

CAPITALA FINANCE CORP.

AUDIT COMMITTEE CHARTER

The Board of Directors (the “**Board**”) of Capitala Finance Corp. (the “**Company**”) has determined that the Audit Committee of the Board (the “**Committee**”) shall assist the Board in fulfilling certain of the Board’s oversight responsibilities. The Board hereby adopts this Audit Committee Charter (this “**Charter**”) to establish the governing principles of the Committee.

SECTION I. PURPOSE

The primary function of the Committee is to serve as an independent and objective party to assist the Board in fulfilling its oversight responsibilities for the Company’s accounting and reporting processes, valuation policy and the audits of its financial statements by overseeing and monitoring:

- 1) The quality and integrity of financial reports and other financial information provided by the Company to governmental bodies or the public and the independent audit thereof;
- 2) The Company’s system of internal controls regarding finance, accounting and regulatory compliance;
- 3) The material aspects of the Company’s accounting and financial reporting process generally;
- 4) The independence, qualifications and performance of the Company’s independent registered public accounting firm (“**independent accountants**”), including the lead audit partner;
- 5) The compliance by the Company with legal and regulatory requirements; and
- 6) The performance of the Company’s internal audit function.

The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section V of this Charter.

SECTION II. SCOPE

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate or are in accordance with generally accepted accounting principles (“**GAAP**”). The responsibility to plan and conduct audits is that of the Company’s independent accountants. In fulfilling this responsibility, the independent accountants are ultimately accountable to the Board and the Committee. The Company’s management has the responsibility to determine that the Company’s financial statements are complete and accurate and in accordance with GAAP. It is also not the duty of the Committee to assure the Company’s

compliance with laws and regulations or compliance with the Company's Code of Business Conduct, Code of Ethics and Statement on Prohibition of Insider Trading. The primary responsibility for these matters also rests with the Company's management.

In order to fulfill its oversight responsibility, the Committee must be capable of conducting free and open discussions with management, the independent accountants, internal auditors, employees and others regarding the quality of the financial statements and the system of internal controls.

SECTION III. MEMBERSHIP REQUIREMENTS

The Committee shall be comprised of three (3) directors, each of whom:

- 1) Shall not be "interested persons" of the Company, as defined in the Investment Company Act of 1940, as amended (the "*1940 Act*"), and shall be "independent" as defined under applicable NASDAQ rules, and free from any material relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee;
- 2) Shall be or shall become (within a reasonable period of time after his or her appointment) "financially literate," as such qualification is interpreted by the Board; and
- 3) Shall have a basic understanding of finance and accounting practices and shall be able to read and understand financial statements. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

The members of the Committee shall meet the requirements of all applicable laws, rules or regulations, in each case, when, as and to the extent applicable to the Company. In addition, at least one member of the Committee shall have accounting or related financial management experience.

The members of the Committee shall be elected by the Board annually or until their successors shall be duly elected and qualified. Unless a Chairman is elected by the Board, the members of the Committee may designate a Chairman by majority vote of the full Committee membership. The compensation, if any, of the Committee members shall be as determined by the Board.

SECTION IV. MEETINGS

The Committee shall meet at least four times each year, or more frequently as circumstances require. The Chairman of the Committee may call a Committee meeting whenever deemed necessary and shall be responsible for meeting with the independent accountants at their request to discuss the Company's interim financial results. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent

accountants to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company, and the Committee shall report all of its actions to the Board at its next meeting following such actions.

SECTION V. RESPONSIBILITY AND DUTIES

1) General Responsibilities

To carry out its purposes, the responsibilities of the Committee shall be as follows:

- i. Maintain open communications with the independent accountants, internal auditors, executive management and the Board;
- ii. Meet separately, from time to time, with management and the independent accountants to discuss matters warranting attention by the Committee;
- iii. Regularly report Committee actions to the Board and make recommendations as the Committee deems appropriate;
- iv. Review the financial results presented in all reports filed with the Securities and Exchange Commission (“*SEC*”);
- v. Review the valuation of the Company’s assets for compliance with the Company’s Valuation Policy;
- vi. Review reports issued by regulatory examinations and consider the results of those reviews to determine if any findings could have a material effect on the Company’s financial statements;
- vii. Discuss the Company’s disclosure, oversight of and conformity with the Company’s Code of Business Conduct and Code of Ethics, and matters that may have a material effect on the Company’s financial statements, operations, compliance policies and programs;
- viii. Review and reassess the adequacy of the Committee’s Charter at least annually and recommend any changes to the full Board; and
- ix. Take other actions required of the Committee by law, applicable regulations, or as requested by the Board.

In discharging its duties hereunder, the Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent accountants for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee, and for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

2) *Responsibilities Regarding the Engagement of the Independent Accountants*

- i. The Committee shall have the sole authority to appoint or replace the independent accountants (subject, if applicable, to stockholder ratification). The Committee shall be directly responsible for the compensation and oversight of the independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent accountants shall report directly to the Committee.
- ii. Ensure the independence of the independent accountants by:
 - (a) Having the independent accountants deliver to the Committee at least annually a formal written statement delineating all relationships between the independent accountants and the Company and addressing at least the matters set forth in the Public Company Accounting Oversight Board's Rule No. 3526; actively engaging in dialogue with the independent accountants about any relationships or services disclosed in such statement that may impact the objectivity and independence of the independent accountants.
 - (b) Pre-approving all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Company by its independent accountants. See the Policy on Pre-Approval of Audit and Non-Audit Services set forth in Annex A. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

- (c) Ensuring the rotation of the lead (or coordinating) audit partner (or, if required by the rules and regulations of the SEC, other employees of the independent accountants) having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
 - (d) Overseeing compliance with the guidelines set forth in Annex B relating to the Company's hiring of employees or former employees of the independent accountants who participated in any capacity in the audit of the Company.
- iii. At least annually, obtain and review a report by the independent accountants describing: the firm's internal control procedures; any material issues raised by the most recent internal quality control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and all relationships between the independent accountants and the Company to assess the independence of the independent accountants.
- iv. The Committee shall review and present its conclusions regarding the independent accountants' qualifications, performance and, if applicable, its conclusions regarding the rotation of the independent accountants to the Board at least annually.

3) *Responsibilities for Reviewing the Annual External Audit, the Financial Statements and the Company's Risk Assessment Practices*

The Committee will:

- i. Request the independent accountants to confirm that they are accountable to the Committee and that they will provide the Committee with timely analyses of significant financial reporting and internal control issues.
- ii. Review with management significant risks and exposures identified by management and management's steps to minimize them.
- iii. Review the scope of the external audit with the independent accountants.

- iv. Review with management and the independent accountants, as appropriate:
 - (a) The Company's system of internal controls, including computerized information system controls and security;
 - (b) The Company's significant accounting policies;
 - (c) The Company's annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," before they are made public;
 - (d) All alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants;
 - (e) Material written communications between the independent accountants and management, such as any management letter or schedule of unadjusted differences; and
 - (f) The Company's earnings press releases.
- v. After the completion of the annual audit examination, or as needed throughout the year, discuss with management and the independent accountants.
- vi. Review the Company's annual financial statements and related footnotes, including any adjustments to such statements recommended by the independent accountants.
- vii. Review any significant findings and recommendations made by the independent accountants with respect to the Company's financial policies, procedures and internal accounting controls together with management's responses thereto.
- viii. Review the qualitative judgments about the appropriateness and acceptability of accounting principles, financial disclosures and underlying estimates.

- ix. Review any significant difficulties or problems with management encountered during the course of the audit.
- x. Review any other matters about the audit procedures or findings that GAAP requires the auditors to discuss with the Committee.
- xi. Review the form of opinion the independent accountants propose to render to the Board and the Committee and stockholders.
- xii. Review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls over financial reporting or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls over financial reporting.
- xiii. Recommend to the Board whether to include the audited financial statements in the Company's Form 10-K.
- xiv. Issue for public disclosure by the Committee the report required by the SEC to be included in the Company's annual proxy statement.

4) Compliance Oversight Responsibilities

- i. Obtain from the independent accountants assurance that Section 10A(b) of the Securities Exchange Act of 1934, as amended, has not been implicated.
- ii. Administer the procedures set forth in Annex C relating to 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 concerns regarding questionable accounting or auditing matters.
- iii. Review all potential conflict-of-interest situations arising in respect of the Company's affairs and involving the Company's affiliates or employees, including all transactions with related persons.

SECTION VI. ADDITIONAL RESOURCES

Subject to the approval of the Board, the Committee shall have the right to use reasonable amounts of time of the Company's independent accountants, outside lawyers and other internal staff and also shall have the right to hire independent experts, lawyers and other consultants to assist and advise the Committee in connection with its responsibilities. The Committee shall

keep the Company's Chief Executive Officer advised as to the general range of anticipated expenses for outside consultants, and shall obtain the concurrence of the Board in advance for any expenditures.

SECTION VII. DISCLOSURE OF CHARTER

The charter will be made available on the Company's website at <http://www.capitalagroup.com>.

SECTION VIII. EVALUATION

The Committee shall conduct an annual review of the Committee's performance and recommend changes to the Board as needed.

Approved: June 10, 2013

Annex A

Policy on Pre-Approval of Audit and Non-Audit Services

I. Statement of Principles

The Committee is required to pre-approve the audit and non-audit services performed by the independent accountants in order to assure that the provision of such services to the Company does not impair the independence of the independent accountants. Unless a type of service to be provided by the independent accountants has received general pre-approval, it will require specific pre-approval by the Committee. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Committee.

II. Audit Services

The annual audit services engagement terms and fees will be subject to the specific pre-approval of the Committee. The Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Company structure or other matters.

In addition to the annual audit services engagement approved by the Committee, the Committee may grant pre-approval for other audit services, which are those services that only the independent accountants reasonably can provide, such as limited quarterly reviews, comfort letters, statutory audits, attest services, reports on internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002, consents and assistance with and review of documents filed with the SEC.

III. Audit-Related Services

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and that are traditionally performed by the independent accountants. All audit-related services must be separately pre-approved by the Committee.

IV. Tax Services

Tax services include tax compliance, tax planning and tax advice. All tax services must be separately pre-approved by the Committee.

V. All Other Services

The Committee may grant pre-approval to those permissible non-audit services classified as "All Other Services" that it believes are routine and recurring services, and would not impair the independence of the independent accountants. Permissible "All Other Services" must be separately pre-approved by the Committee.

A list of the SEC's prohibited non-audit services is attached to this policy as Exhibit 1. The SEC's rules and relevant guidance should be consulted to determine the precise definitions of these services and the applicability of exceptions to certain of the prohibitions.

VI. Pre-Approval Fee Levels

Pre-approval fee levels for all services to be provided by the independent accountants will be established periodically by the Committee. Any proposed services exceeding these levels will require specific pre-approval by the Committee.

VII. Supporting Documentation

With respect to each proposed pre-approved service, the independent accountants will provide an engagement letter to the Committee regarding the specific services to be provided.

VIII. Procedures

Requests or applications to provide services that require separate approval by the Committee will be submitted to the Committee by the Chief Financial Officer, and must include a statement as to whether, in his view, the request or application is consistent with the SEC's rules on auditor independence.

IX. Confirmation

The independent accountants will provide a written confirmation of its independence with respect to the Company to the Committee on an annual basis.

Exhibit 1: Prohibited Non-Audit Services

- Bookkeeping or other services related to the accounting records or financial statements
- Financial reporting systems design and implementation
- Appraisal or valuation services, fairness opinions or contributions-in-kind reports
- Actuarial services
- Internal audit outsourcing services
- Management functions
- Human resources
- Broker-dealer, investment adviser or investment banking services
- Legal services
- Expert services unrelated to the audit

Annex B

Hiring Guidelines for Employees of the Independent Accountants

The Committee has adopted the following practices regarding the hiring by the Company of any employee of its independent accountants who participated in any capacity in the audit of the Company.

1. No member of the audit team that is auditing the Company may be hired by the Company in a financial reporting oversight role (as defined in the Regulation S-X, promulgated under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended) for a period of one year following association with that audit.
2. The Company's Chief Financial Officer shall report annually to the Committee the profile of the preceding year's hires from the independent accountants.

Annex C

CAPITALA FINANCE CORP.

WHISTLEBLOWER POLICY

Capitala Finance Corp. (the “Company”) encourages employees to maintain open lines of communication and share comments and concerns that they may have with members of management and, if necessary, with the board of directors of the Company (the “Board of Directors”). Feedback from employees on matters related to their employment or the Company’s operations including its financial statement disclosures, accounting, internal accounting controls or auditing matters is greatly appreciated and helps to build a stronger organization. An employee should report suspected violations of applicable laws, rules, regulations, or the Code of Business Conduct and Ethics, Code of Ethics or Statement of Policy on Insider Trading to his or her supervisor, a member of senior management or the Chief Compliance Officer.

Employees of the Company may submit, on a confidential, anonymous basis, if the employee so desires, comments related to, among other things, financial statement disclosures, accounting, internal accounting controls or auditing matters. Such comments should be submitted via e-mail or set forth in writing, in a sealed envelope, and addressed to either the Chief Compliance Officer, if an employee would like management to review the comments, or to the Chairman of the audit committee of the Board of Directors (the “*Audit Committee*”), in which case the submission should be labeled: “To be opened by the Audit Committee only.” Employees may also deliver written comments addressed to the Chairman of the Audit Committee in the Company’s internal mail system, by U.S. mail or by hand to the Chief Compliance Officer, who will deliver the sealed envelope unopened to the Chairman of the Audit Committee. If an employee would like to discuss matters with the Audit Committee, the employee should indicate this in the submission and include a telephone number at which he or she may be contacted if the Audit Committee deems it appropriate.

The Audit Committee reviews and considers such comments that it has received and may take action that it deems appropriate in order to respond thereto. The Audit Committee may request special treatment for a comment, including the retention of outside counsel or other advisors. The Audit Committee retains such comments for a period of no less than five years.

The Company’s Code of Business Conduct and Ethics, Code of Ethics and Statement of Policy on Insider Trading prohibits any member of the Board of Directors, officer or employee from retaliating or taking any adverse action against anyone for raising or helping to resolve business conduct or ethical concerns.