



## KP TISSUE INC.

### AUDIT COMMITTEE CHARTER

#### 1. DEFINITIONS

In this Charter:

“**Auditor**” means the external auditors of the Corporation;

“**Board**” means the board of directors of the Corporation;

“**Committee**” means the audit committee of the Board;

“**Corporation**” means KP Tissue Inc.;

“**KPI**” means Kruger Products Inc.;

“**Management**” means the senior officers of the Corporation, who are also senior officers of KPI carrying out the duties of KPI in its role as administrator under the administration agreement entered into by KPI and the Corporation; and

“**NI 52-110**” means National Instrument 52-110 *Audit Committees*.

#### 2. PURPOSE

Without prejudice to the specific duties of the Committee detailed below, the primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process and to oversee the Corporation’s relationship with the Auditor.

#### 3. SPECIFIC DUTIES

The Committee shall perform the following duties for the Corporation.

##### 3.1 Financial Disclosure Reporting

3.1.1 The Committee shall review and discuss with Management and the Auditor:

- (a) the Corporation’s annual audited financial statements and related documents prior to their filing or distribution, including:
  - (i) the annual financial statements, related footnotes and management’s discussion and analysis (“**MD&A**”), significant issues regarding accounting principles, practices and significant Management estimates and judgments, 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;
  - (ii) the use of off-balance sheet financing including Management’s risk assessment and adequacy of disclosure;
  - (iii) any significant changes to the Corporation’s accounting policies; and
  - (iv) the Auditor’s audit report on the financial statements; and

- (b) the Corporation's interim financial reports and related documents prior to their filing or distribution, including:
  - (i) interim financial reports and related documents, MD&A, significant issues regarding accounting principles, practices and significant Management estimates and judgments, 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;
  - (ii) if applicable, the Auditor's report of its review of the interim financial reports;
  - (iii) the use of off-balance sheet financing including Management's risk assessment and adequacy of disclosure; and
  - (iv) any significant changes to the Corporation's accounting policies.

3.1.2 The Committee shall review:

- (a) the Corporation's Annual Information Form, or other similar report filed with securities regulatory authorities, as to financial information;
- (b) any prospectus, offering memorandum and information circular of the Corporation as to financial information;
- (c) the Corporation's financial statements, MD&A and annual and interim earnings press releases before the Corporation discloses this information; and
- (d) any financial information contained in any other formal announcement or other document.

3.1.3 The Committee shall review:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Corporation;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Corporation has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the Auditor;
- (d) the Corporation's reporting practices; and
- (e) all significant financial reporting issues and all judgments which they contain.

3.1.4 The Committee shall review the Corporation's financial reporting procedures and internal controls to be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than disclosure referred to in section 3.1.2 above, and periodically assess the adequacy of those procedures, including:

- (a) reviewing and discussing with Management earnings (and/or other financial information) press releases with particular attention to the use of "pro forma" or "adjusted" non-GAAP information, before they are issued;
- (b) reviewing and discussing generally with Management the nature of the financial information and earnings guidance provided to analysts and rating agencies; and
- (c) reviewing and discussing with Management annual and interim certifications with respect to disclosure controls and procedures and internal control over financial reporting.

3.1.5 The Committee shall recommend to the Board the approval of the annual financial statements and related documents and either approve the interim financial reports and related documents or recommend to the Board such financial statements and documents for approval.

**3.2 Internal Controls and Risk Management Systems**

3.2.1 The Committee shall:

- (a) keep under review the effectiveness of the Corporation's internal controls and risk management systems; and
- (b) review and approve any statements to be included in the Corporation's annual report and accounts concerning internal controls and risk management.

### **3.3 Complaints on Accounting and Other Matters**

3.3.1 The Committee is responsible for the establishment of a policy and procedures for:

- (a) the receipt, retention and treatment of any complaint received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential, anonymous submissions by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

3.3.2 The Committee will be responsible for investigating fraud, illegal acts or conflicts of interest.

### **3.5 External Audit**

3.5.1 The Committee shall consider and recommend to the Board:

- (a) the Auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and
- (b) the compensation of the Auditor.

3.5.2 The Committee shall oversee the Corporation's relationship with the Auditor including (but not limited to):

- (a) approval of their remuneration, including fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
- (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (c) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;
- (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Corporation or KPI (other than in the ordinary course of business) or any other conflicts of interest;
- (e) reviewing and approving the Corporation's policy on the employment of current and former partners and employees of the Auditor;
- (f) ensuring receipt, at least annually, from the external auditor of a formal written statement delineating all relationships between the Auditor and the Corporation or KPI, including non-audit services provided to the Corporation or KPI;
- (g) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Corporation compared to the overall fee income of the firm, office and partner and other related requirements;
- (h) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;
- (i) overseeing the work of the Auditor, including the resolution of disagreements between Management and the Auditor;
- (j) meeting regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without Management being present, to discuss their mandate and any issues arising from the audit;

- (k) reviewing and approving the annual external audit plan and ensuring that it is consistent with the scope of the audit engagement;
- (l) reviewing the findings of the audit with the Auditor;
- (m) reviewing any representation letter(s) requested by the Auditor before they are signed by the Management;
- (n) reviewing the Management letter and executive Management's response to the Auditor's findings and recommendations;
- (o) giving consideration to the rotation of the audit partner on a periodic basis;
- (p) reviewing any related findings and recommendations of the Auditor together with Management's responses including the status of previous recommendations;
- (q) reviewing any serious difficulties or disputes with Management encountered during the course of the audit, including any restrictions on the scope of the Auditor's work or access to required information; and
- (r) reviewing any other matters related to the conduct of the external audit, which are to be communicated to the Committee by the Auditor under generally accepted auditing standards.

3.5.3 Unless otherwise permitted by NI 52-110, the Committee must pre-approve any non-audit services to be provided to the Corporation or its subsidiaries by the Auditor. The Committee may delegate to one or more of its independent members authority to pre-approve non-audit services, but no such delegation may be made to Management of the Corporation. The pre-approval of non-audit services by any member to whom authority has been delegated hereunder must be presented to the Committee at its first scheduled meeting following such pre-approval.

### **3.6 Other Matters**

The Committee shall:

- (a) have access to sufficient resources, including to KPI resources pursuant to the Administration Agreement, in order to carry out its duties, including access to the Corporation secretary for assistance as required;
- (b) have access to tax and legal documentation of the Corporation as may be requested from time to time and to tax and legal advisors as required, in order to carry out its duties;
- (c) be provided with appropriate and timely training, both in the form of an introduction program for new members and on an ongoing basis for all members; and
- (d) oversee any investigation of activities which are within its terms of reference.

## **4. REPORTING**

- 4.1 The Auditor must report directly to the Committee.
- 4.2 The chair of the Committee shall report to the Board generally on its proceedings after each meeting.
- 4.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its mandate where action or improvement is needed.
- 4.4 The Committee's Charter shall be available on request and shall be available on the Corporation's website (if any).
- 4.5 The Committee shall review and reassess the adequacy of this Charter as required and recommend any proposed changes to the Board for approval.

## **5. REGULATORY DUTIES**

- 5.1 In carrying out its duties the Committee shall:

- (a) give due regard to:
  - (i) all relevant legal and regulatory requirements; and
  - (ii) the rules of any stock exchange or which the Corporation's securities may be listed; and
- (b) ensure that it has such information as it considers necessary or desirable to fulfill its duties as set out in this Charter.

**5.2** The Committee shall review any required disclosure in public documents with respect to the Committee and its functions, including the disclosure required in the Annual Information Form under Multilateral Instrument 52-110.

## **6. MEMBERSHIP**

- 6.1 The Committee shall be made up of three members each of whom shall be a member of the Board.
- 6.2 All members of the Committee shall be "independent" as that term is defined in NI 52-110 and the standards of any stock exchange on which the Corporation's securities are listed, subject to any permitted transitional provisions.
- 6.3 Members shall serve one-year terms and may serve consecutive terms to ensure continuity of experience. Members shall be appointed each year to the Committee by the Board at the Board meeting that coincides with the annual shareholder meeting. A member of the Committee shall automatically cease to be a member upon ceasing to be a director of the Corporation. Any member may resign or be removed by the Board from membership on the Committee or as Chair of the Committee.
- 6.5 All members of the Committee must be "financially literate", as that term is defined in NI 52-110, or must acquire such literacy within a reasonable period of time after joining the Committee.
- 6.6 The Board shall appoint the chair of the Committee who shall be a non-executive director of the Corporation. In the absence of the Chair, the remaining members of the Committee present at a fully convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chair of the Committee holds office.
- 6.7 The Board may from time to time remove members from the Committee.

## **7. SECRETARY**

The Board shall designate from time to time the secretary of the Committee from one of the members of the Committee or, failing that, the Corporation's corporate secretary shall act as secretary of the Committee, unless otherwise determined by the Committee.

## **8. MEETINGS**

- 8.1 The Committee shall meet at least four times in each year at appropriate times in the reporting and audit cycle and may call special meetings as required.
- 8.2 Meetings of the Committee shall be called by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.
- 8.3 Unless otherwise agreed, at least six (6) working days' notice shall be given of each meeting of the Committee. The notice period may be waived by all members of the Committee.
- 8.4 Unless otherwise agreed, notice of each meeting of the Committee shall:
  - (a) confirm the venue, time and date of the meeting;
  - (b) include an agenda of items to be discussed at the meeting; and
  - (c) be sent to each member of the Committee, the secretary, the Auditor and any other person required, invited or entitled to attend the meeting.

- 8.5 Supporting papers shall be sent to members of the Committee and to other attendees at the same time as the relevant notice.
- 8.6 The quorum necessary for the transaction of business by the Committee shall be a majority of the members of the Committee and a duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 8.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, others (such as the other directors, representatives from the finance function of the Corporation and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.
- 8.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis but shall not be entitled to vote at such meetings.
- 8.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear each other; provided always however that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present.
- 8.10 Matters for decision by the Committee shall be decided by a majority decision of the members. In the case of an equality of votes, the Chair of the Committee will not be entitled to a casting vote.
- 8.11 The Committee may hold separate *in camera* sessions without Management present at the conclusion of any regularly scheduled meeting of the Committee at which members of Management are present.

## **9. MINUTES**

- 9.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.
- 9.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 9.3 Following each meeting of the Committee, the secretary shall circulate, for comment, draft minutes to each member who was present at the meeting.
- 9.4 After approval and signing of the minutes by the chair of the Committee meeting, the secretary shall circulate copies of the minutes to all members of the Board (unless a conflict of interest exists).

## **10. AUTHORITY**

- 10.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.
- 10.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 10.3 The Committee is authorised to:
- (a) seek any information it requires (including from KPI pursuant to the Administration Agreement and Unanimous Shareholders' Agreement of KPI) in order to perform its duties;
  - (b) engage independent counsel and other advisors as the Committee determines necessary to carry out its duties;
  - (c) set and pay the compensation for any advisors employed by the Committee;
  - (d) communicate directly with the Auditor and the internal auditors;
  - (e) commission any reports or surveys, which it deems necessary, to help it fulfill its obligations;
  - (f) secure the attendance of external advisors at its meetings (if it considers it necessary);
  - (g) call any officer to be questioned at a meeting of the Committee as and when required, all at the

Corporation's expense; and

- (h) delegate its authority and duties to a subcommittee or individual members of the Committee, as it deems appropriate, provided that the subcommittee is composed entirely of independent directors.

#### **11. OWN PERFORMANCE**

At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.