controls to minimize, and eliminate where possible, hazardous waste on the sites:

- Contract management and preapproval processes for any proposed material purchases to address any new or additive waste streams from those materials;

- Substitution of nonhazardous products or procedures and/or engineering controls used to minimize and control waste streams; and

- Recycling wastes, such as steel and large equipment tires, batteries, used oil, cardboard, paper and aluminum, among others.

**Long Term Reclamation Approach: Sequatchie Valley Coal**

Cloud Peak Energy owns a reclaimed coal site, Sequatchie Valley Coal Company, located near Dunlap, Tennessee. The site was being reclaimed when acquired and subsequently demonstrated acid rock drainage issues. While Cloud Peak Energy never operated the site, the company employs state of the art treatment technologies to address those issues. This work and continued site compliance are coordinated through the Tennessee Department of Environment and Conservation and the Office of Surface Mining.
## CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,

<table>
<thead>
<tr>
<th>(in thousands, except per share data)</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1,553,661</td>
<td>$1,370,761</td>
</tr>
</tbody>
</table>

### Costs and expenses

- **Cost of product sold (exclusive of depreciation, depletion, amortization and accretion, shown separately):**
  - 2011: $1,151,117
  - 2010: $978,914
- **Depreciation and depletion:**
  - 2011: $87,127
  - 2010: $100,023
- **Amortization:**
  - 2011: $0
  - 2010: $3,197
- **Accretion:**
  - 2011: $12,469
  - 2010: $12,499
- **Selling, general and administrative expenses:**
  - 2011: $52,480
  - 2010: $63,594
- **Asset impairment charges:**
  - 2011: $0
  - 2010: $659

**Total costs and expenses:**

- 2011: $1,303,193
- 2010: $1,158,886

### Operating income

- 2011: $250,468
- 2010: $211,875

### Other income (expense)

- **Interest income:**
  - 2011: $592
  - 2010: $565
- **Interest expense:**
  - 2011: $(33,866)
  - 2010: $(46,938)
- **Tax agreement expense:**
  - 2011: $(19,854)
  - 2010: $(19,669)
- **Other, net:**
  - 2011: $2,105
  - 2010: $157

**Total other expense:**

- 2011: $(51,023)
- 2010: $(65,885)

### Income from continuing operations before income tax provision and earnings from unconsolidated affiliates

- 2011: $199,445
- 2010: $145,990

### Income tax (expense) benefit

- 2011: $(11,449)
- 2010: $(31,982)

### Earnings from unconsolidated affiliates, net of tax

- 2011: $1,801
- 2010: $3,189

### Net income attributable to controlling interest common stockholders

- 2011: $189,797
- 2010: $117,197

### Amounts attributable to controlling interest common stockholders:

<table>
<thead>
<tr>
<th>Net income</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>$189,797</td>
<td>$33,737</td>
<td></td>
</tr>
</tbody>
</table>

### Earnings per common share attributable to controlling interest

- **Basic:**
  - 2011: $3.16
  - 2010: $1.06
- **Diluted:**
  - 2011: $3.13
  - 2010: $1.06

### Weighted-average shares outstanding

- **Basic:**
  - 2011: 60,004
  - 2010: 31,889
- **Diluted:**
  - 2011: 60,637
  - 2010: 31,889
### CONSOLIDATED BALANCE SHEETS

December 31,

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 404,240</td>
<td>$ 340,101</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>$ 71,245</td>
<td>$ 182,072</td>
</tr>
<tr>
<td>Investments in marketable securities</td>
<td>$ 75,228</td>
<td>$ —</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$ 95,247</td>
<td>$ 65,173</td>
</tr>
<tr>
<td>Due from related parties</td>
<td>$ 471</td>
<td>$ 434</td>
</tr>
<tr>
<td>Inventories</td>
<td>$ 71,648</td>
<td>$ 64,970</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>$ 37,528</td>
<td>$ 21,552</td>
</tr>
<tr>
<td>Other assets</td>
<td>$ 15,294</td>
<td>$ 17,449</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$ 770,901</td>
<td>$ 691,751</td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>$ 1,350,135</td>
<td>$ 1,008,337</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$ 35,634</td>
<td>$ 35,634</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>$ 132,828</td>
<td>$ 140,985</td>
</tr>
<tr>
<td>Other assets</td>
<td>$ 29,821</td>
<td>$ 38,400</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 2,319,319</td>
<td>$ 1,915,107</td>
</tr>
<tr>
<td><strong>LIABILITIES AND EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 71,427</td>
<td>$ 81,975</td>
</tr>
<tr>
<td>Royalties and production taxes</td>
<td>$ 136,072</td>
<td>$ 127,038</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>$ 65,928</td>
<td>$ 51,197</td>
</tr>
<tr>
<td>Current portion of tax agreement liability</td>
<td>$ 19,113</td>
<td>$ 18,226</td>
</tr>
<tr>
<td>Current portion of federal coal lease obligations</td>
<td>$ 102,198</td>
<td>$ 54,630</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>$ 4,971</td>
<td>$ 4,880</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$ 399,709</td>
<td>$ 337,946</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax agreement liability, net of current portion</td>
<td>$ 151,523</td>
<td>$ 171,885</td>
</tr>
<tr>
<td>Senior notes</td>
<td>$ 596,077</td>
<td>$ 595,684</td>
</tr>
<tr>
<td>Federal coal lease obligations, net of current portion</td>
<td>$ 186,119</td>
<td>$ 63,659</td>
</tr>
<tr>
<td>Asset retirement obligations, net of current portion</td>
<td>$ 192,707</td>
<td>$ 182,170</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>$ 42,795</td>
<td>$ 32,564</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$ 1,568,930</td>
<td>$ 1,383,908</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock ($0.01 par value; 200,000 shares authorized; 60,923 and 60,878 shares issued and outstanding at December 31, 2011 and December 31, 2010, respectively)</td>
<td>609</td>
<td>609</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>$ 536,301</td>
<td>$ 502,952</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$ 232,093</td>
<td>$ 42,296</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>$(18,614)</td>
<td>$(14,658)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>$ 750,389</td>
<td>$ 531,999</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>$ 2,319,319</td>
<td>$ 1,915,107</td>
</tr>
<tr>
<td>consolidation statements of cash flows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$189,797</td>
<td>$117,197</td>
</tr>
<tr>
<td>Depreciation and depletion</td>
<td>87,127</td>
<td>100,023</td>
</tr>
<tr>
<td>Amortization</td>
<td>—</td>
<td>3,197</td>
</tr>
<tr>
<td>Accretion</td>
<td>12,469</td>
<td>12,499</td>
</tr>
<tr>
<td>Asset impairment charges</td>
<td>—</td>
<td>659</td>
</tr>
<tr>
<td>Earnings from unconsolidated affiliates</td>
<td>(1,801)</td>
<td>(3,189)</td>
</tr>
<tr>
<td>Distributions of income from unconsolidated affiliates</td>
<td>5,250</td>
<td>35</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(11,224)</td>
<td>28,503</td>
</tr>
<tr>
<td>Tax agreement expense</td>
<td>19,854</td>
<td>19,669</td>
</tr>
<tr>
<td>Stock compensation expense</td>
<td>8,796</td>
<td>7,234</td>
</tr>
<tr>
<td>Marked-to-market adjustments</td>
<td>(2,275)</td>
<td>—</td>
</tr>
<tr>
<td>Other, net</td>
<td>11,506</td>
<td>4,718</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(30,074)</td>
<td>17,636</td>
</tr>
<tr>
<td>Inventories</td>
<td>(6,452)</td>
<td>(638)</td>
</tr>
<tr>
<td>Due to or from related parties</td>
<td>(37)</td>
<td>7,906</td>
</tr>
<tr>
<td>Other assets</td>
<td>4,436</td>
<td>(10,090)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>26,327</td>
<td>27,040</td>
</tr>
<tr>
<td>Tax agreement liability</td>
<td>(9,409)</td>
<td>(1,685)</td>
</tr>
<tr>
<td>Asset retirement obligations</td>
<td>(7,506)</td>
<td>(5,938)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>296,784</td>
<td>324,776</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property, plant and equipment</td>
<td>(142,722)</td>
<td>(91,639)</td>
</tr>
<tr>
<td>Investments in marketable securities</td>
<td>(75,228)</td>
<td>—</td>
</tr>
<tr>
<td>Initial payment on federal coal leases</td>
<td>(69,407)</td>
<td>—</td>
</tr>
<tr>
<td>Return of restricted cash</td>
<td>110,972</td>
<td>116,533</td>
</tr>
<tr>
<td>Restricted cash deposit</td>
<td>—</td>
<td>(218,425)</td>
</tr>
<tr>
<td>Other</td>
<td>713</td>
<td>1,511</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(175,672)</td>
<td>(192,020)</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal payments on federal coal leases</td>
<td>(54,630)</td>
<td>(50,768)</td>
</tr>
<tr>
<td>Distributions to former parent</td>
<td>—</td>
<td>(10,203)</td>
</tr>
<tr>
<td>Other</td>
<td>(2,343)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(56,973)</td>
<td>(60,971)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>64,139</td>
<td>71,785</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>340,101</td>
<td>268,316</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>$404,240</td>
<td>$340,101</td>
</tr>
<tr>
<td><strong>Supplemental cash flow</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>$62,792</td>
<td>$69,317</td>
</tr>
<tr>
<td>Income taxes paid, net</td>
<td>$6,161</td>
<td>$9,120</td>
</tr>
<tr>
<td><strong>Supplemental noncash investing and financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations to acquire federal coal leases and other mineral rights</td>
<td>$224,658</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
## RECONCILIATION OF NON-GAAP MEASURES

### ADJUSTED EBITDA

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$189.8</td>
<td>$117.2</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>*</td>
<td>*</td>
<td>182.5</td>
<td>88.3</td>
<td>53.8</td>
</tr>
<tr>
<td>Interest income</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>(0.3)</td>
<td>(2.9)</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>33.9</td>
<td>46.9</td>
<td>6.0</td>
<td>20.4</td>
<td>40.9</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>11.4</td>
<td>32.0</td>
<td>68.2</td>
<td>25.3</td>
<td>18.1</td>
</tr>
<tr>
<td>Depreciation and depletion</td>
<td>87.1</td>
<td>100.0</td>
<td>97.9</td>
<td>89.0</td>
<td>80.1</td>
</tr>
<tr>
<td>Amortization</td>
<td>—</td>
<td>3.2</td>
<td>28.7</td>
<td>46.0</td>
<td>34.5</td>
</tr>
<tr>
<td>Accretion</td>
<td>12.5</td>
<td>12.5</td>
<td>12.6</td>
<td>12.7</td>
<td>12.2</td>
</tr>
<tr>
<td>EBITDA</td>
<td>334.1</td>
<td>311.3</td>
<td>395.6</td>
<td>278.9</td>
<td>232.3</td>
</tr>
<tr>
<td>Tax agreement expense</td>
<td>19.9</td>
<td>19.7</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Marked-to-market adjustments</td>
<td>(2.3)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Expired significant broker contract</td>
<td>—</td>
<td>(8.2)</td>
<td>(75.0)</td>
<td>(71.6)</td>
<td>(72.5)</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>$351.7</td>
<td>$322.7</td>
<td>$320.6</td>
<td>$207.2</td>
<td>$159.8</td>
</tr>
</tbody>
</table>

1 Changes to related deferred taxes are included in income tax expense.

* For 2009 and prior periods, Cloud Peak Energy Inc. reported discontinued operations. Accordingly, for such periods, net income from continuing operations is the comparable U.S. GAAP financial measure for Adjusted EBITDA.

### Cautionary Note Regarding Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not statements of historical facts, and often contain words such as "may," "will," "expect," "believe," "anticipate," "plan," "estimate," "seek," "could," "should," "intend," "potential," or words of similar meaning. Forward-looking statements are based on management’s current expectations, beliefs, assumptions and estimates regarding our company, industry, economic conditions, government regulations, energy policies and other factors. These statements are subject to significant risks, uncertainties and assumptions that are difficult to predict and could cause actual results to differ materially and adversely from those expressed or implied in the forward-looking statements. For a description of some of the risks and uncertainties that may adversely affect our future results, refer to the risk factors described from time to time in the reports and registration statements we file with the Securities and Exchange Commission, including those in Item 1A "Risk Factors" of our most recent Form 10-K and any updates thereto in our Forms 10-Q and current reports on Forms 8-K. There may be other risks and uncertainties that are not currently known to us or that we currently believe are not material. We make forward-looking statements based on currently available information, and we assume no obligation to, and expressly disclaim any obligation to, update or revise publicly any forward-looking statements made in this report, whether as a result of new information, future events or otherwise, except as required by law.

### Non-GAAP Financial Measures

This report includes the non-GAAP financial measure of Adjusted EBITDA. Adjusted EBITDA is intended to provide additional information only and does not have any standard meaning prescribed by generally accepted accounting principles in the U.S. or GAAP. A quantitative reconciliation of historical net income or net income from continuing operations (as applicable) to Adjusted EBITDA is found in the tables included in this report. EBITDA represents net income or net income from continuing operations (as applicable) before (1) interest income (expense) net, (2) income tax provision, (3) depreciation and depletion, (4) amortization, and (5) accretion. Adjusted EBITDA represents EBITDA as further adjusted to exclude specifically identified items that management believes do not directly reflect our core operations. The specifically identified items are the income statement impacts, as applicable, of: (1) the Tax Receivable Agreement including tax impacts of our 2009 initial public offering and 2010 secondary offering, (2) our significant broker contract that expired in the first quarter of 2010, and (3) marked-to-market adjustments for derivative financial instruments. Because of the inherent uncertainty related to the items identified above, management does not believe it is able to provide a meaningful forecast of the comparable GAAP measures or a reconciliation to any forecasted GAAP measures.

Adjusted EBITDA is an additional tool intended to assist our management in comparing our performance on a consistent basis for purposes of business decision-making by removing the impact of certain items that management believes do not directly reflect our core operations. Adjusted EBITDA is a metric intended to assist management in evaluating operating performance, comparing performance across periods, planning and forecasting future business operations and helping determine levels of operating and capital investments. Period-to-period comparisons of Adjusted EBITDA are intended to help our management identify and assess additional trends potentially impacting our company that may not be shown solely by period-to-period comparisons of net income, income from continuing operations, or other GAAP financial measures. Adjusted EBITDA is also used as part of our incentive compensation program for our executive officers and others.

We believe Adjusted EBITDA is also useful to investors, analysts and other external users of our consolidated financial statements in evaluating our operating performance from period to period and comparing our performance to similar operating results of other relevant companies. Adjusted EBITDA allows investors to measure a company’s operating performance without regard to items such as interest expense, taxes, depreciation and depletion, amortization and accretion and other specifically identified items that are not considered to directly reflect our core operations.

Our management recognizes that using Adjusted EBITDA as a performance measure has inherent limitations as compared to net income, income from continuing operations or other GAAP financial measures, as this non-GAAP measure excludes certain items, including items that are recurring in nature, which may be meaningful to investors. Adjusted EBITDA should not be considered in isolation and does not purport to be an alternative to net income, income from continuing operations or other GAAP financial measures as a measure of our operating performance. Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Moreover, our presentation of Adjusted EBITDA is different than EBITDA as defined in our debt financing agreements.
Transfer Agent Information

Cloud Peak Energy’s stock transfer agent, Computershare Trust Company, N.A., can be reached at:

The Transfer Agency

By Mail:
Computershare Trust Company, N.A.
P.O. Box 43070
Providence, RI 02940-3070
United States of America

By Overnight Delivery:
Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021
United States of America

Corporate Website:
www.computershare.com

Board of Directors

Keith Bailey, Chairman of the Board
Patrick Condon, Director
William Fox, Director
Colin Marshall, President, CEO and Director
Steven Nance, Director
Bill Owens, Director
Chris Tong, Director
Jim Voorhees, Director

Company Management

Colin Marshall, President and Chief Executive Officer
Michael Barrett, Executive Vice President and Chief Financial Officer
Gary Rivenes, Executive Vice President and Chief Operating Officer
Cary Martin, Senior Vice President, Human Resources
Todd Myers, Senior Vice President, Business Development
Jim Orchard, Senior Vice President, Marketing and Government Affairs
Bryan Pechersky, Senior Vice President and General Counsel
Nick Taylor, Senior Vice President, Technical Services

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