

**DIFFUSION PHARMACEUTICALS INC.
AUDIT COMMITTEE CHARTER**

Purpose

The purpose of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Diffusion Pharmaceuticals Inc. (the “Company”) is to assist the Board in fulfilling its oversight responsibilities relating to the Company’s financial accounting, internal controls, reporting and compliance. The Committee’s principal functions are to serve as an independent and objective monitor of: (i) the quality and integrity of the Company’s financial statements, accounting principles, reporting and related disclosures; (ii) the effectiveness of the Company’s disclosure controls and procedures and internal control over financial reporting; (iii) the Company’s compliance with legal and regulatory requirements and internal policies regarding ethical conduct; and (iv) the independent auditor’s objectivity, qualifications, independence and performance.

Membership

The membership of the Committee will be appointed by the Board and will consist of at least three members of the Board. Each member of the Committee will be an “independent director” within the meaning of the Listing Rules of the NASDAQ Stock Market and meet such other independence and other requirements, as required under applicable law, rules and regulations, and as deemed appropriate by the Board. Each member of the Committee will be able to read and understand fundamental financial statements and no member of the Committee will have participated in the preparation of the financial statements of the Company or any subsidiary of the Company at any time during the three years prior to such member’s service on the Committee, in accordance with the Listing Rules of the NASDAQ Stock Market. At least one member of the Committee will be an “audit committee financial expert” within the meaning of applicable rules of the Securities and Exchange Commission (“SEC”) and have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities, in accordance with the Listing Rules of the NASDAQ Stock Market. Committee members should not simultaneously serve on the audit committees of more than three other public companies, unless the Board specifically determines that it would not impair the ability of the Committee member to effectively serve the Company.

The Board will be responsible for determining whether a Committee member is an “independent director” and meets the other qualifications. In so doing, the Board will consider all factors specifically relevant to determining whether a director has a relationship to the Company which is material to that director’s ability to be independent from management in connection with the duties of a Committee member, including those factors specified in the Listing Rules of the NASDAQ Stock Market. Notwithstanding the foregoing, the Board may decide at any time and in its sole discretion to waive one or more of the foregoing qualifications with respect to a new member of the Committee for a transitional time period or otherwise, if then permitted under the Listing Rules of the NASDAQ Stock Market and other applicable law, rules and regulations. Any action duly taken by the Committee will be valid and effective, whether or not the members of the Committee at the time of such action are later determined not to have satisfied the requirements for members provided herein.

The Board will appoint one member of the Committee as Chair. The Chair will be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making subcommittee assignments, preparing minutes and reporting to the Board. The Chair also will maintain

regular liaison with the Company's Chief Executive Officer, Chief Financial Officer and the lead independent audit partner of the Company's independent auditor.

Duties and Responsibilities

The Committee will have the power and authority of the Board to perform the following duties and to fulfill the following responsibilities:

Financial Disclosure Processes and Internal Controls

- review periodically, with the Company's management and independent auditors, the Company's financial reporting processes and disclosure controls and procedures, including the Company's policies and procedures designed to assure that information required to be disclosed in its periodic reports filed with the SEC is accurately reported within the time periods specified by the SEC;
- review periodically, with the Company's management and independent auditors, the adequacy and effectiveness of the Company's internal control over financial reporting designed to protect assets and provide assurance that transactions are properly authorized, executed, recorded and summarized in the Company's books of record. As part of this responsibility, at least annually, the Committee will meet with management to review its plan for the maintenance, modification, enhancement and testing of its internal controls for the ensuing fiscal year;
- review the reports prepared by management assessing the adequacy and effectiveness of the Company's internal control over financial reporting, prior to the inclusion of such reports in the Company's periodic filings as required under the rules of the SEC. If applicable, the Committee's review will focus on any significant deficiencies in, any significant changes to, or material weaknesses in such controls reported by the independent auditors, or comments and management's responses contained in any accompanying management letter;
- review at least annually the need for, and desirability of, implementing an internal audit department within the Company. In this capacity, the Committee will have the primary authority to define the structure, staffing, activities and reporting relationships of such internal audit function;
- receive periodically reports prepared by management or the independent auditors regarding American Institute of Certified Public Accountants ("AICPA"), Financial Accounting Standards Board ("FASB"), SEC, Public Company Accounting Oversight Board ("PCAOB") and other significant regulatory accounting pronouncements affecting the Company and review the Company's significant accounting policies and practices in light of such reports and developments;

Engagement and Oversight of Independent Auditors

- appoint, retain, compensate, and when necessary, terminate the engagement of, the independent auditors. The Committee may, in its discretion, seek stockholder ratification of the independent auditor it appoints. The independent auditors will report directly to the Committee, and the Committee will have the sole authority to approve the hiring, compensation and firing of the independent auditors;

- pre-approve audit and permissible non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is permissible), subject to de minimis exceptions for non-audit services provided under applicable law, rules and regulations. In carrying out this responsibility, the Committee may establish policies and procedures for the review and pre-approval of audit and permitted non-audit services, including delegation of this authority to one or more members of the Committee, provided that such pre-approval decision is presented to the full Committee at its next scheduled meeting;
- direct the Company's independent auditors to review, before filing with the SEC, the Company's interim financial statements included in quarterly reports on Form 10-Q, using professional standards and procedures for conducting such reviews;
- review and discuss with the independent auditors: (i) their annual audit plan, including the scope, proposed procedures, fees, timing and staffing; (ii) the results of the annual audit examination; and (iii) the results of the independent auditors' procedures with respect to interim periods;
- review and discuss with the independent auditors: (i) the reasonableness of judgments and estimates used in preparing the financial statements, including assumptions made and the completeness of the related disclosures; (ii) critical accounting policies and practices used by the Company, including in particular any significant changes in the Company's selection or application of accounting principles; (iii) alternative accounting treatments (i.e., principles or estimates) within generally accepted accounting principles related to material items that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the independent auditors; and (iv) other material written communications between the independent auditors and management, including all of the matters required to be discussed with the auditors under applicable accounting standards and rules;
- obtain and review at least annually a report by the Company's independent auditors describing the independent auditors' internal quality-control procedures and any material issues raised by the most recent internal quality-control review, PCAOB or peer review, of the independent auditors, or by any inquiry or investigation by any governmental or professional authority, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues;
- obtain and review at least annually a formal written statement by the Company's independent auditors delineating all relationships between the auditor and the Company, consistent with applicable accounting standards and rules, and reviewing and discussing with the auditors any disclosed relationships or services that may impact the objectivity and independence of the auditors;
- review at least annually with the independent auditors any problems or difficulties encountered by the independent auditors in the course of performing any audit work, including management's response thereto, any restrictions on the scope of the independent auditor's activities or access to requested information, and assist with the resolution of any significant disagreements with management;

- conduct an annual evaluation of the independent auditors' objectivity, qualifications, performance and independence after overseeing their work throughout the audit period and reviewing their reports as provided above;
- confirm the rotation of the lead audit partner and concurring partner every five years and any other active audit engagement team partner every seven years, or such other time periods as required by applicable law, rules and regulations, and consider whether there should be a regular rotation of the audit firm itself in order to ensure continuing auditor independence;
- establish hiring policies regarding employment of employees, or former employees, of the Company's independent auditors;

Financial Reporting and Other Disclosures

- review with management and the Company's independent auditors, before filing or release (as applicable): (i) the Company's annual report on Form 10-K, including the audited financial statements and Management's Discussion and Analysis (MD&A); (ii) the Company's quarterly reports on Form 10-Q, including the unaudited interim financial statements and MD&A; (iii) the Company's earnings announcements or financial releases and earnings guidance; (iv) any other material financial information incorporated in the Company's regulatory filings, including but not limited to registration statements to be filed under the Securities Act of 1933, as amended; and (v) any required certification or attestations of management;
- oversee compliance with the disclosure requirements of the SEC regarding auditors' services and audit committee members, member qualifications and activities;
- prepare any report required to be prepared by the Committee for inclusion in the Company's proxy statement under applicable SEC rules and regulations;

Risk Management

- discuss guidelines and policies governing the process by which management and other persons responsible for risk management assess and manage the Company's exposure to risk, as well as the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, based on consultation with the Company's management, independent auditors and counsel;

Related Party Transactions

- review and approve all related party transactions in accordance with the Listing Rules of the NASDAQ Stock Market and other applicable law, rules and regulations and any related policies and procedures adopted by or on behalf of the Company and then in effect;

Legal and Regulatory Compliance and Ethics

- oversee implementation by management of, and review periodically and make recommendations to the Board on the adequacy and effectiveness of, the Company's compliance practices generally and the Company's policies and procedures for ensuring compliance with legal, regulatory and quality systems requirements and ethical programs and policies as established by management and the Board, including without limitation the

Company's Code of Business Conduct and Ethics, insider trading policy and any other similar code of conduct and policies as adopted by the Company from time to time by the Company, and review and approve any waivers of the Code of Business Conduct and Ethics for any directors and officers;

- 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 the Company of concerns regarding questionable accounting or auditing matters;
- discuss with management, the independent auditors and the Company's legal counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the Company's business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies;

Other

- review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for its approval;
- review the Committee's operations and performance periodically; and
- perform any other duties and responsibilities assigned to the Committee by the Board, to the extent permitted by applicable law, rules and regulations and the Company's governance documents.

Authority and Resources

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of duties and responsibilities, with full access to all books, records, facilities and personnel of the Company.

The Committee has the power and authority to retain or obtain the advice of consultants, legal counsel or other advisers and has sole authority to select, retain, oversee and terminate such consultants, counsel and advisers and approve the fees and other retention terms of such consultants, counsel and advisers, as it deems appropriate. The Company will provide adequate and appropriate funding, as determined by the Committee, for payment of reasonable compensation to a consultant, legal counsel or any other adviser retained by the Committee and will fund other ordinary administrative expenses that are necessary or appropriate for the Committee in carrying out its duties and responsibilities.

Meetings

The Chair will determine how often the Committee meets. However, the Board expects that the Committee will meet at least once per fiscal quarter. The Committee will meet separately, at least quarterly, or more frequently in the Committee's sole discretion, with management, the internal auditors (or other persons responsible for the internal audit function), the independent auditors and other employees of the Company or its subsidiaries that the Committee deems appropriate to discuss any matters that the Committee or any of these persons or firms believes should be discussed privately.

The Chair, in consultation with the other members of the Committee, will establish the agenda for each meeting. The Chair will designate a secretary for each meeting, who need not be a member of the

Committee. In lieu of holding a meeting, the Committee may act by circulating a written consent to each member of the Committee. The written consent constitutes a valid action of the Committee if it has been executed by each Committee member. The written consent will be filed with the minutes of Board meetings.

As necessary or desirable, the Committee may request that directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, be present at meetings of the Committee to provide such pertinent information as the Committee requests. The Committee will meet in executive session to discuss matters within its purview, as determined appropriate in the judgment of the Committee.

Minutes

The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of meetings of the Board.

Reports

The Chair will report periodically to the Board on the Committee's deliberations and actions. The minutes of Committee meetings and actions by the unanimous written consent of the Committee members will be made available to all Board members.

Delegation of Authority

The Committee will have the power and authority, to the extent permitted under applicable law, rules and regulations and the Company's charter and governance documents, to form sub-committees and to delegate any of its duties and responsibilities to such sub-committees as the Committee may deem appropriate in its sole discretion.

Limitations of Committee's Role

The Committee's duties and responsibilities are principally of an oversight nature. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable law, rules and regulations. The independent auditors are responsible for planning and carrying out a proper audit of the Company's annual financial statements, reviewing the Company's quarterly financial statements, auditing annually management's assessment of the effectiveness of internal control over financial reporting, as required by the rules of the SEC, and other procedures. In fulfilling their responsibilities hereunder, it is recognized that the members of the Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of auditors or accountants. It is not the Committee's responsibility to conduct investigations of or assure compliance with the Company's Code of Business Conduct and Ethics.