

## **ARQULE, INC.**

### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

January 19, 2006

This Charter was adopted by the Board of Directors of ArQule, Inc. All of the provisions of this Charter became effective upon adoption. The Audit Committee shall review and reassess this Charter as necessary, but no less frequently than annually, and recommend any necessary changes to the Board.

#### **I. Purpose**

The principal purpose of the Audit Committee is to oversee the Company's accounting and financial reporting process and the audits of the Company's financial statements. In particular, the Audit Committee will monitor (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements and (c) the qualifications, independence and performance of the Company's independent auditors and of its internal audit function, if any. The Audit Committee shall prepare any report required by the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

The Company's independent auditors are ultimately accountable to the Committee in its capacity as a committee of the Board. The Audit Committee shall have sole authority and responsibility to select, hire, oversee, evaluate, approve the compensation of, and, where appropriate, replace the Company's independent auditors.

In discharging its oversight role, the Audit 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 or advisors for this purpose. The Company shall provide the Audit 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.

#### **II. Meetings**

The Audit Committee shall meet as often as it deems necessary or advisable, but not less frequently than quarterly. The Audit Committee periodically will meet separately with the Company's management and its independent auditors. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend any meeting of the Audit Committee or to meet with any members of, or consultants to the Audit Committee.

### **III. Membership**

The Audit Committee shall be comprised of at least three directors. The members, individually and collectively, shall meet the applicable independence, experience, and other requirements of The Nasdaq National Stock Market, Inc., the Securities Exchange Act of 1934, the United States Securities and Exchange Commission, the Internal Revenue Code and any other regulatory body exercising jurisdiction over the Company's financial reporting. All of the members of the Audit Committee shall be "financially literate" and one of them shall be a "financial expert" as those terms are defined in Addendum A to this Charter.

### **IV. Key Functions and Responsibilities**

The following functions shall be the common recurring activities of the Audit Committee in carrying out its duties. The functions and responsibilities are set forth as a guide and may be varied from time to time by the Audit Committee as appropriate under the circumstances.

#### *Financial Statement and Disclosure Matters*

The Audit Committee, to the extent it deems necessary or appropriate, shall:

1. Review and discuss with management and the Company's independent auditors the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
2. Review and discuss with management and the Company's independent auditors the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditors' review of the quarterly financial statements.
3. Review and discuss any other matters required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards.
4. Discuss with management and the Company's independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, the quality and adequacy of the Company's internal controls and any special steps adopted in light of material deficiencies in such controls.

#### *Oversight of the Company's Relationship with the Independent Auditor*

5. Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company or for the Audit Committee or Board by the Company's independent auditors.
6. Meet with the Company's independent auditors prior to any audit to discuss the planning and staffing of the audit.

7. Obtain from the Company's independent auditors annually a formal written statement delineating all relationships between the independent auditors and the Company consistent with Independence Standards Board Standard 1, discuss with the independent auditors any such disclosed relationships and their impact on the independent auditors' independence, and take or recommend that the Board take appropriate action regarding the independence of the independent auditors.

#### *Compliance Oversight Responsibilities*

8. Review and approve or reject proposed affiliated party transactions.

9. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

#### *Report*

10. Report to the Board on the Audit Committee's activities as appropriate and maintain minutes or other records of Audit Committee meetings and activities.

### **V. Limitation of Audit Committee's Role**

The Audit Committee's role is one of oversight. While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Company's independent auditors.

In performing his or her duties and responsibilities, each member of the Audit Committee is entitled to rely in good faith upon the records of the Company and upon information, opinions, reports or statements presented by any of the Company's officers or employees, or other committees of the Board of Directors, or by any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company.

*This Audit Committee Charter was adopted by the Board of Directors of ArQule, Inc. on March 14, 2003 and revised by the Board of Directors on May 20, 2004 and January 19, 2006.*

**ADDENDUM A  
TO  
THE CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS OF ARQULE, INC.**

Each member of the Audit Committee must be “financially literate,” i.e. able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement. In addition, at least one audit committee member must be a “financial expert.” To be an audit committee financial expert, one must have the following five attributes:

- *GAAP knowledge.* An understanding of generally accepted accounting principles and financial statements;
- *GAAP application.* The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- *Accounting experience.* Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the issuer’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- *Internal control.* An understanding of internal control over financial reporting; and
- *Audit functions.* An understanding of the audit committee functions.