

**The Allied Defense Group, Inc. (ADG)
Audit Committee Charter**

1. Purpose

The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial statements, reports and other financial information provided by the Corporation to any governmental body, its stockholders or the public; the Corporation's systems of internal controls regarding finance, accounting, legal compliance, corporate governance and ethics that management and the Board have established; and the Corporation's auditing, accounting and financial reporting processes generally. Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures and practices at all levels. The Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control system.
- Appoint, approve compensation levels, retain and oversee the Corporation's independent accountants.
- Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditing department, if established in the future, and the Board of Directors.

The Committee will fulfill these responsibilities by carrying out the activities enumerated in this Charter.

2. Composition

The Committee will consist of a minimum of three outside directors, each of whom meets the independence and experience requirements of the American Stock Exchange, the Securities Exchange Act of 1934, and the rules and regulations of the Securities and Exchange Commission. The Directors are not employed by the Corporation, and are free of any relationship that would interfere with their exercise of independent judgment as a Committee Member. The Committee Chairman and Committee assignments will be recommended to the Board of Directors by the Chairman of the Board. These individuals will then be appointed by the Board of Directors and serve at the pleasure of the Board.

3. Meetings

The Committee shall meet at least four times annually with management and the independent accountants (at least two of the meetings shall be in person). As part of its job to foster open communication, the Committee should meet periodically with management and the independent accountants in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

4. Responsibilities and Duties

The Committee will:

(a) Have sole authority to appoint or replace the independent accountants (subject, if applicable, to shareholder ratification). The Committee shall be directly responsible for approving the level of compensation and oversight of the work of the independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for services rendered to the Corporation. The independent accountant shall report directly to the Committee.

(b) Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by its independent accountants. The Committee may form subcommittees consisting of one or more members when appropriate. Subcommittees shall act on behalf of the Committee and address any issues designated by the Committee. Approvals of audit and permitted non-audit services by external auditors may be delegated by the Committee. If any approvals are delegated, the Committee will identify the nature of the service delegated, the maximum dollar delegated and the rationale for delegation. The delegation shall be documented as Audit Committee policy and published as an appendix to the Audit Committee charter.

(c) Have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent accountants for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

(d) Brief the Board of Directors at each Board meeting on the results of Audit Committee meetings held or audit matters arising since the prior Board meeting.

The Committee, to the extent it deems it necessary or appropriate, shall:

Financial Statement and Disclosure Matters

- Review the annual financial statements, its annual Form 10-K and any other reports or other financial information submitted to any governmental body, its stockholders or the public, including any certification, report, opinion, or review rendered by the independent accountants. This review should include the nature, appropriateness and extent of any changes in accounting principles or their application.
- Recommend to the Board of Directors the Corporation's annual audited financial statements and accompanying notes to be included in the Corporation's Annual Report on Form 10-K.
- Review analysis prepared by management and the independent accountants of significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements.
- Review with financial management and the independent accountants each of the Corporation's Forms 10-Q prior to its filing.
- Meet periodically with management to review the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including a review of the adequacy of reserves.

Independent Accountants

- On an annual basis, review and discuss with the independent accountants all significant relationships the accountants have with the Corporation to determine the accountants' independence, including non-audit services provided and the related fees for such services.
- Review the performance of the independent accountants and approve any proposed discharge of the independent accountants when circumstances warrant.
- Periodically consult with the independent accountants out of the presence of management about internal controls and the fullness and accuracy of the organization's financial statements.
- Review and discuss reports from the independent accountants on:
 - (a) All critical accounting policies and practices to be used.

- (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants.
 - (c) Other material written communications between the independent accountants and management, such as any management letter or schedule of unadjusted differences.
- Discuss with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
 - Review and evaluate the lead partner of the independent accountant's team.
 - Evaluate the qualifications, performance and independence of the independent accountants, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent accountants to the Board.
 - Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

Internal Audit Function

- Review the significant reports to management prepared by the internal audit department and management's responses.
- Review and evaluate if the scope of the internal audit function is appropriate.

Financial Reporting Processes

- In consultation with the independent accountants, review the integrity of the Corporation's financial reporting processes, both internal and external.
- Consider the independent accountants' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.

- Consider and approve, if appropriate, major changes to the Corporation's auditing and accounting principles and practices as suggested by the independent accountants or management.
- At least annually the Committee will arrange to have a presentation on new accounting, financial and auditing releases to assure that the Committee is familiar with new releases that have application to the Corporation's financial reporting process.
- Review disclosures made to the Committee by the Corporation's CEO and CFO during their certification process for the Form 10-K and Forms 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.

Process Improvement

- Establish regular reporting to the Committee by management and the independent accountants regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
- Following completion of the annual audit, review with management and the independent accountants any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- Review any significant disagreement among management and the independent accountants in connection with the preparation of the financial statements.
- Review with the independent accountants and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)
- Consider the adequacy of the Corporation's computerized information system controls and security.
- Review significant findings and recommendations of the independent accountants together with management's responses thereto.

Governance, Ethical and Legal Compliance

- In coordination with the Board's Ethics and Governance Committee, review and recommend updates periodically to the Corporation's code of ethical conduct as it relates to the financial and auditing business of the Corporation, and ensure that management has established a system to enforce this code and corporate governance policies or procedures.
- Review management's monitoring of the Corporation's compliance and that it has the proper review system in place to ensure that Corporation's financial statements, reports and other financial information disseminated to governmental organizations, stockholders and the public satisfy legal requirements. Coordinate any findings with the Board's Ethics and Governance Committee.
- In coordination with the Board's Ethics and Governance Committee, establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Review with the Corporation's counsel legal compliance matters including corporate securities trading policies.
- Review with the Corporation's counsel any legal matter that could have a significant impact on the organization's financial statements.

General and Administrative

- Report to the Board, at least annually, all public corporation audit committee memberships in other corporations by members of the Allied Audit Committee.
- Adopt an orientation program for new Committee members. All Committee members are encouraged to attend educational programs to enhance their Committee membership, as they feel appropriate, and the cost of such program will be paid by the Corporation.
- Make regular reports to the Board.
- Perform any other activities consistent with this Charter, the Corporation's By-Laws, governing law and the Applicable Rules and Regulations, with respect to the financial affairs of the Corporation, as the Committee deems appropriate, and report such other activities to the Board at its next meeting.

The duties and responsibilities of the members of the Committee are in addition to those duties set out for a member of the Board of Directors.

5. Committee Charter

The Committee will periodically review this Charter and will recommend any changes to the Chairman and the Board as the Committee deems appropriate, including satisfying any applicable requirements of the American Stock Exchange and any other legal or regulatory requirements. A copy of this Charter will be made available on the Corporation's website at www.allieddefensegroup.com.