

ELECTRO-SENSORS, INC.
AUDIT COMMITTEE CHARTER

I. PURPOSE

The Electro-Sensors, Inc. Audit Committee (the “Committee”) is appointed by the Board of Directors to (a) assist the Board in its oversight of (i) the integrity of the Company’s financial statements, (ii) the Company’s compliance with legal and regulatory requirements, (iii) the Company’s system of internal controls, (iv) certain aspects of the Company’s risk management as described herein, (v) the qualifications and independence of the Company’s independent registered public accounting firm (“independent auditor”) and (vi) the performance of the Company’s independent auditors, and (b) prepare a report to be included in the Company’s annual proxy statement.

It is the responsibility of the Company’s management to prepare financial statements that are complete and accurate and in accordance with generally accepted accounting principles in the United States (“GAAP”) and to establish satisfactory internal control over financial reporting. It is the responsibility of the Company’s independent auditor to audit the Company’s financial statements in accordance with standards established by the Public Company Accounting Oversight Board (“PCAOB”) and obtain a sufficient understanding of internal control in order to plan the nature, timing and extent of the audit procedures to be performed. The Committee’s responsibility in this regard is one of oversight and review. The Committee does not provide any expert or other special assurance as to such financial statements concerning compliance with laws, regulations or GAAP.

II. MEMBERSHIP

The Committee shall be comprised of three or more directors elected by the Board, each of whom shall be independent. In addition, no member of the Committee shall have a direct or indirect financial relationship with the Company other than compensation paid to such member as a director of the Company. Committee members shall serve until the next annual organizational meeting of the Board, or until their successors are duly elected and qualified. The Chair of the Committee shall be elected by the Board. In the absence of the election of a Chair by the Board, the members of the Committee shall elect a Chair by majority vote of the Committee membership.

All Committee members shall have a working familiarity with basic finance and accounting practices and shall be able to read and understand financial statements at the time of their appointment to the Committee. At least one member of the Committee shall be a “financial expert,” as such term is defined in applicable regulations of the Securities and Exchange Commission and The Nasdaq Stock Market, Inc.

III. RESPONSIBILITIES AND AUTHORITY

Independent Auditors

- Appoint, compensate and oversee the Company’s independent auditors. The Company’s independent auditors shall report directly to the Committee.

- Review the performance of the independent auditors and discharge the independent auditors when circumstances warrant. Prior to approval by the Board, pre-approve all audit services and non-attestation services to be performed by the Company’s independent auditors.

- At least annually, obtain and review a report by the independent auditor that describes the independent auditor's internal quality control procedures, any material issues raised by the most recent internal quality control review, peer review or PCAOB review.
- Annually review and discuss with the auditors all significant relationships the auditors have with the Company to determine the auditors' independence.
- Discuss with the internal auditors and the independent auditor the overall scope and plans for their respective audits.

Discuss with the independent auditors critical audit matters, any other matters required to be discussed by PCAOB Auditing Standard No. 3101, *The Auditor's Report on an Audit of Financial Statements When The Auditor Expresses an Unqualified Opinion*, as modified or supplemented, and any other material communications provided to the Committee.

Financial Reporting Processes

- Instruct the independent auditors, the Chief Executive Officer and Chief Financial Officer that the Committee expects to be advised if there are areas of Company operation that, consistent with the Committee's purpose, require its special attention.
- Consult with the independent auditors out of the presence of management regarding the adequacy of internal controls.
- Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied and estimates used in its financial reporting.
- Discuss with the independent auditors all critical accounting policies and practices.
- Consult with the independent auditors out of the presence of management regarding the accuracy and completeness of the Company's financial statements.

Documents/Reports Review

- Review with financial management and the independent auditors any earnings releases and all Forms 10-Q and 10-K prior to its release or filing. The Chair of the Committee may represent the entire Committee for purposes of this review.
- Annually perform a Committee self-assessment.
- Review and update this Charter periodically, and at least annually, as conditions dictate.

Audit Committee Report

- Prepare an annual Audit Committee Report to be presented to the Board. The Committee will prepare the Audit Committee Report in a manner that the SEC requires for inclusion in the Company's annual proxy statement.

Compliance and Risk Management

- Discuss with management and the independent auditors the Company's internal controls.
- Provide oversight on control issues, including fraud risk assessment and management, governance issues and other matters needed or requested by management or the Board.

- Review management's arrangements for the prevention, deterrence, and identification of fraud.
- Review and discuss the Company's disclosure controls and procedures, and the assessments of such controls and procedures by the Chief Executive Officer and Chief Financial Officer.
- Review and approve all related-party transactions to which the Company may be a party prior to their implementation to assess whether such transactions meet applicable legal requirements.
- Provide oversight on significant risk exposures, including third party risk management, as well as cybersecurity and data privacy issues.

Ethical and Legal Compliance

- Review periodically the Company's Code of Ethical Conduct for Senior Financial Officers and management's enforcement of the Code as it relates to the Company's financial reporting process and internal control system.
- Establish and maintain procedures for efficiently responding to complaints received by the Company regarding accounting, internal accounting controls and auditing. At a minimum, these procedures shall allow employees to submit concerns regarding questionable accounting matters on a confidential, anonymous basis.
- At the expense of the Company, to retain such consultants and advisors as it deems reasonably necessary or appropriate to assist it with its functions.
- In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company.

IV. MEETINGS AND MINUTES

The Committee shall meet at least two times annually, or more frequently as circumstances dictate. The Committee will maintain written minutes of its meeting. Such minutes will be provided to the Board, and filed with the minutes of the meetings of the Board.

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