

NORTHWESTERN CORPORATION AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of NorthWestern Corporation (the “**Company**”) assists the Board in fulfilling its responsibilities for oversight of:

- (1) the Company’s accounting and financial reporting processes, including internal and disclosure controls and procedures;
- (2) the audits and integrity of the Company’s financial statements;
- (3) enterprise risk management and the Company’s compliance with legal and regulatory requirements and its ethical standards;
- (4) the independent auditor’s qualifications and independence;
- (5) the performance of the Company’s internal audit function and independent auditors; and
- (6) the Company’s capital structure.

The Committee also prepares the reports that the rules of the Securities and Exchange Commission (the “**SEC**”) requires to be included in the Company’s annual proxy statement and performs such other duties as directed by the Board. The Committee will assume and carry out all obligations of an audit committee pursuant to the rules and regulations of the SEC and the listing requirements of the Nasdaq stock market (“**Nasdaq**”) (or, if not listed on such exchange, on any other national securities exchange on which the Company’s shares are listed).

While carrying out its responsibilities, the Committee will encourage continuous improvement by its members, members of the Board, and employees of the Company and will foster adherence to the Company’s policies, procedures and practices.

PROCEDURE

The Committee will meet at least quarterly, or more frequently as deemed necessary by its chairperson or by any two of its members. Participation in meetings by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other, is permissible if done in compliance with the Company’s Bylaws. The chairperson, in consultation with the other members of the Committee and appropriate officers of the Company, will establish the agenda for each Committee meeting. The Committee will cause appropriate minutes to be prepared and preserved with respect to its proceedings and will report its actions to the next following meeting of the Board. Each regularly scheduled Committee meeting will provide the opportunity for an executive session with each of the following separately: management, external auditors, internal audit, and Committee members only.

The Committee may request any officer or other employee of the Company, or any representative of the Company’s legal counsel or other advisors, to attend a meeting or to meet with any members or representatives of the Committee. Any member may be excused from a meeting to permit the remaining members to act on any matter in which such member’s participation is not appropriate, and such member’s absence will not destroy the quorum for the meeting.

The Committee may retain independent advisors. The Committee also will have appropriate resources and authority to discharge its responsibilities, including, without

limitation, appropriate funding from the Company, in such amounts as the Committee deems necessary, for the payment of (i) compensation of the registered public accounting firm engaged for the purpose of issuing the audit report, (ii) compensation for any consultants or any other advisors retained by the Committee, and (iii) ordinary administrative expenses of the Committee. In the performance of its duties, the Committee and its members will have unrestricted access to management.

ORGANIZATION AND MEETINGS

The membership of the Committee will consist of not less than three non-employee members of the Board who are “independent” and are able to read and understand financial statements and are financially literate. To be “independent,” a Committee member may not:

- (a) accept any consulting, advisory, or other compensatory fee, directly or indirectly, from the Company (except for Board or committee fees);
- (b) be an affiliate of the Company or any of its subsidiaries (except in the capacity as a member of the Board or the committee), as determined in accordance with the rules of the SEC; or
- (c) have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company within the past three years.

In addition, each member will be an “independent” director, as determined in accordance with (a) the Company’s Corporate Governance Guidelines, (b) the rules of Nasdaq (or, if not listed on such exchange, on any other national securities exchange on which the Company’s shares are listed), as such requirements are interpreted by the Board in its business judgment, and (c) Section 301 of the Sarbanes-Oxley Act of 2002 and the rules and listing requirements promulgated thereunder by the SEC, including Rule 10A-3 under the Securities Exchange Act of 1934 (the “**Exchange Act**”), and Nasdaq (or, if not listed on such exchange, on any other national securities exchange on which the Company’s shares are listed).

The Committee will have at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that results in financial sophistication. The Committee also will seek to have at least one member who is an “audit committee financial expert,” as determined in accordance with the SEC rules; provided that the Committee will not be in violation of its charter if it fails to have a member who is an audit committee financial expert. To help meet these requirements, the audit committee will provide its members with annual continuing education opportunities in financial reporting and other areas relevant to the Committee. In discharging this oversight role, the Committee is expected to maintain free and open communication (including private executive sessions at least annually) with the Company’s independent public accounting firm (the “**External Auditor**”) and the management of the Company. The Committee may investigate any matter brought to its attention, with full power to retain independent counsel, accountants or others to assist in the conduct of any investigation, at the Company’s expense.

Each Committee member will receive as compensation from the Company only those forms of compensation as are permitted by Section 301 of the Sarbanes-Oxley Act of 2002 and the rules and listing requirements promulgated thereunder by the SEC and Nasdaq (or, if not listed on such exchange, on any other national securities exchange on which the Company’s shares are listed). Permitted compensation includes (a) director’s fees (which includes all forms of compensation paid to Directors of the Company for service as a Director

or member of a Board committee), and/or (b) fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company provided that such compensation is not contingent in any way on continued service. Additional fees may be paid to the chairperson of the committee as compensation for the significant time and effort expended in performing the duties as the chairperson.

Committee members will adhere to the Company's Code of Conduct and Ethics, as well as any values and ethics established by the Company. Committee members must disclose any conflict of interest or appearance of a conflict of interest to the Committee. If there is any question as to whether a Committee member should recuse himself or herself from a vote, the Committee should vote to determine whether the member should recuse himself or herself.

RESPONSIBILITIES

The Committee's primary responsibilities are:

Oversight of the Independent Public Accounting Firm

- Appoint, determine the compensation of, retain, oversee (and, if circumstances warrant, remove) the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. This oversight includes resolution of disagreements, if any, between management and the External Auditor regarding financial reporting. In the process, the Committee will discuss and consider the External Auditor's written affirmation that the External Auditor is in fact independent pursuant to SEC rules, discuss the nature and rigor of the audit process, receive and review any reports, and provide to the External Auditor full access to the Committee (and the Board) to report on any and all appropriate matters. The Committee will make it clear to the External Auditor that the External Auditor will report and be accountable to the Committee.
- At least annually, obtain and review a formal written statement by the External Auditor describing: (a) the External Auditor's internal quality-control procedures; (b) the material issues raised by the most recent internal quality-control review, or peer review, of the External Auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the External Auditor, and any steps taken to deal with any such issues; and (c) the relationships between the External Auditor and the Company consistent with the applicable requirements of the Public Company Accounting Oversight Board ("PCAOB"). The Committee will engage actively in dialogue with the External Auditor regarding any disclosed relationships or services that may impact the objectivity and independence of the External Auditor. Consider whether the External Auditor's provision of permissible non-audit services is compatible with the External Auditor's independence and objectivity and take appropriate actions to oversee the independence of the External Auditor.
- Evaluate the External Auditor's qualifications, performance and independence. This evaluation should include the review and evaluation of the lead partner of the External Auditor. In making its evaluation, the Committee should take into account the opinions of management and the Company's internal audit personnel. In addition to assuring the regular rotation of the lead audit partner as required by law, the Committee should further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the External Auditor itself. The Committee will present its conclusions with respect to the External Auditor to the Board.

- Review and discuss the External Auditor’s required communications relating to the audit, including, without limitation, the matters required to be discussed under the standards of the PCAOB.
- Obtain assurance from the External Auditor that in the course of conducting the audit, the External Auditor has not detected or otherwise become aware of any illegal or fraudulent acts that require disclosure to the Committee under Section 10A(b) of the Exchange Act.
- Consider the appropriateness of any non-audit services provided by the External Auditor to the Company. Pre-approve permissible non-audit services and audit, review or attest engagements. The Committee may adopt a pre-approval policy setting forth the procedures by which such pre-approvals will be made.
- Determine the funding necessary to compensate the External Auditor and other outside advisors engaged by the Committee, and advise the Company that it must make such funding available to the Committee.
- Review with the External Auditor any audit problems or difficulties and management’s response, including, among other things, any restrictions on the scope of the External Auditor’s activities or access to requested information, any significant disagreements with management, any accounting adjustments that were noted or proposed by the External Auditor but were “passed” (as immaterial or otherwise), any communications between the audit team and the External Auditor’s national office respecting auditing or accounting issues presented by the engagement, and any “management” or “internal control” letter issued, or proposed to be issued, by the External Auditor to the Company.
- Review the opinion of the external auditors, including the basis of the opinion and the Critical Accounting Matters (CAMs) disclosed.
- Review any significant findings and recommendations made by the External Auditor, and management’s responses to them.
- Set clear hiring policies for employees or former employees of the External Auditor.

Oversight of Accounting and Financial Reporting Matters

- Provide oversight of and review the adequacy of management’s assessment of the effectiveness of the Company’s internal control over financial reporting.
- Review and discuss annual and quarterly financial statements with management and the External Auditor including (a) the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and (b) the disclosures regarding internal controls and other matters required by Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 and any rules promulgated thereunder by the SEC. Such discussions will include a review of (x) major issues regarding (i) accounting principles and financial statement presentations, including any significant changes in the Company’s selection or application of accounting principles, and (ii) the adequacy of the Company’s internal controls and any special audit steps adopted in light of material control deficiencies, (y) analyses prepared by management and/or the independent 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 (“GAAP”) methods on the financial statements, and (z) the effect of regulatory and accounting initiatives, as well as

off-balance sheet structures, on the financial statements of the Company. Such review also may include, as deemed appropriate, quality of earnings, review of reserves and accruals, consideration of the suitability of accounting principles, review of highly judgmental areas, audit adjustments whether or not recorded, and such other inquiries as the Committee determines.

- Receive the certification of the Company's chief executive officer and chief financial officer in connection with the Company's quarterly and annual reports filed with the SEC. Review, as identified in the certification, any: (a) significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
- Recommend to the Board whether audited financial statements should be included in the Company's Form 10-K.
- Review, evaluate, and provide guidance, as the Committee deems appropriate, to management as to the form and substance of earnings press releases and financial information and earnings guidance provided to analysts and rating agencies, which review may occur after issuance and may be done generally as a review of the types of information to be disclosed and the form of presentation to be made, and report any issues with respect thereto to the Board, with particular focus on any use of pro forma or adjusted non-GAAP information.

Oversight of the Internal Audit Function

- Ensure there are no unjustified restrictions or limitations placed on internal audit, and review the performance and compensation of, and concur in the appointment, replacement or dismissal of the senior internal audit executive.
- Review the responsibilities, budget and staffing of the Company's internal audit function and annually approve the internal audit charter and audit plan.
- Review the regular internal reports to management (or summaries thereof) prepared by the internal audit function, as well as management's response.
- Ensure internal audit maintains a quality assurance and improvement program, and review the steps taken to ensure conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Oversight of the Company's Enterprise Risk Management (ERM) and Compliance Activities

- Oversee management's ERM program, including reviewing and challenging management's processes for risk identification, assessment, prioritization, and response. Although certain risks may be reviewed by the Board or other Board committees, the Committee will coordinate the overall review of Company risks, ensuring that either the Board, the Committee or another Board committee reviews each of the Company's top priority risks on at least an annual basis. Review with management and the External Auditor at least quarterly any significant risks and exposures of the Company and management's steps to mitigate them. Consider the Company's risk profile and annually review and recommend Board approval of the corporate risk appetite statement.

- Oversee management's antifraud programs and controls to prevent and detect fraud. Consider the risk of management's ability to override the Company's internal controls.
- Consider the appropriateness of, and approve, transactions with related persons as contemplated by Item 404 of Regulation S-K under the Exchange Act and discuss with the External Auditor the External Auditor's evaluation of the company's identification of, accounting for, and disclosure of its relationships with related parties as set forth under the standards of the PCAOB.
- Discuss with management and the Company's General Counsel the status of any pending litigation, regulatory or taxation matters and any other legal, regulatory or compliance matters that may have a material impact on the financial statements or the Company's compliance policies as may be appropriate.
- As appropriate, obtain advice and assistance from outside legal, accounting or other advisors and seek any information it requires from employees, officers and directors.
- Maintain complaint procedures for the receipt and handling of complaints received by the Company regarding accounting, internal controls over financial reporting, or auditing matters. Such procedures should provide for the anonymous submission of complaints and confidential treatment to the extent permitted by law.
- Annually review and recommend any proposed changes to the Company's Code of Conduct and Ethics and the Company's system to monitor compliance with and enforce the code. Periodically review any reports of violations of the Company's Code of Conduct and Ethics.
- Review policies and procedures regarding officer's expense accounts and perquisites, including their use of Company assets, and consider the results of reviews by internal audit or the External Auditor.

Oversight of the Company's Capital Structure

- Review and recommend Board approval of dividend policy and dividend payment recommendations.
- Review and recommend Board approval of equity and debt financings.

General

- Annually review and reassess the adequacy of this Charter and recommend any changes to the Board as the Committee deems appropriate.
- Prepare, with the assistance of management, the External Auditor and outside legal counsel, the Audit Committee Report and review those matters with respect to the Committee that are required by the SEC rules to be disclosed in the Company's annual proxy statement.
- Report regularly on Committee activities to the Board in such manner and at such times as the Committee and the Board deem appropriate, but in no event, less than once a year. Such report should include a review of 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, the performance and independence

of the External Auditor, the performance of the internal audit function, and any related recommendations.

- Conduct an annual review of its own performance against the requirements of this Charter and report the results of this self-evaluation to the Board.
- Such other duties as the Board may delegate or the Board or Committee may determine are necessary or appropriate, so long as such duties are consistent with this charter, the Company's bylaws, and governing laws.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the External Auditor. Nor is it the duty of the Committee to conduct investigations or to assure compliance with laws and regulations. However, the Committee may direct that investigations be conducted as necessary to address issues or concerns raised to or identified by the Committee.