

**WSI INDUSTRIES, INC.
AUDIT COMMITTEE CHARTER**

Responsibilities and Authority

The Audit Committee reports to the Board of Directors. Its primary focus is to assist the Board in fulfilling its responsibilities to shareholders related to financial accounting and reporting, the system of internal controls established by management and the adequacy of auditing relative to these activities. The Committee is granted the authority to monitor the independence and performance of the Company's independent accountant, to investigate any activity of the Company, and to retain, at the Company's expense, special legal, accounting or other consultants or experts as necessary to assist the Committee in fulfilling its responsibilities. In addition, the Committee will perform such other functions as assigned by law, the Company's Bylaws or the Board of Directors.

Membership

The Committee will be composed of not less than three members, appointed annually by the Board. The Committee will be composed of directors who are independent, as defined by the Securities and Exchange Commission and The Nasdaq Stock Market, are non-executive directors and are free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a Committee member. All members of the Committee must have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise.

Members of the Committee are appointed by the Board of Directors. If a Committee Chairperson is not designated by the Board, members may designate a Chairperson by majority vote.

Meetings

The Committee will meet at least four times a year. The agenda of each meeting will generally be prepared by the Chief Financial Officer or equivalent ("Finance Officer"), with input from the Committee Chairman prior to the meeting date. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. The Committee will meet privately in executive session with management, the independent auditors, and as a committee to discuss any matters that the Committee or each of these groups believe should be discussed.

Specific Duties

Relationship with Independent Accountant

- The outside auditor is accountable to the Audit Committee. The Audit Committee will provide for an open avenue of communications between the independent accountant and the Board and, at least once annually, meet with the independent accountants in private session.
- The Audit Committee will exercise the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent accountant.
- Receive, on an at least annual basis, a written statement from the independent accountant detailing all relationships between the independent accountant and the Company, and discuss such relationships with the independent accountant, consistent with requirements of the Independence Standards Board Standard No. 1.
- Review and approve all audit and non-audit services to be performed by the independent accountants. The Audit Committee will also review and approve all fees and other compensation to be paid to the independent accountants.

- Review with the independent accountants (1) the proposed scope of their examination with emphasis on accounting and financial areas where the Committee, the accountants or management believe special attention should be directed; (2) results of their audit, including their opinion on the financial statements and the independent accountant's judgment on the quality, not just the acceptability, of the Company's accounting principles as applied in the financial statements; (3) their evaluation of the adequacy of the system of internal controls; (4) significant disputes, if any, with management; and (5) cooperation received from management in the conduct of the audit.
- Prior to releasing year-end earnings, discuss the results of the audit with the independent accountants. Discuss certain matters required to be communicated to Audit Committee in accordance with AICPA SAS 61.
- Receive reports directly from independent accountants and resolve any disagreements between management and the independent accountants regarding financial reporting.

Relationship with the Accounting Department

- The Finance Officer is accountable to the Chairman of the Committee. The Audit Committee shall provide for an open avenue of communication between the Accounting Department and the Board and, at least once annually, meet with the Finance Officer in private session.
- Review and concur in the appointment, replacement, reassignment or dismissal of the Finance Officer and review his/her independence from management.
- Review the Accounting Department's mission, objectives and resources and its annual plan, including its coordination with the independent accountants.
- Discuss with the Finance Officer any difficulties encountered in the course of audits, including any restrictions on the scope of work or access to required information.

Relationship with Management

- Before publication, review the quarterly and annual financial statements and related footnotes with both management and the independent accountant.
- Review with management and the independent accountants, based on reports required from the independent accountants: (1) all critical accounting policies and practices to be used; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, (3) ramifications of the use of such alternative disclosures and treatments; and (4) other material written communications between the independent accountants and management. Participate in the selection and development of significant accounting estimates.
- Review significant accounting, reporting, regulatory or industry developments affecting the Company.
- Require management to maintain a review system to promote compliance with applicable governmental rules and regulations relating to the Company's financial statements, reports and other financial information disseminated to governmental organizations and the public. Receive reports regarding the Company's system of internal controls and disclosure controls and procedures.

Ethical and Legal Compliance

- Review management's monitoring of the Company's compliance with the code of conduct, ethics policy or any other code of corporate conduct required by The Nasdaq Stock Market or the Securities and Exchange Commission (collectively, the "Code") and ensure that management has the proper review system in place to ensure that the Company's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements. Grant waivers to senior officers and directors from such Code, or provide any consent required under the Code, when appropriate and in the best interest of the Company.
- Review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies. Receive reports from the Company's legal counsel regarding any dispute, litigation, regulatory matter or proceeding or any material violation of securities laws or breach of fiduciary duty or similar violation by the Company or any agent of the Company.

Other

- Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval and have the document published at least every three years in accordance with regulations of the Securities and Exchange Commission.
- Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters; and (b) the submission by employees of concerns on a confidential and anonymous basis regarding accounting and auditing matters.
- Discuss with management, the independent accountant and the Finance Officer any issues regarding significant risks or exposures and assess the steps management has taken to minimize such risk.
- Review policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the independent accountant or Internal Audit.
- Recommend to the Company's Board of Directors the inclusion of the audited financial statements in the Company's annual report. Review and comment on the Company's annual report to shareholders, annual report on Form 10-K, and quarterly reports on Form 10-Q.
- Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement.
- Review and approve all transactions to which the Company is a party and in which any of the Company's officers, directors or 5% or greater shareholders or any "affiliate" of any of these persons has a direct or indirect material interest; except that the Audit Committee shall not be responsible for matters relating to the employment of the Company's officers or the compensation of the Company's officers or directors.
- Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.