
Advanced Environmental Recycling Technologies, Inc.

Internal Audit Charter

Approved, Acknowledged, and Accepted December 11, 2012

Article I--Purpose of this Charter

The Purpose of this Charter is to delineate the reporting lines and responsibilities of the Internal Auditor, the approval of the Audit Committee, and acknowledgement of Principal Officers.

Article II--Responsibility and Protocols

The Audit Committee recognizes that it is ultimately responsible for establishing and monitoring the risk tolerance of an organization. The Principal Officers recognize that management is responsible for the Company's internal control structure, and thus is also responsible for adopting one or more internal control framework(s) to serve as the basis for designing, monitoring, and evaluating its internal control structure. Therefore, the Internal Auditor shall have uninhibited and complete discretion to fulfill his(her) objective of serving in a Board oversight function that objectively evaluates the Company's internal control structure and shall have access to all organizational records, data, information, assets, and personnel.

The Internal Auditor shall have open and direct access to management, the Audit Committee, and Principal Officers. The Internal Auditor shall be free to document and communicate specific policies and procedures best suited for the execution of the Company's Internal Audit Department mandate.

Management shall be obligated to respond to Internal Audit's inquiries and recommendations, formal and informal, in a timely and diligent manner. Excessive requirements for management authorizations or permissions are deemed to inhibit access. The Internal Auditor has the discretion to disclose and refrain from disclosing any reasons for requests placed upon management.

The Internal Auditor shall report disagreements with management and instances in which a request for access or response is not granted or provided in a reasonable time, format, and manner to the Principal Officers and the Audit Committee.

Internal Audit shall hold data and information obtained during the course of its audit activities with due care and the appropriate level of confidentiality. The Internal Auditor shall have authority to grant, limit, and restrict access to work papers and records.

Article III-- Objectivity

The Internal Auditor is fully accountable and reports directly to the Audit Committee. The Audit Committee will meet with the Internal Auditor as the Committee deems necessary. For administrative purposes, the Internal Auditor reports to the Chief Financial Officer.

The Internal Auditor shall not serve as a substitute for management control, as an adequate internal control structure should not necessitate the performance of any audit and may disclose to the Audit Committee, any and all requested, proposed, and performed activities that are deemed as not taking the form of an objective internal audit activity, for their acceptance or rejection.

Article IV—Reporting and Follow-Up

The Internal Auditor shall have procedures in place to ensure that reported conclusions and opinions are supported with adequate, competent, and sufficient internal audit work.

The Audit Committee and Principal Officers recognize that an organization's internal control structure is comprised of and affected by many internal and external activities and elements, all of which are subjected to variability in effectiveness. The Audit Committee and Principal Officers further recognize that any opinion on the overall internal

control structure of an organization would be inherently subject to excessive uncertainty, regardless of the adequacy, competency, and sufficiency of internal audit work.

The Internal Auditor shall communicate results of his (her) work and otherwise known issues to management and the Audit Committee. The Internal Auditor shall form and report appropriate opinions based on audit evidence. Management shall provide responses to issues in a prompt and efficient manner. Written reports shall be distributed to the CEO, CFO, President, and other members of management, as appropriate, and the Audit Committee for reports containing significant issues or when there is a disagreement with management other than of a *de minimis* nature. The Internal Auditor shall provide summary information to the Audit Committee pertaining to issues resulting from internal audit procedures as well as known issues outside of internal audits and issues. The Audit Committee shall approve the conceptual framework pertaining to follow-up audit procedures. The Internal Auditor shall have procedures in place to track, monitor, and evaluate the status of internal control issues with a tracking mechanism and with consideration to the risk of each issue and the cost and benefit of various audit procedure alternatives.