

SUMMIT HEALTHCARE REIT, INC.

CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

January 1, 2017

Organization

This Charter governs the operations of the Audit Committee of Summit Healthcare REIT, Inc., a Maryland corporation (the “Company”). The Audit Committee shall review and reassess the Charter at least annually. The members of the Audit Committee shall be appointed by the Board of Directors and shall serve at the pleasure of the Board of Directors for such term or terms as the Board of Directors shall determine. The Audit Committee shall consist of at least two Directors, each of whom the Board of Directors has determined has no material relationship with the Company and each of whom is otherwise “independent” under the provisions of the NASAA Statement of Policy Regarding Real Estate Investment Trusts and the criteria set forth in Section 10A(m)(3) of the Securities Exchange Act of 1934. At any meeting of the Audit Committee, a majority of the total number of members of the Audit Committee shall constitute a quorum. The Board of Directors shall also determine that each Audit Committee member is “financially literate,” and that at least one member of the Audit Committee has “accounting or related financial management expertise,” as such qualifications are interpreted by the Board of Directors in its business judgment, and whether any member of the Audit Committee is an “audit committee financial expert,” as defined by the rules of the Securities and Exchange Commission (the “SEC”). If the Board of Directors has determined that a member of the Audit Committee is an audit committee financial expert, it may presume that such member has accounting or related financial management expertise.

Statement of Purpose

The purpose of the Audit Committee is to assist the Board of Directors by providing oversight of: (i) the Company’s accounting and financial reporting processes, (ii) the integrity of the Company’s financial statements, (iii) the qualifications, performance and independence of the independent auditors, (iv) the annual independent audit of the Company’s financial statements, and (v) the Company’s compliance with legal and regulatory requirements. In so doing, it is the responsibility of the Audit Committee to maintain free and open communication between the committee, independent auditors, and management of the Company.

The Audit Committee shall prepare the report required by the rules of the SEC to be included in the Company’s annual proxy statement.

Resources and Authority

The Audit Committee shall have the resources and authority appropriate to discharge its responsibilities. The Audit Committee is empowered to investigate any matter brought to its attention within the scope of its responsibilities with full access to all books, records, facilities, and personnel of the Company and has the authority, without seeking approval of the Board of Directors or management, to select, retain, terminate, and approve the fees and other retention terms of outside counsel, or other experts for this purpose at the expense of the Company.

Responsibilities and Processes

The primary responsibility of the Audit Committee is to oversee the Company's accounting and financial reporting processes on behalf of the Board of Directors and report the results of its activities to the Board of Directors. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and for the effectiveness of internal control over financial reporting. The independent auditors are responsible for planning and carrying out a proper audit of the Company's annual financial statements, and reviewing the Company's quarterly financial statements prior to the filing of each quarterly report of Form 10-Q. The Audit Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting and sound business risk practices and ethical behavior. It is not the duty of the Audit Committee to plan or conduct the audits or to determine that the Company's financial statements are complete and accurate and prepared in accordance with generally accepted accounting principles.

The following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Audit Committee may supplement them as appropriate and they should remain flexible in order to best react to growth, changing conditions and circumstances.

- (1) The Audit Committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the Company's stockholders. The Audit Committee shall have the sole ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditors. The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. Further, the Audit Committee shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations and will provide sufficient opportunity for the independent auditors to meet privately with the members of the Audit Committee.
- (2) The Audit Committee shall pre-approve all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the *de minimus* exception for non-audit services that are approved by the Audit Committee prior to completion of the audit. The Audit Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting.
- (3) The Audit Committee shall discuss with the independent auditors the overall scope and plans for their respective audits. Such discussion should include inquiry as to the "peer review" processes of the audit firm and any disciplinary action, litigation or other matters which would affect the auditor's ability to issue their opinion. The Audit Committee shall obtain from the independent auditor a formal written statement delineating all relationships between the independent auditor and the Company, and shall actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor.

- (4) The Audit Committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the Audit Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards. The chairperson of the Audit Committee may represent the entire Audit Committee for the purposes of this review.
- (5) The Audit Committee shall discuss with management, and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs, including the Company's Code of Conduct. The Audit Committee shall discuss with management and the auditors the three, four, or five "critical accounting policies" that have the greatest effect on the Company's financial posture and review the activity in the Company's reserves and other areas of the financial statements with management and the auditors.
- (6) The Audit Committee shall review significant events, transactions, reports or inquiries received from regulators or governmental agencies for their impact on the financial statements. The Audit Committee shall review with management applicable industry developments and the Company's competitive position and strategy.
- (7) The Audit Committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of Form 10-K), as well as the auditor's judgment about the quality, not just acceptability, of the Company's accounting principles as applied in its financial reporting, and recommend to the Board of Directors whether the audited financial statements should be included in the Company's Annual Report on Form 10-K. The review shall also include the reasonableness of significant judgments made in the preparation of the financial statements, as well as the clarity of financial statement disclosures. In addition, the Audit Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards.
- (8) The Audit Committee shall review with management and the independent auditors the management letter provided by the auditors, especially comments which require recommended changes or improvements in the Company's accounting and reporting procedures or internal controls, and the Company's response to that letter.
- (9) The Audit Committee shall review disclosures made by the Company's chief executive officer and chief financial officer during their certification process for the Company's reports on Form 10-Q and Form 10-K about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
- (10) The Audit Committee shall develop a meeting planner to make sure that the Audit Committee meets its responsibilities outlined in this Charter.

- (11) The Audit Committee shall annually obtain written representations from management regarding its responsibility for the integrity of the internal control and financial reporting systems and processes, and its beliefs about the quality of controls and financial reports.

Structure and Meetings

The Audit Committee shall designate one member as its chairperson. The Audit Committee shall meet at least once every fiscal quarter, or more frequently if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements, as applicable. The Audit Committee should meet separately periodically with management and the independent auditors to discuss any matters that the Audit Committee or any of these persons or firms believe should be discussed privately. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time.