

**CHARTER OF  
THE AUDIT COMMITTEE OF  
PHASERX, INC.**

(Adopted [        ], 2016 and effective as of PhaseRx, Inc.'s initial public offering)

**PURPOSE**

The purpose of the Audit Committee (the “*Committee*”) of the Board of Directors (the “*Board*”) of PhaseRx, Inc. (the “*Company*”) is to oversee the following:

- the Company’s accounting and financial reporting processes and the audit of the Company’s financial statements;
- the qualifications and independence of the Company’s registered public accounting firm (the “*independent auditor*”);
- the performance of the Company’s independent auditor;
- the Company’s compliance with applicable law (including U.S. federal securities laws and other legal and regulatory requirements); and
- risk assessment and risk management.

The Audit Committee is also responsible for preparing the report required by Securities and Exchange Commission (“*SEC*”) rules to be included in the Company’s proxy statement for the annual meeting of stockholders, and for performing such other duties and responsibilities as are enumerated in or consistent with this charter.

To fulfill its duties, the Committee relies on management for the preparation and accuracy of the Company’s financial statements, management for establishing effective internal control over financial reporting to ensure the Company’s compliance with accounting standards, financial reporting procedures and applicable laws and regulations, and the Company’s independent auditor for an unbiased, diligent audit or review, as applicable, of the Company’s financial statements and the effectiveness of the Company’s internal control over financial reporting. The members of the Committee are not employees of the Company and are not responsible for conducting the audit or performing other accounting procedures.

**COMPOSITION**

1. Membership and Appointment. The Committee shall consist of three (3) or more members of the Board. The members of the Committee shall be appointed by the Board based on recommendations from the Nominating and Corporate Governance Committee. The members of the Committee shall serve for such term or terms as the Board may determine or until earlier resignation or death. The Board may remove any member from the Committee at any time with or without cause.
2. Qualifications. The members of the Committee must fulfill the following criteria:

- Each member of the Committee shall be independent in accordance with the requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended and the rules of The NASDAQ Stock Market, LLC (“*NASDAQ*”).
  - Each member of the Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, statement of operations and cash flow statement, and otherwise must comply with all financial-literacy requirements of NASDAQ.
  - At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that leads to financial sophistication. At least one member of the Committee must be an “audit committee financial expert” as defined in Item 407(d)(5)(ii) of Regulation S-K. A person who satisfies the definition of “audit committee financial expert” will also be presumed to have financial sophistication.
  - No member of the Committee may serve simultaneously on the audit committee of more than two (2) other public companies unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.
  - No member of the Committee can have participated in the preparation of the Company’s or any of its subsidiaries’ financial statements at any time during the past three (3) years.
  - Each member of the Committee shall have such other qualifications as are established by the Board from time to time, or as required by applicable law or the rules and regulations of the SEC or of NASDAQ.
  - Notwithstanding the criteria listed above, the Company may avail of itself of any phase-in rules or interpretations applicable to newly-listed companies in connection with an initial public offering.
3. Chairperson. The Board shall designate a member of the Committee as the chairperson (the “*Chairperson*”).

## **RESPONSIBILITIES**

The Committee shall have the authority and responsibilities set forth below. The Committee may perform such other functions as are consistent with its purpose and applicable law, rule and regulations and as the Board or the Committee deems appropriate. The policies and procedures of the Committee should remain flexible in order to best react to changing conditions and circumstances.

### 1. Select and Retain Independent Auditor.

- To elect and retain an independent registered public accounting firm to act as the Company’s independent auditors for the purpose of auditing the Company’s annual financial statements, books, records, accounts and internal control over financial reporting and performing such other duties as the Committee sees fit, including quarterly reviews;
- To set the compensation of the Company’s independent auditors;
- To terminate the Company’s independent auditors, if necessary; and

- To select, retain, compensate, oversee and terminate, if necessary, any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.

2. Supervise and Evaluate the Independent Auditor.

- To oversee the work done by the Company's independent auditors;
- At least annually, to evaluate the qualifications, performance and independence of the Company's independent auditors or any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, which evaluation shall include a review and evaluation of the lead partner of the independent auditor;
- To assure the regular rotation of the lead audit partner at the Company's independent auditors, including applicable time-out periods, in accordance with applicable law and to consider regular rotation of the accounting firm serving as the Company's independent auditors;
- To review and discuss with the Company's independent auditors (i) the independent auditors' responsibilities under Public Company Accounting Oversight Board ("PCAOB") standards and the responsibilities of management in the audit process, (ii) the overall audit strategy, (iii) the scope and timing of the annual audit, (iv) any significant risks identified during the independent auditors' risk assessment procedures and (v) when completed, the results, including significant findings, of the annual audit;
- At least annually, to obtain and review a report by the Company's independent auditors that describes (i) the accounting firm's internal quality control procedures, (ii) any issues raised by the most recent internal quality control review, peer review or Public Company Accounting Oversight Board review or inspection of the firm or by any other inquiry or investigation by governmental or professional authorities in the past five (5) years regarding one or more audits carried out by the firm and any steps taken to deal with any such issues, and (iii) all relationships between the firm and the Company or any of its subsidiaries;
- At least annually, to discuss with the independent auditors the report described above and any relationships or services that may affect the objectivity and independence of the auditors;
- To take, or recommend to the Board that it take, appropriate action to ensure the independence of the Company's outside auditor; and
- To resolve any disagreements between the Company's auditors and management.

3. Approve Audit and Non-Audit Services and Fees.

- To review and approve, in advance, the scope and plans for the audits and audit fees;
- To pre-approve all audit and permitted non-audit and tax services that may be provided by the Company's independent auditors or other registered public accounting firms; and

- To establish policies and procedures for the Committee’s pre-approval of permitted services by the Company’s independent auditors or other registered public accounting firms on an on-going basis.
4. Review Financial Statements. The Committee shall review and discuss with the Company’s independent auditors and management:
- the Company’s annual audited financial statements (including the related notes), the form of audit opinion to be issued by the auditors on the financial statements and the disclosure under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to be included in the Company’s annual report on Form 10-K before the Form 10-K is filed;
  - the Company’s quarterly unaudited financial statements and the disclosure under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to be included in the Company’s quarterly report on Form 10-Q before the Form 10-Q is filed;
  - any major issues regarding accounting principles and financial statement presentation, including any significant changes in the Company’s selection or application of accounting principles;
  - any significant accounting estimates used in the financial statements;
  - any significant financial reporting issues and judgments made in connection with the preparation of the Company’s financial statements, including the effects of alternative generally accepted accounting principles (“**GAAP**”) methods;
  - the effect of regulatory and accounting initiatives and off-balance sheet structures on the Company’s financial statements;
  - any audit or review problems or difficulties, including difficulties encountered by the Company’s independent auditors during their audit or review work (such as restrictions on the scope of their activities or their access to information);
  - the use of experts, specialists, or other consultants or firms in any part of the audit;
  - any significant disagreements with management; and
  - management’s response to these problems, difficulties or disagreements.
5. Reports and Communications from the Independent Auditor. The Committee shall review and discuss with the Company’s independent auditors:
- all critical accounting policies and practices to be used in the audit or review, as applicable;
  - all alternative treatments of financial information within GAAP that have been discussed with management, the ramifications of the use of such alternative treatments and the treatment preferred by the auditors;
  - other material written communications between the auditors and management; and
  - other matters required to be communicated to the Committee under PCAOB.

6. Audit Committee Report. The Committee shall prepare and produce the audit committee report required to be included in the Company's annual proxy statement.
7. Earnings Press Releases and Earnings Guidance. The Committee shall review and discuss with management and the Company's independent auditors:
  - the Company's earnings press releases, including the type of information to be included and its presentation and the use of any pro forma or adjusted non-GAAP information; and
  - any financial information and earnings guidance provided to analysts and ratings agencies, including the type of information to be disclosed and type of presentation to be made.
8. Internal Control Over Financial Reporting and Disclosure Controls and Procedures. The Committee shall review with management and the Company's independent auditors the adequacy and effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures, including any significant deficiencies or material weaknesses in the design or operation of, and any material changes in, the Company's processes, controls and procedures and any special audit steps adopted in light of any material control deficiencies, and any fraud involving management or other employees with a significant role in such processes, controls and procedures. The Committee shall also review and discuss with management and the Company's independent auditors the required management certifications to be included in or attached as exhibits to the Company's annual report on Form 10-K or quarterly report on Form 10-Q, as applicable.
9. Legal and Regulatory Compliance.
  - The Committee shall periodically review and approve the Company's Code of Business Conduct and Ethics.
  - The Committee shall review and discuss with management and the independent auditor:
    - the overall adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs, including the Company's Code of Business Conduct and Ethics, compliance with the Foreign Corrupt Practices Act of 1977, as amended, and similar anticorruption legislation, and compliance with export control regulations;
    - reports regarding compliance with applicable laws, regulations and internal compliance programs; and
    - any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements or accounting policies.

The Committee shall discuss with the Company's senior management any legal matters that may have a material effect on the Company's financial statements or compliance procedures.

10. Complaints. As further described in the Company's Whistleblower Policy, the Committee is responsible for establishing and overseeing 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 Company employees of concerns regarding questionable accounting or auditing matters.

11. Risks. The Committee shall review and discuss with management policies and guidelines to govern the process by which management assesses and manages the Company's risks, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
12. Related Party Transactions. The Committee shall review, approve and oversee any transaction between the Company and any related person (as defined in Item 404 of Regulation S-K) and any other potential conflict of interest situations on an ongoing basis, in accordance with Company policies and procedures.

The function of the Committee is primarily one of oversight. The Company's management is responsible for preparing the Company's financial statements, and the independent auditor is responsible for auditing and reviewing those financial statements. The Committee is responsible for assisting the Board in overseeing the conduct of these activities by management and the independent auditor. The Committee is not responsible for providing any expert or special assurance as to the financial statements or the independent auditor's work. It is recognized that the members of the Committee are not full-time employees of the Company, that it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards, and that each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from which the Committee receives information and (ii) the accuracy of the financial and other information provided to the Committee, in either instance absent actual knowledge to the contrary.

## **MEETINGS AND PROCEDURES**

### 1. Meetings.

- The Committee shall meet at least once each fiscal quarter, with additional meetings as it deems necessary or appropriate, at such times and places as the Committee determines.
- The Committee is governed by the same rules regarding meetings (including meetings in person or by telephone or other similar communications equipment), action by written consent (which may include electronic consent), notice, waiver of notice, and quorum and voting requirements as are applicable to the Board; *provided, however*, that any action by written consent shall constitute a valid action of the Committee if it has been executed by each Committee member and shows the date of execution; *provided further*, that any such written consent shall be effective on the date of the last signature and shall be filed with the minutes of the meetings of the Board.
- The Chairperson shall prepare and approve the agenda for each Committee meeting and any member of the Committee may suggest items for consideration. The Chairperson shall preside at each meeting. In the Chairperson's absence, the Committee members present may designate an acting chairperson.
- The Committee shall cause to be kept written minutes of its proceedings, which minutes will be filed with the minutes of the meetings of the Board.

- The Committee shall meet periodically with members of management as deemed appropriate and the independent auditor in separate executive sessions. Each regularly scheduled meeting of the Committee will conclude with an executive session of the Committee absent members of management.
  - Committee may invite to its meetings any director, officer or employee of the Company and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities, including non-management directors who are not members of the Committee.
2. Reporting to the Board of Directors. The Committee shall report regularly to the Board with respect to the Committee's activities, including any significant issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements or the performance and independence of the Company's independent auditor, as applicable.
  3. Authority to Retain Advisors. The Committee shall have the authority, in its sole discretion, to retain and obtain the advice and assistance of independent outside counsel and such other advisors as it deems necessary to fulfill its duties and responsibilities under this charter. The Committee shall set the compensation, and oversee the work, of any outside counsel and other advisors. The Committee shall receive appropriate funding from the Company, as determined by the Committee in its capacity as a committee of the Board, for the payment of compensation to the Company's independent auditors, any other accounting firm engaged to perform services for the Company, any outside counsel and any other advisors to the Committee.
  4. Subcommittees. The Committee shall have the authority to delegate any of its responsibilities, along with the authority to take action in relation to such responsibilities, to one or more subcommittees as the Committee may deem appropriate in its sole discretion. If designated, any subcommittee will establish its own schedule and maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board. The Committee shall not delegate to a subcommittee any power or authority required by law, regulation or listing standard to be exercised by the Committee as a whole.
  5. Committee Performance Evaluation and Charter Review. The Committee shall conduct an annual evaluation of the performance of its duties under this charter and shall present the results of the evaluation to the Board. The Committee shall conduct this evaluation in such manner as it deems appropriate. The Committee shall also review and reassess the adequacy of this charter annually and shall submit any recommended changes to this charter to the Board for approval.
  6. Authority to Investigate. In the course of performing its duties, the Committee shall have authority, at the Company's expense, to investigate any matter brought to its attention.
  7. Attorneys' Reports. The Committee shall receive and, if appropriate, respond to attorneys' reports of evidence of material violations of securities laws and breaches of fiduciary duty and similar violations of foreign, U.S., state or local law. The Committee shall establish procedures for the confidential receipt, retention and consideration of any attorney report.

8. Access. The Committee shall be given full access to the Chairman of the Board, management and the independent auditor, as well as the Company's books, records, facilities and other personnel.
9. Compensation. Members of the Committee shall receive such fees, if any, for their service as Committee members as may be determined by the Board in its sole discretion. Members of the Committee may not receive any compensation from the Company except the fees that they receive for service as a member of the Board or any committee thereof.