

Orchids Paper Products Company

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

The Audit Committee (the “Committee”) shall aid the Board of Directors in undertaking and fulfilling its oversight responsibilities with regard to:

- the integrity of the Corporation’s financial statements;
- the Corporation’s compliance with legal and regulatory requirements;
- the qualifications and independence of the Corporation’s independent auditors (the “Auditors”); and
- the performance of the Auditors and the Corporation’s internal audit function.

The Committee shall also be responsible for preparing the Audit Committee report that is required to be included in the Corporation’s annual proxy statement.

The duties of the Committee are ones of oversight. 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 prepared in accordance with generally accepted accounting principles. The primary responsibility for the Corporation’s financial statements and internal controls rests with the Corporation’s management. The Board of Directors recognizes that the Committee necessarily will rely on the advice and information it receives from the Corporation’s management and internal auditors and the Auditors. Recognizing these inherent limitations on the scope of the Committee’s review, however, the Board expects the Committee to exercise independent judgment in assessing the quality of the Corporation’s financial reporting process and internal controls. The Board also expects that the Committee will maintain free and open communication with the other directors, the Corporation’s internal auditors and financial management and the Auditors.

II. COMPOSITION

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors, as defined in Rule 10A-3 under the Securities Exchange Act of 1934 (the “Act”) and the rules of any national securities exchange on which the Corporation’s shares may be listed from time to time, and shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the Committee must not have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the past three years. All members of the Committee shall be financially literate, as defined in the rules of any national securities exchange on which the Corporation’s shares may be listed

from time to time, and shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall be an “audit committee financial expert” as defined in Regulation S-K, Item 407(d)(5) under the Act. If a Committee member simultaneously serves on the audit committees of more than two other public companies, the Board of Directors must determine that such simultaneous service does not impair the ability of such Committee member to effectively serve on the Committee and such determination must be disclosed in the Corporation’s annual proxy statement.

The members of the Committee shall be recommended by the Nominating and Corporate Governance Committee and elected by the Board at the annual organizational meeting of the Board to serve until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

III. MEETINGS

The Committee shall meet on at least a quarterly basis or more often as the Committee deems appropriate or as circumstances dictate. As part of its job to foster open communication, the Committee should meet separately in executive session, at least quarterly, with management, the Auditors and the Corporation’s internal auditors to discuss any matters that the Committee or any of these groups believe should be discussed privately.

Additional meetings may be held at such other times as shall be reasonably requested by the Chair of the Board, the Chair of the Committee, the Auditors or the Corporation’s financial management. Members of the Committee may participate in meetings by means of teleconference telephone or similar communications equipment whereby all persons participating in the meeting can hear each other, and such participation shall constitute presence at the meeting. The Committee may also act as otherwise permitted by law or the Corporations’s Bylaws.

The Committee shall have complete access to management. At the invitation of the Committee Chair, meetings of the Committee may be attended by the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the Controller, representatives of the Auditors and other persons as are appropriate to matters under consideration.

IV. AUTHORITY, RESPONSIBILITIES AND DUTIES

The Committee shall have the resources and authority to exercise all powers with respect to discharging its duties and responsibilities, including full access to the Corporation’s employees and officers and internal or external advisors or consultants. If in the course of fulfilling its duties the Committee wishes to consult with outside legal, accounting or other advisors, the Committee may retain these advisors without seeking the approval of the Board of Directors or management. The Corporation shall provide for appropriate

funding, as determined by the Committee, for payment of compensation to the Auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, compensation to any advisors employed by the Committee and ordinary administrative expenses of the Committee.

As part of its oversight role, the Committee may investigate any matter brought to its attention, with the full power to retain outside counsel or other experts for this purpose. The Committee shall have complete access to management and employees and may request any officer or employee of the Corporation or the Corporation's outside counsel or Auditors to attend a meeting of the Committee or to meet with any member of, or consultant to, the Committee.

Committee members may not receive any compensation from the Corporation other than for service as a Board member generally or a committee thereof. Prohibited compensation includes any fees paid directly or indirectly for services as a consultant or as a legal or financial advisor, whatever the amount.

Without limiting the generality of the foregoing, the authority, duties and responsibilities of the Committee shall include the following:

Independent Accountants

1. The Committee shall be solely and directly responsible for the selection, appointment, compensation and retention of the Auditors and for oversight of the work of the Auditors (including resolution of disagreements between management and the Auditors) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Corporation. The Auditors shall report directly to the Committee.
2. The Committee shall evaluate, at least annually, the qualifications, performance and independence of the Auditors. In conducting such review, the Committee shall obtain and review a report by the Auditors describing (1) the firm's internal quality-control procedures, (2) any material issues raised by the most recent internal quality-control review, or peer review, of the firm 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 firm, and any steps taken to deal with any such issues, and (3) all relationships between the Auditors and the Corporation that might bear on the Auditors' independence, including the impact of any non-audit services provided by the Auditors. This evaluation shall confirm that the firm is registered with the Public Company Accounting Oversight Board as and when such registration is required, shall include the review and evaluation of the lead partner of the Auditors and shall be designed to ensure the rotation of partners and the non-participation of specific former Corporation officers or employees, all in accordance with SEC rules and the securities laws. The Committee shall also obtain and discuss the written disclosures and letter from the Auditors contemplated by Independence Standards

- Board Standard No. 1, *Independence Discussions with Audit Committees*, as may be modified or supplemented, and assurances from such firm that its compensation policies comply with applicable SEC regulations and stock exchange rules. In addition, the Committee shall consider the advisability of regularly rotating the Auditors in order to maintain the independence between the Auditors and the Corporation. In making this evaluation, the Committee should take into account the opinions of management and the Corporation's internal auditors.
3. The Committee shall set clear hiring policies with management regarding the hiring of any current or former employees of the Auditors, or any prior independent public accountant, who participated in any capacity in the audit of the Corporation, to address conflicts of interest and pressures that may exist for employees of the Auditor that may be seeking or at some point seek employment with the Corporation.
 4. The Committee shall pre-approve any audit or permissible non-audit engagement or relationship between the Corporation and the Auditors, including the fees to be paid therefor. The Committee shall establish guidelines for the retention of the Auditors for any permissible non-audit services and to assure that the Auditors do not provide any prohibited non-audit services to the Corporation. In determining whether to engage the Auditors for any permitted non-audit services, the Committee shall consider whether or not the provisions of such non-audit services is compatible with maintaining the independence of the Auditors. The Committee may establish pre-approval policies and procedures for the engagement of the Auditors, provided the policies and procedures are detailed as to the particular service, the Committee is informed of each service, and the policies and procedures do not result in a delegation of the Committee's responsibilities to management. The Committee hereby delegates to the Chair the authority to approve in advance all audit or permitted non-audit services to be provided by the Auditors. The Chair shall provide a report to the full Committee at the next regularly scheduled meeting of all services approved pursuant to such delegation.
 5. The Committee shall meet with the Auditors and the Corporation's financial management prior to the audit to review its proposed scope, the scope of the quarterly reviews, the procedures to be followed in conducting the audit and reviews and the major risk factors considered by the Auditors in determining the scope of the audit.

Financial Statements and Disclosure Matters

6. The Committee shall review and discuss prior to public dissemination the annual audited and quarterly unaudited financial statements with management and the Auditors, including major issues regarding accounting, disclosure and auditing procedures and practices as well as the adequacy of internal controls that could materially affect the Corporation's financial statements. In addition, the review shall include the Corporation's disclosures under "Management's Discussion and

Analysis of Financial Condition and Results of Operations” and other financial information included in the report. Based on the annual review and if deemed appropriate, the Committee shall recommend to the Board of Directors inclusion of the financial statements in the Annual Report on Form 10-K.

7. The Committee shall review and discuss with management and the Auditors significant financial reporting issues and judgments made in connection with the preparation of the Corporation’s financial statements, including any significant changes in the Corporation’s selection or application of accounting principles, any major issues as to the adequacy of the Corporation’s internal controls and any special steps adopted in light of material control deficiencies.
8. The Committee shall, prior to issuance of an audit report and otherwise as deemed appropriate, review and discuss reports from the Auditors on: (1) all critical accounting policies and practices to be used; (2) all alternative treatments of financial information within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Auditors; and (3) other material written communications between the Auditors and management, such management representation letters, schedules of unadjusted differences, reports on observations and recommendation on internal controls, listings of adjustments and reclassifications not recorded, the engagement letter and the independence letter.
9. The Committee shall discuss with management the Corporation’s earnings press releases as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may consist of a general discussion of the types of information to be disclosed and the types of presentations to be made.
10. The Committee shall discuss with management and the Auditors the effect on the Corporation’s financial statements of significant regulatory and accounting initiatives as well as off-balance sheet structures.
11. The Committee shall discuss with management the Corporation’s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation’s risk assessment and risk management policies.
12. The Committee shall review with the Auditors any audit problems or difficulties and management’s response, including, but not limited to (1) any restrictions on the scope of the Auditors’ activities, (2) any restriction on the access of the Auditors to requested materials, (3) any significant disagreements with management, (4) any audit differences that were noted or proposed by the Auditors but for which the Corporation’s financial statements were not adjusted (as immaterial or otherwise), (5) any communications between the audit team and

- the Auditors' national office respecting auditing or accounting issues presented by the engagement, and (6) any "management" or "internal control" letter issued, or proposed to be issued, by the Auditors. The Committee will resolve any disagreements between the Auditors and management regarding financial reporting.
13. The Committee shall discuss at least annually with the Auditors the matters required to be discussed by Statement of Auditing Standards ("SAS") No. 114- The Auditor's Communication With Those Charged With Governance, as may be modified or supplemented.
 14. The Committee shall prepare the Committee report that the SEC requires to be included in the Corporation's annual proxy statement and review the matters described in such report.

Financial Reporting Process

15. The Committee shall review and discuss with the Chief Executive Officer and Chief Financial Officer: (1) any significant deficiencies or material weaknesses in the design or operation of the Corporation's internal control over financial reporting that are reasonably likely to adversely affect the Corporation's ability to record, process, summarize or report financial information; (2) any fraud, whether or not material, involving management or other employees who have a significant role in the Corporation's internal control over financial reporting; (3) any changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting; (4) any special audit steps adopted in light of material control deficiencies; and (5) their report regarding the effectiveness of the Corporation's disclosure controls and procedures and internal control over financial reporting.
16. The Committee shall review and discuss with the Chief Executive Officer and Chief Financial Officer how they are meeting their obligations with respect to the certification process for the Form 10-K and Form 10-Q and review their evaluations of the Corporation's disclosure controls and procedures.
17. The Committee shall obtain annually a report from the Auditors, with attestation, regarding management's assessment of the effectiveness of the internal control structure and procedures for financial reporting.
18. The Committee shall approve the annual audit plan, charter, responsibilities and staffing of the Internal Audit Department, including the appointment and replacement of the senior internal audit executive.
19. The Committee shall review annually with the Auditors and the Chief Financial Officer the coordination of audit efforts to ensure completeness of coverage, reduction of redundant efforts and the effective use of audit resources.

20. The Committee shall receive regular reports of major findings by internal auditors and how management is addressing the conditions reported.

Miscellaneous

21. The Committee shall review with the Corporation's counsel, any legal matter that could have a significant impact on the Corporation's financial statements.
22. The Committee shall oversee investigations deemed appropriate by the Committee into any matters within the Committee's scope of responsibility as described in this Charter or as may be subsequently delegated to the Committee by the Board of Directors, with the power to retain independent counsel, accountants and other advisors and experts to assist the Committee if deemed appropriate.
23. The Committee shall establish and maintain procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting, internal controls or auditing matters. The Committee shall review any significant complaints or concerns regarding accounting, internal accounting controls or auditing matters received pursuant to such procedures.
24. The Committee shall report regularly to the Board of Directors with respect to any issue that arise with respect to the quality or integrity of the Corporation's financial statement, the Corporation's compliance with legal or regulatory requirements and the performance and independence of the Auditors.
25. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors for approval.
26. The Committee shall conduct an annual self-evaluation of its performance.
27. The Committee shall perform any other activities consistent with this Charter, the Corporation's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.
28. The Committee shall review any questionable or prohibited activities relating to accounting, internal accounting controls and auditing matters that are reported to the Committee under the Corporation's Business Conduct Policy.