

PolyMedix, Inc.
AUDIT COMMITTEE
PRINCIPLES AND POLICIES

I. PURPOSE

The Audit Committee (the "Committee") of the Company is appointed by, and generally acts on behalf of, the Board of Directors (the "Board") of PolyMedix, Inc. (the "Company"). The Board has determined to establish the governing principles of the Committee through the adoption of these Principles and Policies. The Committee's principal purposes shall be:

- (i) to 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; and (iii) the Company's Internal Controls (as defined in Section II.C.1);
- (ii) to interact directly with and evaluate the performance of the independent auditors, including to determine whether to engage or dismiss the independent auditors and to monitor the independent auditors' qualifications and independence;
- (iii) to prepare the report required by the rules of the Securities and Exchange Commission (the "SEC") to be included in the Company's proxy statement; and
- (iv) to discharge such duties and responsibilities as may be required of the Committee by the provisions of applicable law or rule or regulation of the American Stock Exchange and the Sarbanes-Oxley Act of 2002.

With respect to financial reporting, and compliance with laws and regulations, management is primarily responsible for the Company's reporting process and the system of Internal Controls. Management is responsible for the completeness and accuracy of the Company's financial statements and the fair presentation of the financial condition, results of operations and cash flows of the Company. Management is also primarily responsible for assuring compliance with applicable laws and regulations and with the Company's Code of Professional Ethics. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and expressing an opinion on the conformity of those audited financial statements in accordance with generally accepted accounting principles ("GAAP"). Consistent with the specific duties of the Committee listed below, it is the responsibility of the Committee, working in conjunction with management and the independent auditors, to oversee and monitor these policies and procedures in a manner that achieves their objectives.

II. RESPONSIBILITIES AND DUTIES

A. Financial Reporting

1. General

The Committee shall review and discuss with management and the independent auditor, as appropriate, the following:

- (i) the Company's policies and procedures regarding disclosures that may impact the financial statements;
- (ii) significant financial reporting issues and judgments;
- (iii) the adequacy of the Company's Internal Controls and any actions taken to address reportable or material control deficiencies;
- (iv) financial statement presentation;

- (v) any regulatory and accounting initiatives;
- (vi) all alternative treatments of the Company's financial information, including the use of "pro forma" or "adjusted" non-GAAP information, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor;
- (vii) any reports prepared by the independent auditors and provided to the Committee related to significant financial reporting issues and judgments including, among other things, the Company's selection, application and disclosure of critical accounting principles and practices, all alternative assumptions, estimates or methods used by the independent auditors and the effects, if any, such treatments have on the Company's financial statements and the treatment preferred by the independent auditors;
- (viii) all "special-purpose" entities, off-balance sheet structures and all complex financing transactions;
- (ix) any disagreements that may have occurred between the independent auditor and management relating to the Company's financial statements or disclosures;
- (x) any material written communications between the independent auditor and management, including any "management" or "internal control" letters issued, or proposed to be issued, by the independent auditor to the Company;
- (xi) any correspondence with regulators or published reports that raise material issues with respect to, or that could have a significant effect on, the Company's financial statements; and
- (xii) any other matters required to be discussed by applicable auditing standards, laws or regulations.

2. *Preparation and Release of Financial Information*

- a. For annual information, the Committee shall review and obtain an understanding of the scope and timing of the annual audit as well as the results of the audit work performed by the independent auditors. For quarterly information, the Committee shall obtain an understanding of the extent to which the independent auditors review quarterly financial information.
- b. The Committee shall meet with the Company's outside counsel when appropriate, to discuss legal matters that may have a significant impact on the Company's financial information.
- c. The Committee shall review earnings press releases prior to their release, as well as the types of financial information and earnings guidance provided to analysts and ratings agencies.
- d. The Committee shall review and discuss with management and the independent auditors the annual audited financial statements to be included in the Company's annual report on Form 10-K, the quarterly financial statements to be included in the Company's Forms 10-Q, the Company's disclosures under "Management's Discussion and Analysis of Financial Condition or Plan of Operation," and any other financial disclosures prior to their release to determine that the independent auditors are satisfied with the disclosure and content of the financial statements to be presented.
- e. The Committee shall recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
- f. The Committee shall prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

3. Audit Committee Report

- a. The Committee shall prepare annually a report in accordance with the applicable rules and regulations of the SEC for inclusion in the Company's proxy statement.

B. Monitoring Compliance with Laws

The Committee shall meet periodically with the senior members of management and, where appropriate, the independent auditors and outside corporate counsel, to review the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Professional Ethics and Guiding Principles. Specifically, the Committee shall, among other actions as it deems appropriate, perform the following:

- (i) oversee the implementation of the Company's Code of Professional Ethics and Guiding Principles, including as applied to the Senior Financial Officer;
- (ii) review significant cases of conflict of interest, misconduct, or fraud and the resolution of such cases;

C. Oversight of Disclosure Controls and Procedures and Internal Controls and Procedures

1. The Committee shall oversee the Company's disclosure controls and procedures and internal controls and procedures for financial reporting (as defined by the SEC), as well as internal controls generally (collectively, "Internal Controls"). The Committee will review with the independent auditors and financial and accounting personnel, the adequacy and effectiveness of the internal controls of the Company. This review should elicit any recommendations for the improvement of such internal controls or particular areas where new or more detailed internal controls are desirable.
2. The Committee shall evaluate whether management is setting the appropriate tone at the top by communicating the importance of strong internal controls.
3. The Committee shall evaluate the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.

D. Oversee Relationship with Independent Auditors

1. Appointment and Authorization of Services

- a. The Committee shall have the sole authority to retain, set compensation and retention terms for, terminate and oversee the activities of the Company's independent auditors.
- b. The independent auditors shall report directly to the Committee. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditors.
- c. The Committee shall review and approve in advance the retention of the independent auditors for the performance of all audit and lawfully permitted non-audit services and the fees for such services. The Committee may delegate to one or more of its members the authority to grant pre-approvals for the performance of non-audit services, and any such Committee member who pre-approves a non-audit service shall report the pre-approval to the full Committee at its next scheduled meeting. The Committee shall periodically notify the Board of their approvals.
- d. Prior to the audit, the Committee shall meet with the independent auditors to discuss the planning, staffing and fees related to the audit.

2. Oversight of Independence and Qualifications of Independent Auditors

- a. In order to assess the independence of the Independent Auditor, the Committee shall, at least annually, obtain and review a report by the independent auditors describing all relationships between the firm and the Company and all professional services provided to the Company. The Committee shall review with the independent auditors the nature and scope of all disclosed relationships or professional services and take, or recommend that the Board take, appropriate action to ensure the continuing independence of the auditors.
- b. The Committee shall, at least annually, obtain and review a report by the independent auditors describing: (a) the auditing firm's internal quality-control procedures; and (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities or a private sector regulatory board, within the preceding five years, respecting one or more independent audits performed by the firm, and any steps taken to deal with any such issues.
- c. After reviewing the reports from the independent auditors and the independent auditors' work throughout the audit period, the Committee will conduct an annual evaluation of the independent auditors' performance and independence, including whether the independent auditors' quality controls are adequate. In making its evaluation, the Committee shall take into account the opinions of management. The Committee shall present its conclusions with respect to the evaluation of the independent auditors to the Board.
- d. The Committee shall ensure compliance by the independent auditor of all other independence requirements that the independent auditor may be subject to including ensuring that the audit firm has adhered to the five-year rotation requirement for the lead and reviewing audit partners.

3. Other Oversight Responsibilities

- a. The Committee shall discuss with the independent auditors any audit problems or difficulties, including any restrictions on the scope of the auditor's activities or on access to requested information, and management's response to same and any other matters required to be brought to its attention under auditing standards.
- b. The Committee shall set clear policies for the hiring by the Company of employees or former employees of the independent auditors. Specifically, the Company shall not hire as its Chief Executive Officer, Controller, Chief Financial Officer, Chief Accounting Officer or any person serving in an equivalent position any partner, employee or former employee of the Company's independent auditors who participated in any capacity in an audit of the Company during the one-year period preceding the date of initiation of the then-current audit.

III. OTHER POWERS AND RESPONSIBILITIES

A. Evaluations

With the assistance of the Nominating and Corporate Governance Committee, the Committee shall annually review and assess its own performance and the performance of each Committee member and deliver a report to the Board setting forth the results of its evaluation. In conducting this review, the Committee shall address matters that it considers relevant to its performance, including at a minimum, the adequacy, appropriateness and quality of the information and recommendations presented to the Board, the manner in which they were

discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

B. Investigations; Retention of Professional Advisors

1. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The President, the Chief Financial Officer or the Corporate Secretary of the Company shall provide or arrange to provide such other information, data and services as the Committee may request. The Committee shall conduct such interviews or discussions as it deems appropriate with personnel of the Company, and/or others whose views would be considered helpful to the Committee.
2. The Committee shall have the authority to obtain advice, counsel and assistance from external legal, accounting and other advisors for any reason, including but not limited to in connection with any special investigations deemed necessary by the Committee. The Company shall provide appropriate funding for the Committee to retain such advisors without requiring the Committee to seek Board approval.

C. Risk Management

The Committee shall discuss periodically with management the Company's policies and guidelines regarding risk assessment and risk management, as well as the Company's major financial risk exposures and steps management has taken to monitor and control such exposures. The Committee also shall review the Company's existing processes and policies with respect to risk assessment and risk management.

D. Whistleblowing Procedures

The Committee shall establish procedures (i) for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, (ii) to ensure that such complaints are treated confidentially and anonymously, and (iii) for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

E. Disputes with Management

The Committee shall resolve any significant disagreements between the independent auditors and management.

F. Revision of Charter

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for its approval.

G. Reports

1. The Committee shall make regular reports to the Board on its activities, including reviewing any issues that arise respecting the quality and integrity of the Company's public reporting, the Company's compliance with legal and regulatory requirements, the performance and independence of the Company's independent auditors and the effectiveness of the Company's internal controls.

2. The Committee shall make an annual presentation to the Board within three months after the receipt of the independent auditor's opinion on the Company's financial statements. The presentation shall provide an overview of the Committee's activities, findings of importance, conclusions, recommendations, and items that require follow-up or action by the Board.

H. Miscellaneous

The Committee shall perform any other activities consistent with these Policies and Procedures, this Charter, the Company's Articles of Incorporation, Bylaws, and governing law, as the Committee or the Board deems necessary or appropriate.

IV. MEMBERSHIP AND ORGANIZATION OF COMMITTEE

A. Size of Committee

The Committee shall consist of at least three directors.

B. Member Qualifications

1. Each of the members of the Committee shall meet the independence and experience requirements of the American Stock Exchange and applicable federal securities laws, including the rules and regulations of the SEC. In addition, each of the members of the Audit Committee must also satisfy the following additional requirements to be independent:
 - a. no Committee member shall accept any consulting, advisory, or other fees from the Company, except for fees for services as a director and member of the Committee and any other Board committee;
 - b. no Committee member or family member of the Committee member shall currently be, or have been within the past five years, employed as an executive officer of the Company or any of its affiliates;
 - c. no Committee member shall be an executive officer of any entity, including a non-profit entity, that has received payments from the Company in excess of \$200,000 or 5% of the entity's gross revenues;
 - d. no Committee member or immediate family member of such Committee member may be an affiliated person of the Company or any of its subsidiaries, which means that he or she does not, directly or indirectly as a partner, controlling shareholder or officer of another company, own or control more than 5% of the Company's Common Stock; and
 - e. no Committee member shall currently be, or have been within the past five years, affiliated with or employed by a present or former auditor of the Company or any of its affiliates until the earlier of five years after the end of the affiliation or the auditing relationship.
 - f. Each of the members of the Committee must be able to read and understand financial statements, including the Company's balance sheet, income statement and cash flow statement at the time of his or her appointment to the Committee. At least one member shall be a financial expert with the education and past employment experience necessary for compliance with the audit committee composition requirements of the American Stock Exchange. To the extent possible, at least one member shall be a "audit compliance financial expert" as that term is defined by the SEC.

2. Generally, no member of the Committee may serve simultaneously on the audit committees of more than three public companies without a specific Board determination that such simultaneous service will not impair the ability of such Committee member to serve on the Committee.

C. Appointment

The members of the Committee shall be appointed by the Board upon the recommendation of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee shall recommend, and the Board shall designate, one member of the Committee to serve as Chair. If the Chair is absent from a meeting, another member of the Committee may act as Chair.

D. Term

Members of the Committee will be appointed for one-year terms and shall serve until their resignation, retirement, or removal by the Board or until their successors shall be appointed. The Board may fill vacancies on the Committee and remove a member of the Committee at any time with or without cause. No member of the Committee shall be removed except by majority vote of the independent directors of the Board then in office.

V. CONDUCT OF MEETINGS

A. Frequency

The Committee shall meet when, where and as often as it may deem necessary and appropriate in its judgment, but in no event less than three (3) times per year, either in person or telephonically. A majority of the members of the Committee shall constitute a quorum. The Chairman of the Board or any Committee member shall have the right to call a special meeting of the Committee.

B. Non-Committee Member Attendees

1. The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting to provide such information as the Committee requests.
2. The Committee shall meet with the independent auditors and management in separate meetings as often as it deems necessary and appropriate in its judgment.

C. Conduct of Meetings

The Committee shall fix its own rules of procedure, which shall be consistent with the Bylaws of the Company and these Policies and Procedures.

D. Minutes

A member of the Committee, a designee of the Committee or the Corporate Secretary shall keep written minutes of Committee meetings, which minutes shall be maintained with the books and records of the Company.

E. Delegation of Authority

The Committee may delegate authority to one or more members of the Committee when appropriate, but no such delegation shall be permitted if the authority is required by law, regulation or listing standard to be exercised by the Committee as a whole.