

**CODE OF BUSINESS CONDUCT AND ETHICS
OF
ADVANCED ENVIRONMENTAL
RECYCLING TECHNOLOGIES, INC.**

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Note: This code and related policies was adopted on April 27, 2004 by the Board of Directors and updated February 14, 2006. In adopting and publishing these guidelines, you should note that (1) in some respects our policies may exceed minimum legal requirements or industry practice, and (2) nothing contained in this code should be construed as a binding definition or interpretation of a legal requirement or industry practice. From time to time, changes in the business context or regulatory environment create a need for new ethical principles and guidelines. This is therefore a “living document,” subject to change without notice.

To obtain additional copies of this code, you may access it from the web at <http://www.aertinc.com> or you may write Advanced Environmental Recycling Technologies, Inc., Compliance Officer, P. O. Box 1237, Springdale, Arkansas 72765.

AERT February 2006 1

Forward

To all employees, officers and directors:

Advanced Environmental Recycling Technologies, Inc. (“AERT”) is founded on our commitment to the highest ethical principles and standards. We value honesty and integrity above all else. Upholding these commitments is essential to our continued success.

The law and the ethical principles and standards that comprise this code of conduct must guide our actions. The code is, of course, broadly stated. Its guidelines are not intended to be a complete listing of detailed instructions for every conceivable situation. Instead, it is intended to help you develop a working knowledge of the laws and regulations that affect your job at AERT or your performance of other services for us.

Adhering to this code is essential. I have personally taken the time to study it carefully and I encourage you to do the same. I have also signed a statement confirming that I have read this code carefully, and I expect you to do the same by signing the confirmation form that appears on the final page.

Ultimately, our most valuable asset is our reputation. Complying with the principles and standards contained in this code is the starting point for protecting and enhancing AERT’s reputation. Thank you for your commitment!

Joe G. Brooks
Chairman and Chief Executive Officer

Introduction

All of AERT's employees, officers and directors must read and use this code of conduct to ensure that each business decision follows our commitment to the highest ethical standards and the law. Adherence to this code and to our other official policies is essential to maintaining and furthering our reputation for fair and ethical practices among our customers, stockholders, employees and communities.

It is the responsibility of every one of us to comply with all applicable laws and regulations and all provisions of this code and the related policies and procedures. Each of us must report any violations of the law or this code. Failure to report such violations and failure to follow the provisions of this code may have serious legal consequences and will be disciplined by AERT. Discipline may include termination of your employment.

This code summarizes certain laws and the ethical policies that apply to all of AERT's employees, officers and directors. Several provisions in this code refer to more detailed policies that either (1) concern more complex company policies or legal provisions or (2) apply to select groups of individuals within AERT. If these detailed policies are applicable to you, it is important that you read, understand, and be able to comply with them. If you have questions as to whether any detailed policies apply to you, contact your immediate supervisor or our compliance officer.

Situations that involve ethics, values and violations of certain laws are often very complex. No single code of conduct can cover every business situation that you will encounter. Consequently, we have implemented the compliance procedures outlined in the sections of this code entitled "Administration of the Code" and "Asking for Help and Reporting Concerns." The thrust of our procedures is *when in doubt, ask*. If you do not understand a provision of this code, are confused as to what actions you should take in a given situation, or wish to report a violation of the law or this code, you should follow those compliance procedures. Those procedures will generally direct you to talk to either your immediate supervisor or our compliance officer, currently Stephen W. Brooks, who is also our Chief Operating Officer. There are few situations that cannot be resolved if you discuss them with your immediate supervisor or our compliance officer in an open and honest manner.

After reading this code, you should:

- Have a thorough knowledge of the code's terms and provisions.
- Be able to recognize situations that present legal or ethical dilemmas.
- Be able to deal effectively with questionable situations in conformity with this code.

In order to be able to accomplish these goals, we recommend that you take the following steps:

- Read the entire code of conduct thoroughly.

- If there are references to more detailed policies that are not contained in this code, obtain and read those policies if they apply to you.
- Think about how the provisions of this code apply to your job or services you provide AERT, and consider how you might handle situations to avoid illegal, improper, or unethical actions.
- If you have questions, ask your immediate supervisor or our compliance officer.

When you are faced with a situation and you are not clear as to what action you should take, ask yourself the following questions:

- Is the action legal?
- Does the action comply with this code?
- How will your decision affect others, including our customers, stockholders, employees and the community?
- How will your decision look to others? If your action is legal but can result in the appearance of wrongdoing, consider taking alternative steps.
- How would you feel if your decision were made public? Could the decision be honestly explained and defended?
- Have you contacted your immediate supervisor or our compliance officer regarding the action?

To reiterate, *when in doubt, ask.*

Please note that this code is not an employment contract and does not modify the employment relationship between us and you. We do not create any contractual or legal rights or guarantees by issuing these policies, and we reserve the right to amend, alter and terminate policies at any time and for any reason.

Conflicts of Interest

All of us must be able to perform our duties and exercise judgment on behalf of AERT without influence or impairment, or the appearance of influence or impairment, due to any activity, interest or relationship that arises outside of work. Put more simply, when our loyalty to AERT is affected by actual or potential benefit or influence from an outside source, a conflict of interest exists. We should all be aware of any potential influences that impact or appear to impact our loyalty to our company. In general, you should avoid situations where your personal interests conflict, or appear to conflict, with those of our company.

Any time you believe a conflict of interest may exist, you must disclose the potential conflict of interest to your immediate supervisor or our compliance officer. Any activity that is approved, despite the actual or apparent conflict, must be documented. A potential conflict of interest that involves a director or an executive officer must be approved by our Board of Directors or its designated committee. In particular, any transaction, relationship or other conflict of interest, whether or not described below, involving an “independent” director of AERT, their family members or affiliates that may cause that director to no longer be considered independent under applicable rules and regulations of The Nasdaq Stock Market, Inc. (“Nasdaq”) or the SEC must be approved by our Board of Directors or its designated committee. A potential conflict of interest involving an officer with the title of Vice President and above must be brought promptly to the attention of our compliance officer and must be approved by such compliance officer after, in most material cases, as noted below, further discussion with and approval of the audit committee. In addition, any related-party transaction required to be disclosed pursuant to Securities Exchange Commission (“SEC”) Regulation S-K, Item 404, must be approved by our audit committee. It is not possible to describe every conflict of interest, but some situations that could cause a conflict of interest include:

- Doing business with family members
- Having a financial interest in another company with whom we do business
- Taking a second job
- Managing your own business
- Serving as a director of another business
- Being a leader in industry organizations
- Diverting a business opportunity from AERT to another company.

Doing Business with Family Members

A conflict of interest may arise if family members work for a supplier, customer or other third party with whom we do business. It also may be a conflict if a family member has a significant financial interest in a supplier, customer or other third party with whom we do business. A “significant financial interest” is defined below. Before doing business on our behalf with an organization in which a family member works or has a significant financial interest, an employee must disclose the situation to his or her immediate supervisor or our compliance officer and discuss it with them. Document the approval if it is granted. If the only interest you have in a customer or supplier is because a family member works there other than as an executive officer, then you do not need to disclose the relationship or obtain prior approval unless you deal with the customer or supplier.

“Family members” include, in addition to anyone residing in your home, your:

- | | |
|------------|-----------------------|
| ⌚ Spouse | ⌚ Brothers or sisters |
| ⌚ Parents | ⌚ In-laws |
| ⌚ Children | ⌚ Life partner |

Employing relatives or close friends who report directly to you may also be a conflict of interest. Although AERT encourages employees to refer candidates for job openings, employees who may influence a hiring decision must avoid giving an unfair advantage to anyone with whom they have a personal relationship. In particular, supervisors should not hire relatives or attempt to influence any decisions about the employment or advancement of people related to or otherwise close to them, unless they have disclosed the relationship to their immediate supervisor or our compliance officer and he or she has approved the decision.

Ownership in Other Businesses

Our investments can cause a conflict of interest. In general, you should not own, directly or indirectly, a significant financial interest in any company that does business with us or seeks to do business with us. You also should not own a significant financial interest in any of our competitors. Two tests determine if a “significant financial interest” exists:

- You or a family member owns more than 5% of the outstanding stock of a business or you or a family member has or shares discretionary authority with respect to the decisions made by that business, or
- The investment represents more than 5% of your total assets or of your family member’s total assets.

If you or a family member has a significant financial interest in a company with whom we do business or propose to do business, that interest must be approved by your immediate supervisor or our compliance officer prior to the transaction.

Notwithstanding the foregoing, non-employee directors of our company and their family members may have significant financial interests in or be affiliates of suppliers, customers, competitors and third parties with whom we do business or propose to do business. However, a director must:

- disclose any such relationship promptly after the director becomes aware of it,
- remove himself or herself from any Board activity that directly impacts the relationship between our company and any such company with respect to which the director has a significant financial interest or is an affiliate, and
- obtain prior approval of the Board of Directors or its designated committee for any transaction of which the director is aware between our company and any such company.

However, non-employee directors that are “independent” (as defined from time to time by applicable rules and regulations promulgated by Nasdaq and the SEC) in particular should avoid any relationship that would interfere with the exercise of independent business judgment in carrying out their responsibilities as directors and should take appropriate actions, including talking with our compliance officer and obtaining approval of our Board of Directors or its designated committee when necessary, to ensure that their independence under rules and regulations promulgated by Nasdaq and the SEC is not jeopardized by any actions or relationships involving themselves or any family members or affiliates.

Outside Employment

Sometimes our employees desire to take additional part-time jobs or do other work after hours, such as consulting or other fee-earning services. This kind of work does not in and of itself violate our code. However, the second job must be strictly separated from your job with us, and must not interfere with your ability to devote the time and effort needed to fulfill your duties to us as our employee. You cannot engage in any outside activity that causes competition with us or provides assistance to our competitors or other parties (such as suppliers) with whom we regularly do business. You should avoid outside activities that embarrass or discredit us. Outside work may never be done on company time and must not involve the use of our supplies or equipment. Additionally, you should not attempt to sell services or products from your second job to us. If you are a management-level or salaried employee of AERT, before engaging in a second line of work you should disclose your plans to your immediate supervisor to confirm that the proposed activity is not contrary to our best interests.

Service on Boards

Serving as a director of another corporation may create a conflict of interest. Being a director or serving on a standing committee of some organizations, including government agencies, also may create a conflict.

Before accepting an appointment to the board or a committee of any organization whose interests may conflict with AERT’s interests, you must discuss it with your immediate supervisor or our compliance officer and obtain their approval. This rule does not apply to non-employee directors of AERT, although they are required to call any such proposed appointment to the attention of our

compliance officer and the nominating committee of the Board of Directors. If, however, any such appointment of an “independent” director of AERT may interfere with the exercise of his or her independent business judgment in his her or her capacity as a director of AERT, the AERT Board of Directors or its designated committee must approve the appointment.

Business Opportunities

Business opportunities relating to the kinds of products and services we usually sell or the activities we typically pursue that arise during the course of your employment or through the use of our property or information belong to us. Similarly, other business opportunities that fit into our strategic plans or satisfy our commercial objectives that arise under similar conditions also belong to us. You may not direct these kinds of business opportunities to our competitors, to other third parties or to other businesses that you own or are affiliated with.

It is AERT’s policy that neither directors nor executive officers and their immediate families should receive any shares from an IPO of another company with which AERT competes or with which AERT does any material business in order to avoid the impression of a lack of loyalty or a conflict of interest.

Loans

Extensions of credit by AERT in the form of personal loans or most other credit arrangements to our executive officers and directors are prohibited under the provisions of the Sarbanes-Oxley Act. All other loans by AERT to, or guarantees by our company of obligations of, other employees must be made in accordance with established company policies approved by our Board of Directors or its designated committee.

If you have any questions concerning a potential conflict of interest, contact your immediate supervisor or our compliance officer.

Gifts and Entertainment

We are dedicated to treating fairly and impartially all persons and firms with whom we do business. Therefore, our employees must not give or receive gifts, entertainment or gratuities that could influence or be perceived to influence business decisions. Misunderstandings can usually be avoided by conduct that makes clear that AERT conducts business on an ethical basis and will not seek or grant special considerations.

Accepting Gifts and Entertainment

You should never solicit a gift or favor from those with whom we do business. You may not accept gifts of cash or cash equivalents.

You may accept novelty or promotional items or modest gifts related to commonly recognized occasions, such as a promotion, holiday, wedding or retirement, if:

- this happens only occasionally
- the gift was not solicited

- disclosure of the gift would not embarrass AERT or the people involved
- the value of the gift is under \$100.

You may accept an occasional invitation to a sporting activity, entertainment or meal if

- there is a valid business purpose involved
- this happens only occasionally
- the activity is of reasonable value and not lavish.

A representative of the giver's company must be present at the event. If you are asked to attend an overnight event, you must obtain prior approval from your immediate supervisor or our compliance officer.

Giving Gifts and Entertaining

Gifts of nominal value (under \$100) and reasonable entertainment for customers, potential customers and other third parties with whom we do business are permitted. However, any gift or entertainment must

- support AERT's legitimate business interests
- be reasonable and customary, not lavish or extravagant
- not embarrass AERT or the recipient if publicly disclosed.

Under no circumstances can any bribe, kickback, or illegal payment or gift of cash or cash equivalents be made. Also, special rules apply when dealing with government employees. These are discussed in this code under "Compliance with Laws – Anticorruption Laws."

If you are not sure whether a specific gift or entertainment is permissible, contact your immediate supervisor or our compliance officer.

Fair Dealing

We have built a reputation as a trustworthy and ethical member of our community and our industry. We are committed to maintaining the highest levels of integrity and fairness within AERT. When we fail to negotiate, perform or market in good faith, we may seriously damage our reputation and lose the loyalty of our customers. You must conduct business honestly and fairly and not take unfair advantage of anyone through any misrepresentation of material facts, manipulation, concealment, and abuse of privileged information, fraud or other unfair business practice.

Securities Laws and Insider Trading

Because we are a public company, we are subject to a number of laws concerning the purchase and sale of our stock and other publicly traded securities. Regardless of your position with us, if you are aware of what is known as “material inside information” regarding AERT or our business, affairs or prospects, you may not disclose that information to anyone outside AERT, and you are not allowed to buy or sell our stock or other publicly-traded securities until the material inside information is known not only by individuals within our company, but also by the general public. The improper use of material inside information is known as insider trading. Insider trading is a criminal offense and is strictly prohibited.

“Material inside information” is any information concerning us that is not available to the general public and which an investor would likely consider to be important in making a decision whether to buy, sell or hold our stock or other securities. A good rule of thumb to determine whether information about us is material inside information is whether or not the release of that information to the public would have an effect on the price of our stock. Examples of material inside information include information concerning earnings estimates, changes in previously released earnings estimates, a pending stock split, dividend changes, significant merger, acquisition or disposition proposals, major litigation, the loss or acquisition of a major contract and major changes in our management. Material inside information is no longer deemed “inside” information once it is publicly disclosed and the market has had sufficient time to absorb the information. Examples of effective public disclosure are the filing of such inside information with the SEC, or the printing of such information in *The Wall Street Journal* or other publications of general circulation, in each case giving the investing public a fair amount of time to absorb and understand our disclosures.

In addition to being prohibited from buying or selling our stock or other publicly-traded securities when you are in possession of material inside information, you are also prohibited from disclosing such information to anyone else (including friends and family members) in order to enable them to trade on the information. In addition, if you acquire material inside

information about another company due to your relationship with us, you may not buy or sell that other company's stock or other securities until such information is publicly disclosed and sufficiently disseminated into the marketplace.

The following are general guidelines to help you comply with our insider trading policy:

- Do not share material inside information with people within AERT whose jobs do not require them to have the information.
- Do not disclose any non-public information, material or otherwise, concerning AERT to anyone outside AERT unless required as part of your duties and the person receiving the information has a reason to know the information for company business purposes.
- If you have material inside information regarding us, or regarding any other publicly traded company that you obtained from your employment or relationship with AERT, you must not buy or sell, or advise anyone else to buy or sell, our securities or that other company's securities, until such information is publicly disclosed and sufficiently disseminated into the marketplace.

Penalties for trading on or communicating material inside information are severe. If you are found guilty of an insider trading violation, you can be subject to civil and even criminal liability. In addition to being illegal, we believe that insider trading is unethical and will be dealt with firmly, which may include terminating your employment or other relationship with us and reporting violations to appropriate authorities.

If you have any questions concerning the securities laws or about our policies with regard to those laws, or regarding the correct ethical and legal action to take in a situation involving material inside information, please contact your immediate supervisor or our compliance officer.

Responding to Inquiries from the Press and Others

AERT is subject to laws that govern the timing of our disclosures of material information to the public and others. Only certain designated employees may discuss AERT with the news media, securities analysts and investors. All inquiries from outsiders regarding financial or other information about our company should be referred to our chief financial officer, Brian Hanna

Political Activity

We will fully comply with all political contribution laws. Our funds may not be used for contributions of any kind to any political party or committee or to any candidate or holder of any government position (national, state or local) unless such contribution is permitted by law and complies with our company policy. Please contact our compliance officer to determine whether a specific company contribution is permitted.

It is against our policy for you to lobby our other employees on behalf of a political candidate during the work day. It is also against our policy to reimburse an employee for any political

contributions or expenditures. Outside normal office hours, you are free to participate in political campaigns on behalf of candidates or issues of your choosing, as well as make personal political contributions.

Safeguarding Corporate Assets

We have a responsibility to protect company assets entrusted to us from loss, theft, misuse and waste. Company assets and funds may be used only for business purposes and may never be used for illegal purposes. Incidental personal use of telephones, fax machines, copy machines, personal computers, e-mail and similar equipment is generally allowed if it is occasional, there is no significant added cost to us, it does not interfere with your work responsibilities and is not related to an illegal activity or outside business. If you become aware of theft, waste or misuse of our assets or funds or have any questions about your proper use of them, you should speak immediately with your immediate supervisor.

It is also important that you protect the confidentiality of AERT information. Confidential or proprietary information includes all information that is not generally known to the public and is helpful to AERT, or would be helpful to competitors. Proprietary information should be marked accordingly, kept secure and access limited to those who have a need to know in order to do their jobs.

Our business relations are built on trust, and our customers and suppliers count on that trust. If you learn information from them that is not otherwise public, you should keep that information confidential also.

We must all be sensitive to the impact of comments made over the Internet through public forums such as chat rooms and bulletin boards. In such forums, you may not post any information about AERT including comments about our products, stock performance, operational strategies, financial results, customers or competitors, even in response to a false statement or question. This applies whether you are at work or away from the office. AERT owns all e-mail messages that are sent from or received through the company's systems. We may monitor your messages and may be required to disclose them in the case of litigation or governmental inquiry.

Compliance with Laws

First and foremost, our policy is to behave in an ethical manner and comply with all laws, rules and government regulations that apply to our business. Although we address several important legal topics in this code, we cannot anticipate every possible situation or cover every topic in detail. It is your responsibility to know and follow the law and conduct yourself in an ethical manner. It is also your responsibility to report any violations of the law or this code.

You may report such violations by following the compliance procedures contained in the section of the code entitled “Asking for Help and Reporting Concerns.”

Antitrust Laws

Antitrust laws are designed to ensure a fair and competitive marketplace by prohibiting various types of anticompetitive behavior. Some of the most serious antitrust offenses occur between competitors, such as agreements to fix prices or to divide customers, territories or markets. Accordingly, it is important to avoid discussions with our competitors regarding pricing, terms and conditions, costs, marketing plans, customers and any other proprietary or confidential information. Unlawful agreements need not be written. They can be based on informal discussions or the mere exchange of information with a competitor. If you believe that a conversation with a competitor enters an inappropriate area, end the conversation at once. Membership in trade associations is permissible only if approved in advance by our compliance officer, who may consult with legal counsel, if appropriate.

Whenever any question arises as to application of antitrust laws, you should consult with our compliance officer, and any agreements with possible antitrust implications should be made only with the prior approval of AERT’s compliance officer or legal counsel.

Anticorruption Laws

Conducting business with governments is not the same as conducting business with private parties. What may be considered an acceptable practice in the private business sector may be improper or illegal when dealing with government officials. Improper or illegal payments to government officials are prohibited. “Government officials” includes employees of any government anywhere in the world, even low-ranking employees or employees of government-controlled entities, as well as political parties and candidates for political office. If you deal with such persons or entities, you should consult with our compliance officer, who may seek the advice of legal counsel, if appropriate, to be sure that you understand these laws before providing anything of value to a government official.

Although international sales have not to date been a significant source of business for us, we certainly anticipate that in coming years such foreign sales opportunities will increasingly become available to us and practical for us. If you are involved in transactions with foreign government officials, you must comply not only with the laws of the country with which you are involved but also with the U.S. Foreign Corrupt Practices Act. This act makes it illegal to pay, or promise to pay money or anything of value to any non-U.S. government official for the purpose of directly or indirectly obtaining or retaining business. This ban on illegal payments and bribes also applies to agents or intermediaries who use funds for purposes prohibited by the statute.

In some countries it is permissible to pay government employees for performing certain required duties. These facilitating payments, as they are known, are small sums paid to facilitate or expedite routine, non-discretionary government actions, such as obtaining phone service or an ordinary license. In contrast, a bribe, which is never permissible, is giving or offering to give

anything of value to a government official to influence a discretionary decision. Understanding the difference between a bribe and a facilitating payment is very important. You must have approval from our compliance officer, who may consult with legal counsel, if appropriate, before making any payment or gift to a foreign government official.

This discussion is not comprehensive and you are expected to familiarize yourself with all laws and regulations relevant to your position with AERT, as well as all our related written policies on these laws and regulations. To this end, our compliance officer is available to answer your calls and questions. If you have any questions concerning any possible reporting or compliance obligations, or with respect to your own duties under the law, you should not hesitate to call and seek guidance from our compliance officer.

Equal Employment Opportunity and Anti-Harassment

We are committed to providing equal employment opportunities for all our employees and will not tolerate any speech or conduct that is intended to, or has the effect of, discriminating against or harassing any qualified applicant or employee because of his or her race, color, religion, sex (including pregnancy, childbirth or related medical conditions), national origin, age, physical or mental disability, veteran status or any characteristic protected by law. We will not tolerate discrimination or harassment by anyone – managers, supervisors, co-workers, vendors or our customers. This policy extends to every phase of the employment process, including: recruiting, hiring, training, promotion, compensation, benefits, transfers, discipline and termination, layoffs, recalls, and company-sponsored educational, social and recreational programs, as applicable. If you observe conduct that you believe is discriminatory or harassing, or if you feel you have been the victim of discrimination or harassment, you should notify the head of Human Resources or our compliance officer immediately.

Not only do we forbid unlawful discrimination, we take affirmative action to ensure that applicants are employed, and employees are treated during employment, without regard to their race, color, religion, sex (including pregnancy, childbirth or related medical conditions), national origin, age, physical or mental disability, veteran status or any characteristic protected by law.

The Human Resources Department has been assigned specific responsibilities for implementing and monitoring affirmative action and other equal opportunity programs. One of the tenants of this code, however, is that all employees are accountable for promoting equal opportunity practices within AERT. We must do this not just because it is the law, but because it is the right thing to do. For more information concerning our anti-discrimination and anti-harassment policies, you should refer to our Policies and Procedures Manual. We will not retaliate against any employee for filing a good faith complaint under our anti-discrimination and anti-harassment policies or for cooperating in an investigation and will not tolerate or permit retaliation by management, employees or co-workers. To the fullest extent possible, AERT will keep complaints and the terms of their resolution confidential. If an investigation confirms harassment or discrimination has occurred, AERT will take corrective action against the

offending individual, including such discipline up to and including immediate termination of employment, as appropriate.

Health, Safety and the Environment

We are committed to providing safe and healthy working conditions by following all occupational health and safety laws governing our activities.

We believe that management and each and every employee have a shared responsibility in the promotion of health and safety in the workplace. You should follow all safety laws and regulations, as well as company safety policies and procedures. You should immediately report any accident, injury or unsafe equipment, practices or conditions.

You also have an obligation to carry out company activities in ways that preserve and promote a clean, safe, and healthy environment. You must strictly comply with the letter and spirit of applicable environmental laws and the public policies they represent.

The consequences of failing to adhere to environmental laws and policies can be serious. AERT, as well as individuals, may be liable not only for the costs of cleaning up pollution, but also for significant civil and criminal penalties. You should make every effort to prevent violations from occurring and report any violations to your immediate supervisor or our compliance officer.

Accuracy of Company Records

All information you record or report on our behalf, whether for our purposes or for third parties, must be done accurately and honestly. All of our records (including accounts and financial statements) must be maintained in reasonable and appropriate detail, must be kept in a timely fashion, and must appropriately reflect our transactions. Falsifying records or keeping unrecorded funds and assets is a severe offense and may result in prosecution or loss of employment. When a payment is made, it can only be used for the purpose spelled out in the supporting document. Information derived from our records is provided to our stockholders and investors as well as government agencies. Thus, our accounting records must conform not only to our internal control and disclosure procedures but also to generally accepted accounting principles and other laws and regulations, such as those of the Internal Revenue Service and the SEC. Our public communications and the reports we file with the SEC and other government agencies should contain information that is full, fair, accurate, timely and understandable in light of the circumstances surrounding disclosure.

Our internal and external auditing functions help ensure that our financial books, records and accounts are accurate. Therefore, you should provide our accounting department, internal auditing staff, audit committee and independent public accountants with all pertinent information

that they may request. We encourage open lines of communication with our audit committee, accountants and auditors and require that all our personnel cooperate with them to the maximum extent possible. It is unlawful for you to fraudulently influence, induce, coerce, manipulate or mislead our independent public accountants for the purpose of making our financial statements misleading.

If you are unsure about the accounting treatment of a transaction or believe that a transaction has been improperly recorded or you otherwise have a concern or complaint regarding an accounting matter, our internal accounting controls, or an audit matter, you should confer with your immediate supervisor or our chief financial officer, or you may submit your concern, on an anonymous basis, to the audit committee of our Board of Directors. See “Asking for Help and Reporting Concerns”.

Record Retention

Our records should be retained or discarded in accordance with our record retention policies and all applicable laws and regulations. From time to time we are involved in legal proceedings that may require us to make some of our records available to third parties. Our legal counsel will assist us in releasing appropriate information to third parties and provide you (or your immediate supervisor) with specific instructions. It is a crime to alter, destroy, modify or conceal documentation or other objects that are relevant to a government investigation or otherwise obstruct, influence or impede an official proceeding. The law applies equally to all of our records, including formal reports as well as informal data such as e-mail, expense reports and internal memos. If the existence of a subpoena or a pending government investigation is known or reported to you, you should immediately contact our compliance officer, who may consult with legal counsel, if appropriate, and you must retain all records that may pertain to the investigation or be responsive to the subpoena.

Administration of the Code

Distribution

All of our directors, officers and employees will receive a copy of this code when they join AERT. Updates of the code will be distributed to all directors, officers and employees.

Role of Supervisors and Officers

Supervisors and officers have important roles under this code and are expected to demonstrate their personal commitment to this code by fostering a workplace environment that promotes compliance with the code and by ensuring that employees under their supervision participate in AERT's compliance training programs.

Reporting Violations

All employees are obliged to report violations of this code or the law and to cooperate in any investigations into such violations. We prefer that you give your identity when reporting violations, to allow AERT to contact you in the event further information is needed to pursue an investigation, and your identity will be maintained in confidence to the extent practicable under the circumstances and consistent with enforcing this code. However, you may anonymously report violations.

Investigations

We will initiate a prompt investigation following any credible indication that a breach of law or this code may have occurred. We will also initiate appropriate corrective action as we deem necessary, which may include notifying appropriate authorities.

Disciplinary Action

If you violate any provision of this code, you may be subject to disciplinary action, up to and including discharge. Please be aware that we may seek civil remedies from you and if your violation results in monetary loss to us, you may be required to reimburse us for that loss. If you are involved in a violation, the fact that you reported the violation, together with the degree of cooperation displayed by you and whether the violation is intentional or unintentional, will be given consideration in our investigation and any resulting disciplinary action.

No Retaliation

We will not retaliate against anyone who, in good faith, notifies us of a possible violation of law or this code, nor will we tolerate any harassment or intimidation of any employee who reports a suspected violation. In addition, there are federal "whistleblower" laws that are designed to protect employees from discrimination or harassment for providing information to us or governmental authorities, under certain circumstances, with respect to certain laws such as those governing workplace safety, the environment, securities fraud and federal law relating to fraud against stockholders.

Approvals

Approvals required under this code should be documented.

Waivers

Any request for a waiver of this code must be submitted in writing to our compliance officer who has authority to decide whether to grant a waiver. However, a waiver of any provision of this code for a director or an executive officer must be approved by our Board of Directors and will be promptly disclosed to the extent required by law or regulation.

Certifications

All new employees must sign a certificate confirming that they have read and understand this code. We will also require an annual certification of compliance with the code by all officers with the title of Vice President or above. However, failure to read the code or sign a confirmation certificate does not excuse you from complying with this code.

Asking for Help and Reporting Concerns

We take this code seriously and consider its enforcement to be among our highest priorities, but we also acknowledge that it is sometimes difficult to know right from wrong. That's why we encourage open communication. ***When in doubt, ask.*** Whenever you have a question or concern, are unsure about what the appropriate course of action is, or if you believe that a violation of the law or this code has occurred:

- You should talk with your immediate supervisor. He or she may have the information you need, or may be able to refer the matter to an appropriate source, including legal counsel as circumstances warrant.
- If you are uncomfortable talking with your immediate supervisor, you may also contact our compliance officer. Alternatively, you may also contact any manager in AERT with whom you feel comfortable or the Human Resources Department, who will seek appropriate guidance from our compliance officer.

Generally, unless supervisors are given authority in this code to handle a particular matter on their own or have received specific instructions on how to handle a particular matter from the AERT compliance officer, most matters or concerns reported by you to your immediate supervisor must be referred by such supervisor to our compliance officer. The compliance officer will either provide appropriate direction to your immediate supervisor on how to handle the matter or otherwise take appropriate action, such as referring the matter to our Board of Directors or the appropriate committee, or consulting with legal counsel, depending on the circumstances (keep in mind that certain relationships and transactions addressed by this code must be approved by our Board of Directors, a committee of our Board of Directors, or our compliance officer). The compliance officer and each supervisor who will have employees reporting to him or her will maintain a log of all concerns and complaints and track their receipt, investigation and resolution and will provide periodic summary reports to our compliance officer, in the case of our supervisors, or to the AERT Board of Directors or a designated committee, in the case of our compliance officer.

In addition, if you have concerns or complaints about accounting or audit matters or our internal accounting controls, you may confer with your immediate supervisor or our chief financial officer, or you may submit your concern or complaint, on an anonymous basis, to the audit committee of our Board of Directors.

Writing to:

Advanced Environmental Recycling Technologies, Inc.
Audit Committee Chairman
914 N. Jefferson
Springdale, Arkansas 72765

How to Contact Members of the Board:

You may also communicate your concerns directly to the AERT board of directors. You may communicate with the board as a whole, the chairman of the board, or any other individual director, including the chairman of the audit committee, by writing to the Corporate Secretary at Advanced Environmental Recycling Technologies, Inc., 914 N. Jefferson, Springdale, Arkansas 72765. Mark your envelope “Private and Confidential – Complaint.” All such correspondence will be forwarded to the directors to whom your correspondence is addressed. Any communication that relates to accounting, internal accounting controls, or auditing matters will also be referred to the chairman of the audit committee, if not already addressed to him or her.

Or calling the Company’s Governance Hotline:

479-203-5022

Helpful Phone Numbers

Steve Brooks	479-756-7400	Compliance Officer
Brian Hanna	479-756-7400	Chief Financial Officer
Director of Human Resources	479-750-1299	

Confirmation Certificate

I have been provided with a copy of the Code of Business Conduct and Ethics of Advanced Environmental Recycling Technologies, Inc. I acknowledge that I have read the code and understand my responsibilities under it. I further acknowledge that I should follow the compliance procedures described in the code if I have any questions or concerns.

Name: _____

Date: