

## **Audit Committee Charter**

The following Audit Committee Charter was adopted by the Audit Committee of the Board of Directors and the Board of Directors of AdvanSource Biomaterials:

### **I. Purpose**

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") to assist the Board in fulfilling its oversight responsibilities with respect to: (1) the integrity of our financial statements; (2) the independent auditor's qualifications and independence; (3) the performance of our independent auditor and the audits of our financial statements; (4) the adequacy of our accounting and financial reporting processes and systems of internal accounting and financial controls; and (5) our compliance with ethics policies and legal and regulatory requirements. The Committee will fulfill these responsibilities by carrying out the activities enumerated in Section III of this Charter. The Committee shall report to the Board with respect to such matters and initiate and/or approve appropriate changes in any or all of these areas when necessary.

### **II. Committee Membership**

The Committee shall consist of no fewer than three (3) directors, each of whom shall: (1) meet the independence and experience requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations of the United States Securities and Exchange Commission (the "Commission"); and (2) have not participated in the preparation of our financial statements or any of our current subsidiary at any time during the past three years.

At least one member of the Committee shall in the judgment of the Board be an "audit committee financial expert" as defined by the rules of the Commission and at least one member (who may also serve as the financial expert) shall, in the judgment of the Board, have the accounting or related financial management expertise required by the Securities and Exchange Commission. All members of the Committee shall in the judgment of the Board have, at the time of his or her appointment to the Committee, a working familiarity with basic finance and accounting practices and the ability to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

### **III. Committee Authority and Responsibilities**

The Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification). The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us. The independent auditor shall report directly to the Committee.

The Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that (i) the aggregate compensation to be paid to the independent auditor that may be approved by such subcommittee shall not exceed \$20,000, and (ii) the decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee for ratification at its next scheduled meeting. The Committee shall promptly report the approval of any permitted non-audit services to management for disclosure in our periodic reports.

The Committee shall have the authority, to the extent it deems necessary or appropriate to carry out its duties, to retain independent legal, accounting or other advisors. We shall provide for appropriate funding, as determined by the Committee, for payment of: (i) compensation to the independent auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) compensation to any advisors employed by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee shall review management's budget and plan for each fiscal year.

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

The Committee, as required by applicable law, rules or regulations and otherwise to the extent it deems necessary or appropriate, shall:

### **Financial Statement and Disclosure Matters**

1. Review with management and the independent auditor the financial statements and disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") to be included in our Annual Report on Form 10-KSB (or the annual report to shareholders if distributed prior to the filing of the Form 10-KSB), including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards including matters relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management. Recommend to the Board whether the audited financial statements should be included in our Annual Report on Form 10-K.
2. Review and discuss with management and the independent auditor our quarterly financial statements, including disclosures made in MD&A, prior to the filing of its

- quarterly reports on Form 10-Q, including the results of the independent auditor's reviews of the quarterly financial statements and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards.
3. Prepare the report required by the rules of the Commission to be included in our annual proxy statement.
  4. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of our financial statements, including any significant changes in our selection or application of accounting principles, any major issues as to the adequacy of our internal control over financial reporting and disclosure controls and procedures, and any special steps adopted in light of any identified material weaknesses or significant deficiencies therein.
  5. Review and discuss regular reports from the independent auditors on:
    - all critical accounting policies and practices to be used;
    - 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; and
    - other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
  6. Discuss with management our earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Committee, in its sole discretion, may delegate responsibility for these discussions to the Chairman of the Committee.
  7. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as any off-balance sheet arrangements on our financial statements.
  8. Discuss with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies.
  9. Review disclosures made to the Committee by our CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal control over financial reporting or material weaknesses therein and any fraud involving management or other employees who have a significant role in our internal controls.
  10. Beginning with our fiscal year 2005 and for fiscal years thereafter, review management's assessment of the effectiveness of our internal controls as of the end of the most recent fiscal year and the independent auditor's report on management's assessment.

### **Oversight of our Relationship with the Independent Auditor**

11. Obtain and review a report from the independent auditor at least annually regarding all relationships between the independent auditor and us. Evaluate the qualifications, performance, objectivity and independence of the independent auditor, including considering whether the provision of permitted non-audit

- services is compatible with maintaining the auditor's independence, and taking into account the opinion of management. The Committee shall present its conclusions with respect to the independent auditor to the Board.
12. Obtain and review the written disclosures and the letter from the independent auditor required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discuss with the independent auditor the independent auditor's independence.
  13. Review with the independent auditor its policy regarding the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
  14. Recommend to the Board policies for our hiring of employees or former employees of the independent auditor who participated in any capacity in our audit.
  15. Meet with the independent auditor and our financial management prior to the audit to discuss the planning and staffing of the audit, the scope of the prospective audit and the audit procedures to be utilized, the estimated fees therefore and such other matters pertaining to the audit as the Committee may deem appropriate. At the conclusion thereof, review the audit, including any comments or recommendations made by the independent auditor.

#### **Compliance Oversight Responsibilities**

16. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.
17. Review and approve all related party transactions in accordance with the listing standards of OTCQB tier of the OTC Markets.
18. Establish procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
19. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding our financial statements or accounting policies.
20. Investigate such matters, as it deems appropriate in connection with fulfilling its duties and responsibilities.

#### **IV. Meetings; Reports to the Board**

The Committee shall meet as often as it deems necessary, but not less frequently than quarterly. The Committee shall meet periodically with the CFO and the independent auditor in separate executive sessions. The purpose of the meetings in executive session is for the Committee to independently receive input on: (i) the adequacy of financial and operating controls; (ii) the capabilities of financial, accounting and auditing personnel, and the sufficiency of resources devoted by us in the financial and accounting areas; (iii) the appropriateness of accounting principles utilized by us; and (iv) the level of cooperation given to both the internal and independent auditors by us. The Committee may request any officer or employee or our outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall make regular reports to the Board and shall submit to the Board the minutes of all meetings of the Committee or otherwise communicate to the Board the matters discussed at each of the Committee's meetings, including any disclosures needed to be made as a result of the Committee's meetings in executive session.

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

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that our 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 independent auditor.