

SALIX PHARMACEUTICALS, LTD.

CHARTER OF THE COMPENSATION COMMITTEE

I. AUTHORITY AND COMPOSITION

The Committee is established pursuant to Section 4.1 of the Bylaws of Salix Pharmaceuticals, Ltd. (the “Company”). Committee members are appointed annually by the Board of Directors on the recommendation of the Nominating/Corporate Governance Committee, and may be replaced by the Board. The Committee must consist of at least three directors, each of whom shall meet the independence requirements of Nasdaq (subject to any applicable transition periods or exceptions permitted under Nasdaq requirements) and any standards of independence as may be prescribed for purposes of any federal securities, tax or other laws relating to the Committee’s duties and responsibilities, including Section 162(m) of the Internal Revenue Code. The Committee Chairman shall be appointed by the Board.

The Committee may also appoint a Secretary, who need not be a director, and may delegate to its Chairman such power and authority as the Committee deems to be appropriate, except such powers and authorities required by law to be exercised by the whole Committee or by a subcommittee of at least two members.

This Charter may be amended only by the Board of Directors.

II. PURPOSES OF THE COMMITTEE

The Committee is appointed to discharge the Board’s responsibilities relating to compensation of the Company’s directors and executive officers. The Committee has overall responsibility for evaluating and approving the director and executive officer compensation plans, policies and programs of the Company.

The Committee is also responsible for producing the annual report on executive compensation required to be included in the Company’s proxy statement pursuant to applicable federal securities rules and regulations.

III. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

The following activities are set forth as a guide with the understanding that the Committee may diverge from this guide as it considers appropriate, subject to compliance with applicable Nasdaq, securities, tax and other legal and self-regulatory requirements.

- A. The Committee shall annually review and approve corporate goals and objectives relevant to Chief Executive Officer compensation, evaluate the Chief Executive Officer’s performance in light of those goals and objectives, and set Chief Executive Officer compensation level based on this evaluation. In determining the long-term incentive component of the Chief Executive Officer’s compensation, the Committee will consider

appropriate factors, such as the Company's performance and relative stockholder return, the value of similar incentive grants or awards to chief executive officers at comparable companies, and the grants or awards given to the Chief Executive Officer in past years.

- B. The Committee shall periodically review and approve the compensation of the Company's other senior staff members, taking into account peer group practices and other appropriate factors, such as corporate and individual performance and historical compensation practices for such officers. The Committee shall be entitled to consider the recommendations of the Chief Executive Officer in connection with the foregoing. The Committee will also provide general oversight of the Company's compensation and benefits plans, policies and programs that pertain to employees other than executive officers.
- C. The Committee shall review with the Chief Executive Officer and any other officer or member of management, as appropriate, the material criteria used by the Chief Executive Officer and management in evaluating employee performance throughout the Company and in establishing appropriate compensation, retention, incentive, severance and benefit policies and programs. As part of this process, the Committee shall seek appropriate assurances from management that compliance with the Company's Code of Business Conduct and other applicable Company policies are made an important component of an employee's performance evaluation.
- D. The Committee shall annually review and approve the compensation of the Company's directors, based on appropriate factors as determined by the Committee.
- E. The Committee shall have the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of the compensation of directors, the Chief Executive Officer or the other executive officers' compensation and shall have sole authority to approve the consultant's fees and other retention terms.
- F. The Committee shall periodically review and make recommendations to the Board with respect to incentive-compensation plans and equity-based plans, and shall periodically review and make recommendations to the Board with respect to the adoption of or material changes in material employee benefit, bonus, severance and other compensation plans of the Company. As appropriate in connection with this process, the Committee shall seek appropriate assurances from internal or external advisors that all compensation and perquisites are appropriate, legally permissible and, where required, properly disclosed to the Company's stockholders.
- G. The Committee shall review and assess on a periodic basis the Company's compliance with laws and regulations relating to compensation and employee benefits, ERISA, labor laws, employment discrimination and other human resources matters.
- H. The Committee shall review and assess on a periodic basis the Company's guidelines regarding director and employee stock ownership and the Company's policies and procedures governing compliance with applicable laws relating to director and employee ownership of securities of the Company.

- I. The Committee shall review and assess on a periodic basis the Company's policies and procedures relating to all 401(k) plans or similar plans maintained by the Company to purchase, sell or otherwise acquire or transfer any interest in the equity securities of the Company.
- J. The Committee shall perform such duties and responsibilities as may be assigned to the Committee under the terms of any compensation plan of the Company.

The Committee shall:

- (a) Report regularly to the Board on its activities;
- (b) Maintain minutes of its meetings and records relating to those meetings and the Committee's activities;
- (c) Have authority to obtain, at the expense of the Company, advice and assistance from internal or external legal, accounting or other advisors;
- (d) Form and delegate authority to subcommittees of one or more Committee members when desired and appropriate;
- (e) Review and reassess the adequacy of this Charter annually and recommend to the Board any proposed changes to this Charter; and
- (f) Annually review the Committee's own performance.

IV. GENERAL

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by:

- (g) One or more officers or employees of the Company whom the Committee member reasonably believes to be reliable and competent in the matters presented;
- (h) Counsel, independent auditors, or other persons as to matters which the Committee member reasonably believes to be within the professional or expert competence of such person; and
- (i) Other committees of the Board as to matters within their respective designated authority which committee the Committee member reasonably believes to merit confidence.

Adopted by the Board of Directors on June 17, 2004.