

Orchids Paper Products Company

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

- A. The Audit Committee (the “Committee”) shall aid the Board of Directors (the “Board”) in undertaking and fulfilling its oversight responsibilities with regard to:
- the integrity and quality 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”);
 - the performance of the Auditors and the Corporation’s internal audit function;
 - the Corporation’s communication of its financial information to the public; and
 - the accounting and financial reporting process of the Corporation and the audits of the financial statements.
- B. 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 and any other financial duties required by the Securities and Exchange Commission (“SEC”), the NYSE Amex, or the Board of Directors.

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 recognizes that the Committee necessarily will rely on the advice and information it receives from the Corporation’s management and internal auditors as well as the Auditors and outside legal counsel. 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

- A. The Committee shall consist of three or more directors, 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. 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, unless sooner to fill a vacancy, to serve until such members' earlier resignation or removal or until their successors shall be duly elected.

- B. 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 as the "audit committee financial expert" as defined in Regulation S-K, Item 407(d)(5) under the Act. The designated financial expert shall, through participation in lectures, seminars, workshops, maintaining an active CPA license or similar, devote such time each year as is reasonably sufficient to update his or her knowledge of accounting and tax matters relevant to the Corporation and its regulators and Auditors.
- C. 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.
- D. If a Committee member simultaneously serves on the audit committees of more than two other public companies, the Board 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.
- E. 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. The Chair will preside over all regular sessions of the Committee and set the agendas for Committee meetings.

III. MEETINGS

- A. The Committee shall meet on at least a quarterly basis or more often as the Committee deems appropriate or as circumstances dictate. 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/Chief Financial Officer.
- B. As part of its job to foster open communication, the Committee may meet separately in executive sessions, 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.
- C. The Committee shall record minutes of each meeting and report the actions of Committee at the next meeting of the Board, and make recommendations to the Board as appropriate. The Committee is governed by the same rules regarding meetings,

notice, waiver of notice, and quorum and voting requirements as are applicable to the Board.

- D. Members of the Committee may participate in meetings by means of teleconference telephone or similar communications technologies whereby all persons participating in the meeting can hear each other, and such participation shall constitute presence at the meeting.
- E. Any action required or permitted to be taken at a meeting of the Committee may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all members of the Committee is filed with the Secretary of the Corporation.
- F. The Committee may also act as otherwise permitted by law or the Corporation's Bylaws.
- G. 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

- A. 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.
- B. If in the course of fulfilling its duties the Committee wishes to consult with outside legal, accounting or other advisors, the Committee may directly retain, oversee and remove these advisors without seeking the approval of the Board or management.
- C. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of (i) compensation to the Auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, (ii) compensation to any advisors employed by the Committee and (iii) ordinary administrative expenses of the Committee.
- D. 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.
- E. Without limiting the generality of the foregoing, the authority, duties and responsibilities of the Committee shall include the following:

Independent Auditors

1. The Committee shall be solely and directly responsible for the selection, appointment, compensation, retention and termination, if necessary, 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.
3. The Committee shall obtain and actively discuss with the Auditors 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. Based upon such evaluation, review and discussions with respect to any disclosed relationships or services that may impact the Auditors' objectivity or independence, the Committee shall take, or recommend that the full Board take, appropriate action.
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 Chair shall have 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 internal auditors and 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.
6. 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.

Internal Auditors

7. The Committee shall discuss, evaluate and determine the appropriateness of having internal auditors and or outsourcing such functions.
8. The Committee shall review the appointment and replacement of any senior internal auditing executive.
9. The Committee shall review the significant reports to management prepared by any internal auditing department and management's responses.
10. The Committee shall discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of any internal audit.

Financial Statements and Disclosure Matters

11. 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 review and if deemed appropriate, the Committee shall recommend to the Board inclusion of the financial statements in the appropriate SEC filing.

12. The Committee shall, prior to issuance of an audit report, or any SEC filing, 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 as 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.
13. The Committee shall review and discuss with management and the Corporation's Auditors prior to public dissemination: the Corporation's earnings press releases; any financial information and earnings guidance provided to analysts and ratings agencies; and any other materials containing financial information of the Corporation, including in each of instance, the type of information to be included, its presentation and the use of any pro forma or adjusted non-GAAP information.
14. 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.
15. 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.
16. 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.

17. 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.
18. 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

19. 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.
20. 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.
21. 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.
22. The Committee shall approve the annual audit plan.
23. 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.
24. The Committee shall receive regular reports of major findings by internal auditors and how management is addressing the conditions reported.

Business Conduct and Ethics

25. The Committee shall establish and maintain procedures for the receipt, retention and treatment of complaints received by the Corporation’s employees 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.

26. The Committee shall comply with its obligations set forth in the Corporation's Business Conduct and Ethics Policy and shall periodically review and update as necessary the policy with respect to accounting, internal accounting controls and auditing matters.
27. The Committee shall review and investigate any questionable or prohibited activities relating to accounting, internal accounting controls and auditing matters that are reported to the Committee, the Committee Chair and/or the Nominating and Corporate Governance Committee under the Corporation's Business Conduct and Ethics Policy or otherwise.
28. The Committee will maintain a log of all such complaints, tracking their receipt, investigation and resolution and regularly report to the Board regarding the same.
29. The Committee will ensure that procedures are in place that provide a copy of the Corporation's Business Conduct and Ethics Policy to the Auditors and to any consultants, agents or other representatives of the Corporation involved in any manner with accounting, internal accounting controls or auditing matters.

Other Matters

30. The Committee shall review with the Corporation's counsel, any legal matter that could have a significant impact on the Corporation's financial statements.
31. The Committee shall oversee investigations deemed appropriate 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, with the power to retain independent counsel, accountants and other advisors and experts to assist the Committee if deemed appropriate.
32. The Committee shall report regularly to the Board with respect to any issues 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.
33. The Committee shall discuss with management and the Auditors any correspondence with regulators or governmental agencies and any published reports that may raise material issues regarding the Corporation's financial statements or accounting policies.
34. Pursuant to Delaware General Corporation Law, each member of the Committee, as a director of the Corporation, shall owe a duty of loyalty to the Corporation and its stockholders. As such, each member of the Committee shall act in good faith for the benefit of the Corporation and its stockholders and not for his or her own interest. In addition, each member of the Committee shall keep confidential all

relevant, privileged or strategic information of the Corporation, obtained by reason of their position.

35. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
36. The Committee shall perform any other activities consistent with this Charter, the Corporation's By-laws and governing law, and as the Committee or the Board deems necessary or appropriate.

Limitation on the Committee's Role

37. The Corporation's management is responsible for preparing the Corporation's financial statements in accordance with GAAP and its periodic reports as required by the SEC. The Corporation's independent auditors are responsible for auditing the Corporation's annual financial statements and reviewing the Corporation's interim financial statements. While the Committee has responsibility to oversee management's and the independent auditors' conduct of these activities, it is not the responsibility of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in compliance with GAAP.

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