CAPSTONE THERAPEUTICS CORP.
AUDIT COMMITTEE CHARTER

This charter shall be reviewed and updated annually and any change approved by the Board of Directors.

Members: Elwood D. Howse, Jr. (Chairman) and Fredric J. Feldman, Ph.D.

Role

The Audit Committee of the Board of Directors assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the corporation and other such duties as described by the Securities and Exchange Commission (the "SEC"), the NASDAQ and as directed by the Board.

Committee Membership

The membership of the Committee shall consist of at least three directors who are generally knowledgeable in financial and auditing matters, including at least one member who is a "financial expert" as defined by the rules of the SEC and the NASDAQ. Each member must meet the independence requirements established by the SEC and NASDAQ for audit committee members.

The Board of Directors shall appoint one member of the Audit Committee as Chairperson. He or she shall be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making Committee assignments and reporting to the Board of Directors. The chairperson will also maintain regular communication with the CEO, CFO and the lead independent audit partner.

Responsibilities

The Audit Committee's primary responsibilities include:

- Appointment and dismissal of the independent auditor hired to audit the financial statements of the corporation. In so doing, the Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor, including resolution of disagreements between management and the independent auditor. The independent auditor will report directly to the Audit Committee.
- Pre-approval of all auditing services and permitted non-auditing services proposed to be performed by the independent auditor, subject to the *de minimus* exceptions for non-audit services that were not recognized as non-audit services at the time of engagement and which are subsequently approved by the Committee prior to completion of the audit.
- Ensure the rotation of the lead audit partner having primary responsibility for the audit as required by the SEC.
- Work with management to ensure the corporation does not hire, for the position of CEO, CFO, controller, chief accounting officer or other similar position, individuals who have been employees of the independent auditor during the year period prior to the initiation of the corporation's audit and were involved in any capacity in the corporation's audit.
- Oversight of the independent auditor relationship by discussing with the auditor the nature and rigor of the audit process, receiving and reviewing audit reports, and providing the auditor full access to the Committee (and the Board) to report on any and all appropriated matters.

- Review of the audited financial statements, including related disclosures made in the Management's Discussion and Analysis section, and discussing them with management and the independent auditor. These discussions shall include consideration of the quality of the corporation's accounting principles as applied in its financial reporting, including review of estimates, reserves and accruals, review of critical accounting policies and judgmental areas, review of audit adjustments whether or not recorded, review of the effects of off-balance sheet structures on the corporation's financial statements, discussion of any changes in the selection or application of accounting principles and such other inquires as may be appropriate. Based on the review, the committee shall make its audit recommendation to the Board as to the inclusion of the corporation's audited financial statements in the corporation's annual report on Form 10-K.
- Review, with management and the independent auditor, of the quarterly financial information prior to the corporation's filing of Form 10-Q with regard to:

  a. all critical accounting policies and practices to be used;

  b. all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;

  c. other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

  This review may be performed by the Committee or its chairperson. The Committee will also include in its periodic reports a disclosure of all non-audit services to be performed by the independent auditor.

  - Reporting Audit Committee activities to the full Board and issuing annually a report to be included in the proxy statement for submission to the shareholders.
  - Review of disclosures made to the Committee by the corporation's CEO and CFO during the certification process for the corporation's periodic reports about any material weaknesses or significant deficiencies in the design or operation of internal controls.
  - Discussing with management and the external auditors the quality and adequacy of the corporation's internal controls.
  - Review of disclosures made by the corporation's CEO and CFO describing any fraud involving management or any other employees having a significant role in the corporation's internal controls.
  - Establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls or auditing matters.
  - Establish procedures for the confidential receipt, retention and treatment of anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
  - Review and approve all related party transactions.

The Committee is expected to maintain free and open communication (including private executive sessions at least annually) with the independent auditor and the management of the corporation. In discharging this oversight role, the committee is empowered to investigate any matter brought to its attention, with full power to retain outside counsel or other experts for this purpose. The corporation will provide appropriate funding for such engagements.

Meetings

The committee will hold periodic meetings and a minimum of one regular annual review meeting. The President, Chief Executive Officer, Vice President of Finance and/or Chief Financial Officer may attend any meeting of the committee, except for portions of the meetings where his, her or their presence would be inappropriate, as determined by the Committee chairperson.

Minutes and Reports

Minutes of each meeting of the Committee shall be kept and distributed to each member of the Committee, members of the Board of Directors who are not members of the committee and the Secretary of the corporation. The chairperson of the Committee shall report to the Board of Directors from time to time, or whenever so requested by the Board of Directors.

General

The powers of the Committee shall be limited, and all activities of the Committee shall be governed by the provisions of the bylaws of the corporation.