

COMPENSATION COMMITTEE

Lew Boyd (Chairman), Maurice Needham, Neil Braverman & Jamie Weston

The Compensation Committee of the Board of Directors sets the compensation of the Chief Executive Officer and reviews and approves the compensation arrangements for all other officers.

American Power Group Corporation | Executive Compensation and Employee Benefits Committee Charter

COMMITTEE PURPOSE

To discharge the Board of Directors responsibilities relating to the compensation of the Corporation's executives and to produce an annual report on executive compensation for inclusion in the Corporation's annual proxy statement in accordance with Securities and Exchange Commission rules and regulations. To review and approve the Corporation's goals and objectives relevant to the compensation of the CEO and senior executives designated by the Committee, evaluate the performance of the CEO and senior executives in light of those goals and objectives and determine the compensation level for the CEO and senior executives based on this evaluation. To oversee the Corporation's senior management development program and advise the Board of Directors on senior executive selections and succession. To review and report to the Board of Directors on the appropriateness of, and recommendations with respect to, the Board of Directors' compensation. To review and report to the Board of Directors on the appropriateness of the Corporation's employee benefit programs.

Committee Duties and Responsibilities:

1. Periodically review the Board of Directors' compensation and recommend to the Board of Directors such changes as the Committee determines as being reasonable and appropriate.

2. Oversee the development of an internally consistent and externally competitive executive compensation program in order to attract and retain qualified executives and to provide incentives for the attainment of the Corporation's strategic goals and objectives.
3. Review and approve the CEO's goals and objectives relevant to the CEO's compensation.
4. Evaluate the CEO's performance in light of the CEO's goals and objectives approved by the Committee and determine the CEO's compensation level based on that evaluation.
5. Review and determine the base salary and short-term incentive compensation for non-CEO senior executives.
6. Make recommendations to the Board of Directors with respect to long-term incentive compensation plans and equity-based compensation plans and any changes thereto.
7. Review and approve awards under the Corporation's long-term incentive compensation plans and equity-based compensation plans for the CEO, executive officers and other key employees of the Corporation.
8. Periodically review the goals of the Corporation's employee welfare plans and evaluate the current plans against those goals.
9. Perform an annual performance evaluation of the Committee.

10. Produce an annual report on executive compensation for inclusion in the Corporation's annual proxy statement in accordance with Securities and Exchange Commission rules and regulations.

COMMITTEE MEMBER QUALIFICATION

Committee members must be comprised entirely of independent directors. A director shall qualify as independent if the Board of Directors has affirmatively determined that the member is independent consistent with the independence criteria set forth in the Corporation's Corporate Governance Guidelines.

COMMITTEE MEMBER APPOINTMENT

Committee members, nominated by the Corporation's Corporate Governance Committee, will be appointed annually by the Board of Directors. Committee members may be removed from membership on the Committee by the Board of Directors at any time, with or without cause.

COMMITTEE STRUCTURE AND OPERATIONS

The Committee shall have the power to delegate aspects of its work to subcommittees, with the approval of the Board of Directors. Further, the Board of Directors may allocate any of the responsibilities of the Committee to a separate committee, provided that the committee is composed of independent directors. Any such committee must have a published committee charter. The Committee shall be comprised of at least two members meeting the qualifications for membership stated above in the Committee Charter. The Committee should meet at least two times per year. Although the timing and content of each meeting is subject to change at the Committee's discretion, these meetings will generally be as follows:

1. A meeting to, among other matters, (a) review the compensation for the Board of Directors, (b) review the CEO's preliminary goals and objectives for the coming year, (c)

review the Corporation's employee benefit plans in light of the goals and objectives for such plans; (d) plan for the annual compensation review of the CEO and senior executives of the Corporation designated by the Committee, by reviewing the compensation plans and programs prepared by management and the outside compensation consultant hired by the Committee; (e) review and recommend to the Board of Directors any changes to the Corporation's equity compensation plans; and (f) review succession planning for the senior executives.

2. A meeting after the year-end financial results are available to: (a) review the CEO's and the senior executives' performance against their individual and collective objectives for the prior year, (b) determine the salary increases for the CEO and senior executives; (c) review the existing compensation packages for the CEO and the senior executives for internal equity and external competitiveness, (d) determine any incentive compensation awards for the CEO and senior executives under the incentive compensation plan approved by the Committee for the prior year, (e) finalize the CEO's goals and objectives for the coming year and (f) review and approve an incentive compensation plan for the CEO and senior executives for the coming year; (g) review the performance of the Corporation, the CEO and senior executives, as applicable, under the Corporation's equity compensation plans; and (h) make equity-based awards under the Corporation's equity compensation plans as determined by the Committee. If an outside compensation consultant is to assist in the evaluation of the Corporation's director, CEO or senior executive compensation, the Committee will have the sole authority to retain and terminate such compensation consultant, including the sole authority to approve such consultant's fees and other retention terms.

COMMITTEE REPORTING TO THE BOARD

The Committee shall cause minutes to be kept of each of its meetings, which will be reviewed and approved by the Chairperson of the Committee. Copies of the minutes of each meeting of the Committee will be provided to the Board of Directors, and the Chairperson or his or her designee will report on each meeting of the Committee to the

Board of Directors at the next meeting of the Board of Directors following the meeting of the Committee.

Stockholders may communicate directly with members of our Board of Directors by sending a letter or other written communication to The Chairman of the Board (or, if applicable to an individual director by name), in care of the Corporate Secretary, American Power Group Corporation, 7A Kimball Lane, Lynnfield, MA 01940. Our current policy is to forward all communications to the Chairman of the Board or the individually named director, if applicable, but we reserve the right to modify that policy in the future.