

ARQULE, INC.
CHARTER
OF
THE COMPENSATION, NOMINATING AND GOVERNANCE COMMITTEE
OF THE BOARD OF DIRECTORS

January 19, 2006

I. Purposes

The purposes of the Compensation, Nominating and Governance Committee (the “Committee”) of the Board of Directors of ArQule, Inc. (the “Board”) are:

(i) To advise the Board concerning the Company’s compensation philosophy and policies, in general, and, in particular, to determine, or recommend to the Board for determination, the compensation of the Company’s Chief Executive Officer and all other executive officers and directors;

(ii) To advise the Board regarding succession planning for the Company’s Chief Executive Officer; to identify individuals qualified to become members of the Board; to recommend to the Board candidates to fill vacancies on the Board; and to recommend to the Board the directors to be appointed to its committees;

(iii) To assess, or insure that the Board assesses, the performance of individual members of the Board and the Board as a body; and

(iii) To oversee the Company’s efforts to meet its corporate governance and legal and regulatory obligations and identify, review and resolve issues relating to such matters.

II. Specific Responsibilities

The following shall be the recurring responsibilities and functions of the Committee. The responsibilities and functions are set forth as a guide and, consistent with this Charter and the Company’s By-laws, may be varied from time to time by the Committee or the Board as appropriate under the circumstances.

Executive Compensation

The Committee shall recommend an overall executive compensation strategy and a specific executive compensation plan. The objectives of the strategy and plan are to attract and retain the best possible executive talent, to motivate the Company’s executives to achieve the goals inherent in its business strategy, to link executive and stockholder interests through equity-based plans and, to provide a compensation package that recognizes individual contributions as well as corporate, scientific, technical and financial performance.

The Committee shall recommend the appropriate mix of elements of executive compensation including base salary, performance-based bonuses and stock options while taking into account

the full compensation package afforded to the individual, including insurance and other employee benefits. The Committee shall also make recommendations concerning the appropriate linkage of executive compensation to individual and corporate performance and financial returns to stockholders. The Committee shall produce an annual report on the Company's executive compensation practices for inclusion in the Company's proxy statement.

The Committee shall review and make recommendations concerning an appropriate compensation structure for the Company's employees other than its executive officers, including cash and equity compensation and employee benefits.

To the extent authorized by the Board, the Committee shall fix and determine awards to employees of stock, stock options or other rights pursuant to any of the Company's employee stock option or equity-based plans now or from time to time hereafter in effect and exercise such other power and authority as may be permitted or required under such plans.

The Committee shall periodically review and make recommendations to the Board with respect to the compensation of directors, including board and committee retainers, meeting fees, equity-based compensation, and such other forms of compensation as the Committee may consider appropriate.

Nominations and Succession

The Committee shall be responsible for nomination matters including but not limited to: (i) developing a succession plan for the Chief Executive Officer; (ii) the annual performance appraisal of the Chief Executive Officer, Chief Financial Officer, and any other member of senior management selected for such appraisal by the Committee; (iii) the annual performance appraisal of the Board and its members; and (iv) the identification and process of selection of new members of the Board, as such need arises, including the evaluation of candidates recommended by stockholders in accordance with the Company's By-laws.

Governance Oversight

The Committee shall: (i) oversee the Company's compliance with the legal and ethical standards of its corporate governance and legal and regulatory compliance program (the "Program") and with the governance and compliance procedures established pursuant to the Program and the Company's Compliance Enforcement Policy; and (ii) ensure the proper functioning of the Program.

The Committee shall be responsible for: (i) oversight of the orientation and education of directors with respect to the Company's business and financial matters, corporate governance and other appropriate subjects; (ii) periodic review and assessment of the Corporate Code of Conduct and the Company's corporate governance principles to determine whether they are being adhered to and are appropriate for the Company and in compliance with applicable laws, regulations and listing requirements of The Nasdaq Stock Market, Inc., and recommendation to the Board of any changes in such code or principles; and (iii) consideration of any requests for

determination of whether there is a conflict of interest under the Conflict of Interest Policy or for waivers thereunder or under the Corporate Code of Conduct.

The Committee shall confer generally with the Corporate Ethics Officer and other senior officers of the Company about matters relating to the Program, including all matters that, under the Program, the Corporate Ethics Officer is required to report to the Committee and the Board.

According to the requirements and procedures of the Program and the Compliance Enforcement Policy, the Committee shall ensure that reports of misconduct or suspected misconduct are investigated to the extent appropriate and, if reasonably possible, resolved by the Corporate Ethics Officer.

In order to facilitate its oversight role, the Committee is granted the power to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain and determine funding for, at the Company's expense, independent legal counsel, additional independent auditors or other experts for this purpose. The Company shall provide the Committee with appropriate funding to perform its duties, including payment of the Company's independent auditors and any experts or advisors retained by the Committee.

III. Membership

The Committee shall be appointed by the Board and comprised of not fewer than two members of the Board, each of whom shall meet the independence and any other relevant requirements of The Nasdaq National Stock Market, Inc., the Securities Exchange Act of 1934, the rules and regulations of the Securities and Exchange Commission, and applicable provisions of the Internal Revenue Code, subject to such available exceptions as the Board may approve.

The Vice President of Human Development of the Company and the Corporate Ethics Officer will provide support to the Committee as needed and as requested.

IV. Meetings

The Committee shall hold such meetings from time to time as may be called by its Chairman, the Chairman of the Board, or any two members of the Committee. The Committee may request any officer or employee of the Company, the Company's outside counsel, its independent auditors or other experts to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

V. Proceedings

The Committee shall conduct its meetings in accordance with this Charter, the procedures of the Board set forth in the By-laws for the Board's meetings and such other procedures as the Committee may adopt. Votes of the Committee will be captured in minutes which will be filed with the records of the meetings of the Committees of the Board. The Committee shall make reports of its deliberations and conclusions to the Board, as may be requested from time to time.

The Committee shall conduct an annual evaluation of the Committee's performance as compared to the requirements of this Charter. The Committee shall conduct an annual review and reassessment of the adequacy of this Charter and recommend any proposed changes to the Board for approval.

This Charter was adopted by the Board of Directors on January 16, 2003 and revised on January 15, 2004, May 11, 2005 and January 19, 2006.

