

**CHARTER
OF THE
AUDIT COMMITTEE
OF
THE BOARD OF DIRECTORS
OF
SOTHERLY HOTELS INC.
("SOTHERLY" OR THE "CORPORATION")**

PURPOSE

The primary purposes of the Audit Committee (the "Audit Committee") are to oversee the following on behalf of Sotherly's board of directors (the "Board"):

- the Corporation's accounting and financial reporting processes and the integrity of its financial statements;
- the audits of the Corporation's financial statements and the appointment, compensation, qualifications, independence and performance of the Corporation's independent auditors;
- the Corporation's compliance with legal and regulatory requirements; and
- the performance of the Corporation's internal audit function and internal control over financial reporting.

The Audit Committee also has the purpose of preparing the Audit Committee report that Securities and Exchange Commission ("SEC") rules require the Corporation to include in its annual proxy statement.

The Audit Committee's function is one of oversight only and does not relieve Sotherly management of its responsibilities for preparing financial statements that accurately and fairly present the Corporation's financial results and condition, nor the independent auditors of their responsibilities relating to the audit or review of Corporation financial statements.

ORGANIZATION

Number of members. The Audit Committee must consist of at least three (3) independent directors. The Board may designate an Audit Committee member as the chairperson of the Audit Committee, or if the Board does not do so, the Audit Committee members will appoint an Audit Committee member as chairperson by a majority vote of the authorized number of Audit Committee members.

Independence. All Audit Committee members must have been determined by the Board to be independent, as defined and to the extent required in the applicable SEC rules and NASDAQ® Stock Market listing standards, as they may be amended from time to time, or such other listing standards then applicable to the Corporation (the "Listing Standards").

Financial literacy and Audit Committee financial expert. Each Audit Committee member must be financially literate upon appointment to the Audit Committee, as determined by the Board in accordance with the Listing Standards. At all times, there should be at least one (1) Audit Committee member who, as determined by the Board, is an Audit Committee financial expert as defined in the SEC rules.

Appointment. Subject to any requirements of the Listing Standards, the Board may appoint and remove Audit Committee members in accordance with the Corporation's bylaws. Audit Committee members will serve for such terms as the Board may fix, and in any case at the Board's will, whether or not a specific term is fixed.

Service on other audit committees. The Corporation does not limit the number of public company audit committees on which an Audit Committee member may serve, but if a member does serve on more than two (2) other public company audit committees, the Board must have determined that this simultaneous service would not impair the member's ability to serve on the Corporation's Audit Committee, and the Corporation must disclose this determination in its proxy statement for its annual meeting.

INDEPENDENT AUDITORS AND THEIR SERVICES

Overall authority. The Audit Committee has the sole authority and direct responsibility for the appointment, compensation, retention, termination, evaluation and oversight of the work of the independent auditors engaged by the Corporation for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Corporation. The independent auditors report directly to the Audit Committee. The Audit Committee's authority includes resolution of disagreements between Sotherly management and the independent auditors regarding financial reporting and the receipt of communications from such auditors as may be required under professional standards applicable to independent auditors.

Terms of audit and non-audit engagements. The Audit Committee must pre-approve all audit, review, attest and permissible non-audit services (including any permissible internal control-related services) to be provided to the Corporation or its subsidiaries by the independent auditors. The Audit Committee may establish pre-approval policies and procedures in compliance with applicable SEC rules.

ANNUAL FINANCIAL REPORTING

As often and to the extent the Audit Committee deems necessary or appropriate, but at least annually in connection with the audit of each fiscal year's financial statements, the Audit Committee will:

1. *Discuss financial statements and internal control reports with Sotherly management.* Review and discuss with appropriate members of Sotherly management and, if appropriate, representatives of the independent auditors or internal auditors:
 - the Corporation's audited financial statements;
 - related accounting and auditing principles and practices; and
 - Sotherly management's assessment of internal control over financial reporting and the related report and attestation on internal control over financial reporting to be included in the Corporation's annual report on Form 10-K (as and when these reports are required under SEC rules).
2. *Critical accounting policy report.* Timely request and receive from the independent auditors (before the filing of any audit report) the report or update required pursuant to applicable SEC rules, concerning:
 - all critical accounting policies and practices to be used;
 - all alternative treatments within generally accepted accounting principles for policies and practices relating to material items that have been discussed with Sotherly management, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors; and
 - other material written communications between the independent auditors and Sotherly management, such as any management letter or schedule of unadjusted differences.
3. *SAS 61 review.* Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, including such matters as:
 - the quality and acceptability of the accounting principles applied in the financial statements;
 - new or changed accounting policies, the effect of regulatory and accounting initiatives and significant estimates, judgments, uncertainties or unusual transactions;

- the selection, application and effects of critical accounting policies and estimates applied by the Corporation;
 - issues raised by any “management” or “internal control” letter from the auditors, problems or difficulties encountered in the audit (including any restrictions on the scope of the work or on access to requested information) and Sotherly management’s response to such problems or difficulties, significant disagreements with Sotherly management or other significant aspects of the audit; and
 - any off-balance sheet transactions, and relationships with any unconsolidated entities or any other persons, which may have a material current or future effect on the financial condition or results of the Corporation and are required to be reported under SEC rules.
4. *MD&A.* Review with appropriate members of Sotherly management and the independent auditors the intended disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to be included in the Corporation’s annual report on Form 10-K.
 5. *ISB 1 disclosure.* Receive from the independent auditors a formal written statement of all relationships between the independent auditors and the Corporation consistent with Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.
 6. *Auditor independence.* Actively discuss with the independent auditors any disclosed relationships or services that may impact their objectivity and independence, and take any other appropriate action to oversee their independence.
 7. *Material issues.* To the extent the Audit Committee deems necessary or appropriate, discuss with the independent auditors material issues on which the Corporation’s audit team consulted the independent auditors’ national office.
 8. *Recommend filing of audited financial statements.* Recommend to the Board whether the Corporation’s annual report on Form 10-K to be filed with the SEC should include the audited financial statements.

QUARTERLY FINANCIAL REPORTING

The Audit Committee’s quarterly review will normally include:

1. *Quarterly review.* Review and discuss the quarterly financial statements of the Corporation and the results of the independent auditors’ review of these financial statements with appropriate members of Sotherly management and the independent auditors.
2. *Discussion of significant matters with Sotherly management.* Review and discuss with Sotherly management and, if appropriate, the independent auditors, significant matters relating to:
 - the quality and acceptability of the accounting principles applied in the Corporation’s financial statements;
 - new or changed accounting policies, and significant estimates, judgments, uncertainties or unusual transactions;
 - the selection, application and effects of critical accounting policies and estimates applied by the Corporation; and
 - any off-balance sheet transactions and relationships with any unconsolidated entities or any other persons that may have a material current or future effect on the financial condition or results of the Corporation and are required to be reported under SEC rules.
3. *MD&A.* Review and discuss the Corporation’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to be included in the Corporation’s quarterly report on Form 10-Q or the Corporation’s annual report on Form 10-K with appropriate members of Sotherly management and the independent auditors.

OTHER FUNCTIONS

Annual review of the Charter. The Audit Committee will review and assess the adequacy of its charter (the “Charter”) annually and recommend any proposed changes to the full Board.

Annual review of performance. The Audit Committee will evaluate its performance as the Audit Committee on an annual basis.

Earnings releases and other financial guidance. The Audit Committee will discuss with Sotherly management earnings press releases and other published financial information or guidance provided to analysts and rating agencies. This may be conducted generally as to types of information and presentations, and need not include advance review of each release, other information or guidance.

Compliance. The Audit Committee, to the extent it deems necessary or appropriate, will periodically review with Sotherly management the Corporation’s disclosure controls and procedures, internal control over financial reporting and systems and procedures to promote compliance with laws.

Risk assessment. The Audit Committee will at least quarterly and as it deems necessary:

- inquire of Sotherly management, the members of the internal audit department and the independent auditors about the Corporation’s major financial risks or exposures;
- discuss the steps Sotherly management has taken to monitor and control such exposures; and
- discuss Corporation guidelines and policies with respect to risk assessment and risk management.

Conduct codes. The Audit Committee will conduct any activities relating to the Corporation’s code(s) of conduct and ethics as may be delegated from time to time to the Audit Committee by the Board.

Complaints and anonymous submissions. The Audit Committee will establish and maintain procedures for:

- the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
- the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

If the Audit Committee or the Board so determines, the submission procedures may also include a method for interested parties to communicate directly with the Board’s presiding director or with the non-management directors as a group.

Related party transactions. It is the Corporation’s policy that the Corporation will not enter into transactions required to be disclosed under item 404 of the SEC’s Regulation S-K or any other related party transactions unless the Audit Committee or another independent body of the Board first reviews and approves the transactions.

Internal control over financial reporting. The Audit Committee will periodically discuss and review, as appropriate, with the internal auditor, Sotherly management and the independent auditors:

- the design and effectiveness of the Corporation’s internal control over financial reporting; and
- any significant deficiencies or material weaknesses in that internal control, any change that has materially affected or is reasonably likely to materially affect that internal control (including special steps adopted in light of such a deficiency or weakness) and any fraud (whether or not material) that involves Sotherly management or other Corporation employees who have a significant role in that internal control, that have been reported to the Audit Committee.

Reports from legal counsel. The Audit Committee will review and take appropriate action with respect to any reports to the Audit Committee from legal counsel for the Corporation concerning any material violation of securities law or breach of fiduciary duty or similar violation by the Corporation, its subsidiaries or any person acting on their behalf.

Other reviews and functions. The Audit Committee, as it may deem appropriate, may consider and review with the full Board, Sotherly management, internal or outside legal counsel, the independent auditors or any other appropriate person any other topics relating to the purposes of the Audit Committee that may come to the Audit Committee's attention. The Audit Committee may perform any other activities consistent with the Charter, the Corporation's corporate governance documents and applicable Listing Standards, laws and regulations as the Audit Committee or the Board considers appropriate.

MEETINGS, REPORTS AND RESOURCES

Meetings. The Audit Committee will meet as often as it determines is necessary, but not less than quarterly. The Audit Committee may also act by unanimous written consent in lieu of a meeting. The Audit Committee may meet by telephone conference or by any other means permitted under Maryland law. The Audit Committee will meet separately and periodically with Sotherly management (including the chief financial officer and chief accounting officer), internal auditors (or other personnel responsible for the internal audit function) and independent auditors. To the extent the Audit Committee deems necessary or appropriate, it will also discuss with the Corporation's General Counsel or Compliance Officer any legal matters that may materially impact the Corporation's financial statements, internal control over financial reporting or compliance policies. In addition, the Audit Committee may meet from time to time with any other persons, as it deems necessary or appropriate.

Procedures. The Audit Committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with the Charter, the Corporation's bylaws and other corporate governance documents, applicable laws or regulations or the Listing Standards. The chairperson or a majority of the Audit Committee members may call meetings of the Audit Committee. A majority of the authorized number of Audit Committee members constitutes a quorum for the transaction of Audit Committee business, and the vote of a majority of the Audit Committee members present at a meeting at which a quorum is present will be the act of the Audit Committee, unless in either case a greater number is required by the Charter, the Corporation's bylaws or any applicable Listing Standards. The Audit Committee will keep written minutes of its meetings and deliver copies of the minutes to the corporate secretary for inclusion in the corporate records.

Reports. The Audit Committee will timely prepare the Audit Committee report required to be included in the Corporation's annual meeting proxy statement, and report to the Board on the other matters relating to the Audit Committee or its purposes, as required by the Listing Standards or SEC rules. The Audit Committee will also report to the Board annually the overall results of its annual review of the independent auditors' qualifications, performance and independence and the annual review by the Audit Committee of its own performance. The Audit Committee also will report to the Board on the major items covered by the Audit Committee at each Audit Committee meeting, and provide additional reports to the Board as the Audit Committee may determine to be appropriate, including review with the full Board of any issues that arise from time to time with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the independent auditors or the performance of the internal audit function.

Audit Committee access and investigations. The Audit Committee is at all times authorized to have direct, independent and confidential access to the independent auditors and to the Corporation's other directors, Sotherly management and personnel to carry out the Audit Committee's purposes. The Audit Committee is authorized to conduct or authorize investigations into any matters relating to the purposes, duties or responsibilities of the Audit Committee.

Audit Committee advisers and funding. As the Audit Committee deems necessary to carry out its duties, it is authorized to select, engage (including approval of the fees and terms of engagement), oversee, terminate and obtain advice and assistance from outside independent legal, accounting or other advisers or consultants. The Corporation will provide for appropriate funding, as determined by the Audit Committee, for payment of:

- compensation to the independent auditors for their audit and audit-related, review and attest services;
- compensation to any advisers engaged by the Audit Committee; and
- ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Reliance on others. Nothing in the Charter is intended to preclude or impair the protection provided in Section 2-405.1(c) of the Maryland General Corporation Law for good faith reliance by members of the Audit Committee on reports or other information provided by others.