

# SCOLR Pharma, Inc.

## CHARTER OF THE AUDIT COMMITTEE

### OF THE

### BOARD OF DIRECTORS

#### I. STATEMENT OF POLICY

This Charter specifies the scope of the responsibilities of the Audit Committee (the “*Committee*”) of the Board of Directors (the “*Board*”) of SCOLR Pharma, Inc. (the “*Company*”) and the manner in which those responsibilities shall be performed, including its structure, processes and membership requirements.

The primary purpose of the Committee is to oversee the accounting and financial reporting processes of the Company and the audits of the Company’s financial statements, and otherwise assist the Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to any governmental body or to the public. The Committee will also review the qualifications, independence and performance, and approve the terms of engagement, of the Company’s independent auditor, and prepare any reports required of the Committee under applicable law, the rules and regulations of the Securities and Exchange Commission (“*SEC*”) or the listing requirements of the American Stock Exchange (collectively, “*Applicable Law*”). Further, the Committee will recommend codes of conduct and ethics applicable to the Company and will oversee the performance of the Company’s internal audit function.

The Company will provide appropriate funding, as determined by the Committee, to permit the Committee to perform its duties under this Charter, to compensate its advisors and to compensate any registered public accounting firm engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company. The Committee, at its discretion, has the authority to initiate special investigations and hire special legal, accounting or other outside advisors or experts to assist the Committee, as it deems necessary, in fulfilling its duties under this Charter. The Committee may also perform such other activities consistent with this Charter, the Company’s Bylaws and Applicable Law, as the Committee or the Board deems necessary or appropriate.

#### II. ORGANIZATION AND MEMBERSHIP REQUIREMENTS

The Committee will be comprised of two or more directors, each of whom will satisfy the independence, experience and financial literacy requirements of any Applicable Law.

Each member of the Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. In addition, at least one member shall have past employment experience in finance or accounting, professional certification in accounting, or other comparable experience or background resulting in the individual being

financially sophisticated, which may include being or having been a chief executive, chief financial or other senior officer with financial oversight responsibilities.

If deemed necessary or appropriate from time to time by the Board, at least one member will be an audit committee financial expert as determined by the Board in accordance with the rules and regulations of the SEC.

The members of the Committee will be appointed by the Board and will serve until their successors are duly elected and qualified or their earlier resignation or removal. Any member of the Committee may be removed or replaced by the Board. Unless a chairman is elected by the full Board, the members of the Committee may designate a chairman by majority vote of the full Committee membership.

### **III. MEETINGS**

The Committee will meet as often as it determines, but not less frequently than quarterly or as required by Applicable Law. The Committee may form and delegate authority to subcommittees, or to one or more members of the Committee, when appropriate. The Committee will meet with management and the independent auditor in separate executive sessions, in each case as appropriate. The Committee will meet with the independent auditor and management on a quarterly basis to review the Company's financial statements and financial reports. The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

A majority of the members (or both if there are only two members) will represent a quorum of the Committee, and, if a quorum is present, any action approved by a majority of the members present will represent the valid action of the Committee.

### **IV. COMMITTEE AUTHORITY AND RESPONSIBILITIES**

To fulfill its responsibilities and duties, the Committee will, in each case to the extent required by Applicable Law or otherwise deemed advisable by the Committee:

#### **A. Oversight of the Company's Independent Auditor**

1. Be directly and solely responsible for the appointment, compensation, retention and oversight of any independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) engaged by the Company for the purpose of preparing or issuing an audit report or related work, with each such auditor reporting directly to the Committee.

2. Periodically review and discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as amended.

3. Annually review and discuss any formal written statements received from the independent auditor consistent with and in satisfaction of Independence Standards Board Standard No. 1, as amended, including without limitation, descriptions of (x) all relationships between the auditor and the Company, (y) any disclosed relationships or services that may impact the independent auditor's objectivity and independence, and (z) whether any of the Company's senior finance personnel were recently employed by the independent auditor.

4. Approve in advance the engagement of the independent auditor for all audit services and non-audit services, based on independence, qualifications and, if applicable, performance, and approve the fees and other terms of any such engagement; *provided, however*, that, except as otherwise required by Applicable Law, (i) the Committee may establish pre-approval policies and procedures for any engagement to render such services, provided that such policies and procedures (x) are detailed as to particular services, (y) do not involve delegation to management of the Committee's responsibilities hereunder, and (z) provide that, at its next scheduled meeting, the Committee is informed as to each such service for which the independent auditor is engaged pursuant to such policies and procedures, and (ii) the Committee may delegate to one or more members of the Committee the authority to grant pre-approvals for such services, provided that (a) the decisions of such member(s) to grant any such pre-approvals shall be presented to the Committee at its next scheduled meeting, and (b) the Committee has established policies and procedures for such pre-approval of services consistent with the requirements of subsections (x) and (y) above.

5. Meet with the independent auditor prior to the audit to discuss the planning of the audit.

6. Approve as necessary the termination of the engagement of the independent auditor.

7. Review with the independent auditor any significant difficulties encountered during the course of the audit or otherwise, as appropriate, any restrictions on the scope of work or access to required information and any significant disagreement among management and the independent auditor in connection with the preparation of the financial statements, in each case as reported by the independent auditor. Receive from and review with the independent auditor any accounting adjustments that were noted or proposed by the auditor but that were "passed" (as immaterial or otherwise), any "management" or "internal control" letter or schedule of unadjusted differences issued, or proposed to be issued, by the auditor to the Company, or any other material written communication provided by the auditor to the Company's management.

8. Review with the independent auditor the critical accounting policies and practices used by the Company, all alternative treatments of financial information within generally accepted accounting principles ("**GAAP**") that the independent auditor has discussed with management, and the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.

#### **B. Review of Financial Reporting, Policies and Processes**

1. Review and, to the extent deemed appropriate by the Committee, discuss with management and the independent auditor the Company's annual audited financial statements and any certification, report, opinion or review rendered by the independent auditor.

2. Review and, to the extent deemed appropriate by the Committee, discuss with management and the independent auditor the Company's quarterly financial statements.

3. Review and, to the extent deemed appropriate by the Committee, discuss earnings press releases and other information provided to securities analysts and rating agencies.

4. Periodically meet separately with management and with the independent auditor, as deemed appropriate by the Committee.

5. Review with management on a quarterly basis its assessment of the effectiveness and adequacy of the Company's internal control structure and procedures for financial reporting ("**Internal Controls**"), review annually with the independent auditor any attestation to and report on the assessment made by management, and consider with management and the independent auditor whether any changes to the Internal Controls are appropriate in light of management's assessment or any such independent auditor's attestation.

6. Receive reports from the independent auditor concerning, and review with management to the extent deemed appropriate by the Committee, the effect of regulatory and accounting initiatives on, the financial statements of the Company. Consider and approve, if deemed appropriate by the Committee, changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor or management.

### **C. Risk Management, Related Party Transactions, Legal Compliance, Corporate Governance and Ethics**

1. Review with the chief executive officer and principal financial officer of the Company any report on significant deficiencies in the design or operation of the Internal Controls that could adversely affect the Company's ability to record, process, summarize or report financial data, any material weaknesses in Internal Controls identified to the auditors, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's Internal Controls.

2. As requested by the Board review and approve any related-party transactions.

3. 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. Adopt, as necessary, appropriate remedial measures or actions with respect to such complaints or concerns.

4. Receive from and discuss with management and the independent auditor any correspondence with regulators or governmental agencies that raises material issues regarding the Company's financial statements or accounting policies.

5. Adopt a Code of Conduct and Ethics for the Company's employees, officers and directors, which Code of Conduct and Ethics will meet the requirements of Section 406 of the Sarbanes-Oxley Act and the rules and regulations of the SEC promulgated thereunder, and provide for the prompt review and public disclosure of any change in, or waiver of, such Code of Conduct and Ethics to the extent required by Applicable Law.

6. Review such Code of Conduct and Ethics periodically and recommend such changes to such Code of Conduct and Ethics as the Committee deems appropriate.

7. Review and investigate conduct alleged by the Board, the Company's Compliance Officer, or otherwise, to be in violation of the Company's Code of Conduct and Ethics, and adopt, as necessary or appropriate, remedial, disciplinary, or other measures with respect to such conduct.

8. Adopt procedures for monitoring and enforcing compliance with the Code of Conduct and Ethics.

9. As deemed appropriate by the Committee, review with the Company's legal counsel and report to the Board on material litigation, government investigations and compliance with applicable legal requirements.

10. Prepare the audit committee report required by the rules of the SEC to be included in the Company's annual proxy statement.

11. Develop, in connection with the Nominating and Corporate Governance Committee orientation materials for new directors and corporate governance-related continuing education for all Board members.

12. Report to the Board on the Committee's activities, recommendations and conclusions, as deemed appropriate by the Committee.

13. Review and reassess the Audit Committee Charter's adequacy as deemed appropriate by the Committee and recommend any proposed changes to the Board for approval.