

HIGHLAND HOSPITALITY CORPORATION

AUDIT COMMITTEE CHARTER

Purpose

The primary purpose of the Audit Committee (the “Audit Committee”) of the Board of Directors (the “Board”) of Highland Hospitality Corporation (the “Company”) is to (1) be solely responsible for the appointment, compensation and oversight of the work of the registered public accounting firm employed by the Company to audit its financial statements (the “independent auditor”), (2) approve any audit, audit-related, tax and other services provided by the independent auditor, (3) prepare an audit committee report as required by the Securities and Exchange Commission to be included in the Company’s annual proxy statement, and (4) assist the Board in fulfilling its oversight responsibilities to the Company and its stockholders by overseeing (a) the processes involved in the preparation and review of the financial statements provided to the Board and to investors and the quality and integrity of such financial statements; (b) the Company’s compliance with legal and regulatory requirements; (c) the independent auditor’s qualifications and independence; and (d) the performance of the Company’s internal audit function and the independent auditor.

The Audit Committee’s primary duties and assigned roles are to:

- Serve as an independent and objective body to monitor and assess the Company’s compliance with legal and regulatory requirements, the Company’s financial reporting processes and related internal quality-control procedures and the performance, generally, of the Company’s internal audit function.
- Oversee the audit, audit-related, tax and other services provided by the independent auditor and be directly responsible for the appointment, independence, qualifications, compensation and oversight of the independent auditor, who shall report directly to the Audit Committee.
- Provide an open avenue of communication among the independent auditor, accountants, financial and senior management, the internal auditing department and the Board, and resolve any disagreements between management and the independent auditor regarding financial reporting.

Organization

The Audit Committee shall be composed of three or more members of the Board. All members must be financially literate as reasonably interpreted by the Board and must be “independent.” To be considered “independent,” the member must satisfy, as determined by the Board, the requirements of all applicable laws and regulations relative to the independence of directors and audit committee members, including without limitation the requirements of the Securities and Exchange Commission (the “SEC”) and the New York Stock Exchange. At all times

at least one member of the Audit Committee shall be a “financial expert” within the meaning of Section 407 of the Sarbanes-Oxley Act of 2002 and applicable rules and regulations of the SEC promulgated thereunder, all as in effect from time to time.

The members of the Audit Committee shall be appointed annually by the Board, and the members of the Audit Committee shall appoint one of their number as the Chairman. Any responsibilities of the Audit Committee may be delegated by the Audit Committee to the Chairman or any other member; provided that any delegate shall report any actions taken by him or her to the whole Audit Committee at its next regularly scheduled meeting. If an Audit Committee member simultaneously serves or, upon appointment, would serve on the audit committee of more than three public companies, continued service or appointment is contingent on a Board determination that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee.

Compensation of Members

Compensation for service on the Audit Committee shall be limited to fees and compensation permitted under the Securities Exchange Act of 1934, the rules and regulations of the SEC promulgated thereunder and the rules and regulations of the New York Stock Exchange.

Meetings

The Audit Committee shall meet no less frequently than quarterly, and shall meet more frequently as circumstances dictate. The Chairman shall be responsible for leadership of the Audit Committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting for the Audit Committee to the Board. The Audit Committee may request any officer or employee of the Company or the Company’s internal and outside legal counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee shall have direct access to management, internal staff, the independent auditor and the Company’s internal and outside legal counsel, both at meetings and otherwise.

Responsibilities and Duties

In furtherance of its responsibilities, the Audit Committee believes its policies and procedures should remain flexible to best react to changing conditions and to ensure to the Board and the stockholders that the corporate accounting and reporting practices of the Company are in accordance with all applicable legal and regulatory requirements and are of the highest quality.

In carrying out these responsibilities, the Audit Committee shall:

1. Review this Charter at least annually and update this Charter to the extent the Audit Committee determines it to be necessary or advisable.
2. Have sole authority to (i) retain and terminate the independent auditor, who shall report directly to the Audit Committee, and (ii) approve all audit engagement fees and terms and any audit, audit-related, tax or other services (to the extent permitted under applicable law)

with the independent auditor. Following its creation, the Audit Committee shall, to the extent not previously approved by the full Board, approve in advance, in accordance with a pre-approval policy if any is approved by the full Board or the Audit Committee, the provision by the independent auditor of all services to be performed by the independent auditor. The Company shall provide for appropriate funding, as determined by the Audit Committee, in its capacity as a committee of the Board, for payment of: (i) compensation to the independent auditor retained by the Company for the purpose of preparing or issuing an audit report or performing audit review or attest services for the Company, (ii) compensation to any independent counsel or external advisors employed by the Audit Committee; and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

3. Take appropriate action to oversee the independence of the independent auditor, including:
 - (a) reviewing the experience and qualifications of the senior members of the independent auditor team; evaluating the qualifications, performance and independence of the independent auditor, including the review and evaluation of the lead partner of the independent auditor, and whether the auditor's quality controls are adequate and the provision of non-audit services is in compliance with applicable law and compatible with maintaining the auditor's independence, taking into account the opinions of management and the internal auditor; and presenting its conclusions to the full Board and, if so determined by the Audit Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the independent auditor.
 - (b) periodically reviewing any transactional or other relationships between the Company and the independent auditor.
 - (c) ensuring its receipt at least annually from the independent auditor, and reviewing, a formal written report from the independent auditor delineating (i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control reviews, or by peer reviews, of the independent auditor, or any inquiry or investigation by any governmental or professional authorities, within the preceding five years, respecting any one or more audits conducted by the independent auditor, and any steps taken to deal with any such issues, and (iii) (to assess the auditor's independence) all relationships between the independent auditor and the Company. The Audit Committee shall also review steps taken by the independent auditor to address any findings in any of the foregoing reviews.
 - (d) actively engaging in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor.

- (e) taking appropriate action or recommending to the Board such appropriate action, as necessary, on any disclosed relationships to satisfy itself of the independent auditor's independence.
 - (f) complying with all relevant laws and regulations relative to the independence of the independent auditor, including but not limited to (i) rotation of independent auditor or outside audit personnel and (ii) the performance of services by an outside audit firm when a former employee of that firm currently serves as chief executive officer, chief financial officer, chief accounting officer or equivalent officer of the Company.
 - (g) establishing clear hiring policies relating to the retention by the Company of employees or former employees of the independent auditor.
4. Meet with management, the internal auditor and the independent auditor in separate executive sessions at least quarterly.
5. Review with management and the independent auditor (and where appropriate the internal auditor) at the completion of the annual and each quarterly examination:
- (a) the Company's annual audited and quarterly financial statements, including the Company's disclosures made under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and, in the case of quarterly financial statements, the results of the independent auditor's reviews of the quarterly financial statements;
 - (b) analyses prepared by management and/or the independent auditor setting forth the significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
 - (c) the effect of regulatory and accounting initiatives on the financial statements of the Company;
 - (d) any significant changes required in the independent auditor's audit plan;
 - (e) any material correcting adjustments that have been identified by the independent auditor in accordance with generally accepted accounting principles and applicable laws, rules and regulations;
 - (f) any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses;

- (g) their assessments of the adequacy of the Company's internal control structure and procedures of the Company for financial reporting and the resolution of any identified material weaknesses in such internal control structure and procedures; and
 - (h) other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards, including under Statement on Auditing Standards No. 61, Communications with Audit Committees.
- 6. Review with the independent auditor any audit problems or difficulties the auditor encountered in the course of the audit work, including (i) any restrictions on the scope of the independent auditor's activities or on access to requested information and (ii) any significant disagreements with management. The Audit Committee shall have sole authority to resolve any disagreements between management and the independent auditor.
- 7. Review with the independent auditor their plans for, and the scope of, their annual audit for the current year and other examinations of the Company's financial information and the audit procedures to be utilized.
- 8. Consider the independent auditor's reports and judgments brought to the attention of the Audit Committee about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting, significant accounting policies, audit conclusions regarding the reasonableness of significant accounting estimates and any audit adjustments. Also, the Audit Committee shall review and consider information received from the independent auditor regarding all critical accounting policies and practices to be used by the Company, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, ramifications of the use of such alternative disclosures and treatments, the treatment preferred by the independent auditor, and other material written communications between the independent auditor and management, including any management letter or schedule of unadjusted differences.
- 9. Review and discuss the Company's earnings press releases and financial information and earnings guidance provided to analysts and rating agencies, though this may be done generally (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and the Audit Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
- 10. Inquire of management, other internal staff, and/or the independent auditor about significant risks or exposures, the Company's processes for identifying and assessing such risks and exposures and the steps management has taken to minimize such risks and exposures to the Company. Also, review and assess the Company's guidelines and policies that govern the processes for identifying and assessing significant risks or exposures and for formulating and implementing steps to minimize such risks and exposures to the Company.
- 11. Establish and maintain an internal audit department of the Company to provide management and the Audit Committee with ongoing assessments of the Company's risk management processes and internal quality-control procedures. The Audit Committee may choose to

outsource this function to a third-party service provider (other than the independent auditor). The Audit Committee shall review the performance of the internal auditor, including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the independent auditor. The Audit Committee shall receive as necessary notification of material adverse findings from internal audits and a progress report on the proposed internal audit plan, as appropriate, with explanations for changes from the original plan.

12. Review compliance with the Company's Code of Business Conduct and Ethics annually. The Audit Committee shall review with the Company's counsel legal and regulatory matters brought to the attention of the Audit Committee that may have a material impact on the financial statements or compliance policies. The Audit Committee shall respond appropriately to any matters reported to the Audit Committee by counsel, including adopting, as necessary, appropriate remedial measures or sanctions, or recommending such action to the Board. To the extent required by applicable laws or regulations, the Company shall disclose, by means of the filing of an applicable SEC reporting form, dissemination by the Internet or by other electronic means, any waiver of or change in the Code of Business Conduct and Ethics for senior executive or financial officers.
13. Review the procedures established in the Code of Business Conduct and Ethics for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
14. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
15. Report regularly to the full Board and review any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the independent auditor, or the performance of the internal audit function.
16. Evaluate annually the performance of the Audit Committee, including a review of (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies, (ii) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements, (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company, and (iv) earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

17. Conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities.
18. Obtain, at such times and on such terms as the Audit Committee determines in its sole discretion and at the Company's expense, advice and assistance from outside legal, accounting and other advisors as it determines necessary to carry out its duties.
19. Perform such other functions as may be required by applicable laws, rules and regulations and the Company's Articles of Incorporation or Bylaws, or by the Board.

Limitation of Audit Committee's Role

The independent auditor and the internal auditing department are or shall be ultimately accountable to the Audit Committee, in its capacity as a committee of the Board, and to the full Board. While the Audit Committee has the oversight, supervisory and other powers and responsibilities set forth in this Charter, it is not the responsibility of the Audit Committee to plan or conduct audits, to implement internal controls, or to determine or certify that the Company's financial statements are complete and accurate or are in compliance with generally accepted accounting principles. These matters and tasks are the responsibility of the Company's management, internal auditor and the independent auditor. Likewise, it is the responsibility of the Company's management and/or the independent auditor to bring appropriate matters to the attention of the Audit Committee, and to keep the Audit Committee informed of matters which the Company's management or the independent auditor believe require attention, guidance, resolution or other actions, the bases therefore and other relevant considerations. While it is not the duty of the Audit Committee to conduct investigations or to assure compliance with applicable laws, rules and regulations, the Audit Committee may take such actions with respect to such matters, as it deems necessary or advisable in fulfilling its duties identified above.

To the fullest extent permissible under applicable law, each member of the Audit Committee is entitled to rely in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Audit Committee by any of the Company's officers, employees, or committees, the independent auditor, the internal auditing department or any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company.

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It is acknowledged that all of the above listed tasks and focus areas may not be relevant to all of the matters and tasks that the Audit Committee may consider and act upon from time to time, and the members of the Audit Committee in their judgment may determine the relevance thereof and the attention such items shall receive in any particular context.

Adopted by the Board of Directors on January 23, 2004.