

## **SALIX PHARMACEUTICALS, LTD.**

### **AUDIT COMMITTEE CHARTER**

- I. *Composition of the Audit Committee:* The Audit Committee shall be comprised of at least three independent directors, each of whom shall be able to read and understand fundamental financial statements (or will become able to do so within a reasonable period of time after appointment to the Audit Committee) and shall otherwise satisfy the applicable membership requirements under the rules of The NASDAQ Stock Market, Inc. or any other stock exchange on which the Company's shares may trade, as such requirements are interpreted by the Board of Directors in its business judgment. At least one member of the Audit Committee shall in the judgment of the Board of Directors be an "audit committee financial expert" as defined by the rules and regulations of the Securities and Exchange Commission. The Board of Directors appoints the members of the Committee and the chair, and may remove any member from the Committee at any time.
- II. *Purposes of the Audit Committee:* The purposes of the Audit Committee are to assist the Board of Directors:
1. in its oversight of the Company's accounting and financial reporting principles and policies and internal financial controls and procedures, and compliance with accounting standards and applicable laws and regulations;
  2. in its oversight of the Company's financial statements and the independent audit thereof;
  3. in selecting (or nominating the independent auditors to be proposed for shareholder approval in any proxy statement), evaluating and, where deemed appropriate, replacing the independent auditors; and
  4. in evaluating the independence of the independent auditors.

The function of the Audit Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements. Management and the internal auditing department, if any, are 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 laws and regulations. The independent auditors are responsible for planning and carrying out a proper audit and reviews, including reviews of the Company's financial statements prior to the filing of quarterly reports on Form 10-Q and the annual report on Form 10-K, and other procedures. In fulfilling their responsibilities hereunder, it is recognized that members of the Audit Committee are not full-time employees of the Company and are not, and do not represent themselves to be, accountants or auditors by profession or experts in the fields of accounting or auditing. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures, and each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations

absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors).

The independent auditors for the Company are ultimately accountable to the Board of Directors (as represented by the Audit Committee), as representatives of the Company's shareholders. The Audit Committee has the authority and responsibility to select, evaluate and, where appropriate, replace the independent auditors (or to nominate the independent auditors to be proposed for shareholder approval in any proxy statement).

The independent auditors shall submit to the Company annually a formal written statement delineating all relationships between the independent auditors and the Company ("Statement as to Independence"), addressing at least the matters set forth in Independence Standards Board No. 1.

III. *Meetings of the Audit Committee:* The Audit Committee shall meet on a regular basis, and special meetings should be called as circumstances dictate, to discuss with management the annual audited financial statements and the quarterly financial statements. In addition to such meetings of the Audit Committee as may be required to discuss the matters set forth in Article IV, the Audit Committee should meet separately at least annually with management, the director of the internal auditing department, if any, and the independent auditors to discuss any matters that the Audit Committee or any of these persons or firms believe should be discussed privately. The Audit Committee may request any officer or employee of the Company or the Company's external counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

IV. *Duties and Powers of the Audit Committee:* To carry out its purposes, the Audit Committee shall have the following duties and powers:

1. with respect to the independent auditors,
  - (i) to select, evaluate and, where appropriate, replace the independent auditors;
  - (ii) to review the fees charged by the independent auditors for audit and non-audit services;
  - (iii) to ensure that the independent auditors prepare and deliver annually a Statement as to Independence (it being understood that the independent auditors are responsible for the accuracy and completeness of this Statement), to discuss with the independent auditors any relationships or services disclosed in this Statement that may impact the objectivity and independence of the Company's independent auditors and to recommend that the Board of Directors take appropriate action in response to this Statement to satisfy itself of the independent auditors' independence;

- (iv) to ensure that the independent auditors do not provide consulting or other services in conflict with their independent role; and
  - (v) to instruct the independent auditors that the independent auditors are ultimately accountable to the Board of Directors and the Audit Committee, as representatives of the Company's shareholders;
2. with respect to the internal auditing department, if any,
- (i) to review the appointment and replacement of the director of the internal auditing department; and
  - (ii) to advise the director of the internal auditing department that he or she is expected to provide to the Audit Committee summaries of and, as appropriate, the significant reports to management prepared by the internal auditing department and management's responses thereto;
3. with respect to financial reporting principles and policies and internal financial controls and procedures,
- (i) to advise management, the internal auditing department, if any, and the independent auditors that they are expected to provide to the Audit Committee a timely analysis of significant financial reporting issues and practices;
  - (ii) to consider any reports or communications (and management's and/or the internal audit department's, if any, responses thereto) submitted to the Audit Committee by the independent auditors required by the Securities and Exchange Commission (e.g. SAS 61), Public Company Accounting Oversight Board and Financial Accounting Standards Board regulations and standards, as may be modified or supplemented, including reports and communications related to:
    - control deficiencies, significant control deficiencies and/or material weaknesses noted in the review of the design or operation of internal controls;
    - consideration of fraud in a financial statement audit;
    - detection of illegal acts;
    - the independent auditor's responsibility under generally accepted auditing standards;
    - significant accounting policies;
    - management judgments and accounting estimates;
    - adjustments arising from the audit;
    - the responsibility of the independent auditor for other information in documents containing audited financial statements;
    - disagreements with management;
    - consultation by management with other accountants;

- major issues discussed with management prior to retention of the independent auditors;
  - difficulties encountered with management in performing the audit;
  - the independent auditors' judgments about the quality of the entity's accounting principles; and
  - reviews of interim financial information conducted by the independent auditors;
- (iii) to meet with management, the director of the internal auditing department, if any, and/or the independent auditors:
- to discuss the scope of the annual audit and financial controls review;
  - to discuss the audited financial statements;
  - to discuss any significant matters arising from any audit or report or communication referred to in items 2(ii) or 3(ii) above, whether raised by management, the internal auditing department or the independent auditors, relating to the Company's financial statements;
  - to review the form of opinion the independent auditors propose to render to the Board of Directors and shareholders;
  - to discuss significant changes to the Company's auditing and accounting principles, policies, controls, procedures and practices proposed or contemplated by the independent auditors, the internal auditing department or management;
  - to inquire about significant risks and exposures, if any, and the steps taken to monitor and minimize such risks; and
  - to ensure the Company's internal financial group and internal audit group, if any, has sufficient expertise and staffing levels;
- (iv) to obtain from the independent auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934;
- (v) to obtain from the independent auditors assurance that the review of financial controls was conducted in a manner consistent with Section 404 of the Sarbanes-Oxley Act of 2002 and corresponding regulations and standards from the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- (vi) to discuss with the Company's internal general counsel, if any, or external counsel any significant legal matters that may have a material effect on the financial statements, including material notices to or inquiries received from governmental agencies, and any financial matters relating to the Company's compliance policies, including any allegations of financial misconduct or fraud; and
- (vii) as requested by the Board of Directors, review and approve proposed related party transactions; and

4. with respect to reporting and recommendations,
  - (i) to prepare any report required by applicable law and regulation, including any recommendation of the Audit Committee required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement;
  - (ii) to review this Charter at least annually and recommend any changes to the full Board of Directors; and
  - (iii) to report its activities to the full Board of Directors on a regular basis and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate.

V. *Resources and Authority of the Audit Committee:* The Audit Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to engage independent auditors for special audits, reviews and other procedures and to retain special counsel and other experts or consultants.

Adopted October 16, 2000

Amended and Restated December 13, 2007