

HIGHLAND HOSPITALITY CORPORATION
PRINCIPLES OF CORPORATE GOVERNANCE

1. Director Qualifications

The Board of Directors (the “**Board**”) of Highland Hospitality Corporation (the “**Company**”) shall have a majority of directors who meet the criteria for independence required by the New York Stock Exchange (“**NYSE**”), as required under the rules of the NYSE.

The Nominating and Corporate Governance Committee of the Board is responsible for reviewing with the Board, on an annual basis, the skills and characteristics required of Board members in the context of the current make-up of the Board. The Board has delegated to the Nominating and Corporate Governance Committee the power, authority, duties and responsibilities to recommend to the Board the director nominees for election at the next annual meeting or any special meeting of stockholders and any person to be considered to fill a Board vacancy or a newly created directorship resulting from any increase in the authorized number of directors. The Board itself, however, is ultimately responsible for selecting its own members and in recommending them for election by the stockholders.

2. Director Independence

A majority of directors shall be independent of management, as determined by the Board, under the criteria set forth by the NYSE. No director shall qualify as independent unless the Board shall have affirmatively determined that the director has no *material* relationship with the Company or Highland Hospitality, L.P., the Company’s operating partnership (the “**Operating Partnership**”). In making this determination, the Board shall apply the following standards:

(a) The Board shall not consider a director independent if either the director, or any immediate family member of the director, has:

(1) been employed in any capacity by or, in the case of an immediate family member, been employed as an executive officer of, the Company or the Operating Partnership in any of the past three years;

(2) received more than \$100,000 per year in direct compensation from the Company or the Operating Partnership, other than for director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) in any of the past three years;

(3) been affiliated with or employed by, or, in the case of an immediate family member, been affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company or the Operating Partnership in any of the past three years;

(4) been employed as an executive officer of another company where any of the Company’s present executives serve on such other company’s compensation committee in any of the past three years;

(5) been an executive officer or employee of or, in the case of an immediate family member, an executive officer of, another company that makes payments to, or receives payments from, the Company or the Operating Partnership for property or services in an amount which, in any single

fiscal year, exceeds the greater of \$1,000,000 or 2% of such other company's consolidated gross revenues in any of the past three years; and

(6) served (in the case of the director only) as an executive officer of a charitable organization to which the contributions by the Company or the Operating Partnership in any single fiscal year exceeded the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues in any of the past three fiscal years.

(b) The Board shall also review all other commercial or charitable relationships between the Company or the Operating Partnership and a director (or an immediate family member of the director), a related entity, or any other entity in which such related entity possesses a 10% or greater equity or voting interest or otherwise controls such other entity. Relationships made in the ordinary course of business and on substantially the same terms as those for comparable transactions with other business partners of the Company shall be deemed not to be material.

3. Director Responsibilities

The basic responsibilities of the directors are to exercise their business judgment to act in a manner which they reasonably believe to be in the best interests of the Company and its stockholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors. The directors shall also be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the Articles of Incorporation of the Company, the Bylaws of the Company and any indemnification agreements to which such director and the Company are parties, and to exculpation as provided by the laws of the State of Maryland and the Articles of Incorporation of the Company.

4. Director Orientation and Continuing Education

The Company's management shall provide information to new directors to enable them to familiarize new directors with the Company's strategic plans, its significant financial, accounting, legal and risk management issues, its regulatory compliance programs, including those programs established to help the Company maintain its qualification as a REIT under the Internal Revenue Code, its Code of Business Conduct and Ethics, its investment and other significant operating policies, its principal officers, and its independent and internal auditors. All other directors are also invited and encouraged to attend director continuing education or training programs and may be reimbursed for the costs of participation in such programs in accordance with Company policies. The Company shall also periodically provide materials, briefings and continuing educational opportunities for all directors on subjects that would assist them in discharging their duties.

5. Executive Sessions of Non-Management Directors

The non-management directors shall meet in regularly scheduled executive sessions without management. So long as the Chairman of the Board is not an employee of the Company, the Chairman shall preside at these sessions. If at any time the Chairman of the Board is a Company employee, the Board shall designate, and publicly disclose the name of, another director who shall preside at those sessions. Additionally, the Board shall hold at least one annual executive session to be attended by only those directors who have been determined to be independent of management under the rules of the NYSE and the objective standards set by Section 2 of these Principles. The chairman of the Nominating and Corporate Governance Committee shall preside at this meeting of independent directors. Interested parties may communicate their concerns directly with either the Chairman or such other presiding director or the

non-management or independent directors as a group by writing to either the Chairman, the Presiding Director (if other than the Chairman), the Non-Management Directors or the Independent Directors, c/o Highland Hospitality Corporation, 8405 Greensboro Drive, Suite 500, McLean, VA 22102.

6. Service on Other Boards

Independent directors are encouraged to limit the number of other boards (excluding non-profit boards) on which they serve, taking into account potential board meeting attendance, participation and effectiveness on these boards. Independent directors shall also advise the Chairman of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on another board.

7. Retirement Age

It is the sense of the Board that a director must retire on or before the first annual meeting following his or her 70th birthday, although the Nominating and Corporate Governance Committee may for good reason propose the nomination of such a director at or beyond that age.

8. Board Compensation

Director compensation should be geared toward attracting and retaining a superior board. Directors should be motivated through appropriate and competitive incentives to focus on continuing to achieve value for the Company's stockholders. The Compensation Policy Committee of the Board is responsible for reviewing and making recommendations to the Board with respect to the compensation of directors. Changes in Board compensation, if any, should come at the recommendation of the Compensation Policy Committee, but with full discussion and approval by the Board.

Non-employee directors shall be reimbursed for expenses incurred in attending meetings of the Board or any committee thereof. No Audit Committee member can accept any consulting, advisory, or other compensatory fee from the Company. Director's fees are the only compensation an Audit Committee member may receive from the Company.

9. Board's Interaction with Institutional Investors, Press, Etc.

The Board believes that management speaks for the Company. Individual directors may, from time to time, at the request of management, meet or otherwise communicate with various constituencies that are involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the Chairman.

10. Board Access to Senior Management

Board members have complete access to the Company's management and the Company's outside financial accounting and legal advisors as necessary or desirable. Board members shall take into account the importance of ensuring that this contact is not distracting to the business operation of the Company and that such contact, if in writing, be copied to the Chairman, as appropriate.

11. Attendance at Meetings

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

12. Selection of Agenda Items for Board Meetings

The Chairman shall establish the agenda for each Board meeting. At the beginning of the year the Chairman shall establish a schedule of agenda subjects to be discussed during the year (to the extent such subjects can be reasonably foreseen). Each Board member is free and encouraged to suggest the inclusion of items on the agenda.

13. Board Committees

The Board shall have at all times an Audit Committee, a Compensation Policy Committee and a Nominating and Corporate Governance Committee. Committee members shall be appointed by the Board upon recommendation of the Nominating and Corporate Governance Committee, consistent with its charter.

The chairman of each committee, in consultation with the committee members, shall determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter and as circumstances may require. The chairman of each committee and a majority of the committee members each have the right to call a special meeting of the committee.

The chairman of each committee, in consultation with the appropriate members of the committee and management, shall develop the committee's agenda. At the beginning of the year each committee shall establish a schedule of agenda subjects to be discussed during the year (to the extent such subjects can be reasonably foreseen). The schedule for each committee shall be furnished to all directors.

The Board may, from time to time, form additional committees as deemed necessary or advisable in accordance with Maryland law and the Company's Bylaws.

14. Committee Charters

Each of the Audit Committee, Compensation Policy Committee and Nominating and Corporate Governance Committee shall have its own charter designed to meet the NYSE listing standards. The charters shall set forth the purposes, membership, powers, authority, duties and responsibilities of the committees, as well as certain qualifications for committee membership. The charters shall also provide that each committee shall annually evaluate its performance and include such other provisions as may be required by applicable law or regulation. The Company shall make the charters available on its website.

15. Succession Planning

The Board shall approve and maintain a succession plan in the event of an emergency or the retirement of the Chief Executive Officer, based upon recommendations from the Nominating and Corporate Governance Committee.

16. Assessing the Board's Performance

The Board shall annually review its own performance to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee shall receive comments from all directors and report annually to the Board on an assessment of the Board's and its committees' performance. The report of the Nominating and Corporate Governance Committee shall be discussed with the Board following the end of each fiscal year. The assessment shall focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board's role and effectiveness, or those of particular committees, could improve.

17. Conflicts of Interest

From time-to-time, the Board will be asked to consider transactions, agreements or relationships between the Company and one of its directors or between the Company and any other corporation, firm, or other entity in which any of its directors is a director, an executive officer, or has a material financial interest, whether direct or indirect (each, an “**Interested Director**”). The Interested Director must disclose such conflict to the Board prior to consideration by the Board of the transaction, agreement or relationship. An Interested Director may participate at the meeting of the Board at which the authorization, approval or ratification of the proposed transaction, agreement or relationship is considered, however, the Board may only authorize, approve or ratify the proposed Interested Director transaction, agreement or relationship by the affirmative vote of a majority of disinterested directors, even if the disinterested directors constitute less than a quorum. If any disinterested director believes that the discussion of the proposed Interested Director transaction, agreement or relationship would be enhanced by further discussion outside the presence of the Interested Director or Interested Directors, that director can make a motion, which, if seconded, will allow the Board to table the discussion among the full Board pending further discussion among the disinterested directors of the proposed transaction, agreement or relationship at an executive session of disinterested directors, which may be held immediately thereafter.

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