



DOMTAR CORPORATION INTERNAL AUDIT CHARTER

INTRODUCTION

The Internal Audit charter serves as a guide to the Internal Audit Department of Domtar Corporation (the “Company”) in the performance of its duties. It intends to provide a basis for management and the Audit Committee to use in evaluating the operations of the Internal Audit function.

The components of this charter include:

- The mission of the Internal Audit Department
- The scope of the Internal Audit activities
- The responsibilities of the Internal Audit Department
- The relationship and coordination with the External Auditor
- The Audit Plan
- The reporting
- The Internal Audit Department’s authority and its position within the Company to ensure its independence
- The standards of audit practice followed by the Internal Audit Department

MISSION

The mission of the Internal Audit Department is to provide independent, objective assurance and support designed to add value and improve the Company’s operations and systems of internal controls. The Internal Audit Department assists the Company with accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

SCOPE OF WORK

The scope of audit coverage is company-wide and no department or business unit of the Company is exempt from audit and review.

In order to fulfill its mission, the Internal Audit Department must determine whether the Company’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed.
- Interaction occurs as needed between the various departments and external regulatory authorities.
- Operations are transacted in accordance with sufficient and adequate controls.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Significant legislative or regulatory issues impacting the Company are recognized and addressed properly.
- Programs, plans and objectives are achieved.
- Resources are acquired economically, used efficiently, and adequately protected.

RESPONSIBILITIES

The VP Internal Audit and staff of the Internal Audit Department have responsibility to:

- Develop an annual Audit Plan using appropriate risk-based methodology, including risks or control concerns identified by management and the Audit Committee, and submit that plan to the Audit Committee for review and approval.
- Implement the annual Audit Plan, as approved, including, and as appropriate, any special mandates or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certification to meet the requirement of this Charter.
- Issue an audit report to management and any other relevant parties at the conclusion of each audit in order to communicate the audit findings, recommendations and management action plans.
- Follow up on outstanding management action plans to ensure significant risks and major deficiencies identified are effectively addressed and remediated by management within the mutually agreed timeframe.
- Prepare and present quarterly reports to the Audit Committee summarizing the status and the results of audit activities.
- Identify key processes supporting financial reporting, assist business process owners to identify and document effective internal controls, and test key financial reporting controls in identified financial systems (Sarbanes-Oxley Act, Section 404).
- Assess the effectiveness of the disclosure controls and procedures on a quarterly basis (Sarbanes-Oxley Act, Section 302).
- Review and investigate complaints reported through the Whistleblower program and report to the Audit Committee on a quarterly basis, or promptly if the complaint has a material consequence for the Company. As needed, the Company's Management is advised of complaints received in the view of helping to bring corrective actions.
- Review the Company's Antifraud program and practices with management and the Audit Committee.
- Investigate on suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- Serve as a resource to the Company in identifying the need for and characteristics of adequate systems of control.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Assist the Audit Committee in any other way in connection with the discharge of its duties and responsibilities.

Opportunities for improving management control, profitability, and the Company's image may be identified during audits. They will be communicated to the appropriate level of management.

RELATIONSHIP & COORDINATION WITH THE EXTERNAL AUDITOR

The VP Internal Audit will work proactively with the External Auditor to determine areas where assistance and direct audit comfort can be provided by the Internal Audit Department. The VP Internal Audit will regularly meet with the External Auditor to discuss the internal and external audit plans and to share knowledge of any issues. These meetings will ensure that the roles of the two functions are coordinated and that there is no duplication.

AUDIT PLAN

The annual Audit Plan is developed in the beginning of each year based upon input from key management and a detailed, thorough risk assessment by the Internal Audit Department.

The annual Audit Plan may include a mix of the following types of audit activity:

- Financial audits, including determining the accuracy and reliability of data developed within the Company, and determining that corporate assets are properly safeguarded.
- Reviews of internal controls related to significant systems and processes to determine whether or not they are properly designed and functioning as intended.
- Reviews of compliance with the Company's significant policies and procedures.
- Reviews of compliance with significant external requirements/regulations, including accounting rules and regulations applicable.
- Strategic audits, including due diligence activities and review of the execution of the Company's strategic objectives.
- Reviews of computer-based systems focusing on data security, disaster recovery, and effective use of resources.
- Operational audits focusing on improving efficiencies or effectiveness with a goal of contributing to cost reduction efforts.

To develop the annual Audit Plan, an overall risk-based approach is used to ensure that the Internal Audit function provides the greatest possible benefit to the Company. On an ongoing basis, matters considered in developing the annual Audit Plan include the following:

- Review and understanding of the strategic and business plans of the core businesses.
- Significant degree of risk for potential loss exposure to the Company.
- Significant opportunities to achieve operating benefits.
- Existence of significant known errors, irregularities or control weaknesses.
- Results of previous audits.
- Major changes in operations, systems or controls.
- Major changes in regulatory or other requirements.
- Request from management, Audit Committee and External Auditor.

Each year, Internal Audit representatives will work with the management to perform risk assessment activities designed to identify and prioritize the Company's key risks and related processes. This information will be used to identify the audit mandates that will be included in the annual Audit Plan.

Based on the risk assessment performed, the VP Internal Audit will present a proposed annual Audit Plan to the Audit Committee for approval, which will include recommended activities to be audited, the timing of those audits, and the estimated resources needed. Any significant deviation from the formally approved Audit Plan will be communicated to the Audit Committee.

Internal Audit planning is developed in a manner that allows for the coverage of the Company's highest risk areas in a 3 year period. Significant, critical risks will be covered more frequently.

REPORTING

A written report will be prepared and issued by the VP Internal Audit following the conclusion of each audit and will be distributed as appropriate. The report will include our findings and recommendations along with the audited business unit/department management action plans. Each recommendation will be rated and an overall rating will be attributed to the audit. The significance of the recommendations will impact the timelines of our follow-up.

INDEPENDENCE AND AUTHORITY

To provide for the independence of the Internal Audit Department, its personnel report to the VP Internal Audit, who reports to the SVP Law and Corporate Affairs with a dotted line to the Audit Committee. The VP Internal Audit will meet privately at least once every fiscal quarter, with the Audit Committee. In addition, the VP Internal Audit will have direct access to the Audit Committee and will take directly to the Chair of the Audit Committee, any matter that is believed to be of sufficient magnitude and importance to require immediate attention of the Audit Committee.

To maintain its independence, the Internal Audit Department will have no direct operational responsibility or authority over any of the activities under scope. Accordingly, it will not develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited.

The Internal Audit Department is authorized to have unrestricted access to all company activities, records, property and personnel. Restriction to these accesses imposed by any employee or management of the Company, which prevents the Internal Audit Department from performing its duties, will be reported immediately to the President and CEO or directly to the Audit Committee, based on circumstances as determined by the VP Internal Audit.

STANDARDS OF AUDIT PRACTICE

The *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors guides the Internal Audit Department.

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