

Penford Corporation

Audit Committee Charter

ORGANIZATION

The Audit Committee (the “Committee”) shall consist of at least three Directors, including a Chairperson. The Committee shall include only “independent” Directors as such term is defined by applicable law, regulation and the relevant listing authority. Each member of the Committee shall be “financially literate,” including having the ability to read and understand financial statements at the time of his or her appointment to the Committee and at least one member of the Committee must be an “audit committee financial expert” as those terms are defined in accordance with applicable law, regulation and the relevant listing authority and interpreted by the Board of Directors (“Board”) in its business judgment.

STATEMENT OF POLICY

The Committee shall, through regular or special meetings with management and the Company’s independent registered auditor (the “Auditor”), provide oversight on matters relating to accounting, financial reporting, internal controls, including internal controls over financial reporting, auditing, risk management and other matters as the Board or the Committee Chairperson deems appropriate.

RESPONSIBILITIES

The Committee shall be directly responsible for the appointment, compensation and oversight of the work of the Auditor; reviewing the audit process and independence of the auditor; and recommending approval of both material accounting policies and risk management policies.

The Committee shall function as, and discharge the responsibilities of, a qualified legal compliance committee (“QLCC”), as provided for under the rules of the Securities and Exchange Commission (“SEC”).

The Committee shall review transactions with related parties (as defined in Item 404 of Regulation S-K as promulgated by the SEC) and resolve issues of conflict of interest, *provided, however*, that when any member of the Committee is also an officer, director or an interested party of or in such corporation or other entity with which a conflict arises, such member shall not participate in the deliberations or vote on any matter involving such corporation or other entity.

AUDIT FUNCTIONS

With respect to its audit functions, the Committee shall:

- communicate to the Auditor that the Auditor is ultimately accountable to the Committee;
- require the Auditor to provide annually to the Committee a formal written statement delineating all relationships between the Auditor and the Company, consistent with the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the audit committee concerning independence;
- actively engage with the Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the Auditor;
- take appropriate action in response to the Auditor’s report to satisfy itself of the Auditor’s independence;
- review the annual audit plans of the Auditor;

- review the results of the Auditor's activities, including major conclusions, findings and recommendations, and related management responses;
- review with the Auditor and counsel material litigation involving the Company, its officers and directors; and
- review with the Auditor significant business, accounting, tax, legal and other developments that could be material to the Company's financial statements.

With respect to financial reporting and disclosure, the Committee Chair and/or the full Committee, will meet with management and the Auditor prior to each quarterly and fiscal year earnings release and will review the information in the earnings release, as well as updated or new material financial information or earnings guidance.

Accounting Policies. The Committee shall review with management and the Auditor the adoption of or changes to significant accounting policies.

Internal accounting controls, disclosure controls and audits. The Committee shall review, in connection with the annual audit and from time to time as necessary, the Company's internal controls over financial reporting and disclosure controls, including (a) disclosures, if any, by Company officials relating to deficiencies or material weaknesses in such controls, and (b) compliance and the Company's policies with respect to the Foreign Corrupt Practices Act.

Pre-approval of non-audit services. The Committee shall pre-approve all non-audit services provided to the Company by the Auditor, provided the Auditor is not prohibited from performing such non-audit services by applicable law. Any pre-approval of non-audit services shall occur no earlier than one (1) year prior to the commencement of the service. The Committee may delegate to one (1) or more designated members of the Committee the authority to grant pre-approvals of non-audit services. The decisions of such member shall be reported to the full Committee at its next scheduled meeting.

Communications. The Committee shall have separate direct lines of communication to the Auditor, and with regard to litigation and legal and regulatory compliance, the Company's general counsel. The Committee shall meet privately (without members of management present) and separately with the Auditor at least once each year and, if/when requested, with the Company's legal counsel. A special meeting of the Committee may be requested by executive management or the Auditor.

Complaint Procedures. The Committee shall establish procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, financial reporting, internal accounting controls, or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting, financial or auditing matters. In addition, the Committee shall establish written procedures for the confidential receipt, retention and consideration of any report, provided to it as the Company's QLCC, of evidence of a material violation of any applicable United States federal or state securities law, a material breach of any duty arising under United States federal or state law, or a similar material violation of any United States federal or state law (a "Material Violation"). Anonymous reports may be submitted electronically at www.ethicspoint.com or by telephone 866-ETHICSP (866-384-4277).

Annual Financial Statements. Prior to filing the Company's Form 10-K, the Committee shall review and discuss the audited financial statements with management, and discuss with the Auditor the matters required to be discussed by relevant auditing standards, including the quality, not just the acceptability, of the accounting principles and underlying estimates used in the audited financial statements. The Committee shall report to the Board and to the shareholders (via the Company's annual proxy statement) whether, based on such reviews and discussions, it recommended to the Board that the audited financial statements be included in the Company's Form 10-K to be filed with the SEC.

Authority to Investigate. The Committee may cause an investigation to be made into any matter within the scope of its responsibility. The Committee may engage, and the Company shall provide resources for, independent counsel and other advisors to assist in its investigations as it deems necessary. The Committee may undertake such other matters as the Board or the Committee considers appropriate.

QLCC FUNCTIONS

With respect to its QLCC functions, the Committee shall have the authority and responsibility to:

- inform the Company's CEO of any report of evidence of a Material Violation except in the circumstances where the Committee reasonably believes it would be futile, in which case the Committee may report the evidence directly to the Board;
- determine whether an investigation regarding any such report is necessary;
- if it determines that further investigation of any such report is warranted, (a) notify the Board; (b) initiate an investigation, which may be conducted by the Company's General Counsel or outside counsel; and (c) retain such additional expert personnel as the Committee deems necessary;
- at the conclusion of any such investigation referred to above, (a) recommend that the Company implement an appropriate response to evidence of a Material Violation and (b) inform the CEO and the Board of the results of any such investigation and the appropriate remedial measures to be adopted; and
- to take all other appropriate action, including the authority to notify the SEC in the event that the Company fails in any material respect to implement an appropriate response that the Committee has recommended.

OTHER FUNCTIONS

Risk Management. The Committee shall review and approve annually the risk management policies (e.g. corn, energy, foreign currency, interest) including the net position exposure level for each respective policy, and approve any exceptions thereto. The Committee shall periodically review the commercial insurance program to understand the Company's overall risk profile.

REPORTS FROM MANAGEMENT

The Committee shall receive periodic reports from management, the Company's general counsel, and the Auditor on matters relating to accounting, financial reporting, internal controls, auditing, litigation and compliance with legal business policies and regulatory requirements. The Committee shall receive these reports pursuant to a schedule that the Committee Chair develops in consultation with management.

ADEQUACY OF CHARTER

The Committee shall annually review the continued adequacy of the Charter of this Committee and shall comply with the provisions in the General Procedures for Board Committees as approved by the full Board.

REPORTS TO BOARD

The Committee Chair shall make regular reports to the Board on the Committee's activities.

Approved: Nov. 2008