

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-52566

**SUMMIT HEALTHCARE REIT, INC.**

(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of  
incorporation or organization)

2 SOUTH POINTE DRIVE, SUITE 100,  
LAKE FOREST, CA  
(Address of principal executive offices)

73-1721791  
(I.R.S. Employer  
Identification No.)

92630

(Zip Code)

800-978-8136

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Sec. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

As of November 6, 2021, we had 23,027,978 shares of common stock of Summit Healthcare REIT, Inc. outstanding.

FORM 10-Q

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES  
TABLE OF CONTENTS

<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>	
<a href="#">Item 1.</a>	<a href="#">Financial Statements:</a>	3
	<a href="#">Condensed Consolidated Balance Sheets (unaudited)</a>	3
	<a href="#">Condensed Consolidated Statements of Operations (unaudited)</a>	4
	<a href="#">Condensed Consolidated Statements of Equity (unaudited)</a>	5
	<a href="#">Condensed Consolidated Statements of Cash Flows (unaudited)</a>	6
	<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	7
<a href="#">Item 2.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	22
<a href="#">Item 3.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	34
<a href="#">Item 4.</a>	<a href="#">Controls and Procedures</a>	34
<b>PART II.</b>	<b>OTHER INFORMATION</b>	
<a href="#">Item 1.</a>	<a href="#">Legal Proceedings</a>	35
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	35
<a href="#">Item 2.</a>	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	35
<a href="#">Item 3.</a>	<a href="#">Defaults Upon Senior Securities</a>	35
<a href="#">Item 4.</a>	<a href="#">Mine Safety Disclosures</a>	35
<a href="#">Item 5.</a>	<a href="#">Other Information</a>	35
<a href="#">Item 6.</a>	<a href="#">Exhibits</a>	36
<a href="#">SIGNATURES</a>		37
<a href="#">EX-31.1</a>		
<a href="#">EX-31.2</a>		
<a href="#">EX-32</a>		

**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements.****SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,000,000	\$ 14,658,000
Restricted cash	2,999,000	2,933,000
Real estate properties, net	62,835,000	44,921,000
Notes receivable	65,000	262,000
Tenant and other receivables, net	3,622,000	4,677,000
Deferred leasing commissions, net	484,000	536,000
Other assets, net	1,512,000	1,203,000
Equity-method investments	7,597,000	11,375,000
Total assets	<u>\$ 96,114,000</u>	<u>\$ 80,565,000</u>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and accrued liabilities	\$ 2,898,000	\$ 2,530,000
Security deposits	1,182,000	664,000
Loans payable, net of debt issuance costs	59,329,000	45,274,000
Total liabilities	<u>63,409,000</u>	<u>48,468,000</u>
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at September 30, 2021 and December 31, 2020	—	—
Common stock, \$0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at September 30, 2021 and December 31, 2020	23,000	23,000
Additional paid-in capital	116,391,000	116,335,000
Accumulated deficit	<u>(83,910,000)</u>	<u>(84,456,000)</u>
Total stockholders' equity	32,504,000	31,902,000
Noncontrolling interests	201,000	195,000
Total equity	<u>32,705,000</u>	<u>32,097,000</u>
Total liabilities and equity	<u>\$ 96,114,000</u>	<u>\$ 80,565,000</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Total rental revenues	\$ 1,853,000	\$ 1,624,000	\$ 4,061,000	\$ 4,828,000
Acquisition and asset management fees	165,000	292,000	789,000	910,000
Interest income from notes receivable	7,000	7,000	20,000	21,000
<b>Total operating revenue</b>	<b>2,025,000</b>	<b>1,923,000</b>	<b>4,870,000</b>	<b>5,759,000</b>
<b>Expenses:</b>				
Property operating costs	264,000	252,000	694,000	722,000
General and administrative	933,000	779,000	3,426,000	2,566,000
Depreciation and amortization	524,000	417,000	1,316,000	1,252,000
<b>Total operating expenses</b>	<b>1,721,000</b>	<b>1,448,000</b>	<b>5,436,000</b>	<b>4,540,000</b>
<b>Operating income (loss)</b>	<b>304,000</b>	<b>475,000</b>	<b>(566,000)</b>	<b>1,219,000</b>
Income (loss) from equity-method investees	191,000	179,000	(595,000)	346,000
Gain on sale of equity-method investment	—	—	3,515,000	—
Other income	5,000	5,000	17,000	53,000
Interest expense	(729,000)	(531,000)	(1,767,000)	(1,754,000)
<b>Net (loss) income</b>	<b>(229,000)</b>	<b>128,000</b>	<b>604,000</b>	<b>(136,000)</b>
Noncontrolling interests' share in net (income) loss	(18,000)	(16,000)	(58,000)	(39,000)
<b>Net (loss) income applicable to common stockholders</b>	<b>\$ (247,000)</b>	<b>\$ 112,000</b>	<b>\$ 546,000</b>	<b>\$ (175,000)</b>
<b>Earnings per common share:</b>				
<b>Basic:</b>				
Net (loss) income applicable to common stockholders	\$ (0.01)	\$ 0.00	\$ 0.02	\$ (0.01)
<b>Diluted:</b>				
Net (loss) income applicable to common stockholders	\$ (0.01)	\$ 0.00	\$ 0.02	\$ (0.01)
<b>Weighted average shares used to calculate earnings per common share</b>				
Basic	23,027,978	23,027,978	23,027,978	23,027,978
Diluted	23,027,978	23,515,414	23,553,606	23,027,978

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
(Unaudited)

	Common Stock				Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Stock Par Value	Additional Paid-In Capital	Accumulated Deficit			
<b>Balance — January 1, 2021</b>	23,027,978	\$ 23,000	\$ 116,335,000	\$ (84,456,000)	\$ 31,902,000	\$ 195,000	\$ 32,097,000
Stock-based compensation	—	—	36,000	—	36,000	—	36,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(16,000)	(16,000)
Net (loss) income	—	—	—	(1,758,000)	(1,758,000)	18,000	(1,740,000)
<b>Balance — March 31, 2021</b>	23,027,978	\$ 23,000	\$ 116,371,000	\$ (86,214,000)	\$ 30,180,000	\$ 197,000	\$ 30,377,000
Stock-based compensation	—	—	11,000	—	11,000	—	11,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(19,000)	(19,000)
Net income (loss)	—	—	—	2,551,000	2,551,000	22,000	2,573,000
<b>Balance — June 30, 2021</b>	23,027,978	\$ 23,000	\$ 116,382,000	\$ (83,663,000)	\$ 32,742,000	\$ 200,000	\$ 32,942,000
Stock-based compensation	—	—	9,000	—	9,000	—	9,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(17,000)	(17,000)
Net (loss) income	—	—	—	(247,000)	(247,000)	18,000	(229,000)
<b>Balance — September 30, 2021</b>	23,027,978	\$ 23,000	\$ 116,391,000	\$ (83,910,000)	\$ 32,504,000	\$ 201,000	\$ 32,705,000

  

	Common				Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Stock Par Value	Additional Paid-In Capital	Accumulated Deficit			
<b>Balance — January 1, 2020</b>	23,027,978	\$ 23,000	\$ 116,184,000	\$ (83,843,000)	\$ 32,364,000	\$ 200,000	\$ 32,564,000
Stock-based compensation	—	—	42,000	—	42,000	—	42,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(12,000)	(12,000)
Net (loss) income	—	—	—	(213,000)	(213,000)	12,000	(201,000)
<b>Balance — March 31, 2020</b>	23,027,978	\$ 23,000	\$ 116,226,000	\$ (84,056,000)	\$ 32,193,000	\$ 200,000	\$ 32,393,000
Stock-based compensation	—	—	38,000	—	38,000	—	38,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(15,000)	(15,000)
Net (loss) income	—	—	—	(74,000)	(74,000)	11,000	(63,000)
<b>Balance — June 30, 2020</b>	23,027,978	\$ 23,000	\$ 116,264,000	\$ (84,130,000)	\$ 32,157,000	\$ 196,000	\$ 32,353,000
Stock-based compensation	—	—	35,000	—	35,000	—	35,000
Distributions paid to noncontrolling interests	—	—	—	—	—	(17,000)	(17,000)
Net income	—	—	—	112,000	112,000	16,000	128,000
<b>Balance — September 30, 2020</b>	23,027,978	\$ 23,000	\$ 116,299,000	\$ (84,018,000)	\$ 32,304,000	\$ 195,000	\$ 32,499,000

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Nine months ended September 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 604,000	\$ (136,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of debt issuance costs	72,000	72,000
Depreciation and amortization	1,316,000	1,252,000
Amortization of above/below market lease intangible	16,000	—
Straight-line rents	435,000	(178,000)
Write-off of debt issuance costs	—	77,000
Stock-based compensation expense	56,000	115,000
Gain on sale of equity-method investment	(3,515,000)	—
Loss (income) from equity-method investees	595,000	(346,000)
Change in operating assets and liabilities:		
Tenant and other receivables, net	634,000	591,000
Other assets	561,000	102,000
Accounts payable and accrued liabilities	436,000	162,000
Security deposits	594,000	—
<b>Net cash provided by operating activities</b>	<b>1,804,000</b>	<b>1,711,000</b>
<b>Cash flows from investing activities:</b>		
Real estate acquisitions	(20,133,000)	—
Investment in equity-method investees	(140,000)	—
Proceeds from sale of equity-method investment	5,411,000	—
Distributions received from equity-method investees	1,339,000	866,000
Payments from notes receivable	196,000	250,000
<b>Net cash (used in) provided by investing activities</b>	<b>(13,327,000)</b>	<b>1,116,000</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of loans payable	15,000,000	11,863,000
Payments of loans payable	(789,000)	(11,415,000)
Distributions paid to noncontrolling interests	(52,000)	(44,000)
Deferred financing costs	(228,000)	(656,000)
<b>Net cash provided by (used in) financing activities</b>	<b>13,931,000</b>	<b>(252,000)</b>
Net increase in cash, cash equivalents and restricted cash	2,408,000	2,575,000
Cash, cash equivalents and restricted cash – beginning of period	17,591,000	16,077,000
Cash, cash equivalents and restricted cash – end of period	<u>\$ 19,999,000</u>	<u>\$ 18,652,000</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 1,382,000	\$ 1,391,000

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2021**  
**(Unaudited)**

**1. Organization**

Summit Healthcare REIT, Inc. (“Summit”) is a real estate investment trust that owns 100% of six properties, 95.3% of four properties, a 10% equity interest in an unconsolidated equity-method investment that holds 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, and a 10% equity interest in an unconsolidated equity-method investment that holds six properties. In June 2021, we sold our 15% equity interest in an unconsolidated equity-method investment that held 14 properties. Summit is a Maryland corporation, formed in 2004 under the General Corporation Law of Maryland for the purpose of investing in and owning real estate. As used in these notes, the “Company”, “we”, “us” and “our” refer to Summit and its consolidated subsidiaries, including but not limited to Summit Healthcare Operating Partnership, L.P. (the “Operating Partnership”), except where the context otherwise requires.

We conduct substantially all of our operations through the Operating Partnership, which is a Delaware limited partnership. We own a 99.88% general partner interest in the Operating Partnership, and Cornerstone Realty Advisors, LLC (“CRA”), a former affiliate, owns a 0.12% limited partnership interest.

Summit and the Operating Partnership are managed and operated as one entity, and Summit has no significant assets other than its investment in the Operating Partnership. Summit, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership. Therefore, the assets and liabilities of Summit and the Operating Partnership are the same.

***Cornerstone Healthcare Partners LLC – Consolidated Joint Venture***

We own 95% of Cornerstone Healthcare Partners LLC (“CHP LLC”), which was formed in 2012, and the remaining 5% noncontrolling interest is owned by Cornerstone Healthcare Real Estate Fund, Inc. (“CHREF”), an affiliate of CRA. CHP LLC is consolidated within our condensed consolidated financial statements and owns four properties (the “JV Properties”) with another partially owned subsidiary. As of September 30, 2021 and December 31, 2020, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest.

***Summit Union Life Holdings, LLC – Equity-Method Investment***

In April 2015, through our Operating Partnership, we entered into a limited liability company agreement with Best Years, LLC (“Best Years”), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and formed Summit Union Life Holdings, LLC (the “SUL JV”). The SUL JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method. As of September 30, 2021 and December 31, 2020, we have a 10% interest in the SUL JV which owns 17 properties.

***Summit Fantasia Holdings, LLC – Equity-Method Investment***

In September 2016, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia Investment III LLC (“Fantasia”), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed Summit Fantasia Holdings, LLC (the “Fantasia JV”). The Fantasia JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method. As of September 30, 2021 and December 31, 2020, we have a 35% interest in the Fantasia JV which owns two properties.

[Table of Contents](#)

***Summit Fantasia Holdings II, LLC – Equity-Method Investment***

In December 2016, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia, and formed Summit Fantasia Holdings II, LLC (the “Fantasia II JV”). The Fantasia II JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method. As of September 30, 2021 and December 31, 2020, we have a 20% interest in the Fantasia II JV which owns two properties.

***Summit Fantasia Holdings III, LLC– Equity-Method Investment***

In July 2017, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia and formed Summit Fantasia Holdings III, LLC (the “Fantasia III JV”). The Fantasia III JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method. As of September 30, 2021 and December 31, 2020, we have a 10% interest in the Fantasia III JV which owns nine properties.

***Summit Fantasy Pearl Holdings, LLC– Equity-Method Investment***

In October 2017, through our Operating Partnership, we entered into a limited liability company agreement with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company (“Atlantis”), and Fantasy Pearl LLC, a Delaware limited liability company (“Fantasy”), and formed Summit Fantasy Pearl Holdings, LLC (the “FPH JV”). The FPH JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method. As of September 30, 2021 and December 31, 2020, we have a 10% interest in the FPH JV which owns six properties.

***Indiana JV– Equity-Method Investment***

In June 2021, we sold our 15% interest in the Indiana JV for approximately \$5.4 million. See Note 5 for further information.

The Indiana JV was not consolidated in our condensed consolidated financial statements and was accounted for under the equity-method. As of September 30, 2021 and December 31, 2020, we had a 0% and 15% interest in the Indiana JV, respectively, which owned 14 properties.

***Summit Healthcare Asset Management, LLC (TRS)***

Summit Healthcare Asset Management, LLC (“SAM TRS”) is our wholly-owned taxable REIT subsidiary (“TRS”). We serve as the manager of the SUL JV, Fantasia JV, Fantasia II JV, Fantasia III JV, and FPH JV, and as the former operating member of the Indiana JV through June 11, 2021 (collectively, our “Equity-Method Investments”), and provide management services in exchange for fees and reimbursements. All acquisition fees and asset management fees earned by us are paid to SAM TRS and expenses incurred by us, as the manager, are reimbursed from SAM TRS. See Notes 5 and 7 for further information.

**2. Summary of Significant Accounting Policies**

For more information regarding our significant accounting policies and estimates, please refer to “Summary of Significant Accounting Policies” contained in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission (“SEC”) on March 29, 2021. There have been no material changes to our policies since that filing except as noted under Recently Adopted Accounting Pronouncements.

The accompanying condensed consolidated balance sheet at December 31, 2020 has been derived from the audited consolidated financial statements at that date. We assume that users of these condensed consolidated financial statements have read or have access to the audited December 31, 2020 consolidated financial statements and contained in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 29, 2021 and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnotes and other disclosures which would substantially duplicate those contained in our most recent Annual Report on Form 10-K for the year ended December 31, 2020 have been omitted in this report.

**Principles of Consolidation and Basis of Presentation**

The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, the Operating Partnership and its consolidated companies and are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying financial information reflects all adjustments, which are, in the opinion of management, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. Interim results of operations are not necessarily indicative of the results to be expected for the full year. Operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

**Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown on the condensed consolidated statements of cash flows.

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 17,000,000	\$ 14,658,000
Restricted cash	2,999,000	2,933,000
Total cash, cash equivalents, and restricted cash shown on the condensed consolidated statements of cash flows	<u>\$ 19,999,000</u>	<u>\$ 17,591,000</u>

**Recently Adopted Accounting Pronouncements**

In January 2020, the Financial Accounting Standards Board issued Accounting Standard Update (“ASU”) 2020-01 to clarify the interaction among the accounting standards for equity securities, equity method investments and certain derivatives. The new ASU clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The adoption of the new standard on January 1, 2021 did not have a material effect on the Company’s financial position, results of operations, or cash flows.

**Coronavirus (COVID-19)**

Since it was first reported in December 2019, COVID-19 has spread globally. The outbreak has led governments and other authorities around the world, including federal, state and local authorities in the United States, to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business closures, quarantines and shelter-in-place orders. The COVID-19 pandemic and measures to prevent its spread negatively impacted senior housing and skilled nursing facilities in a number of ways, including but not limited to:

- Decreased occupancy and increased operating costs for the Company’s tenants and borrowers, which may adversely impact their ability to make full and timely rental and debt payments to the Company. The Company may have to restructure tenants’ long-term rent obligations in the future and may not be able to do so on terms that are as favorable to the Company as those currently in place. Reduced or modified rental and debt amounts could result in the determination that the full amounts of the Company’s real estate properties and notes receivable are not recoverable, which could result in an impairment charge.
- Decreased occupancy and increased operating costs for the Company’s Equity-Method Investments that own senior housing and skilled nursing facilities, which may negatively impact the operating results of these investments. The Equity-Method Investments may have to restructure tenants’ long-term rent obligations and may not be able to do so on terms that are as favorable to the Equity-Method Investments as those currently in place. Prolonged deterioration in the operating results for these investments could result in the determination that the full amounts of the Company’s investments are not recoverable, which could result in an impairment charge.

[Table of Contents](#)

For the period ended September 30, 2021, two of our tenants experienced a material adverse effect on their operations related to COVID-19, and that has affected their ability to make their rent payments in 2021. For one of the tenants, in October 2020, under a court order, a receiver assumed the responsibilities of operating and managing the Pennington Gardens facility in Chandler, Arizona. In October 2021, we reached an agreement with the tenant to terminate the lease, and we are currently negotiating with the U.S. Department of Housing and Urban Development (“HUD”) to approve the termination of the lease and approve the current receiver as the new operator/manager. Once approved by HUD, the lease will be terminated and the operations of Pennington Gardens will be consolidated in our financial statements. Beginning in March 2021, we recorded rent payments on a cash basis and wrote off the remaining straight-line rent receivable of \$0.4 million. For the other tenant that is managing the Sundial Assisted Living facility, in October 2021, we reached an agreement with the tenant to terminate the lease, and we are currently negotiating with HUD to approve the termination of the lease and install a new operator/manager. Once approved by HUD, the lease will be terminated and the operations of Sundial Assisted Living will be consolidated in our financial statements. Beginning in June 2021, we recorded rent payments on a cash basis and in May 2021, wrote off the remaining straight-line rent receivable of \$0.1 million.

Additionally, some of our Equity-Method Investment tenants have experienced decreased occupancy and increased operating costs related to COVID-19, however; there have been no rent concessions for such tenants during 2021.

It is impossible to predict the continuing effect and ultimate impact of the COVID-19 pandemic on our operations and results as the situation is continuing to evolve. Many of our consolidated and Equity Method Investments facilities have administered the vaccine to residents and employees. It is too early to assess the total effect of the vaccinations on the industry, but it is believed they will help save the lives of those who are most at risk, as well as lessen the operational and financial burden on our facilities and their employees. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact on the demand for senior housing and skilled nursing and presents material uncertainty and risk with respect to our business, operations, financial condition and liquidity, including recording impairments, lease modifications and credit losses associated with notes receivable in future periods.

### **CARES Act**

During 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted to provide economic stimulus and assistance to business owners to help maintain on-going operations in the form of grants, forgivable loans and other relief. We did not obtain a paycheck protection program loan. We have evaluated the CARES Act and determined that there was no impact on the Company for the nine-month period ended September 30, 2021 or the year ended December 31, 2020. We will continue to evaluate and monitor the CARES Act, and any new COVID-19-related legislation to determine the ultimate impact and benefits, if any, to the Company.

### **3. Investments in Real Estate Properties**

As of September 30, 2021 and December 31, 2020, our investments in real estate properties including those held by our consolidated subsidiaries (excluding the 36 and 50 properties, respectively, owned by our unconsolidated Equity-Method Investments) are set forth below:

	September 30, 2021	December 31, 2020
Land	\$ 8,530,000	\$ 6,237,000
Buildings and improvements	64,203,000	48,295,000
Less: accumulated depreciation	(10,959,000)	(9,853,000)
Buildings and improvements, net	53,244,000	38,442,000
Furniture and fixtures	4,678,000	4,230,000
Less: accumulated depreciation	(4,134,000)	(3,988,000)
Furniture and fixtures, net	544,000	242,000
Intangible lease assets	526,000	—
Less: accumulated amortization	(9,000)	—
Intangible lease assets, net	517,000	—
Real estate properties, net	\$ 62,835,000	\$ 44,921,000

[Table of Contents](#)

For the three months ended September 30, 2021 and 2020, depreciation and amortization expense (excluding leasing commission amortization) was approximately \$0.5 million and \$0.4 million, respectively. For the nine months ended September 30, 2021 and 2020, depreciation and amortization expense (excluding leasing commission amortization) was approximately \$1.3 million and \$1.2 million, respectively.

As of September 30, 2021, our portfolio consisted of 10 real estate properties which were 100% leased to the tenants of the related facilities.

The following table provides summary information regarding our portfolio (excluding the 36 properties owned by our unconsolidated Equity-Method Investments) as of September 30, 2021:

Property	Location	Date Purchased	Type <sup>(1)</sup>	Purchase Price	Loans Payable, Excluding Debt Issuance Costs
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	\$ 4,100,000	\$ 4,210,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,693,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	11,592,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,157,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,764,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,752,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,232,000
Yucaipa Hill Post Acute	Yucaipa, CA	July 2, 2021	SNF	10,715,000	8,014,000
Creekside Post Acute	Yucaipa, CA	July 2, 2021	SNF	4,780,000	3,575,000
University Post Acute	Mentone, CA	July 2, 2021	SNF	4,560,000	3,411,000
<b>Total:</b>				<b>\$ 77,320,000</b>	<b>\$ 61,400,000</b>

- (1) SNF is an abbreviation for skilled nursing facility.  
AL is an abbreviation for assisted living facility.  
MC is an abbreviation for memory care facility.

**Future Minimum Lease Payments**

The future minimum lease payments to be received under our existing tenant operating leases (excluding the 36 properties owned by our unconsolidated Equity-Method Investments) as of September 30, 2021, for the period from October 1, 2021 to December 31, 2021 and for each of the four following years and thereafter ending December 31 are as follows:

Years ending	
October 1, 2021 to December 31, 2021	\$ 1,481,000
2022	5,998,000
2023	6,107,000
2024	6,218,000
2025	6,332,000
Thereafter	37,010,000
	<b>\$ 63,146,000</b>

**2021 Acquisitions**

On July 2, 2021, through our wholly-owned subsidiary, we acquired three skilled nursing facilities, two located in Yucaipa, California and one located in Mentone, California (collectively, the "CA3 Properties"), for the purchase price of \$20,055,000, which was funded through cash on hand plus the proceeds from the loan described in Note 4. We incurred approximately \$80,000 in acquisition costs in connection with these acquisitions. The CA3 Properties are leased to three unrelated parties under three separate 15-year triple net leases, each of which has two five-year renewal options.

[Table of Contents](#)

The following table represents the allocation of the relative fair value of the real estate acquired for the CA3 Properties acquisition:

Land	\$ 2,293,000
Building and improvements	15,908,000
Furniture and fixtures	448,000
Intangible lease assets and above/below market leases <sup>(1)</sup>	1,486,000
<b>Total purchase price plus acquisition costs</b>	<b>\$ 20,135,000</b>

(1) Above/below market leases intangible asset is included in other assets, net on the condensed consolidated balance sheets.

#### Leasing Commissions

As a self-managed REIT, we no longer pay leasing commissions. Leasing commissions which were capitalized prior to April 2014 at cost and are amortized on a straight-line basis over the related lease term. As of September 30, 2021 and December 31, 2020, total costs incurred were \$1.1 million, and the unamortized balance of capitalized leasing commissions was approximately \$0.5 million. Amortization expense for each of the three months ended September 30, 2021 and 2020 was approximately \$18,000. Amortization expense for each of the nine months ended September 30, 2021 and 2020 was approximately \$53,000.

#### 4. Loans Payable

As of September 30, 2021 and December 31, 2020, our loans payable consisted of the following:

	September 30, 2021	December 31, 2020
Loan payable to Capital One Multifamily Finance, LLC (insured by HUD) in monthly installments of approximately \$49,000, including interest at a fixed rate of 4.23%, due in September 2053, and collateralized by Pennington Gardens.	\$ 10,232,000	\$ 10,330,000
Loans payable to Lument Capital (formerly ORIX Real Estate Capital, LLC) (insured by HUD) in monthly installments of approximately \$183,000, including interest, ranging from a fixed rate of 2.79% to 4.2%, due in September 2039 through April 2055, and as of September 30, 2021 and December 31, 2020, collateralized by Sheridan, Fernhill, Pacific Health, Friendship Haven, Aledo and Sundial Assisted Living.	\$ 36,168,000	\$ 36,857,000
Loans payable to CIBC Bank, USA in monthly installments of approximately \$65,000, interest only through July 2022 at LIBOR (with a floor of 1%) plus 4% (5% at September 30, 2021), due in July 2024, and collateralized by Yucaipa Post Acute, Creekside Post Acute and University Post Acute)	15,000,000	—
	<b>61,400,000</b>	<b>47,187,000</b>
<b>Less debt issuance costs</b>	<b>(2,071,000)</b>	<b>(1,913,000)</b>
<b>Total loans payable</b>	<b>\$ 59,329,000</b>	<b>\$ 45,274,000</b>

As of September 30, 2021, we have total debt obligations of approximately \$61.4 million that will mature between 2024 and 2055. See table above listing loans payable for further information. See Note 3 for loans payable balance for each property.

Seven of our properties are financed with HUD-insured loans by various lenders as noted above. All of our HUD-insured loans are subject to customary representations, warranties and ongoing covenants and agreements with respect to the operation of the facilities, including the provision for certain maintenance and other reserve accounts for property tax, insurance, and capital expenditures, as described in the HUD agreements. These reserves are included in restricted cash in our condensed consolidated balance sheets. Additionally, all of our HUD-insured loans have certain financial and non-financial covenants, including ratios and financial statement considerations.

On July 2, 2021, in conjunction with the acquisition of the CA3 Properties (see Note 3), we entered into a first priority \$15.0 million mortgage loan collateralized by the CA3 Properties with CIBC Bank, USA ("CIBC"). The loan bears interest at the One Month London Interbank Offer Rate (LIBOR) (with a floor of 1%) plus 4.00%, and matures on July 2, 2024. In the absence of LIBOR, the interest rate on this loan will be based on the banks base or prime rate plus 2.0%. The loan is interest only for the first year and thereafter requires

[Table of Contents](#)

additional monthly installments of principal that are held by the lender in a cash loan guarantee fund until maturity. The loan may be prepaid at any time with no penalty if the CA3 Properties are refinanced through HUD, otherwise we would be required to pay an exit fee as defined in the agreement. Additionally, the CIBC loan has certain financial and non-financial covenants.

As of September 30, 2021, we were in compliance with all of our debt covenants.

In connection with our loans payable, we incurred debt issuance costs. As of September 30, 2021 and December 31, 2020, the unamortized balance of the debt issuance costs was approximately \$2.1 million and \$1.9 million, respectively. These debt issuance costs are being amortized over the life of their respective financing agreements using the straight-line basis which approximates the effective interest rate method. For the three months ended September 30, 2021 and 2020, \$37,000 and \$18,000, respectively, of debt issuance costs were amortized and included in interest expense in our condensed consolidated statements of operations. For each of the nine months ended September 30, 2021 and 2020, \$0.1 million of debt issuance costs were amortized and included in interest expense in our condensed consolidated statements of operations. Included in the amortization of debt issuance costs for the nine months ended September 30, 2020 is \$77,000 related to the write off of debt issuance costs for CHP Friendswood SNF, LLC's prior loan.

During the three months ended September 30, 2021 and 2020, we incurred approximately \$0.7 million and \$0.5 million of interest expense (excluding debt issuance costs amortization), respectively, related to our loans payable. During the nine months ended September 30, 2021 and 2020, we incurred approximately \$1.7 million and \$1.6 million, respectively, of interest expense (excluding debt issuance costs amortization) related to our loans payable.

The principal payments due on the loans payable (excluding debt issuance costs) for the period from October 1, 2021 to December 31, 2021 and for each of the four following years and thereafter ending December 31 are as follows:

<b>Years Ending</b>	<b>Principal Amount</b>
October 1, 2021 to December 31, 2021	\$ 273,000
2022	1,269,000
2023	1,475,000
2024	15,730,000
2025	1,246,000
Thereafter	41,407,000
	<u>\$ 61,400,000</u>

#### **5. Equity-Method Investments**

As of September 30, 2021 and December 31, 2020, the aggregate balances of our Equity-Method Investments were approximately \$7.6 million and \$11.4 million, respectively, and are as follows:

##### ***Summit Union Life Holdings, LLC***

The SUL JV will exist until an event of dissolution occurs, as defined in the limited liability company agreement of the SUL JV (the "SUL LLC Agreement").

Under the SUL LLC Agreement, net operating cash flow of the SUL JV is distributed monthly, first to the Operating Partnership and Best Years *pari passu* up to a 9% to 10% annual return, as defined, and thereafter to Best Years 75% and the Operating Partnership 25%. All capital proceeds from the sale of the properties held by the SUL JV, a refinancing or another capital event will be paid first to the Operating Partnership and Best Years *pari passu* until each has received an amount equal to its accrued but unpaid 9% to 10% return plus its total contribution, and thereafter to Best Years 75% and the Operating Partnership 25%.

As of September 30, 2021 and December 31, 2020, the balance of our equity-method investment related to the SUL JV was approximately \$2.4 million and \$2.7 million, respectively.

[Table of Contents](#)

**Summit Fantasia Holdings, LLC**

The Fantasia JV will exist until an event of dissolution occurs, as defined in the limited liability company agreement of the Fantasia JV (the “Fantasia LLC Agreement”).

Under the Fantasia LLC Agreement, net operating cash flow of the Fantasia JV is distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 8% return, and thereafter 50% to Fantasia and 50% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 8% return plus its total capital contribution, and thereafter 50% to Fantasia and 50% to the Operating Partnership.

As of September 30, 2021 and December 31, 2020, the balance of our equity-method investment related to the Fantasia JV was approximately \$2.1 million and \$2.0 million, respectively.

**Summit Fantasia Holdings II, LLC**

The Fantasia II JV will exist until an event of dissolution occurs, as defined in the limited liability company agreement of the Fantasia II JV (the “Fantasia II LLC Agreement”).

Under the Fantasia II LLC Agreement, net operating cash flow of the Fantasia JV is distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 8% return, and thereafter 70% to Fantasia and 30% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia II JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 8% return plus its total capital contribution, and thereafter 70% to Fantasia and 30% to the Operating Partnership.

As of September 30, 2021 and December 31, 2020, the balance of our equity-method investment related to the Fantasia II JV was approximately \$1.3 million and \$1.4 million, respectively.

**Summit Fantasia Holdings III, LLC**

The Fantasia III JV will continue until an event of dissolution occurs, as defined in the limited liability company agreement of the Fantasia III JV (the “Fantasia III LLC Agreement”).

Under the Fantasia III LLC Agreement, net operating cash flow of the Fantasia III JV is distributed quarterly, first to the Operating Partnership and Fantasia *pari passu* until each member has received an amount equal to its accrued, but unpaid 9% return, and thereafter 75% to Fantasia and 25% to the Operating Partnership. All capital proceeds from the sale of the properties held by the Fantasia III JV, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* until each has received an amount equal to its accrued but unpaid 9% return plus its total capital contribution, and thereafter 75% to Fantasia and 25% to the Operating Partnership.

As of September 30, 2021 and December 31, 2020, the balance of our equity-method investment related to the Fantasia III JV was approximately \$1.5 million and \$1.6 million, respectively.

**Summit Fantasy Pearl Holdings, LLC**

The FPH JV will continue until an event of dissolution occurs, as defined in the limited liability company agreement of the FPH JV (the “FPH LLC Agreement”).

Under the FPH LLC Agreement, net operating cash flow of the FPH JV is distributed quarterly, first to the members *pari passu* until each member has received an amount equal to its accrued, but unpaid 9% return, and thereafter 65.25% to Fantasy, 7.5% to Atlantis, 7.25% to Fantasia and 20% to the Operating Partnership. All capital proceeds from the sale of the properties held by the FPH JV, a refinancing or another capital event, will be paid to the members *pari passu* until each has received an amount equal to its accrued but

[Table of Contents](#)

unpaid 9% return plus its total capital contribution, and thereafter 65.25% to Fantasy, 7.5% to Atlantis, 7.25% to Fantasia, and 20% to the Operating Partnership.

As of September 30, 2021 and December 31, 2020, the balance of our equity-method investment related to the FPH JV was approximately \$0.3 million and \$0.2 million, respectively.

**Indiana JV**

In June 2021, we sold our 15% interest in the Indiana JV for approximately \$5.4 million in cash. For the nine months ended September 30, 2021, we recorded approximately \$3.5 million in gain on the sale from this equity-method investment which is included in our condensed consolidated statements of operations under gain on sale of equity-method investment.

As of September 30, 2021 and December 31, 2020, the balance of our equity-method investment related to the Indiana JV was approximately \$0 and \$3.5 million, respectively.

**Summarized Financial Data for Equity-Method Investments**

Our Equity-Method Investments are significant equity-method investments in the aggregate. The information for the Indiana JV is through the date of the sale of our interest, June 11, 2021.

The results of operations of our Equity-Method Investments for the nine months ended September 30, 2021 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Indiana JV	Combined Total
Revenue	\$ 15,339,000	\$ 2,860,000	\$ 2,759,000	\$ 6,156,000	\$ 2,731,000	\$ (1,695,000)	\$ 28,150,000
Income (loss) from operations	\$ 5,072,000	\$ 282,000	\$ 1,448,000	\$ 3,094,000	\$ 1,255,000	\$ (5,093,000)	\$ 6,058,000
Net income (loss)	\$ 1,421,000	\$ 369,000	\$ 738,000	\$ 1,510,000	\$ 1,205,000	\$ (8,567,000)	\$ (3,324,000)
Summit interest in Equity-Method Investments net income (loss)	\$ 142,000	\$ 129,000	\$ 148,000	\$ 151,000	\$ 121,000	\$ (1,286,000)	\$ (595,000)

The results of operations of our Equity-Method Investments for the nine months ended September 30, 2020 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Indiana JV	Combined Total
Revenue	\$ 13,703,000	\$ 3,106,000	\$ 2,668,000	\$ 5,986,000	\$ 2,650,000	\$ 8,839,000	\$ 36,952,000
Income from operations	\$ 5,851,000	\$ 460,000	\$ 1,474,000	\$ 3,240,000	\$ 1,256,000	\$ 5,579,000	\$ 17,860,000
Net income (loss)	\$ 2,467,000	\$ (72,000)	\$ 748,000	\$ 1,437,000	\$ (1,175,000)	\$ (356,000)	\$ 3,049,000
Summit interest in Equity-Method Investments net income (loss)	\$ 247,000	\$ (25,000)	\$ 150,000	\$ 144,000	\$ (117,000)	\$ (53,000)	\$ 346,000

**Distributions from Equity-Method Investments**

As of September 30, 2021 and December 31, 2020, we have distributions receivable, which are included in tenant and other receivables in our condensed consolidated balance sheets, as follows:

	September 30, 2021	December 31, 2020
SUL JV	\$ 324,000	\$ 466,000
Fantasia JV	162,000	36,000
Fantasia II JV	53,000	51,000
Fantasia III JV	331,000	257,000
FPH JV	26,000	26,000
Indiana JV	—	498,000
Total	\$ 896,000	\$ 1,334,000

[Table of Contents](#)

For the nine months ended September 30, 2021 and 2020, we have received cash distributions, which are included in our cash flows from operating activities in tenant and other receivables, and cash flows from investing activities, as follows:

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Total Cash Distributions Received	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Total Cash Distributions Received	Cash Flow from Operating Activities	Cash Flow from Investing Activities
SUL JV	\$ 631,000	\$ 142,000	\$ 489,000	\$ 352,000	\$ 246,000	\$ 106,000
Fantasia JV	—	—	—	144,000	—	144,000
Fantasia II JV	225,000	148,000	77,000	219,000	150,000	69,000
Fantasia III JV	123,000	123,000	—	104,000	104,000	—
FPH JV	114,000	114,000	—	118,000	—	118,000
Indiana JV	773,000	—	773,000	429,000	—	429,000
<b>Total</b>	<b>\$ 1,866,000</b>	<b>\$ 527,000</b>	<b>\$ 1,339,000</b>	<b>\$ 1,366,000</b>	<b>\$ 500,000</b>	<b>\$ 866,000</b>

**Acquisition and Asset Management Fees**

We serve as the manager of our Equity-Method Investments and provide management services in exchange for fees and reimbursements. As the manager, we are paid an acquisition fee, as defined in the applicable joint venture agreements. Additionally, we are paid an annual asset management fee for managing the properties held by our Equity-Method Investments, as defined in those agreements. For the three months ended September 30, 2021 and 2020, we recorded approximately \$0.2 million and \$0.3 million, respectively, in acquisition and asset management fees from our Equity-Method Investments. For the nine months ended September 30, 2021 and 2020, we recorded \$0.8 million and \$0.9 million, respectively, in acquisition and asset management fees from our Equity-Method Investments (see Note 7).

**6. Receivables**

**Tenant and Other Receivables, Net**

Tenant and other receivables, net consists of:

	September 30, 2021	December 31, 2020
Straight-line rent receivables	\$ 2,337,000	\$ 2,772,000
Distribution receivables from Equity-Method Investments	896,000	1,334,000
Asset management fees	348,000	432,000
Other receivables	41,000	139,000
<b>Total</b>	<b>\$ 3,622,000</b>	<b>\$ 4,677,000</b>

## 7. Related Party Transactions

### *CRA*

Prior to the termination of our advisory agreement on April 1, 2014 with CRA (our former advisor, a related party), we incurred costs related to fees paid and costs reimbursed for services rendered to us by CRA through September 30, 2014. Some of the fees we had paid to CRA were considered to be in excess of allowed amounts and, therefore, CRA was required to reimburse us for the amount of the excess costs we paid to them. As of September 30, 2021 and December 31, 2020, the receivables from CRA are fully reserved due to the uncertainty of collectability and are included in tenant and other receivables in our condensed consolidated balance sheets (see Note 10).

As of September 30, 2021 and December 31, 2020, we had the following receivables and reserves related to CRA:

	<u>Receivables</u>	<u>Reserves</u>	<u>Balance</u>
Organizational and offering costs	\$ 738,000	\$ (738,000)	\$ —
Asset management fees and expenses	32,000	(32,000)	—
Operating expenses (direct and indirect)	189,000	(189,000)	—
Operating expenses (2%/25% Test)	1,717,000	(1,717,000)	—
<b>Total</b>	<u>\$ 2,676,000</u>	<u>\$ (2,676,000)</u>	<u>\$ —</u>

### *Equity-Method Investments*

See Notes 5 and 6 for further discussion of distributions and acquisition and asset management fees related to our Equity-Method Investments.

## 8. Concentration of Risk

Our cash is generally invested in short-term money market instruments. As of September 30, 2021, we had cash and cash equivalent accounts in excess of FDIC-insured limits. However, we do not believe the risk associated with this excess is significant.

As of September 30, 2021, we owned four properties in California, three properties in Oregon, one property in Texas, one property in Illinois, and one property in Arizona (excluding the 36 properties held by our Equity-Method Investments). Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states.

Additionally, for the three months ended September 30, 2021, we leased our 10 real estate properties to eight different tenants under long-term triple net leases, and four of the eight tenants each represented more than 10% of our rental revenue. For the three months ended September 30, 2020, we leased our seven real estate properties to five different tenants under long-term triple net leases, and four of the five tenants each represented more than 10% of our rental revenue.

For the nine months ended September 30, 2021, we leased our 10 real estate properties to eight different tenants under long-term triple net leases, and three of the eight tenants each represented more than 10% of our rental revenue. For the nine months ended September 30, 2020, we leased our seven real estate properties to five different tenants under long-term triple net leases, and four of the five tenants each represented more than 10% of our rental revenue.

As of September 30, 2021, no tenants constituted a significant asset concentration as the net assets leased to the tenants were not greater than 20% of our total assets.

## **9. Fair Value Measurements of Financial Instruments**

Our condensed consolidated balance sheets include the following financial instruments: cash and cash equivalents, restricted cash, notes receivable, tenant and other receivables, certain other assets, accounts payable and accrued liabilities, security deposits and loans payable. With the exception of the loans payable discussed below, we consider the carrying values to approximate fair value for such financial instruments because of the short period of time between origination of the instruments and their expected payment.

As of September 30, 2021 and December 31, 2020, the fair value of loans payable was \$55.6 million and \$52.6 million, compared to the principal balance (excluding debt discount) of \$61.4 million and \$47.2 million, respectively. The fair value of loans payable was estimated using lending rates available to us for financial instruments with similar terms and maturities. To estimate fair value as of September 30, 2021, we utilized discount rates ranging from 2.8% to 5.0% and a weighted average discount rate of 5.0%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our loans payable are classified as Level 3 liability within the fair value hierarchy.

As a result of our ongoing analysis for potential impairment of our investments in real estate, we may be required to adjust the carrying value of certain assets to their estimated fair values, or estimated fair value less selling costs, under certain circumstances. No impairments were recorded during the three and nine months ended September 30, 2021 and 2020.

At September 30, 2021 and December 31, 2020, we do not have any financial assets or financial liabilities that are measured at fair value on a recurring basis in our condensed consolidated financial statements.

## **10. Commitments and Contingencies**

We inspect our properties under a Phase I assessment for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to the properties that would have a material effect on our consolidated financial condition, results of operations and cash flows. Further, we are not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Our commitments and contingencies include the usual obligations of real estate owners and licensed operators in the normal course of business. In the opinion of management, these matters are not expected to have a material impact on our consolidated financial condition, results of operations and cash flows. We are also subject to contingent losses resulting from litigation against the Company.

***Legal Proceedings***

On April 1, 2014, CRA and Cornerstone Ventures, Inc. filed a complaint in the Superior Court of California for the County of Orange-Central Justice Center, Case No. 30-2014-00714004-CU-BT-CJC, naming the Company, its former directors, one of its officers and one of its former officers as defendants, seeking declaratory and injunctive relief and compensatory and punitive damages. On September 17, 2014, we filed a First Amended Cross-Complaint seeking compensatory damages and an accounting pursuant to Sections 10(c)(i) and 17(c)(ii) of the Advisory Agreement and including any monies Plaintiffs and Terry Roussel directly or indirectly received from or paid to the Company. On February 22, 2018, the action was assigned to a different trial judge. On May 29, 2018, the Company filed a motion for terminating and monetary sanctions against CRA, Cornerstone Ventures, Inc. and their counsel, Winget Spadafora & Schwartzberg. On November 30, 2018, the new trial judge vacated the trial date, pending resolution of the Company's motion for terminating and monetary sanctions against CRA and Cornerstone Ventures, Inc. and denied the Company's motion for sanctions against Winget Spadafora & Schwartzberg. On February 13, 2019, the trial judge held another hearing on the Company's motion for terminating and monetary sanctions and indicated that it intended to grant the Company's motion for terminating sanctions and award the Company monetary sanctions. On March 14, 2019, the Court entered an Order and Judgment granting the Company's motion for terminating sanctions, awarding the Company monetary sanctions in the amount of \$588,672, and dismissing CRA and Cornerstone Ventures Inc.'s Complaint with prejudice. On May 21, 2019, CRA and Cornerstone Ventures, Inc. filed a notice of appeal from the Judgment and, on June 3, 2019, the Company filed a notice of cross-appeal from the Judgment. On July 9, 2019, the California Court of Appeal, Fourth District dismissed CRA and Cornerstone Ventures, Inc.'s appeal with prejudice. The briefing to the Court of Appeal, Fourth District on the Company's appeals against CRA, Cornerstone Ventures, Inc and Winget Spadafora & Schwartzberg was completed on April 27, 2020. On October 28, 2020, the Court of Appeal issued an opinion affirming in part, and reversing, in part, the trial court's opinion and remanded the action back to the trial court. On February 11, 2021, the trial court issued an order awarding an additional \$189,645 in monetary sanctions for the period prior to July 12, 2016 in favor of the Company and against CRA and CVI.

In September 2015, a bankruptcy petition was filed against Healthcare Real Estate Partners, LLC ("HCRE") by the investors in Healthcare Real Estate Fund, LLC and Healthcare Real Estate Qualified Purchasers Fund, LLC (collectively, the "Funds"). HCRE did not timely respond to the involuntary petition and the Bankruptcy Court entered an Order of Relief making HCRE a debtor in bankruptcy. As a result, HCRE was removed as manager under the Funds' operating agreement. Thereafter the Company became the manager of the Funds and purchased the investors' interests in the Funds for approximately \$0.9 million. Following the subsequent dismissal of the involuntary bankruptcy petition filed against it, HCRE filed a motion for attorneys' fees and damages and a separate complaint for violation of the automatic stay against the petitioning creditors and the Company in the United States Bankruptcy Court of the District of Delaware. The Bankruptcy Court granted a motion to dismiss the complaint for violation of the automatic stay filed jointly by the petitioning creditors and us, and dismissed the complaint with prejudice. HCRE appealed the Bankruptcy Court's decision to the United States District Court for the District of Delaware which affirmed the Bankruptcy Court's dismissal of the complaint in a decision dated September 9, 2018. On October 11, 2018, HCRE appealed the District Court's decision affirming the Bankruptcy Court's dismissal of the complaint to the United States Court of Appeals for the Third Circuit. On October 22, 2019, the Third Circuit granted HCRE's appeal, reversing the District Court and holding that HCRE could assert the adversary complaint seeking damages for violation of the automatic stay. The Company filed a Petition for Rehearing on November 5, 2019 asserting that HCRE is not entitled to assert a claim for damages for violation of the automatic stay. This Petition was denied and the mandate was issued sending the matter back to the Bankruptcy Court. The Bankruptcy Court held a status conference on February 4, 2021, and subsequently entered scheduling orders to govern discovery and pretrial matters, and discovery is ongoing. The parties have filed dispositive motions, including a motion filed by the Company and the petitioning creditors for judgment on the pleadings. Following a further status conference on October 14, 2021, the parties agreed to postpone remaining discovery until after the Court rules on the pending motions. Based on the assessment by management of the numerous legal arguments that can be raised on this claim, the Company believes that a loss is currently not probable or estimable under ASC 450, "Contingencies", and as of September 30, 2021 no accrual has been made with regard to the claim. We believe that all of HCRE's remaining alleged claims are without merit and will vigorously defend ourselves.

[Table of Contents](#)

**Indemnification and Employment Agreements**

We have entered into indemnification agreements with certain of our executive officers and directors which indemnify them against all judgments, penalties, fines and amounts paid in settlement and all expenses actually and reasonably incurred by him or her in connection with any proceeding. Additionally, effective October 19, 2021, we amended our employment agreements with our executive officers to extend the term of each agreement for an additional three years. These employment agreements include customary terms relating to salary, bonus, position, duties and benefits (including eligibility for equity compensation), as well as a cash payment following a change in control of the Company, as defined in such agreements.

**Management of our Equity-Method Investments**

As the manager of our Equity-Method Investments, we are responsible for the day-to-day management. Additionally, we could be subject to a capital call from our Equity-Method Investments.

**11. Equity**

**Share-Based Compensation Plans**

Upon the grant of stock options, we determine the exercise price by using our estimated per-share value, which is calculated by aggregating the estimated fair value of our investments in real estate and the estimated fair value of our other assets, subtracting the book value of our liabilities, utilizing a discount for the fact that the shares are not currently traded on a national securities exchange and a lack of a control premium, and divided by the total by the number of our common shares outstanding at the time the options were granted.

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions required by the model include the risk-free interest rate, the expected life of the options, the expected stock price volatility over the expected life of the options, and the expected distribution yield. Compensation expense for employee stock options is recognized ratably over the vesting term. The expected life of the options was based on the simplified method as we do not have sufficient historical exercise data. The risk-free interest rate was based on the U.S. Treasury yield curve at the date of grant with maturity dates approximating the expected term of the options at the date of grant. Volatility was based on historical volatility of the stock prices for a sample of publicly traded companies with risk profiles similar to ours. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time, including the expected stock price volatility and the expected life of an option.

The following table summarizes our stock options as of September 30, 2021:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Options outstanding at January 1, 2021	1,871,908	\$ 2.09		
Granted	—			
Exercised	—			
Cancelled/forfeited	(1,333)	2.26		
Options outstanding at September 30, 2021	<u>1,870,575</u>	<u>\$ 2.09</u>	<u>6.06</u>	<u>\$ 1,524,000</u>
Options exercisable at September 30, 2021	<u>1,828,685</u>	<u>\$ 2.08</u>	<u>6.06</u>	<u>\$ 1,497,000</u>

[Table of Contents](#)

For our outstanding non-vested options as of September 30, 2021, the weighted average grant date fair value per share was \$0.59. As of September 30, 2021, we have unrecognized stock-based compensation expense related to unvested stock options which is expected to be recognized as follows:

<b>Years Ending December 31,</b>	
October 1, 2021 to December 31, 2021	\$ 10,000
2022	14,000
2023	1,000
	<u>\$ 25,000</u>

The stock-based compensation expense reported for the three months ended September 30, 2021 and 2020 was approximately \$9,000 and \$35,000, respectively, and is included in general and administrative expense in the condensed consolidated statements of operations. The stock-based compensation expense reported for the nine months ended September 30, 2021 and 2020 was approximately \$56,000 and \$115,000, respectively, and is included in general and administrative expense in the condensed consolidated statements of operations.

## 12. Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (“EPS”) for the Company’s common stock for the three and nine months ended September 30, 2021 and 2020, and reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS:

	<b>Three Months Ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Numerator:</b>				
(Loss) income	\$ (229,000)	\$ 128,000	\$ 604,000	\$ (136,000)
(Income) loss attributable to noncontrolling interest	(18,000)	(16,000)	(58,000)	(39,000)
Net (loss) income applicable to common stockholders	<u>\$ (247,000)</u>	<u>\$ 112,000</u>	<u>\$ 546,000</u>	<u>\$ (175,000)</u>
<b>Denominator:</b>				
Basic:				
Denominator for basic EPS - weighted average shares	23,027,978	23,027,978	23,027,978	23,027,978
Effect of dilutive shares:				
Stock options	—	487,436	525,628	—
Denominator for diluted EPS – adjusted weighted average shares	23,027,978	23,515,414	23,553,606	23,027,978
Basic EPS	\$ (0.01)	\$ 0.00	\$ 0.02	\$ (0.01)
Diluted EPS	\$ (0.01)	\$ 0.00	\$ 0.02	\$ (0.01)

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following “Management’s Discussion and Analysis of Financial Condition and Results of Operations” should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto contained elsewhere in this report. This section contains forward-looking statements, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to numerous risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements should be read in light of the risks identified in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 29, 2021.

### **Overview**

As of September 30, 2021, our ownership interests in our 10 real estate properties of senior housing facilities was as follows: 100% ownership of six properties and a 95.3% interest in four properties in a consolidated joint venture, Cornerstone Healthcare Partners LLC. Additionally, we have a 10% interest in an unconsolidated equity-method investment that owns 17 properties, a 35% equity interest in an unconsolidated equity-method investment that holds two properties, a 20% equity interest in an unconsolidated equity-method investment that holds two properties, a 10% equity interest in an unconsolidated equity-method investment that holds nine properties, and a 10% equity interest in an unconsolidated equity-method investment that holds six properties (collectively, our “Equity-Method Investments”). In June 2021, we sold our 15% equity interest in an unconsolidated equity-method investment that held 14 properties. As used in this report, the “Company,” “we,” “us” and “our” refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries, except where the context otherwise requires.

Our revenues are comprised largely of tenant rental income from our 10 real estate properties, including rents reported on a straight-line basis, where applicable, over the initial term of each tenant lease, and acquisition and asset management fees resulting from our Equity-Method Investments. We also receive cash distributions from our Equity-Method Investments, which are included in net cash provided by operating activities and net cash provided by investing activities in our condensed consolidated statements of cash flows. Our growth depends, in part, on our ability to continue to raise joint venture equity or other equity, acquire new healthcare properties at attractive prices, negotiate long-term tenant leases with sustainable rental rate escalation terms and control our expenses. Our operations are impacted by property-specific, market-specific, general economic, regulatory and other conditions.

We believe that continued investing in senior housing facilities is accretive to earnings and stockholder value. Senior housing facilities include independent living facilities (“IL”), skilled nursing facilities (“SNF”), assisted living facilities (“AL”), memory care facilities (“MC”) and continuing care retirement communities (“CCRC”). Each of these types of facilities focuses on different segments of the senior population.

### **Coronavirus (COVID-19)**

Since it was first reported in December 2019, COVID-19 has spread globally. The COVID-19 pandemic and measures to prevent its spread negatively impacted senior housing and skilled nursing facilities in a number of ways, including decreased occupancy and increased operating costs, which could have a material adverse effect on the ability of our tenants to meet their financial and other contractual obligations to us, including the payment of rent (see Note 2 to the accompanying Notes to Condensed Consolidated Financial Statements for further information). Furthermore, infections at our facilities could lead to material increases in litigation costs for which our tenants, or possibly we, may be liable.

If these types of developments continue or increase in severity, or arise with more frequency, including but not limited to developments in connection with emerging variants of COVID-19, they are likely to have a material adverse effect on our business and results of operations. The extent to which COVID-19 could impact our business and results of operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 and the actions taken to contain COVID-19 or treat its impact, among others.

[Table of Contents](#)

The healthcare industry was among those most adversely affected by the COVID-19 pandemic. During 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted to provide economic stimulus and assistance to business owners to help maintain on-going operations in the form of grants, forgivable loans and other relief. The skilled nursing and assisted living operators in the Company's portfolio have been able to benefit from these federal and state government assistance programs.

Healthcare personnel and residents of long-term care facilities, including SNF, AL, and MC facilities, were included among those offered the first supply of the COVID-19 vaccines. Many of our consolidated and Equity Method Investments facilities have administered the vaccine to residents and employees. It is too early to assess the total effect of the vaccinations on the industry, but it is believed they will help save the lives of those who are most at risk, as well as lessen the operational and financial burden on our facilities and their employees.

**Summit Portfolio Properties**

At September 30, 2021, our portfolio consisted of 10 real estate properties as noted above. All of the properties are 100% leased on a triple net basis. The following table provides summary information (excluding the 36 properties held by our unconsolidated Equity-Method Investments) regarding these properties as of September 30, 2021:

	Properties	Beds	Square Footage	Purchase Price
SNF	7	528	158,595	\$ 51,795,000
AL or AL/MC	3	221	136,765	25,525,000
<b>Total Real Estate Properties</b>	<b>10</b>	<b>749</b>	<b>295,360</b>	<b>\$ 77,320,000</b>

Property	Location	Date Purchased	Type	Beds	2021 Rental Revenue <sup>1</sup>
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	51	\$ 369,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	63	394,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County TX	September 14, 2012	SNF	150	1,059,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	73	726,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	66	573,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	65	167,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	90	278,000
Yucaipa Hill Post Acute	Yucaipa, CA	July 2, 2021	SNF	82	264,000
Creekside Post Acute	Yucaipa, CA	July 2, 2021	SNF	59	118,000
University Post Acute	Mentone, CA	July 2, 2021	SNF	50	112,000
<b>Total</b>				<b>749</b>	

<sup>1</sup> Represents year-to-date rental revenue based on in-place leases, including straight-line rent and excluding straight-line rent write offs of \$0.5 million, through September 30, 2021 and excluding \$0.5 million in tenant reimbursements.

On July 2, 2021, we acquired three properties in California (the "CA3 Properties") for approximately \$20.1 million. See Note 3 to the accompanying Notes to Condensed Consolidated Financial Statements for further information.

**Summit Equity-Method Investment Portfolio Properties**

We continue to believe that raising institutional joint venture equity to make acquisitions will be accretive to shareholder value. Our primary source of equity since 2015 has been institutional funds raised through a joint venture structure and accounted for as equity-method investments. We continue to believe this is a prudent strategy for growth.

[Table of Contents](#)

A summary of the condensed combined financial data for the balance sheets and statements of income for all unconsolidated Equity-Method Investments are as follows (see below under *Indiana JV* for information regarding the sale of our equity interest in the Indiana JV on June 11, 2021 and see Note 5 to the accompanying Notes to Condensed Consolidated Financial Statements; accordingly, the financial information for the Indiana JV is not included in the September 30, 2021 combined balance sheet and the three and nine months ended September 30, 2021 combined statements of income below):

<b>Condensed Combined Balance Sheets:</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Total Assets	\$ 287,086,000	\$ 415,591,000
Total Liabilities	\$ 218,462,000	\$ 324,414,000
Members Equity:		
Summit	\$ 7,712,000	\$ 11,489,000
JV Partners	\$ 60,912,000	\$ 79,688,000
Total Members Equity	<u>\$ 68,624,000</u>	<u>\$ 91,177,000</u>

<b>Condensed Combined Statements of Income:</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Total Revenue	\$ 9,960,000	\$ 12,282,000	\$ 29,845,000	\$ 36,952,000
Income from Operations	\$ 3,797,000	\$ 6,007,000	\$ 11,151,000	\$ 17,860,000
Net Income	<u>\$ 1,660,000</u>	<u>\$ 1,583,000</u>	<u>\$ 5,243,000</u>	<u>\$ 3,049,000</u>
Summit equity interest in Equity-Method Investments net income	<u>\$ 190,000</u>	<u>\$ 177,000</u>	<u>\$ 691,000</u>	<u>\$ 345,000</u>
JV Partners interest in Equity-Method Investments net income	<u>\$ 1,470,000</u>	<u>\$ 1,406,000</u>	<u>\$ 4,552,000</u>	<u>\$ 2,704,000</u>

***Summit Union Life Holdings, LLC***

In April 2015, through our operating partnership (“Operating Partnership”), we formed Summit Union Life Holdings, LLC (“SUL JV”) with Best Years, LLC (“Best Years”), an unrelated entity and a U.S.-based affiliate of Union Life Insurance Co, Ltd. (a Chinese corporation), and entered into a limited liability company with Best Years with respect to the SUL JV (the “SUL LLC Agreement”). The SUL JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method.

The following reconciles our 10% equity investment in the SUL JV from inception through September 30, 2021:

JV 2 Properties (Colorado, Oregon and Virginia) – April 2015	\$ 1,076,000
Creative Properties (Texas) – October 2015	837,000
Cottage Properties (Wisconsin) – December 2015	736,000
Riverglen (New Hampshire) – April 2016	424,000
Delaware Properties – September 2016	1,846,000
Total investments	<u>4,919,000</u>
Income from equity-method investee	1,455,000
Distributions	(3,930,000)
<b>Total investment at September 30, 2021</b>	<b><u>\$ 2,444,000</u></b>

[Table of Contents](#)

A summary of the condensed consolidated financial data for the balance sheets and statements of income for the unconsolidated SUL JV, of which we own a 10% equity interest, is as follows:

	September 30, 2021	December 31, 2020
<b>Condensed Consolidated Balance Sheets of SUL JV:</b>		
Real estate properties and intangibles, net	\$ 126,175,000	\$ 129,793,000
Cash and cash equivalents	5,353,000	6,548,000
Other assets	13,568,000	11,932,000
<b>Total Assets</b>	<b>\$ 145,096,000</b>	<b>\$ 148,273,000</b>
Loans payable, net	\$ 103,374,000	\$ 104,552,000
Other liabilities	8,455,000	9,115,000
Members' equity:		
Best Years	30,708,000	31,841,000
Summit	2,559,000	2,765,000
<b>Total Liabilities and Members' Equity</b>	<b>\$ 145,096,000</b>	<b>\$ 148,273,000</b>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Condensed Consolidated Statements of Income of SUL JV:</b>				
Total revenue	\$ 5,072,000	\$ 4,553,000	\$ 15,339,000	\$ 13,703,000
Property operating expenses	(2,084,000)	(1,124,000)	(6,241,000)	(3,533,000)
<b>Net operating income</b>	<b>2,988,000</b>	<b>3,429,000</b>	<b>9,098,000</b>	<b>10,170,000</b>
General and administrative expense	(99,000)	(96,000)	(307,000)	(294,000)
Depreciation and amortization expense	(1,174,000)	(1,338,000)	(3,719,000)	(4,025,000)
<b>Income from operations</b>	<b>1,715,000</b>	<b>1,995,000</b>	<b>5,072,000</b>	<b>5,851,000</b>
Interest expense	(1,149,000)	(1,171,000)	(3,463,000)	(3,581,000)
Amortization of debt issuance costs	(49,000)	(54,000)	(153,000)	(160,000)
Other income (expense)	117,000	1,000	(35,000)	357,000
<b>Net income</b>	<b>\$ 634,000</b>	<b>\$ 771,000</b>	<b>\$ 1,421,000</b>	<b>\$ 2,467,000</b>
<b>Summit equity interest in SUL JV net income</b>	<b>\$ 63,000</b>	<b>\$ 77,000</b>	<b>\$ 142,000</b>	<b>\$ 247,000</b>

[Table of Contents](#)

As of September 30, 2021, the 17 properties held by SUL JV, our unconsolidated 10% equity-method investment, 11 of which are 100% leased on a triple net basis, and are as follows:

Property	Location	Type	Number of Beds
Lamar Estates	Lamar, CO	SNF	60
Monte Vista Estates	Monte Vista, CO	SNF	60
Myrtle Point Care Center	Myrtle Point, OR	SNF	55
Gateway Care and Retirement Center	Portland, OR	SNF/IL	91
Applewood Retirement Community	Salem, OR	IL	69
Shenandoah Senior Living	Front Royal, VA	AL	78
Pine Tree Lodge Nursing Center	Longview, TX	SNF	92
Granbury Care Center	Granbury, TX	SNF	181
Twin Oaks Nursing Center	Jacksonville, TX	SNF	116
Dogwood Trails Manor	Woodville, TX	SNF	90
Carolina Manor	Appleton, WI	AL	45
Carrington Manor	Green Bay, WI	AL	20
Marla Vista Manor	Green Bay, WI	AL	40
Marla Vista Gardens	Green Bay, WI	AL	20
Riverglen House of Littleton	Littleton, NH	AL	59
Atlantic Shore Rehabilitation and Health Center	Millsboro, DE	SNF	181
Pinnacle Rehabilitation and Health Center	Smyrna, DE	SNF	151
Total:			<u>1,408</u>

**Equity-Method Partner – Fantasia Investment III LLC**

In 2016 and 2017, through our Operating Partnership, we entered into three separate limited liability company agreements (collectively, the “Fantasia Agreements”) with Fantasia Investment III LLC (“Fantasia”), an unrelated entity and a U.S.-based affiliate of Fantasia Holdings Group Co., Limited (a Chinese corporation listed on the Stock Exchange of Hong Kong (HKEX)), and formed three separate companies, Summit Fantasia Holdings, LLC (“Fantasia I”), Summit Fantasia Holdings II, LLC (“Fantasia II”) and Summit Fantasia Holdings III, LLC (“Fantasia III”) (collectively, the “Fantasia JVs”). The Fantasia JVs are not consolidated in our condensed consolidated financial statements and are accounted for under the equity-method. Through the Fantasia JVs: we own a 35% interest in two senior housing facilities, one located in California and one located Oregon; a 20% interest in two skilled nursing facilities located in Rhode Island; and a 10% interest in nine skilled nursing facilities located in Connecticut.

The following reconciles our equity investments in the Fantasia JVs from inception through September 30, 2021:

Summit Fantasia Holdings, LLC – October 2016	\$ 2,524,000
Summit Fantasia Holdings II, LLC – February 2017	1,923,000
Summit Fantasia Holdings III, LLC – August 2017	1,954,000
Total investment	6,401,000
Income from Fantasia JVs	1,463,000
Distributions	(2,962,000)
<b>Total Fantasia investments at September 30, 2021</b>	<b>\$ 4,902,000</b>

[Table of Contents](#)

A summary of the condensed combined financial data for the balance sheets and statements of income for the unconsolidated Fantasia JVs, of which we own a 10% to 35% equity interest, is as follows:

Condensed Combined Balance Sheets of Fantasia JVs:	September 30,	December 31,
	2021	2020
Real estate properties, net	\$ 89,545,000	\$ 101,351,000
Cash and cash equivalents	7,667,000	7,497,000
Assets held for sale <sup>(1)</sup>	10,994,000	—
Other assets	5,926,000	6,526,000
<b>Total Assets</b>	<b>\$ 114,132,000</b>	<b>\$ 115,374,000</b>
Loans payable, net	\$ 66,696,000	\$ 75,661,000
Liabilities held for sale <sup>(1)</sup>	7,992,000	—
Other liabilities	8,382,000	8,359,000
Members' equity:		
Fantasia JVs	26,160,000	26,330,000
Summit	4,902,000	5,024,000
<b>Total Liabilities and Members' Equity</b>	<b>\$ 114,132,000</b>	<b>\$ 115,374,000</b>

(1) In May 2021, the Fantasia I JV entered into an agreement to sell one of the properties in the Summit Fantasia Holdings, LLC equity-method investment; therefore, such property has been accounted for as Held for Sale.

Condensed Combined Statements of Income of Fantasia JVs:	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Total revenue	\$ 3,940,000	\$ 3,904,000	\$ 11,775,000	\$ 11,760,000
Property operating expenses	(1,509,000)	(1,394,000)	(4,503,000)	(4,228,000)
<b>Net operating income</b>	<b>2,431,000</b>	<b>2,510,000</b>	<b>7,272,000</b>	<b>7,532,000</b>
General and administrative expense	(121,000)	(45,000)	(369,000)	(178,000)
Depreciation and amortization expense	(650,000)	(727,000)	(2,079,000)	(2,180,000)
<b>Income from operations</b>	<b>1,660,000</b>	<b>1,738,000</b>	<b>4,824,000</b>	<b>5,174,000</b>
Interest expense	(896,000)	(978,000)	(2,682,000)	(2,888,000)
Amortization of debt issuance costs	(16,000)	(45,000)	(48,000)	(192,000)
Other income	1,000	2,000	523,000	19,000
<b>Net income</b>	<b>\$ 749,000</b>	<b>\$ 717,000</b>	<b>\$ 2,617,000</b>	<b>\$ 2,113,000</b>
<b>Summit equity interest in Fantasia JVs net income</b>	<b>\$ 99,000</b>	<b>\$ 97,000</b>	<b>\$ 428,000</b>	<b>\$ 268,000</b>

[Table of Contents](#)

As of September 30, 2021, the 13 properties in Fantasia JVs, our unconsolidated equity-method investments, are all 100% leased on a triple net basis, and are as follows:

Property	Location	Type	Number of Beds
Sun Oak Assisted Living	Citrus Heights, CA	AL/MC	78
Regent Court Senior Living	Corvallis, OR	MC	48
Trinity Health and Rehabilitation Center	Woonsocket, Rhode Island	SNF	185
Hebert Nursing Home	Smithfield, Rhode Island	SNF	133
Chelsea Place Care Center	Hartford, CT	SNF	234
Touchpoints at Manchester	Manchester, CT	SNF	131
Touchpoints at Farmington	Farmington, CT	SNF	105
Fresh River Healthcare	East Windsor, CT	SNF	140
Trinity Hill Care Center	Trinity Hill, CT	SNF	144
Touchpoints at Bloomfield	Bloomfield, CT	SNF	150
Westside Care Center	Westside, CT	SNF	162
Silver Springs Care Center	Meriden, CT	SNF	159
Touchpoints of Chestnut	Chestnut, CT	SNF	60
Total:			<u>1,729</u>

**Summit Fantasy Pearl Holdings, LLC**

In October 2017, through our Operating Partnership, we entered into a limited liability company agreement (the “FPH LLC Agreement”) with Fantasia, Atlantis Senior Living 9, LLC, a Delaware limited liability company (“Atlantis”), and Fantasy Pearl LLC, a Delaware limited liability company (“Fantasy”), and formed Summit Fantasy Pearl Holdings, LLC (the “FPH JV”). The FPH JV is not consolidated in our condensed consolidated financial statements and will be accounted for under the equity-method.

The following reconciles our equity investment in the FPH JV from inception through September 30, 2021:

Iowa properties – November 2017	\$ 929,000
Total investment	929,000
Income from equity-method investee	6,000
Distributions	(684,000)
<b>Total FPH investment at September 30, 2021</b>	<b>\$ 251,000</b>

[Table of Contents](#)

A summary of the condensed consolidated financial data for the balance sheets and statements of operations for the unconsolidated FPH JV is as follows:

<b>Condensed Consolidated Balance Sheets of FPH JV:</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Real estate properties, net	\$ 25,147,000	\$ 26,068,000
Cash and cash equivalents	1,445,000	1,430,000
Other assets	1,266,000	1,079,000
<b>Total Assets</b>	<b>\$ 27,858,000</b>	<b>\$ 28,577,000</b>
Loans payable, net	\$ 20,872,000	\$ 21,195,000
Other liabilities	2,691,000	3,407,000
Members' equity:		
Fantasia JVs	4,044,000	3,730,000
Summit	251,000	245,000
<b>Total Liabilities and Members' Equity</b>	<b>\$ 27,858,000</b>	<b>\$ 28,577,000</b>

<b>Condensed Consolidated Statements of Operations of FPH JV:</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Total revenue	\$ 948,000	\$ 879,000	\$ 2,731,000	\$ 2,650,000
Property operating expenses	(182,000)	(117,000)	(445,000)	(364,000)
<b>Net operating income</b>	<b>766,000</b>	<b>762,000</b>	<b>2,286,000</b>	<b>2,286,000</b>
General and administrative expense	(37,000)	(38,000)	(110,000)	(109,000)
Depreciation and amortization expense	(307,000)	(307,000)	(921,000)	(921,000)
<b>Income from operations</b>	<b>422,000</b>	<b>417,000</b>	<b>1,255,000</b>	<b>1,256,000</b>
Interest expense	(254,000)	(260,000)	(757,000)	(777,000)
Amortization of debt issuance costs	(15,000)	(16,000)	(46,000)	(46,000)
Other income (expense)	124,000	89,000	753,000	(1,608,000)
<b>Net income (loss)</b>	<b>\$ 277,000</b>	<b>\$ 230,000</b>	<b>\$ 1,205,000</b>	<b>\$ (1,175,000)</b>
<b>Summit equity interest in FPH JV net income (loss)</b>	<b>\$ 28,000</b>	<b>\$ 23,000</b>	<b>\$ 121,000</b>	<b>\$ (117,000)</b>

As of September 30, 2021, the six properties of our unconsolidated equity-method investments in FPH JV, all of which are 100% leased on a triple net basis, are as follows:

<b>Property</b>	<b>Location</b>	<b>Type</b>	<b>Number of Beds</b>
Accura Healthcare of Bancroft	Bancroft, Iowa	SNF/AL	50
Accura Healthcare of Milford	Milford, Iowa	SNF/AL	94
Accura Healthcare of Carroll	Carroll, Iowa	SNF/IL	124
Accura Healthcare of Cresco	Cresco, Iowa	SNF	59
Accura Healthcare of Marshalltown	Marshalltown, Iowa	SNF	86
Accura Healthcare of Spirit Lake	Spirit Lake, Iowa	SNF	98
<b>Total:</b>			<b>511</b>

**Indiana JV**

In June 2021, we sold our 15% interest in the Indiana JV for approximately \$5.4 million. The Indiana JV was not consolidated in our condensed consolidated financial statements and was accounted for under the equity-method.

[Table of Contents](#)

The following reconciles our equity investment in the Indiana JV from inception through June 11, 2021:

Indiana properties – March 2019	\$ 4,906,000
Total investment	4,906,000
Loss from equity-method investee	(1,433,000)
Distributions	(1,577,000)
<b>Total Indiana JV investment at June 11, 2021</b>	<b>1,896,000</b>
Funds received from sale of interest in equity-method investment	5,411,000
<b>Total gain on sale of Indiana JV equity-method investment at June 11, 2021</b>	<b>\$ 3,515,000</b>

*Distributions from Equity-Method Investments*

For the nine months ended September 30, 2021 and 2020, we recorded distributions and cash received for distributions from our Equity-Method Investments as follows:

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
<b>Distributions</b>	<b>\$ 1,429,000</b>	<b>\$ 1,496,000</b>
<b>Cash received for distributions</b>	<b>\$ 1,866,000</b>	<b>\$ 1,366,000</b>

**Critical Accounting Policies**

There have been no material changes to our critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020 as filed with the SEC on March 29, 2021.

**Results of Operations**

Our results of operations are described below:

**Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020**

	Three Months Ended September 30,		\$ Change
	2021	2020	
Total rental revenues	\$ 1,853,000	\$ 1,624,000	\$ 229,000
Property operating costs	(264,000)	(252,000)	(12,000)
Net operating income <sup>(1)</sup>	1,589,000	1,372,000	217,000
Acquisition & asset management fees	165,000	292,000	(127,000)
Interest income from notes receivable	7,000	7,000	—
General and administrative	(933,000)	(779,000)	(154,000)
Depreciation and amortization	(524,000)	(417,000)	(107,000)
Income from equity-method investees	191,000	179,000	12,000
Other income	5,000	5,000	—
Interest expense	(729,000)	(531,000)	(198,000)
Net (loss) income	(229,000)	128,000	(357,000)
Noncontrolling interests' share in (income) loss	(18,000)	(16,000)	(2,000)
Net (loss) income applicable to common stockholders	\$ (247,000)	\$ 112,000	\$ (359,000)

(1) Net operating income ("NOI") is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as total rental revenues less property operating costs. NOI excludes acquisition and asset management fees, interest income from notes receivable, general and administrative expense, depreciation and amortization, income from equity-method investees, gain on sale of equity-method investment, other income, and interest expense. We believe NOI provides investors relevant and useful information because it measures the operating performance of the REIT's real estate at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess and compare property-level performance. We believe that net income (loss) is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income (loss) as defined by GAAP since it does not reflect the aforementioned excluded items. Additionally, NOI as we define it may not be comparable to NOI as defined by other REITs or companies, as they may use different methodologies for calculating NOI.

Total rental revenues for our properties includes rental revenues and tenant reimbursements for property taxes and insurance. Property operating costs include insurance, property taxes and other operating expenses. Net operating income increased approximately \$0.2 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 primarily due to the acquisition of the CA3 Properties in July 2021 offset by the reduction in rental revenue from Pennington Gardens and Sundial Assisted Living (approximately \$128,000) (see Note 2 to the accompanying Notes to Condensed Consolidated Financial Statements under *Coronavirus (COVID-19)* and Note 3 under *2021 Acquisitions*).

The net increase in general and administrative expenses of \$0.1 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 is primarily due to an increase in payroll related expenses, legal fees and other professional expenses.

The net increase in depreciation and amortization and interest expense of \$0.1 million and \$0.2 million, respectively, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 is primarily due to the acquisition of the CA3 Properties in July 2021.

**Nine months ended September 30, 2021 Compared to Nine months ended September 30, 2020**

	<b>Nine months ended September 30,</b>		<b>\$ Change</b>
	<b>2021</b>	<b>2020</b>	
Total rental revenues	\$ 4,061,000	\$ 4,828,000	\$ (767,000)
Property operating costs	(694,000)	(722,000)	28,000
Net operating income <sup>(1)</sup>	3,367,000	4,106,000	(739,000)
Acquisition & asset management fees	789,000	910,000	(121,000)
Interest income from notes receivable	20,000	21,000	(1,000)
General and administrative	(3,426,000)	(2,566,000)	(860,000)
Depreciation and amortization	(1,316,000)	(1,252,000)	(64,000)
(Loss) income from equity-method investees	(594,000)	346,000	(940,000)
Gain on sale of equity-method investment	3,515,000	—	3,515,000
Other income	16,000	53,000	(37,000)
Interest expense	(1,767,000)	(1,754,000)	(13,000)
Net income (loss)	604,000	(136,000)	740,000
Noncontrolling interests' share in (income) loss	(58,000)	(39,000)	(19,000)
Net income (loss) applicable to common stockholders	<u>\$ 546,000</u>	<u>\$ (175,000)</u>	<u>721,000</u>

Total rental revenues for our properties includes rental revenues and tenant reimbursements for property taxes and insurance. Property operating costs include insurance, property taxes and other operating expenses. Net operating income decreased approximately \$0.7 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 primarily due to the reduction in total rental revenue (\$0.6 million) and write off of straight-line rent (\$0.5 million) from Pennington Gardens and Sundial Assisted Living (see Note 2 to the accompanying Notes to Condensed Consolidated Financial Statements under *Coronavirus (COVID-19)* offset by the acquisition of the CA3 Properties in July 2021.

The net increase in general and administrative expenses of \$0.9 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 is primarily due to the write off of expenses associated with a terminated transaction of approximately \$0.6 million and an increase in payroll related expenses and other professional expenses of approximately \$0.3 million.

The net decrease of approximately \$1.0 million from income to loss from equity-method investments for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 is primarily due to the increase in the net loss related to the Indiana JV, our former Equity-Method Investment (see Note 5 to the accompanying Notes to Condensed Consolidated Financial Statements for further information related to the sale of our interest in the Indiana JV in June 2021).

The increase in gain on sale of equity-method investment of approximately \$3.5 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 is due to the sale of our equity interest in the Indiana JV (see Note 5 to the accompanying Notes to Condensed Consolidated Financial Statements for further information related to the sale of our interest in the Indiana JV in June 2021).

**Liquidity and Capital Resources**

As of September 30, 2021, we had approximately \$17.0 million in cash and cash equivalents on hand. Based on current conditions, we believe that we have sufficient capital resources to sustain operations.

Going forward, we expect our primary sources of cash to be rental revenues, joint venture distributions, and acquisition and asset management fees. In addition, we may increase cash through the sale of additional properties, which may result in the deconsolidation of properties we already own, or borrowing against currently-owned properties. For the foreseeable future, we expect our primary uses of cash to be for funding future acquisitions, investments in joint ventures, operating expenses, interest expense on outstanding indebtedness and the repayment of principal on loans payable. We may also incur expenditures for renovations of our existing properties, making our facilities more appealing in their market.

Seven of our debt obligations are long-term, fixed rate HUD-insured loans that mature between 2039 and 2055. The other debt obligation is a short-term loan that matures in July 2024 with a variable interest rate starting at 5% and based on the one-month LIBOR rate

[Table of Contents](#)

Our liquidity will increase if cash from operations exceeds expenses, we receive net proceeds from the sale of whole or partial interest in a property or properties, or refinancing results in excess loan proceeds. Our liquidity will decrease as proceeds are expended in connection with our acquisitions and operation of properties.

***CARES Act***

During 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted to provide economic stimulus and assistance to business owners to help maintain on-going operations in the form of grants, forgivable loans and other relief. We did not obtain a paycheck protection program loan. We have evaluated the CARES Act and determined that there was no impact to the Company for the three and nine-month period ended September 30, 2021 and for the year ended December 31, 2020. We will continue to evaluate and monitor the CARES Act, and any new COVID-19-related legislation to determine the ultimate impact and benefits, if any, to the Company.

***Credit Facilities and Loan Agreements***

As of September 30, 2021, we had debt obligations of approximately \$61.4 million. The outstanding balance by loan agreement is as follows (see Note 4 to the accompanying Notes to Condensed Consolidated Financial Statements for further information regarding our refinancing arrangements):

- Capital One Multifamily Finance, LLC (HUD-insured) – approximately \$10.3 million maturing September 2053
- Lument Capital (formerly ORIX Real Estate Capital, LLC) (HUD-insured) – approximately \$36.1 million maturing from September 2039 through April 2055
- CIBC Bank, USA - approximately \$15.0 million maturing July 2024

***Distributions***

We made no stockholder distributions during the nine months ended September 30, 2021.

***Funds from Operations (“FFO”)***

FFO is a non-GAAP supplemental financial measure that is widely recognized as a measure of REIT operating performance. We compute FFO in accordance with the definition outlined by the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as net income (loss), computed in accordance with GAAP, excluding gains or losses from sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures.

[Table of Contents](#)

Our FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. We believe that FFO is helpful to investors and our management as a measure of operating performance because it excludes depreciation and amortization, gains and losses from property dispositions, impairments and extraordinary items, and as a result, when compared period to period, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which is not immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance. Factors that impact FFO include start-up costs, fixed costs, delays in buying assets, lower yields on cash held in accounts pending investment, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. FFO should not be considered as an alternative to net income (loss), as an indication of our performance, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

The following is the reconciliation from net income (loss) applicable to common stockholders, the most direct comparable financial measure calculated and presented with GAAP, to FFO for the three months and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net (loss) income applicable to common stockholders (GAAP)	\$ (247,000)	\$ 112,000	\$ 546,000	\$ (175,000)
Adjustments:				
Depreciation and amortization	524,000	417,000	1,316,000	1,252,000
Depreciation and amortization related to non-controlling interests	(9,000)	(10,000)	(28,000)	(30,000)
Depreciation related to Equity-Method Investments	253,000	557,000	1,288,000	1,672,000
Gain on sale of equity-method investment	—	—	(3,515,000)	—
Funds provided from (used in) operations (FFO) applicable to common stockholders	\$ 521,000	\$ 1,076,000	\$ (393,000)	\$ 2,719,000
Weighted-average number of common shares outstanding - basic	23,027,978	23,027,978	23,027,978	23,027,978
FFO per weighted average common shares - basic	\$ 0.02	\$ 0.05	\$ (0.02)	\$ 0.12
Weighted-average number of common shares outstanding - diluted	23,027,978	23,515,414	23,553,606	23,027,978
FFO per weighted average common shares - diluted	\$ 0.02	\$ 0.05	\$ (0.02)	\$ 0.12

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our senior management, including our Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer (Principal Financial Officer), to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) evaluated the effectiveness of our disclosure controls and procedures and concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II — OTHER INFORMATION**

**Item 1. Legal Proceedings.**

See Note 10 to the accompanying Notes to Condensed Consolidated Financial Statements for a summary of our material legal proceedings.

**Item 1A. Risk Factors.**

There have been no material changes to the Risk Factors described in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a) We did not sell any equity securities that were not registered under the Securities Act of 1933, as amended, during the periods covered by this Form 10-Q.

(b) Not applicable.

(c) During the nine months ended September 30, 2021, we redeemed no shares pursuant to our stock repurchase program.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

[Table of Contents](#)

**Item 6. Exhibits.**

<u>Ex.</u>	<u>Description</u>
3.1	<a href="#">Amendment and Restatement of Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 24, 2006).</a>
3.2	<a href="#">Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.3 to Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 23, 2005).</a>
3.3	<a href="#">Articles of Amendment of the Company dated October 16, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 22, 2013).</a>
3.4	<a href="#">Second Articles of Amendment and Restatement of Articles of Incorporation of the Company dated June 30, 2010 (incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K filed on March 20, 2015).</a>
4.1	<a href="#">Subscription Agreement (incorporated by reference to Appendix A to the prospectus included on Post-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-155640) filed on April 16, 2010 ("Post-Effective Amendment No. 2")).</a>
4.2	<a href="#">Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 14, 2004).</a>
4.3	<a href="#">Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Appendix B to the prospectus dated April 16, 2010 included on Post-Effective Amendment No. 2).</a>
4.4	<a href="#">2015 Omnibus Incentive Plan dated October 28, 2015 (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed on September 28, 2015).</a>
10.1	<a href="#">Amended and Restated Employment Agreement dated October 19, 2021 by and between the Company and Kent Eikanas*</a>
10.2	<a href="#">Amended and Restated Employment Agreement dated October 19, 2021 by and between the Company and Elizabeth Pagliarini*</a>
31.1	<a href="#">Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.1	The following information from the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Cash Flows.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT HEALTHCARE REIT, INC.

Date: November 10, 2021

/s/ Kent Eikanas  
Kent Eikanas  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Date: November 10, 2021

/s/ Elizabeth A. Pagliarini  
Elizabeth A. Pagliarini  
*Chief Financial Officer*  
*(Principal Financial Officer)*

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** (this “**Agreement**”) is made as of this 19th day of October, 2021 (the “**Effective Date**”), by and between Summit Healthcare REIT, Inc., a Maryland corporation (“**Company**”), and Kent Eikanas, an individual resident in the State of California (“**Executive**”).

**RECITALS**

**WHEREAS**, Company desires to continue to employ Executive as the Chief Executive Officer of Company as of the Effective Date, subject to the terms and conditions of this Agreement; and

**WHEREAS**, Executive desires to be employed by Company in the aforesaid capacity, subject to the terms and conditions of this Agreement.

**NOW, THEREFORE**, in consideration of the foregoing premises, of the mutual agreements and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows, effective as of the Effective Date:

**AGREEMENT**

**1. Employment.**

Company hereby agrees to employ Executive, and Executive hereby accepts employment, as Chief Executive Officer of Company, pursuant to the terms of this Agreement. Executive shall have the duties and responsibilities, and shall perform such administrative and managerial services customary to the position of Chief Executive Officer or as shall be reasonably delegated or assigned to Executive by the Board of Directors of Company (the “**Board**”) from time to time. Executive’s duties and responsibilities shall include: communicating with the Board; facilitating the Annual Shareholder meeting; providing vision for the Company; identifying, developing and maintaining capital relationships; identifying acquisition opportunities; and overseeing asset management. Executive shall devote Executive’s full business time and attention to his responsibilities hereunder; provided that Executive shall be entitled to devote time to outside boards of directors, personal investments and civic and charitable activities, so long as such activities do not materially interfere with or conflict with Executive’s duties hereunder.

**2. Effective Date and Term.**

The term of Executive’s employment by Company under this Agreement shall commence on the Effective Date and shall continue until the third (3<sup>rd</sup>) anniversary of the Effective Date (the “**Employment Period**”). Executive’s employment and the Employment Period may only be terminated as provided by this Agreement.

### 3. **Compensation and Benefits.**

In consideration for the services Executive shall render under this Agreement, Company shall provide to Executive the following compensation and benefits:

**3.1 Base Salary.** During the Employment Period, Company shall pay to Executive an annual base salary at a rate of \$425,000 per annum, subject to all appropriate withholding taxes, which base salary shall be payable in accordance with Company's normal payroll practices and procedures (but no less frequently than monthly). Executive's base salary shall be reviewed annually prior to the beginning of each fiscal year of Company during the Employment Period by the Board, or a committee of the Board, and may be increased, in the sole discretion of the Board, or such committee of the Board. For purposes of this Agreement, the term "**Fiscal Year**" shall mean the fiscal year of Company. Executive's base salary, as in effect from time to time, is hereinafter referred to as the "**Base Salary**."

**3.2 Executive Compensation Plan.** Executive shall be eligible to receive bonuses in accordance with the 2021 Final Executive Compensation Plan ("**Plan**"), attached hereto as **Exhibit A**, and in accordance with any subsequently adopted amendments to that Plan, or any newly adopted executive compensation plan. Capital Raise Bonuses shall be paid at the conclusion of each transaction. Cash Bonuses for reaching MBOs shall be paid out after the provision of the outside auditor's opinion with respect to the completion of the Company's audited financials for the applicable Fiscal Year.

**3.3 Benefits.** During the Employment Period and as otherwise provided hereunder, Executive shall be entitled to the following:

**3.3.1 Paid Time-Off.** Executive shall not be limited in any way to any number of days of paid time off, irrespective of the Company's employee handbook then in effect, or otherwise.

**3.3.2 Participation in Benefit Plans.** Executive shall be entitled to participate in all employee benefit plans, practices and programs maintained by Company and generally available to Company's senior executive employees, as in effect from time to time in accordance with the Company's employee handbook (collectively, "**Employee Benefit Plans**") to the extent consistent with applicable law and the terms of the applicable Employee Benefit Plans. Company reserves the right to amend or cancel any Employee Benefit Plans at any time in its sole discretion subject to the terms of such Employee Benefit Plan and applicable law.

**3.3.3 Perquisites.** Executive shall be entitled to such other benefits and perquisites that are generally available to Company's senior executive employees and as provided in accordance with Company's plans, practices, policies and programs for senior executive employees of Company.

**3.3.4 Indemnification.** To the fullest extent permissible under applicable law, Executive shall be entitled to indemnification and Board and officers' insurance coverage, to the extent made available to other Board members and senior executives, in accordance with applicable policies and procedures of Company for expenses incurred or damages paid or payable by Executive with respect to a claim against Executive based on actions or inactions by

Executive in his capacity as a senior executive or member of the Board of Company. To the extent other managers and senior executives and members of the Board of Company are, or are made a party to an indemnification agreement, Company shall also enter into an indemnification agreement with Executive in the same form as the indemnification agreements, if any, to which all other managers and senior executives and members of the Board of Company are, or are made, a party. The Company will use its commercially reasonable efforts to obtain customary directors and officers insurance, consistent with past practice.

**3.4 Expenses.** Company shall reimburse Executive for business expenses incurred by Executive in the performance of his duties under this Agreement from time to time, in accordance with the Company's employee handbook then in effect.

**3.5 Equity Interests.** Company has previously granted to Executive stock options to acquire a certain number of shares of common stock granted with an exercise price equal to then fair market value (the "**Initial Equity Award**"). Thereafter, the Company granted Executive additional stock options to acquire shares of common stock in amounts determined by the Board (or such committee) in their sole and absolute discretion (any, the "**Subsequent Equity Award**"). The terms of the Initial Equity Award and any Subsequent Equity Award are set forth in separate grant agreement(s). Future Equity Interests may be granted to Executive in the sole and absolute discretion of the Board.

#### **4. Termination of the Services.**

Executive's employment hereunder and the Employment Period may be terminated at any time as follows (the effective date of such termination hereinafter referred to as the "**Termination Date**").

##### **4.1 Termination upon Death or Disability of Executive.**

**4.1.1** Executive's employment hereunder and the Employment Period shall terminate immediately upon the death of Executive. In such event, all rights of Executive and/or Executive's estate (or named beneficiary) shall cease except for the right to receive payment of the amounts set forth in Section 4.5 of the Agreement.

**4.1.2** Company may terminate Executive's employment hereunder and the Employment Period upon the disability of Executive. For purposes of this Agreement, Executive shall be deemed to be "disabled" if Executive suffers any physical or mental incapacity that renders him unable to engage in any substantial gainful activity by reason of any medically-determinable physical or mental impairment which lasts for a continuous period of not less than six (6) months. In the event of a dispute as to whether Executive is disabled, Company may refer Executive to a licensed practicing board certified medical doctor (in the field of dispute) mutually selected by the Company and Executive (and in the event that Company and Executive are unable to agree upon such a doctor, they shall each select one doctor and those two shall select a third doctor whose opinion will be determinative) and Executive agrees to submit to such tests and examination as such medical doctor shall deem appropriate to determine Executive's capacity to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment. In such event, the parties hereby agree that the

decision of such medical doctor as to the disability of Executive shall be final and binding on the parties. Any termination of the Employment Period under this Section 4.1.2 shall be effected without any adverse effect on Executive's rights to receive benefits under any disability policy of Company, but shall not be treated as a termination without Cause.

**4.2 Termination by Company for Cause.** Company may terminate Executive's employment hereunder and the Employment Period for Cause (as defined herein) upon written notice to Executive, which termination shall be effective on the date specified by Company in such notice. For purposes of this Agreement, the term "**Cause**" shall mean only:

**4.2.1** Executive's conviction of, or plea of guilty or *nolo contendere* to, a crime or offense (i) involving fraud, embezzlement or moral turpitude or (ii) involving the property of Company that results in a material loss to Company; provided that, in the event that Executive is arrested for such a crime or offense, then Company may, at its option, place Executive on paid leave of absence, pending the final outcome of such arrest;

**4.2.2** Executive's violation of the law which results in a conviction, which violation in the reasonable opinion of the Board, after consultation with outside independent counsel (appointed with concurrent approval by Board and Executive), is material and injurious to Company ; or

**4.2.3** Executive's material breach of any material agreement with, or material policy of, Company.

Notwithstanding any provision to the contrary, no Cause shall be deemed to exist with respect to any acts or omissions under Paragraph 4.2.3 unless and until Company has provided Executive with notice in writing setting forth in detail all acts or omissions that purportedly would give rise to Cause, and Executive fails to cure such alleged issues within 60 days after receipt of such written notice. If Executive does so effect a cure, the Cause notice shall be deemed rescinded and of no force or effect; provided, however, that Executive shall have no more than one opportunity to "cure" in any 12 month period with respect to any specific delineated issue creating "Cause" under Paragraph 4.2.3.

**4.3 Termination without Cause; Termination by Executive without Good Reason.** Executive may terminate his employment and the Employment Period at any time for any reason upon thirty (30) days' prior written notice to Company. Company may terminate Executive's employment and the Employment Period without Cause, upon thirty (30) days' prior written notice to Executive; provided that, Company shall have the option to provide Executive with a lump sum payment equal to thirty (30) days' Base Salary in lieu of such notice, which shall be paid in a lump sum within thirty (30) days' of the date of delivery of such notice of termination to Executive, and for all purposes of this Agreement, the Executive's Termination Date shall be the date on which such notice of termination is delivered to Executive. Upon termination of Executive's employment with Company for any reason, Executive shall be deemed to have resigned from all positions with Company and its subsidiaries, the Board and any boards of directors or managers of any of Company's subsidiaries and affiliates (provided that any such deemed resignations shall not affect Executive's entitlement (if any) to severance pay and benefits hereunder).

#### **4.4 Termination by Executive for Good Reason.**

**4.4.1** Executive may terminate Executive's employment and the Employment Period, in accordance with the process set forth below for Good Reason. For purposes of this Agreement "**Good Reason**" shall mean the occurrence of any of the following after the Effective Date:

- (i) a failure to pay or reduction in the Base Salary; or
- (ii) a material diminution in, or other substantial adverse alteration in, the nature or scope of Executive's authority, title, duties and responsibilities (including reporting responsibilities) with Company as set forth in this Agreement; or
- (iii) Executive has been asked to relocate his principal place of business to a location that is more than thirty (30) miles from Company's offices located in Lake Forest, CA.

**4.4.2** Upon the occurrence of an event constituting Good Reason, Executive shall have the right to terminate his employment hereunder and receive the benefits set forth in Section 4.5 below, upon delivery of written notice to Company as follows: (i) with respect to any basis for Good Reason claimed under Paragraph 4.4.1(i) such termination shall be effective no later than the close of business on the tenth (10th) day following the date of the written notice of Good Reason (which must be provided with fifteen (15) days of such occurrence) unless Company has cured such deficiency prior to that tenth day; (ii) with respect to any basis for Good Reason claimed under Paragraph 4.4.1(ii) or 4.4.1(iii) such termination shall be effective no later than the close of business on the sixtieth (60<sup>th</sup>) day following the date of the written notice of Good Reason unless Company has cured such deficiency prior to that sixtieth day. If Company so effects a cure within the timeframes set forth above, the Good Reason notice shall be deemed rescinded and of no force or effect; provided, however, that Company shall have no more than one opportunity to "cure" in any 12 month period with respect to any issue creating "Good Reason" under Paragraph 4.4.1. Executive shall otherwise have been deemed to terminate the Employment Period as a result of a Good Reason no later than five (5) days after the lapse of the time set forth for cure as set forth above without the necessity of any action, and the effective date of a Good Reason termination shall be the date of Executive's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)).

**4.5 Rights upon Termination.** Upon termination of Executive's employment and the Employment Period, the following shall apply:

**4.5.1 Termination by Company Without Cause or for Good Reason.** If Company terminates Executive's employment and the Employment Period without Cause, or if Executive terminates Executive's employment and the Employment Period for Good Reason, Executive shall be entitled to receive payment of the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts. The term "**Accrued Amounts**" means (A) any Base Salary amounts that have accrued but have not been paid as of the Termination Date and (B) any accrued but unused paid time off, and reimbursement for any expense reimbursable

under this Agreement. Any vested benefits payable to Executive hereunder accrued through the Termination Date shall be paid to Executive pursuant to the terms of the plan(s) providing said benefits. In addition, subject to Section 4.7 below, Company shall, subject to Section 7.14, be obligated to pay Executive (or provide Executive with) the following benefits as severance:

(i) an amount equal to two (2) times Base Salary, payable as follows: (i) fifty percent (50%) of the amount shall be paid in a single lump sum amount within 10 days after the date by which Executive signs and returns a Release (and any revocation period has lapsed or expired) as provided for in Paragraph 4.7 below (presuming such Release has not been revoked); and (ii) the remaining fifty percent (50%) of the amount shall be paid in equal monthly installments over a twelve (12) month period on the first day of each month, commencing with the first day of the month immediately following payment of the first fifty percent (50%) installment;

(ii) if the Executive timely and properly elects continuation coverage under COBRA, Company shall reimburse Executive for the monthly COBRA premium paid by Executive and his dependents, and such reimbursement shall be paid to Executive on the 1st day of the month immediately following the month in which Executive timely remits the premium payment; provided that Executive shall be eligible to receive such reimbursement until the earliest of (A) the eighteen (18) month anniversary of the Termination Date; and (B) the date on which Executive becomes eligible to enroll in comparable coverage with another employer; and

(iii) all options granted under the Initial Equity Award or any Subsequent Equity Award and all other equity awards that otherwise were unvested shall immediately and fully accelerate and shall be deemed to be fully vested. In addition, Executive shall have the right to exercise any such option up until the earlier of (i) the date that the option otherwise would have expired had Executive remained employed with Company; or (ii) seven (7) years from the date of the termination of employment.

**4.5.2 Termination With Cause by Company or Without Good Reason by Executive.** If Company terminates Executive's employment and the Employment Period with Cause, or if Executive terminates Executive's employment and the Employment Period other than as a result of a Good Reason, Company shall, subject to Section 7.14, be obligated to pay Executive the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts.

**4.5.3 Termination Upon Death or Disability.** If Executive's employment and the Employment Period are terminated because of the death or disability of Executive, Company shall, subject to Section 7.14, be obligated to pay Executive or, if applicable, Executive's estate, the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts. In addition, subject to Section 4.7 below, Company shall, subject to Section 7.14, be obligated to pay Executive or Executive's estate (or provide Executive or Executive's estate with) the following benefits as severance:

(i) At all times throughout Executive's employment with the Company, Company shall pay the premiums for a term life insurance policy with a death benefit of no less than Five Hundred Thousand Dollars (\$500,000). Executive shall be the named insured and shall be the sole owner of the policy. Executive shall have the sole right to name all beneficiaries to the policy in his sole discretion. In the event that Executive's employment with the Company terminates for any reason other than his death, Executive shall have the right to maintain the term life insurance policy at his sole expense; and

(ii) if the Executive and/or his dependents timely and properly elects continuation coverage under COBRA, Company shall reimburse Executive and/or Executive's dependents for the monthly COBRA premium paid by Executive and/or his dependents, and such reimbursement shall be paid to Executive and/or Executive's dependents on the 1st day of the month immediately following the month in which Executive and/or Executive's dependents timely remits the premium payment; provided that Executive and/or Executive's dependents shall be eligible to receive such reimbursement until the earliest of (A) nine (9) month anniversary of the Termination Date; and (B) the date on which Executive and/or Executive's dependents become eligible to enroll in comparable coverage with another employer; and

(iii) fifty percent (50%) of all options granted under the Initial Equity Award or any Subsequent Equity Award and all other equity awards that otherwise were unvested at the time of the Termination Date shall immediately and fully accelerate and shall be deemed to be fully vested. In addition, Executive or Executive's estate shall have the right to exercise any such option up until the earlier of (i) the date that the option otherwise would have expired had Executive remained employed with Company; or (ii) seven (7) years from the date of the termination of employment.

**4.5.4 Termination Upon Failure to Renew Agreement.** If thirty days after the expiration of the Employment Period, the Company and the Executive do not enter into an agreement similar to this Agreement and Executive terminates his employment hereunder, then Executive shall be entitled to receive payment of the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts. In addition, subject to Section 4.7 below, Company shall, subject to Section 7.14, be obligated to pay Executive (or provide Executive with) the following benefits as severance:

(i) an amount equal to twelve (12) months of the Base Salary, payable 50% in a lump sum amount within 10 days after the date by which Executive signs and returns a Release (and any revocation period has lapsed or expired) as provided for in Paragraph 4.7 below (presuming such Release has not been revoked) and the remaining 50% over a period of six (6) months thereafter;

(ii) if the Executive timely and properly elects continuation coverage under COBRA, Company shall reimburse Executive for the monthly COBRA premium paid by Executive and his dependents, and such reimbursement shall be paid to Executive on the 1st day of the month immediately following the month in which Executive timely remits the premium payment; provided that Executive shall be eligible to receive such reimbursement until the

earliest of (A) the eighteen (18) month anniversary of the Termination Date; and (B) the date on which Executive becomes eligible to enroll in comparable coverage with another employer; and

(iii) all options granted under the Initial Equity Award or any Subsequent Equity Award and all other equity awards that otherwise were unvested shall immediately and fully accelerate and shall be deemed to be fully vested. In addition, Executive shall have the right to exercise any such option up until the earlier of (i) the date that the option otherwise would have expired had Executive remained employed with Company; or (ii) seven (7) years from the date of the termination of employment.

**4.6 Effect of Notice of Termination.** Any notice of termination by Company, whether for Cause or without Cause, may specify that, during the notice period, Executive need not attend to any business on behalf of Company.

**4.7 Requirement of a Release; Exclusivity of Severance Payments under this Agreement.** As a condition to the receipt of the severance payments to be provided to Executive pursuant to Section 4.5.1, upon termination of Executive's employment, Executive shall (i) execute and deliver to Company a general release of employment claims against Company and its affiliates in substantially the form attached hereto as **Exhibit B** within twenty-one (21) days following the Termination Date and (ii) continue to comply with the restrictive covenants set forth in the Nondisclosure, Intellectual Property and Non-Solicitation Agreement attached hereto as **Exhibit C** (the "**Non-Solicitation Agreement**"). In the event Executive challenges or threatens to challenge the validity of these covenants or has breached any material provision of the Non-Solicitation Agreement, all severance payments under this Section 4 shall cease immediately and Executive shall forfeit his right to any future severance payments. In addition, the severance payments and termination benefits to be provided to Executive pursuant to this Section 4 upon termination of Executive's employment shall constitute the exclusive payments in the nature of severance or termination pay or salary continuation which shall be due to Executive upon a termination of employment and shall be in lieu of any other such payments under any severance plan, program, policy or other arrangement which has heretofore been or shall hereafter be established by Company or any of its affiliates.

**4.8 Return of Property.** Except as otherwise permitted by Company in writing, all property of Company, including, without limitation, records, designs, plans, manuals, guides, computer programs, memoranda, pricing lists, devices, processes, pricing policies or methods and other property used by or delivered to Executive by or on behalf of Company or Company's clients (including, without limitation, clients obtained for Company by Executive), all records and data compiled by Executive that pertain to the business of Company and all cell phones, computers and other devices owned or leased by Company shall be and remain the property of Company, shall be subject at all times to Company's discretion and control, and shall be delivered and tendered to Company by Executive without the necessity of Company's request following the termination of Executive's employment hereunder; provided however Executive shall retain copies of his personal records and files and any other material necessary to enforce this Agreement. Likewise, all correspondence with clients or representatives, reports, records, charts, files, advertising materials and any data collected by Executive, or by or on behalf of Company or its representatives and in Executive's possession or control, shall be delivered by

Executive promptly to Company without the necessity of Company's request following the termination of Executive's employment hereunder.

**4.9 Cooperation.** Executive agrees that during the Employment Period, during the Severance Period or otherwise following termination of employment for any reason, Executive shall, at Company's sole expense, upon reasonable advance notice, reasonably assist and cooperate with Company with regard to any investigation or litigation related to a matter or project in which Executive was involved during Executive's employment so long as such assistance does not unreasonably interfere with Executive's time or other responsibilities. Company shall reimburse Executive for all reasonable and necessary out-of-pocket expenses related to Executive's services under this Section 4.9 within thirty (30) business days after Executive submits to Company appropriate receipts and expense statements. In addition, in the event that such cooperation is required more than one year after the termination of Executive's employment, Executive shall be compensated at a reasonable hourly rate for all time spent providing assistance to Company (other than providing actual testimony in response to a subpoena or other similar legal process).

**5. Change in Control.**

**5.1 Effect of a Change in Control.** Notwithstanding anything contained herein to the contrary, in the event that the Company undergoes a Change in Control (as defined in Section 5.2 hereof) during the Employment Period or within 6 months after the termination of Executive's employment, other than for Cause, then:

**5.1.1 Change in Control Bonus.** The Company (or any successor entity) shall pay to the Executive a lump sum bonus amount equal to three (3) times Executive's Base Salary. Such bonus shall be paid to Executive in full simultaneously upon the close of the transaction that has created the Change of Control.

**5.1.2 Stock Awards.** Executive shall immediately become vested in any unvested stock options and any other equity awards granted to the Executive by the Company prior to the Change in Control.

**5.2 Definition.** For purposes hereof, a "**Change in Control**" shall mean a Change of Control for purposes of Section 409A of the Code plus the occurrence of any of the following:

**5.2.1** the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any "person" or "group" (as such terms are used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934 ("**Act**"));

**5.2.2** any person or group is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Act, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50 percent of the total voting power of the voting stock of the Company, including by way of merger, consolidation or otherwise; provided, however, that for purposes of this Agreement, the following acquisitions shall not constitute a Change in Control: (i) any acquisition by any

employee benefit plan sponsored or maintained by the Company or any affiliate, or (ii) any acquisition which complies with clauses (i), (ii) and (iii) of subsection 5.2.4 below;

**5.2.3** during any period of twelve (12) consecutive months, Present and/or New Directors cease for any reason to constitute a majority of the Board;

**5.2.4** the consummation of a reorganization, recapitalization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a "**Business Combination**"), unless immediately following such Business Combination: (i) more than 50% of the total voting power of (x) the entity resulting from such Business Combination (the "**Surviving Company**"), or (y) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the members of the board of directors (or the analogous governing body) of the Surviving Company (the "**Parent Company**"), is represented by the shares of voting stock of the Company that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the shares of voting stock of the Company were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power was among the holders of the shares of voting stock of the Company that were outstanding immediately prior to the Business Combination, (ii) no person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company), is or becomes the beneficial owner, directly or indirectly, of 50% or more of the total voting power of the outstanding voting securities eligible to elect members of the board of directors of the Parent Company (or the analogous governing body) (or, if there is no Parent Company, the Surviving Company) and (iii) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination were Board members at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination; or

**5.2.5** the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company.

For purposes of this Section 5.2, the following terms have the meanings indicated: "**Present Directors**" shall mean individuals who at the beginning of any one year period were members of the Board. "**New Directors**" shall mean any directors whose election by the Board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors of the Company who, at the time of such vote, were either Present Directors or New Directors but excluding any such individual whose initial assumption of office occurs solely as a result of an actual or threatened proxy contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

**6. Non-Solicitation Agreement.**

Executive expressly acknowledges and agrees that, as a condition to Executive's employment with Company pursuant to this Agreement, Executive has executed the Non-Solicitation Agreement attached hereto as **Exhibit C** and will comply with the provisions thereof.

**7. Miscellaneous.**

**7.1 Valid Obligation.** This Agreement has been duly authorized, executed and delivered by Company and has been duly executed and delivered by Executive and is a legal, valid and binding obligation of Company and of Executive, enforceable in accordance with its terms.

**7.2 No Conflicts.** Executive represents and warrants that the performance by him of his duties hereunder will not violate, conflict with, or result in a breach of any provision of, any agreement to which he is a party. Executive has previously provided to Company the agreements and details regarding Executive's most recent employment.

**7.3 Applicable Law.** This Agreement shall be construed in accordance with the laws of the State of California, without reference to California's choice of law statutes or decisions.

**7.4 Severability.** The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one or more of the provisions hereof shall not affect the validity or enforceability of any other provision. In the event any clause of this Agreement is deemed to be invalid, the parties shall endeavor to modify that clause in a manner which carries out the intent of the parties in executing this Agreement.

**7.5 No Waiver.** The waiver of a breach of any provision of this Agreement by any party shall not be deemed or held to be a continuing waiver of such breach or a waiver of any subsequent breach of any provision of this Agreement or as nullifying the effectiveness of such provision, unless agreed to in writing by the parties.

**7.6 Notices.** All demands, notices, requests, consents and other communications required or permitted under this Agreement shall be in writing and shall be (i) personally delivered or (ii) sent in PDF form by electronic mail (with a confirmation copy sent by one of the other methods authorized in this Section), or (iii) by commercial overnight delivery service or certified or registered mail (return receipt requested), to the parties at the addresses set forth below (postage prepaid):

To Company: Summit Healthcare REIT, Inc.  
2 South Pointe Drive  
Suite 100  
Lake Forest, CA 92630  
Attention: Chair, Compensation Committee

To Executive: At the address, electronic mail or fax number most recently contained in Company's records.

Notices shall be deemed given upon the earliest to occur of (i) receipt by the party to whom such notice is directed, if hand delivered; (ii) if sent by electronic mail, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) such notice is sent (and if sent via electronic mail, evidenced by an electronic "return receipt" or confirmation reply by the recipient or if sent after 5:00 p.m. Central Time, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) after which such notice is sent; or (iii) on the first business day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) following the day the same is deposited with the commercial carrier if sent by commercial overnight delivery service or the third business day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) following the day the same is deposited in the United States mail if sent by certified or registered mail. Each party, by notice duly given in accordance therewith may specify a different address for the giving of any notice hereunder.

**7.7 Assignment of Agreement.** This Agreement shall be personal to Executive for all purposes and shall not be assigned by the Executive. Company shall assign this Agreement to any successor to all or substantially all of the business or assets of Company and/or otherwise use its commercially reasonable efforts to ensure that such successor assumes all obligations to Executive under this Agreement and/or provides in any transaction to otherwise cover such obligations to Executive prior to any close or windup of the Company. This Agreement shall inure to the benefit of Company and permitted successors and assigns.

**7.8 Entire Agreement; Amendments.** Unless specifically provided herein, this Agreement contains the entire understanding between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter. Executive acknowledges that he is not relying upon any representations or warranties concerning his employment by Company except as expressly set forth herein. No amendment or modification to the Agreement shall be valid except by a subsequent written instrument executed by the parties hereto.

**7.9 Dispute Resolution and Governing Law.** The following procedures shall be used in the resolution of disputes:

**7.9.1 Dispute.** In the event of any dispute or disagreement between the parties under this Agreement, the disputing party shall provide written notice to the other party that such dispute exists. The Executive and the Chairman of the Compensation Committee of the Board will then make a good faith effort to resolve the dispute or disagreement. If the dispute is not resolved upon the expiration of fifteen (15) days from the date a party receives such notice of dispute, the matter may then be submitted to litigation as set forth in Section 7.9.2.

**7.9.2 Governing Law and Venue.** This Agreement and any action related thereto will be governed, controlled, interpreted, and defined by and under the laws of the State of California as applied to transactions taking place wholly within California between California

residents excluding that body of laws related to conflict of laws. All disputes will be resolved in state or federal court in the State of California, County of Orange as the exclusive forum and all parties expressly consent to the personal jurisdiction of such court(s).

**7.10 Survival.** For avoidance of doubt, the provisions of Sections 4.5, 4.7, 5, 6 and 7 of this Agreement shall survive the expiration or earlier termination of the Employment Period.

**7.11 Headings.** Section headings used in this Agreement are for convenience of reference only and shall not be used to construe the meaning of any provision of this Agreement.

**7.12 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. Any executed counterpart returned by facsimile or PDF shall be deemed an original executed counterpart.

**7.13 Taxes.** Executive shall be solely responsible for taxes imposed on Executive by reason of any compensation and benefits provided under this Agreement and all such compensation and benefits shall be subject to applicable withholding.

**7.14 Section 409A of the Code.** It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code (and any regulations and guidelines issued thereunder) (“**Code**”) to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A, the parties hereto will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the parties to the extent reasonably possible. No action or failure by Company in good faith to act, pursuant to this Section 7.14, shall subject Company to any claim, liability, or expense, and Company shall not have any obligation to indemnify or otherwise protect the Executive from the obligation to pay any taxes pursuant to Section 409A.

In addition, notwithstanding any provision to the contrary in this Agreement, if Executive is deemed on the date of his “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)) to be a “specified employee” (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (the “**Delayed Payments**”), such payment shall not be made prior to the earlier of (i) the expiration of the six (6) month period measured from the date of his “separation from service” and (ii) the date of his death. Any payments due under this Agreement other than the Delayed Payments shall be paid in accordance with the normal payment dates specified herein. In no case will the delay of any of the Delayed Payments by Company constitute a breach of Company’s obligations under this Agreement. For the provision of payments and benefits under this Agreement upon termination of employment, to the extent necessary to comply with Section 409A of the Code, reference to Executive’s “termination of employment” (and corollary terms) with Company shall be construed to refer to Executive’s “separation from service” from Company (as determined under Treas. Reg. Section 1.409A-1(h) with the work threshold of less than fifty percent (50%) of the prior level of services, as uniformly applied by Company) in tandem with Executive’s termination of employment with Company. For purposes of this Agreement, all rights to payments and benefits hereunder shall be

treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Section 409A of the Code.

In addition, to the extent that any reimbursement or in-kind benefit under this Agreement or under any other reimbursement or in-kind benefit plan or arrangement in which Executive participates during the term of Executive's employment under this Agreement or thereafter provides for a "deferral of compensation" within the meaning of Section 409A of the Code, (i) the amount eligible for reimbursement or in-kind benefit in one calendar year may not affect the amount eligible for reimbursement or in-kind benefit in any other calendar year, (ii) the right to reimbursement or an in-kind benefit is not subject to liquidation or exchange for another benefit, and (iii) subject to any shorter time periods provided herein or in the expense reimbursement policies of Company, any such reimbursement of an expense or in-kind benefit must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred.

If the sixty (60)-day period following a "separation from service" begins in one calendar year and ends in a second calendar year (a "**Crossover 60-Day Period**"), then any severance payments contingent upon a release and that would otherwise occur during the portion of the Crossover 60-Day Period that falls within the first year will be delayed and paid in a lump sum during the portion of the Crossover 60-Day Period that falls within the second year.

**7.15 280G Excise Tax.** In the event that any economic benefit, payment or distribution by the Company to or for the benefit of Executive, whether paid, payable, distributed or distributable, including, if applicable, the vesting of Executive's stock options (hereinafter, the "Total Payments"), would result in all or a portion of such Total Payments being subject to excise tax under Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax and any applicable interest and penalties, collectively referred to in this Agreement as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") equal to the Excise Tax imposed on the Total Payments.

All determinations required to be made under this Section 7.15 shall be made by the Company's regular outside independent public accounting firm immediately prior to the event triggering the payments that are subject to the Excise Tax, which firm must be reasonably acceptable to Executive (the "Accounting Firm"). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Any determination by the Accounting Firm shall be binding on the Company and Executive. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

Any Gross-Up Payment, as determined pursuant to this Section 7.15, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination, but by no later than the end of Executive's taxable year next following Executive's taxable year in which Executive remits the related taxes.

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date and year first above written, to be effective at the Effective Date.

EXECUTIVE

*/s/ Kent Eikanas*

\_\_\_\_\_  
Kent Eikanas

SUMMIT HEALTHCARE REIT, INC.

*/s/ J. Steven Roush*

\_\_\_\_\_  
By: J. Steven Roush

Title: Chairman

**2021 FINAL EXECUTIVE COMPENSATION PLAN**

2021 FINAL Executive Compensation								
Base Salary	Bonus/Capped***	Payout with Max Capital Raise Bonus	MBOs for cash bonus				Total Executive Comp	
			Increase NAV Pre-Dividend*	Quality Port Min LCR 1.3**	Total MBO bonus			
KENT	\$425,000	\$ 437,500	\$ 862,500	\$ 50,000	\$ 50,000	\$ 100,000	\$ 962,500	
LIZ	\$400,000	\$ 437,500	\$ 837,500	\$ 50,000	\$ 50,000	\$ 100,000	\$ 937,500	
TOTAL	\$825,000	\$ 875,000	\$ 1,700,000	\$ 100,000	\$ 100,000	\$ 200,000	\$ 1,900,000	
			*Increase NAV by 5%					
			**For 80% of portfolio(number of total facilities in portfolio X 80%) based on 12 months trailing.					
			*** Cash bonus of 2.5% of new capital raised with cap of \$35MM split 50/50 Liz and Kent					

**SEPARATION AND CONFIDENTIALITY AGREEMENT  
AND GENERAL AND SPECIAL RELEASE**

This Separation and Confidentiality Agreement and General and Special Release (the "Agreement") is entered into as of this \_\_\_\_\_ (the "Effective Date"), by and between Kent Eikanas (the "Employee"), on the one hand, and Summit Healthcare REIT, Inc, a Maryland corporation, (the "Company"), on the other hand (collectively, the "Parties").

**RECITALS**

**WHEREAS**, Employee is employed as an Executive of the Company, pursuant to the certain Employment Agreement dated \_\_\_\_\_ (the "Employment Agreement");

**WHEREAS**, the Company and Employee desire to separate Employee's employment relationship from the Company and to resolve any potential disputes in an orderly manner. In addition, the Company wishes to continue to safeguard its proprietary and confidential information;

**THEREFORE**, in consideration of the above recitals which are incorporated by reference and the promises and mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are expressly acknowledged, the Parties agree as follows:

**AGREEMENT**

1. **Employee's Employment**. Pursuant to Paragraph \_\_ of the Employment Agreement, Employee's employment with Company has terminated as of the Effective Date.

2. **Payment**. In consideration for Employee's release of any and all claims he may have against the Company, if any, including those specified in Section 4 below, Company shall provide to Employee all compensation and benefits provided for under Paragraph \_\_\_\_\_ of the Employment Agreement, within the time frame specified therein.

3. **No Claims or Lawsuits**. Employee represents and warrants that he has not sold, transferred, conveyed, filed, claimed or asserted any complaints, claims, charges, lawsuits or actions against the Released Parties (defined below) with any state, federal, or local governmental agency or court or arbitrator and that he/she will not do so at any time hereafter, and that if any agency, court, or arbitrator assumes jurisdiction of any complaint, claim, lawsuit or action against the Released Parties, to the extent Employee will threaten or take actions to cause that agency, court, or arbitrator to withdraw from or dismiss with prejudice the matter; provided, however, nothing in this provision shall be deemed to purport to require Employee to take any such action if prohibited by law.

4. **No Admission**. This Agreement and compliance with this Agreement shall not constitute an admission by the Company or the Employee of any liability whatsoever, or as an admission by the Company or the Employee of any violation of the rights of Employee

or any person, Company or any violation of any order, law, statute, duty, or contract whatsoever against Employee, Company, or any person. The Company and Employee specifically denies and disclaims any liability to one another or to any other person for any alleged violation of the rights of Employee, Company or any person, or for any alleged violation of any order, law, statute, duty, or contract on the part of the Company, its employees or agents or affiliated entities or their employees or agents or on the part of Employee.

5. General and Special Release. As a material inducement for the Company to enter into this Agreement, and except for those obligations created by or arising out of this Agreement, Employee does hereby covenant not to sue and acknowledges complete full and complete satisfaction of and forever and completely releases, discharges, holds harmless and indemnifies the Company, its parent, subsidiary and affiliated corporations and entities, and their respective past and present officers, directors, managers, employees, agents, attorneys, insurers, successors and assigns (collectively, "Released Parties") from any and all claims, charges, complaints, liens, demands, causes of action, obligations, damages and liabilities, known or unknown, suspected or unsuspected, choate or inchoate, of whatever kind or nature in law, equity or otherwise that Employee had, now has or at any time has held, or may hereafter claim to have against the Released Parties, arising out of or relating in any way to Employee's hiring by, employment with, under the Employment Agreement (or any agreement entered into in connection with that agreement) or otherwise, or termination, firing, resignation or separation from the Company or otherwise relating to any of the Released Parties on or prior to the Effective Date. Without limiting the generality of the foregoing, such release shall include any claims whatsoever under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act ("ADEA"), as amended by the Older Workers' Benefit Protection Act of 1990 (29 U.S.C. §§ 621, et seq.), the Americans with Disabilities Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act of 1974, as amended, the California Fair Employment and Housing Act, the California Family Rights Act, the California Labor Code, or any other federal, state or local law, regulation or ordinance or any common law theories, breach of contract, defamation, retaliation, violation of public policy, invasion of privacy, severance pay, bonus or similar benefit, pension, retirement, overtime pay, wages, penalties, life insurance, health or medical insurance or any other fringe benefit, or disability. Nothing in this Agreement shall be deemed to release claims that cannot be waived as a matter of law or from interfering with Employee's protected right to file a charge with, or participate in an investigation or proceeding conducted by, the EEOC; or any other state, federal or local government entity.

Employee expressly waives all rights afforded by Section 1542 of the Civil Code of the State of California ("Section 1542") with respect to Released Parties. Section 1542 states as follows:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.**

Notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release, Employee understands and agrees that this Agreement is intended to include all claims, if any, which Employee may have and which Employee does not now know or suspect to exist in Employee's favor against the Released Parties and that this Agreement extinguishes those claims.

ADEA. Employee acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the federal Age Discrimination in Employment Act of 1967, as amended (the "ADEA"). Employee also acknowledges that the consideration given for the waiver in the above paragraph is in addition to anything of value to which Employee was already entitled. Employee is advised by this writing, as required by the ADEA that: (a) Employee's waiver and release do not apply to any claims that may arise after Employee signs this Agreement; (b) Employee should consult with an attorney prior to executing this release; (c) Employee has twenty-one (21) days within which to consider this release (although Employee may choose to voluntarily execute this release earlier); (d) Employee has seven (7) days following the execution of this release to revoke this Agreement; and (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by Employee and by the Company, provided that Employee has not earlier revoked this Agreement and Employee will not receive any of the benefits specified by this Agreement until after it becomes effective.

6. Confidentiality of Agreement. Employee agrees not to disclose the terms of this Agreement, or the fact of its existence or execution, to anyone other than his/her family, attorneys, governmental taxing authorities or other administrative agencies (the "Non-Disclosure Obligations"), or pursuant to a subpoena or order of a court reasonably believed by Employee to be a court of proper jurisdiction, provided, however, prior to such disclosure, Employee shall give the Company notice of such inquiry, subpoena or process as soon as possible upon receipt or knowledge thereof in writing and in any event with sufficient notice to permit Company to object or otherwise seek to quash the subpoena.

7. Binding Effect. This Agreement shall be binding upon the Parties and their respective heirs, administrators, representatives, executors, successors and assigns, and shall inure to the benefit of the parties and their respective heirs, administrators, representatives, executors, successors and assigns.

8. Governing Law. This Agreement shall be governed by and construed and enforced pursuant to the laws of the State of California applicable to contracts made and entirely to be performed therein, without regard to its conflict of laws provisions.

9. Entire Agreement; Modification. This Agreement constitutes the entire understanding among the Parties and may not be modified without the express written consent of the Parties. This Agreement supersedes all prior written and/or oral and all contemporaneous oral agreements, understandings and negotiations regarding the subject matter hereof. If any individual term or condition of this Agreement is found to be unenforceable, that term or

condition shall be deemed stricken and the other terms and conditions shall remain in full force and effect.

10. Governing Law and Venue. This Agreement and any action related thereto will be governed, controlled, interpreted, and defined by and under the laws of the State of California as applied to transactions taking place wholly within California between California residents excluding that body of laws related to conflict of laws. All disputes will be resolved in state or federal court in the State of California, County of Orange as the exclusive forum and all parties expressly consent to the personal jurisdiction of such court(s).

11. Counterparts. This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original. Photographic and facsimile copies of such signed counterparts may be used in lieu of the originals for any purpose.

Employee and Company each affirm that they have read and understand this Agreement and hereby agree to voluntarily sign it as of the Effective Date. Employee and Company each declare under penalty of perjury that the foregoing is true and correct.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EMPLOYEE:  
\_\_\_\_\_

**Exhibit C**

**Exhibits intentionally omitted**

Exhibit C – Page 1

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**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** (this “**Agreement**”) is made as of this 19th day of October, 2021 (the “**Effective Date**”), by and between Summit Healthcare REIT, Inc., a Maryland corporation (“**Company**”), and Elizabeth Pagliarini, an individual resident in the State of California (“**Executive**”).

**RECITALS**

**WHEREAS**, Company desires to continue to employ Executive as the Chief Operating Officer and Chief Financial Officer of Company as of the Effective Date, subject to the terms and conditions of this Agreement; and

**WHEREAS**, Executive desires to be employed by Company in the aforesaid capacity, subject to the terms and conditions of this Agreement.

**NOW, THEREFORE**, in consideration of the foregoing premises, of the mutual agreements and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows, effective as of the Effective Date:

**AGREEMENT**

**1. Employment.**

Company hereby agrees to employ Executive, and Executive hereby accepts employment, as Chief Operating Officer and Chief Financial Officer (“**COO/CFO**”) of Company, pursuant to the terms of this Agreement. Executive shall have the duties and responsibilities, and shall perform such administrative and managerial services customary to the position of COO/CFO, or as shall be reasonably delegated or assigned to Executive by the Chief Executive Officer (“**CEO**”) from time to time. Executive’s duties and responsibilities shall include: responsibility for all aspects of financial reporting, banking and lending relationships, treasury, external audit, tax, risk and insurance, internal controls, investor services, IT/systems, management reporting, budgeting, cash projection and personnel functions; collaboration with the executive team on strategy development and implementation, profitability initiatives, and other operational matters; regular communications with and reporting to the Board; and equity and debt capital raising. Executive shall report directly to the CEO and shall directly supervise the Controller and the HR Manager, and shall indirectly supervise all other members of the finance department. Executive shall devote Executive’s full business time and attention to her responsibilities hereunder; provided that Executive shall be entitled to devote time to outside boards of directors, personal investments and civic and charitable activities, so long as such activities do not materially interfere with or conflict with Executive’s duties hereunder.

**2. Effective Date and Term.**

The term of Executive’s employment by Company under this Agreement shall commence on the Effective Date and shall continue until the third (3<sup>rd</sup>) anniversary of the Effective Date

(the “**Employment Period**”). Executive’s employment and the Employment Period may only be terminated as provided by this Agreement.

**3. Compensation and Benefits.**

In consideration for the services Executive shall render under this Agreement, Company shall provide to Executive the following compensation and benefits:

**3.1 Base Salary.** During the Employment Period, Company shall pay to Executive an annual base salary at a rate of \$400,000 per annum, subject to all appropriate withholding taxes, which base salary shall be payable in accordance with Company’s normal payroll practices and procedures (but no less frequently than monthly). Executive’s base salary shall be reviewed annually prior to the beginning of each fiscal year of Company during the Employment Period by the Board of Directors (the “Board”), or a committee of the Board, and may be increased, in the sole discretion of the Board, or such committee of the Board. For purposes of this Agreement, the term “**Fiscal Year**” shall mean the fiscal year of Company. Executive’s base salary, as in effect from time to time, is hereinafter referred to as the “**Base Salary.**”

**3.2 Executive Compensation Plan.** Executive shall be eligible to receive bonuses in accordance with the 2021 Final Executive Compensation Plan (“**Plan**”), attached hereto as **Exhibit A**, and in accordance with any subsequently adopted amendments to that Plan, or any newly adopted executive compensation plan. Capital Raise Bonuses shall be paid at the conclusion of each transaction. Cash Bonuses for reaching MBOs shall be paid out after the provision of the outside auditor’s opinion with respect to the completion of the Company’s audited financials for the applicable Fiscal Year.

**3.3 Benefits.** During the Employment Period and as otherwise provided hereunder, Executive shall be entitled to the following:

**3.3.1 Paid Time-Off.** Executive shall not be limited in any way to any number of days of paid time off, irrespective of the Company’s employee handbook then in effect, or otherwise.

**3.3.2 Participation in Benefit Plans.** Executive shall be entitled to participate in all employee benefit plans, practices and programs maintained by Company and generally available to Company’s senior executive employees, as in effect from time to time in accordance with the Company’s employee handbook (collectively, “**Employee Benefit Plans**”) to the extent consistent with applicable law and the terms of the applicable Employee Benefit Plans. Company reserves the right to amend or cancel any Employee Benefit Plans at any time in its sole discretion subject to the terms of such Employee Benefit Plan and applicable law.

**3.3.3 Perquisites.** Executive shall be entitled to such other benefits and perquisites that are generally available to Company’s senior executive employees and as provided in accordance with Company’s plans, practices, policies and programs for senior executive employees of Company.

**3.3.4 Indemnification.** To the fullest extent permissible under applicable law, Executive shall be entitled to indemnification and Board and officers’ insurance coverage, to the

extent made available to other Board members and senior executives, in accordance with applicable policies and procedures of Company for expenses incurred or damages paid or payable by Executive with respect to a claim against Executive based on actions or inactions by Executive in her capacity as a senior executive or member of the Board of Company. To the extent other managers and senior executives and members of the Board of Company are, or are made a party to an indemnification agreement, Company shall also enter into an indemnification agreement with Executive in the same form as the indemnification agreements, if any, to which all other managers and senior executives and members of the Board of Company are, or are made, a party. The Company will use its commercially reasonable efforts to obtain customary directors and officers insurance, consistent with past practice.

**3.4 Expenses.** Company shall reimburse Executive for business expenses incurred by Executive in the performance of her duties under this Agreement from time to time, in accordance with the Company's employee handbook then in effect.

**3.5 Equity Interests.** Company has previously granted to Executive stock options to acquire a certain number of shares of common stock granted with an exercise price equal to then fair market value (the "**Initial Equity Award**"). Thereafter, the Company granted Executive additional stock options to acquire shares of common stock in amounts determined by the Board (or such committee) in their sole and absolute discretion (any, the "**Subsequent Equity Award**"). The terms of the Initial Equity Award and any Subsequent Equity Award are set forth in separate grant agreement(s). Future Equity Interests may be granted to Executive in the sole and absolute discretion of the Board.

#### **4. Termination of the Services.**

Executive's employment hereunder and the Employment Period may be terminated at any time as follows (the effective date of such termination hereinafter referred to as the "**Termination Date**").

##### **4.1 Termination upon Death or Disability of Executive.**

**4.1.1** Executive's employment hereunder and the Employment Period shall terminate immediately upon the death of Executive. In such event, all rights of Executive and/or Executive's estate (or named beneficiary) shall cease except for the right to receive payment of the amounts set forth in Section 4.5 of the Agreement.

**4.1.2** Company may terminate Executive's employment hereunder and the Employment Period upon the disability of Executive. For purposes of this Agreement, Executive shall be deemed to be "disabled" if Executive suffers any physical or mental incapacity that renders her unable to engage in any substantial gainful activity by reason of any medically-determinable physical or mental impairment which lasts for a continuous period of not less than six (6) months. In the event of a dispute as to whether Executive is disabled, Company may refer Executive to a licensed practicing board certified medical doctor (in the field of dispute) mutually selected by the Company and Executive (and in the event that Company and Executive are unable to agree upon such a doctor, they shall each select one doctor and those two shall select a third doctor whose opinion will be determinative) and Executive agrees to submit

to such tests and examination as such medical doctor shall deem appropriate to determine Executive's capacity to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment. In such event, the parties hereby agree that the decision of such medical doctor as to the disability of Executive shall be final and binding on the parties. Any termination of the Employment Period under this Section 4.1.2 shall be effected without any adverse effect on Executive's rights to receive benefits under any disability policy of Company, but shall not be treated as a termination without Cause.

**4.2 Termination by Company for Cause.** Company may terminate Executive's employment hereunder and the Employment Period for Cause (as defined herein) upon written notice to Executive, which termination shall be effective on the date specified by Company in such notice. For purposes of this Agreement, the term "Cause" shall mean only:

**4.2.1** Executive's conviction of, or plea of guilty or *nolo contendere* to, a crime or offense (i) involving fraud, embezzlement or moral turpitude or (ii) involving the property of Company that results in a material loss to Company; provided that, in the event that Executive is arrested for such a crime or offense, then Company may, at its option, place Executive on paid leave of absence, pending the final outcome of such arrest;

**4.2.2** Executive's violation of the law which results in a conviction, which violation in the reasonable opinion of the Board, after consultation with outside independent counsel (appointed with concurrent approval by Board and Executive), is material and injurious to Company ; or

**4.2.3** Executive's material breach of any material agreement with, or material policy of, Company.

Notwithstanding any provision to the contrary, no Cause shall be deemed to exist with respect to any acts or omissions under Paragraph 4.2.3 unless and until Company has provided Executive with notice in writing setting forth in detail all acts or omissions that purportedly would give rise to Cause, and Executive fails to cure such alleged issues within 60 days after receipt of such written notice. If Executive does so effect a cure, the Cause notice shall be deemed rescinded and of no force or effect; provided, however, that Executive shall have no more than one opportunity to "cure" in any 12 month period with respect to any specific delineated issue creating "Cause" under Paragraph 4.2.3.

**4.3 Termination without Cause; Termination by Executive without Good Reason.** Executive may terminate her employment and the Employment Period at any time for any reason upon thirty (30) days' prior written notice to Company. Company may terminate Executive's employment and the Employment Period without Cause, upon thirty (30) days' prior written notice to Executive; provided that, Company shall have the option to provide Executive with a lump sum payment equal to thirty (30) days' Base Salary in lieu of such notice, which shall be paid in a lump sum within thirty (30) days' of the date of delivery of such notice of termination to Executive, and for all purposes of this Agreement, the Executive's Termination Date shall be the date on which such notice of termination is delivered to Executive. Upon termination of Executive's employment with Company for any reason, Executive shall be deemed to have resigned from all positions with Company and its subsidiaries, the Board and

any boards of directors or managers of any of Company's subsidiaries and affiliates (provided that any such deemed resignations shall not affect Executive's entitlement (if any) to severance pay and benefits hereunder).

**4.4 Termination by Executive for Good Reason.**

**4.4.1** Executive may terminate Executive's employment and the Employment Period, in accordance with the process set forth below for Good Reason. For purposes of this Agreement "**Good Reason**" shall mean the occurrence of any of the following after the Effective Date:

- (i) a failure to pay or reduction in the Base Salary; or
- (ii) a material diminution in, or other substantial adverse alteration in, the nature or scope of Executive's authority, title, duties and responsibilities (including reporting responsibilities) with Company as set forth in this Agreement; or
- (iii) Executive has been asked to relocate her principal place of business to a location that is more than thirty (30) miles from Company's offices located in Lake Forest, CA.

**4.4.2** Upon the occurrence of an event constituting Good Reason, Executive shall have the right to terminate her employment hereunder and receive the benefits set forth in Section 4.5 below, upon delivery of written notice to Company as follows:

(i) with respect to any basis for Good Reason claimed under Paragraph 4.4.1(i) such termination shall be effective no later than the close of business on the tenth (10th) day following the date of the written notice of Good Reason (which must be provided with fifteen (15) days of such occurrence) unless Company has cured such deficiency prior to that tenth day; (ii) with respect to any basis for Good Reason claimed under Paragraph 4.4.1(ii) or 4.4.1(iii) such termination shall be effective no later than the close of business on the sixtieth (60<sup>th</sup>) day following the date of the written notice of Good Reason unless Company has cured such deficiency prior to that sixtieth day. If Company so effects a cure within the timeframes set forth above, the Good Reason notice shall be deemed rescinded and of no force or effect; provided, however, that Company shall have no more than one opportunity to "cure" in any 12 month period with respect to any issue creating "Good Reason" under Paragraph 4.4.1. Executive shall otherwise have been deemed to terminate the Employment Period as a result of a Good Reason no later than five (5) days after the lapse of the time set forth for cure as set forth above without the necessity of any action, and the effective date of a Good Reason termination shall be the date of Executive's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)).

**4.5 Rights upon Termination.** Upon termination of Executive's employment and the Employment Period, the following shall apply:

**4.5.1 Termination by Company Without Cause or for Good Reason.** If Company terminates Executive's employment and the Employment Period without Cause, or if Executive terminates Executive's employment and the Employment Period for Good Reason, Executive shall be entitled to receive payment of the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is

reasonably required to calculate those amounts. The term “**Accrued Amounts**” means (A) any Base Salary amounts that have accrued but have not been paid as of the Termination Date and (B) any accrued but unused paid time off, and reimbursement for any expense reimbursable under this Agreement. Any vested benefits payable to Executive hereunder accrued through the Termination Date shall be paid to Executive pursuant to the terms of the plan(s) providing said benefits. In addition, subject to Section 4.7 below, Company shall, subject to Section 7.14, be obligated to pay Executive (or provide Executive with) the following benefits as severance:

(i) an amount equal to two (2) times Base Salary, payable as follows: (i) fifty percent (50%) of the amount shall be paid in a single lump sum amount within 10 days after the date by which Executive signs and returns a Release (and any revocation period has lapsed or expired) as provided for in Paragraph 4.7 below (presuming such Release has not been revoked); and (ii) the remaining fifty percent (50%) of the amount shall be paid in equal monthly installments over a twelve (12) month period on the first day of each month, commencing with the first day of the month immediately following payment of the first fifty percent (50%) installment;

(ii) if the Executive timely and properly elects continuation coverage under COBRA, Company shall reimburse Executive for the monthly COBRA premium paid by Executive and her dependents, and such reimbursement shall be paid to Executive on the 1st day of the month immediately following the month in which Executive timely remits the premium payment; provided that Executive shall be eligible to receive such reimbursement until the earliest of (A) the eighteen (18) month anniversary of the Termination Date; and (B) the date on which Executive becomes eligible to enroll in comparable coverage with another employer; and

(iii) all options granted under the Initial Equity Award or any Subsequent Equity Award and all other equity awards that otherwise were unvested shall immediately and fully accelerate and shall be deemed to be fully vested. In addition, Executive shall have the right to exercise any such option up until the earlier of (i) the date that the option otherwise would have expired had Executive remained employed with Company; or (ii) seven (7) years from the date of the termination of employment.

**4.5.2 Termination With Cause by Company or Without Good Reason by Executive.** If Company terminates Executive’s employment and the Employment Period with Cause, or if Executive terminates Executive’s employment and the Employment Period other than as a result of a Good Reason, Company shall, subject to Section 7.14, be obligated to pay Executive the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts.

**4.5.3 Termination Upon Death or Disability.** If Executive’s employment and the Employment Period are terminated because of the death or disability of Executive, Company shall, subject to Section 7.14, be obligated to pay Executive or, if applicable, Executive’s estate, the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts. In

addition, subject to Section 4.7 below, Company shall, subject to Section 7.14, be obligated to pay Executive or Executive's estate (or provide Executive or Executive's estate with) the following benefits as severance:

(i) At all times throughout Executive's employment with the Company, Company shall pay the premiums for a term life insurance policy with a death benefit of no less than Five Hundred Thousand Dollars (\$500,000). Executive shall be the named insured and shall be the sole owner of the policy. Executive shall have the sole right to name all beneficiaries to the policy in her sole discretion. In the event that Executive's employment with the Company terminates for any reason other than her death, Executive shall have the right to maintain the term life insurance policy at her sole expense; and

(ii) if the Executive and/or her dependents timely and properly elects continuation coverage under COBRA, Company shall reimburse Executive and/or Executive's dependents for the monthly COBRA premium paid by Executive and/or her dependents, and such reimbursement shall be paid to Executive and/or Executive's dependents on the 1st day of the month immediately following the month in which Executive and/or Executive's dependents timely remits the premium payment; provided that Executive and/or Executive's dependents shall be eligible to receive such reimbursement until the earliest of (A) nine (9) month anniversary of the Termination Date; and (B) the date on which Executive and/or Executive's dependents become eligible to enroll in comparable coverage with another employer; and

(iii) fifty percent (50%) of all options granted under the Initial Equity Award or any Subsequent Equity Award and all other equity awards that otherwise were unvested at the time of the Termination Date shall immediately and fully accelerate and shall be deemed to be fully vested. In addition, Executive or Executive's estate shall have the right to exercise any such option up until the earlier of (i) the date that the option otherwise would have expired had Executive remained employed with Company; or (ii) seven (7) years from the date of the termination of employment.

**4.5.4 Termination Upon Failure to Renew Agreement.** If thirty days after the expiration of the Employment Period, the Company and the Executive do not enter into an agreement similar to this Agreement and Executive terminates her employment hereunder, then Executive shall be entitled to receive payment of the Accrued Amounts in lump sum form immediately on the Termination Date; provided, however, that payments for any unreimbursed expenses may be paid within ten (10) days after the Termination Date if the additional time is reasonably required to calculate those amounts. In addition, subject to Section 4.7 below, Company shall, subject to Section 7.14, be obligated to pay Executive (or provide Executive with) the following benefits as severance:

(i) an amount equal to twelve (12) months of the Base Salary, payable 50% in a lump sum amount within 10 days after the date by which Executive signs and returns a Release (and any revocation period has lapsed or expired) as provided for in Paragraph 4.7 below (presuming such Release has not been revoked) and the remaining 50% over a period of six (6) months thereafter;

(ii) if the Executive timely and properly elects continuation coverage under COBRA, Company shall reimburse Executive for the monthly COBRA premium paid by Executive and her dependents, and such reimbursement shall be paid to Executive on the 1st day of the month immediately following the month in which Executive timely remits the premium payment; provided that Executive shall be eligible to receive such reimbursement until the earliest of (A) the eighteen (18) month anniversary of the Termination Date; and (B) the date on which Executive becomes eligible to enroll in comparable coverage with another employer; and

(iii) all options granted under the Initial Equity Award or any Subsequent Equity Award and all other equity awards that otherwise were unvested shall immediately and fully accelerate and shall be deemed to be fully vested. In addition, Executive shall have the right to exercise any such option up until the earlier of (i) the date that the option otherwise would have expired had Executive remained employed with Company; or (ii) seven (7) years from the date of the termination of employment.

**4.6 Effect of Notice of Termination.** Any notice of termination by Company, whether for Cause or without Cause, may specify that, during the notice period, Executive need not attend to any business on behalf of Company.

**4.7 Requirement of a Release; Exclusivity of Severance Payments under this Agreement.** As a condition to the receipt of the severance payments to be provided to Executive pursuant to Section 4.5.1, upon termination of Executive's employment, Executive shall (i) execute and deliver to Company a general release of employment claims against Company and its affiliates in substantially the form attached hereto as **Exhibit B** within twenty-one (21) days following the Termination Date and (ii) continue to comply with the restrictive covenants set forth in the Nondisclosure, Intellectual Property and Non-Solicitation Agreement attached hereto as **Exhibit C** (the "**Non-Solicitation Agreement**"). In the event Executive challenges or threatens to challenge the validity of these covenants or has breached any material provision of the Non-Solicitation Agreement, all severance payments under this Section 4 shall cease immediately and Executive shall forfeit her right to any future severance payments. In addition, the severance payments and termination benefits to be provided to Executive pursuant to this Section 4 upon termination of Executive's employment shall constitute the exclusive payments in the nature of severance or termination pay or salary continuation which shall be due to Executive upon a termination of employment and shall be in lieu of any other such payments under any severance plan, program, policy or other arrangement which has heretofore been or shall hereafter be established by Company or any of its affiliates.

**4.8 Return of Property.** Except as otherwise permitted by Company in writing, all property of Company, including, without limitation, records, designs, plans, manuals, guides, computer programs, memoranda, pricing lists, devices, processes, pricing policies or methods and other property used by or delivered to Executive by or on behalf of Company or Company's clients (including, without limitation, clients obtained for Company by Executive), all records and data compiled by Executive that pertain to the business of Company and all cell phones, computers and other devices owned or leased by Company shall be and remain the property of Company, shall be subject at all times to Company's discretion and control, and shall be delivered and tendered to Company by Executive without the necessity of Company's request following the termination of Executive's employment hereunder; provided however Executive

shall retain copies of her personal records and files and any other material necessary to enforce this Agreement. Likewise, all correspondence with clients or representatives, reports, records, charts, files, advertising materials and any data collected by Executive, or by or on behalf of Company or its representatives and in Executive's possession or control, shall be delivered by Executive promptly to Company without the necessity of Company's request following the termination of Executive's employment hereunder.

**4.9 Cooperation.** Executive agrees that during the Employment Period, during the Severance Period or otherwise following termination of employment for any reason, Executive shall, at Company's sole expense, upon reasonable advance notice, reasonably assist and cooperate with Company with regard to any investigation or litigation related to a matter or project in which Executive was involved during Executive's employment so long as such assistance does not unreasonably interfere with Executive's time or other responsibilities. Company shall reimburse Executive for all reasonable and necessary out-of-pocket expenses related to Executive's services under this Section 4.9 within thirty (30) business days after Executive submits to Company appropriate receipts and expense statements. In addition, in the event that such cooperation is required more than one year after the termination of Executive's employment, Executive shall be compensated at a reasonable hourly rate for all time spent providing assistance to Company (other than providing actual testimony in response to a subpoena or other similar legal process).

## **5. Change in Control.**

**5.1 Effect of a Change in Control.** Notwithstanding anything contained herein to the contrary, in the event that the Company undergoes a Change in Control (as defined in Section 5.2 hereof) during the Employment Period or within 6 months after the termination of Executive's employment, other than for Cause, then:

**5.1.1 Change in Control Bonus.** The Company (or any successor entity) shall pay to the Executive a lump sum bonus amount equal to three (3) times Executive's Base Salary. Such bonus shall be paid to Executive in full simultaneously upon the close of the transaction that has created the Change of Control.

**5.1.2 Stock Awards.** Executive shall immediately become vested in any unvested stock options and any other equity awards granted to the Executive by the Company prior to the Change in Control.

**5.2 Definition.** For purposes hereof, a "Change in Control" shall mean a Change of Control for purposes of Section 409A of the Code plus the occurrence of any of the following:

**5.2.1** the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any "person" or "group" (as such terms are used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934 ("Act"));

**5.2.2** any person or group is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Act, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is

exercisable immediately or only after the passage of time), directly or indirectly, of more than 50 percent of the total voting power of the voting stock of the Company, including by way of merger, consolidation or otherwise; provided, however, that for purposes of this Agreement, the following acquisitions shall not constitute a Change in Control: (i) any acquisition by any employee benefit plan sponsored or maintained by the Company or any affiliate, or (ii) any acquisition which complies with clauses (i), (ii) and (iii) of subsection 5.2.4 below;

**5.2.3** during any period of twelve (12) consecutive months, Present and/or New Directors cease for any reason to constitute a majority of the Board;

**5.2.4** the consummation of a reorganization, recapitalization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a "**Business Combination**"), unless immediately following such Business Combination: (i) more than 50% of the total voting power of (x) the entity resulting from such Business Combination (the "**Surviving Company**"), or (y) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the members of the board of directors (or the analogous governing body) of the Surviving Company (the "**Parent Company**"), is represented by the shares of voting stock of the Company that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the shares of voting stock of the Company were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power was among the holders of the shares of voting stock of the Company that were outstanding immediately prior to the Business Combination, (ii) no person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company), is or becomes the beneficial owner, directly or indirectly, of 50% or more of the total voting power of the outstanding voting securities eligible to elect members of the board of directors of the Parent Company (or the analogous governing body) (or, if there is no Parent Company, the Surviving Company) and (iii) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination were Board members at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination; or

**5.2.5** the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company.

For purposes of this Section 5.2, the following terms have the meanings indicated: "**Present Directors**" shall mean individuals who at the beginning of any one year period were members of the Board. "**New Directors**" shall mean any directors whose election by the Board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors of the Company who, at the time of such vote, were either Present Directors or New Directors but excluding any such individual whose initial assumption of office occurs solely as a result of an actual or threatened proxy contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

**6. Non-Solicitation Agreement.**

Executive expressly acknowledges and agrees that, as a condition to Executive's employment with Company pursuant to this Agreement, Executive has executed the Non-Solicitation Agreement attached hereto as **Exhibit C** and will comply with the provisions thereof.

**7. Miscellaneous.**

**7.1 Valid Obligation.** This Agreement has been duly authorized, executed and delivered by Company and has been duly executed and delivered by Executive and is a legal, valid and binding obligation of Company and of Executive, enforceable in accordance with its terms.

**7.2 No Conflicts.** Executive represents and warrants that the performance by her of her duties hereunder will not violate, conflict with, or result in a breach of any provision of, any agreement to which she is a party. Executive has previously provided to Company the agreements and details regarding Executive's most recent employment.

**7.3 Applicable Law.** This Agreement shall be construed in accordance with the laws of the State of California, without reference to California's choice of law statutes or decisions.

**7.4 Severability.** The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one or more of the provisions hereof shall not affect the validity or enforceability of any other provision. In the event any clause of this Agreement is deemed to be invalid, the parties shall endeavor to modify that clause in a manner which carries out the intent of the parties in executing this Agreement.

**7.5 No Waiver.** The waiver of a breach of any provision of this Agreement by any party shall not be deemed or held to be a continuing waiver of such breach or a waiver of any subsequent breach of any provision of this Agreement or as nullifying the effectiveness of such provision, unless agreed to in writing by the parties.

**7.6 Notices.** All demands, notices, requests, consents and other communications required or permitted under this Agreement shall be in writing and shall be (i) personally delivered or (ii) sent in PDF form by electronic mail (with a confirmation copy sent by one of the other methods authorized in this Section), or (iii) by commercial overnight delivery service or certified or registered mail (return receipt requested), to the parties at the addresses set forth below (postage prepaid):

To Company:

Summit Healthcare REIT, Inc.  
2 South Pointe Drive  
Suite 100  
Lake Forest, CA 92630  
Attention: Chair, Compensation Committee

To Executive:

At the address, electronic mail or fax number most recently contained in Company's records.

Notices shall be deemed given upon the earliest to occur of (i) receipt by the party to whom such notice is directed, if hand delivered; (ii) if sent by electronic mail, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) such notice is sent (and if sent via electronic mail, evidenced by an electronic "return receipt" or confirmation reply by the recipient or if sent after 5:00 p.m. Central Time, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) after which such notice is sent; or (iii) on the first business day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) following the day the same is deposited with the commercial carrier if sent by commercial overnight delivery service or the third business day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) following the day the same is deposited in the United States mail if sent by certified or registered mail. Each party, by notice duly given in accordance therewith may specify a different address for the giving of any notice hereunder.

**7.7 Assignment of Agreement.** This Agreement shall be personal to Executive for all purposes and shall not be assigned by the Executive. Company shall assign this Agreement to any successor to all or substantially all of the business or assets of Company and/or otherwise use its commercially reasonable efforts to ensure that such successor assumes all obligations to Executive under this Agreement and/or provides in any transaction to otherwise cover such obligations to Executive prior to any close or windup of the Company. This Agreement shall inure to the benefit of Company and permitted successors and assigns.

**7.8 Entire Agreement; Amendments.** Unless specifically provided herein, this Agreement contains the entire understanding between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter. Executive acknowledges that she is not relying upon any representations or warranties concerning her employment by Company except as expressly set forth herein. No amendment or modification to the Agreement shall be valid except by a subsequent written instrument executed by the parties hereto.

**7.9 Dispute Resolution and Governing Law.** The following procedures shall be used in the resolution of disputes:

**7.9.1 Dispute.** In the event of any dispute or disagreement between the parties under this Agreement, the disputing party shall provide written notice to the other party that such dispute exists. The Executive and the Chairman of the Compensation Committee of the Board will then make a good faith effort to resolve the dispute or disagreement. If the dispute is not resolved upon the expiration of fifteen (15) days from the date a party receives such notice of dispute, the matter may then be submitted to litigation as set forth in Section 7.9.2.

**7.9.2 Governing Law and Venue.** This Agreement and any action related thereto will be governed, controlled, interpreted, and defined by and under the laws of the State of California as applied to transactions taking place wholly within California between California

residents excluding that body of laws related to conflict of laws. All disputes will be resolved in state or federal court in the State of California, County of Orange as the exclusive forum and all parties expressly consent to the personal jurisdiction of such court(s).

**7.10 Survival.** For avoidance of doubt, the provisions of Sections 4.5, 4.7, 5, 6 and 7 of this Agreement shall survive the expiration or earlier termination of the Employment Period.

**7.11 Headings.** Section headings used in this Agreement are for convenience of reference only and shall not be used to construe the meaning of any provision of this Agreement.

**7.12 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. Any executed counterpart returned by facsimile or PDF shall be deemed an original executed counterpart.

**7.13 Taxes.** Executive shall be solely responsible for taxes imposed on Executive by reason of any compensation and benefits provided under this Agreement and all such compensation and benefits shall be subject to applicable withholding.

**7.14 Section 409A of the Code.** It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code (and any regulations and guidelines issued thereunder) (“**Code**”) to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A, the parties hereto will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the parties to the extent reasonably possible. No action or failure by Company in good faith to act, pursuant to this Section 7.14, shall subject Company to any claim, liability, or expense, and Company shall not have any obligation to indemnify or otherwise protect the Executive from the obligation to pay any taxes pursuant to Section 409A.

In addition, notwithstanding any provision to the contrary in this Agreement, if Executive is deemed on the date of her “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)) to be a “specified employee” (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (the “**Delayed Payments**”), such payment shall not be made prior to the earlier of (i) the expiration of the six (6) month period measured from the date of her “separation from service” and (ii) the date of her death. Any payments due under this Agreement other than the Delayed Payments shall be paid in accordance with the normal payment dates specified herein. In no case will the delay of any of the Delayed Payments by Company constitute a breach of Company’s obligations under this Agreement. For the provision of payments and benefits under this Agreement upon termination of employment, to the extent necessary to comply with Section 409A of the Code, reference to Executive’s “termination of employment” (and corollary terms) with Company shall be construed to refer to Executive’s “separation from service” from Company (as determined under Treas. Reg. Section 1.409A-1(h) with the work threshold of less than fifty percent (50%) of the prior level of services, as uniformly applied by Company) in tandem with Executive’s termination of employment with Company. For purposes of this Agreement, all rights to payments and benefits hereunder shall

be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Section 409A of the Code.

In addition, to the extent that any reimbursement or in-kind benefit under this Agreement or under any other reimbursement or in-kind benefit plan or arrangement in which Executive participates during the term of Executive's employment under this Agreement or thereafter provides for a "deferral of compensation" within the meaning of Section 409A of the Code, (i) the amount eligible for reimbursement or in-kind benefit in one calendar year may not affect the amount eligible for reimbursement or in-kind benefit in any other calendar year, (ii) the right to reimbursement or an in-kind benefit is not subject to liquidation or exchange for another benefit, and (iii) subject to any shorter time periods provided herein or in the expense reimbursement policies of Company, any such reimbursement of an expense or in-kind benefit must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred.

If the sixty (60)-day period following a "separation from service" begins in one calendar year and ends in a second calendar year (a "**Crossover 60-Day Period**"), then any severance payments contingent upon a release and that would otherwise occur during the portion of the Crossover 60-Day Period that falls within the first year will be delayed and paid in a lump sum during the portion of the Crossover 60-Day Period that falls within the second year.

**7.15 280G Excise Tax.** In the event that any economic benefit, payment or distribution by the Company to or for the benefit of Executive, whether paid, payable, distributed or distributable, including, if applicable, the vesting of Executive's stock options (hereinafter, the "Total Payments"), would result in all or a portion of such Total Payments being subject to excise tax under Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax and any applicable interest and penalties, collectively referred to in this Agreement as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") equal to the Excise Tax imposed on the Total Payments.

All determinations required to be made under this Section 7.15 shall be made by the Company's regular outside independent public accounting firm immediately prior to the event triggering the payments that are subject to the Excise Tax, which firm must be reasonably acceptable to Executive (the "Accounting Firm"). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Any determination by the Accounting Firm shall be binding on the Company and Executive. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

Any Gross-Up Payment, as determined pursuant to this Section 7.15, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination, but by no later than the end of Executive's taxable year next following Executive's taxable year in which Executive remits the related taxes.

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date and year first above written, to be effective at the Effective Date.

EXECUTIVE

*/s/ Elizabeth Pagliarini*

Elizabeth Pagliarini

SUMMIT HEALTHCARE REIT, INC.

*/s/ J. Steven Roush*

By: J. Steven Roush

Title: Chairman

**2021 FINAL EXECUTIVE COMPENSATION PLAN**

2021 FINAL Executive Compensation									
	Base Salary	Bonus/Capped*** *	Payout with	MBOs for cash bonus					Total Executive Comp
			Max Capital	Raise Bonus	Increase NAV Pre-Dividend*	Quality Port Min LCR 1.3**	Total MBO bonus	Total Executive	
KENT	\$425,000	\$ 437,500	\$ 862,500	\$ 50,000	\$ 50,000	\$ 100,000	\$ 100,000	\$ 962,500	
LIZ	\$400,000	\$ 437,500	\$ 837,500	\$ 50,000	\$ 50,000	\$ 100,000	\$ 100,000	\$ 937,500	
TOTAL	\$825,000	\$ 875,000	\$ 1,700,000	\$ 100,000	\$ 100,000	\$ 200,000	\$ 200,000	\$ 1,900,000	
				*Increase NAV by 5%					
				**For 80% of portfolio(number of total facilities in portfolio X 80%) based on 12 months trailing.					
				**** Cash bonus of 2.5% of new capital raised with cap of \$35MM split 50/50 Liz and Kent					

**SEPARATION AND CONFIDENTIALITY AGREEMENT  
AND GENERAL AND SPECIAL RELEASE**

This Separation and Confidentiality Agreement and General and Special Release (the "Agreement") is entered into as of this \_\_\_\_\_ (the "Effective Date"), by and between Elizabeth Pagliarini (the "Employee"), on the one hand, and Summit Healthcare REIT, Inc., a Maryland corporation, (the "Company"), on the other hand (collectively, the "Parties").

**RECITALS**

**WHEREAS**, Employee is employed as an Executive of the Company, pursuant to the certain Employment Agreement dated \_\_\_\_\_ (the "Employment Agreement");

**WHEREAS**, the Company and Employee desire to separate Employee's employment relationship from the Company and to resolve any potential disputes in an orderly manner. In addition, the Company wishes to continue to safeguard its proprietary and confidential information;

**THEREFORE**, in consideration of the above recitals which are incorporated by reference and the promises and mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are expressly acknowledged, the Parties agree as follows:

**AGREEMENT**

1. **Employee's Employment**. Pursuant to Paragraph \_\_ of the Employment Agreement, Employee's employment with Company has terminated as of the Effective Date.

2. **Payment**. In consideration for Employee's release of any and all claims she may have against the Company, if any, including those specified in section 4 below, Company shall provide to Employee all compensation and benefits provided for under Paragraph \_\_ of the Employment Agreement, within the time frame specified therein.

3. **No Claims or Lawsuits**. Employee represents and warrants that she has not sold, transferred, conveyed, filed, claimed or asserted any complaints, claims, charges, lawsuits or actions against the Released Parties (defined below) with any state, federal, or local governmental agency or court or arbitrator and that he/she will not do so at any time hereafter, and that if any agency, court, or arbitrator assumes jurisdiction of any complaint, claim, lawsuit or action against the Released Parties, to the extent Employee will threaten or take actions to cause that agency, court, or arbitrator to withdraw from or dismiss with prejudice the matter; provided, however, nothing in this provision shall be deemed to purport to require Employee to take any such action if prohibited by law.

4. **No Admission**. This Agreement and compliance with this Agreement shall not constitute an admission by the Company or the Employee of any liability whatsoever, or as an admission by the Company or the Employee of any violation of the rights of Employee

or any person, Company or any violation of any order, law, statute, duty, or contract whatsoever against Employee, Company, or any person. The Company and Employee specifically denies and disclaims any liability to one another or to any other person for any alleged violation of the rights of Employee, Company or any person, or for any alleged violation of any order, law, statute, duty, or contract on the part of the Company, its employees or agents or affiliated entities or their employees or agents or on the part of Employee.

5. General and Special Release. As a material inducement for the Company to enter into this Agreement, and except for those obligations created by or arising out of this Agreement, Employee does hereby covenant not to sue and acknowledges complete full and complete satisfaction of and forever and completely releases, discharges, holds harmless and indemnifies the Company, its parent, subsidiary and affiliated corporations and entities, and their respective past and present officers, directors, managers, employees, agents, attorneys, insurers, successors and assigns (collectively, "Released Parties") from any and all claims, charges, complaints, liens, demands, causes of action, obligations, damages and liabilities, known or unknown, suspected or unsuspected, choate or inchoate, of whatever kind or nature in law, equity or otherwise that Employee had, now has or at any time has held, or may hereafter claim to have against the Released Parties, arising out of or relating in any way to Employee's hiring by, employment with, under the Employment Agreement (or any agreement entered into in connection with that agreement) or otherwise, or termination, firing, resignation or separation from the Company or otherwise relating to any of the Released Parties on or prior to the Effective Date. Without limiting the generality of the foregoing, such release shall include any claims whatsoever under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act ("ADEA"), as amended by the Older Workers' Benefit Protection Act of 1990 (29 U.S.C. §§ 621, et seq.), the Americans with Disabilities Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act of 1974, as amended, the California Fair Employment and Housing Act, the California Family Rights Act, the California Labor Code, or any other federal, state or local law, regulation or ordinance or any common law theories, breach of contract, defamation, retaliation, violation of public policy, invasion of privacy, severance pay, bonus or similar benefit, pension, retirement, overtime pay, wages, penalties, life insurance, health or medical insurance or any other fringe benefit, or disability. Nothing in this Agreement shall be deemed to release claims that cannot be waived as a matter of law or from interfering with Employee's protected right to file a charge with, or participate in an investigation or proceeding conducted by, the EEOC; or any other state, federal or local government entity.

Employee expressly waives all rights afforded by Section 1542 of the Civil Code of the State of California ("Section 1542") with respect to Released Parties. Section 1542 states as follows:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.**

Notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release, Employee understands and agrees that this Agreement is intended to include all claims, if any, which Employee may have and which Employee does not now know or suspect to exist in Employee's favor against the Released Parties and that this Agreement extinguishes those claims.

ADEA. Employee acknowledges that she is knowingly and voluntarily waiving and releasing any rights she may have under the federal Age Discrimination in Employment Act of 1967, as amended (the "ADEA"). Employee also acknowledges that the consideration given for the waiver in the above paragraph is in addition to anything of value to which Employee was already entitled. Employee is advised by this writing, as required by the ADEA that: (a) Employee's waiver and release do not apply to any claims that may arise after Employee signs this Agreement; (b) Employee should consult with an attorney prior to executing this release; (c) Employee has twenty-one (21) days within which to consider this release (although Employee may choose to voluntarily execute this release earlier); (d) Employee has seven (7) days following the execution of this release to revoke this Agreement; and (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by Employee and by the Company, provided that Employee has not earlier revoked this Agreement and Employee will not receive any of the benefits specified by this Agreement until after it becomes effective.

6. Confidentiality of Agreement. Employee agrees not to disclose the terms of this Agreement, or the fact of its existence or execution, to anyone other than his/her family, attorneys, governmental taxing authorities or other administrative agencies (the "Non-Disclosure Obligations"), or pursuant to a subpoena or order of a court reasonably believed by Employee to be a court of proper jurisdiction, provided, however, prior to such disclosure, Employee shall give the Company notice of such inquiry, subpoena or process as soon as possible upon receipt or knowledge thereof in writing and in any event with sufficient notice to permit Company to object or otherwise seek to quash the subpoena.

7. Binding Effect. This Agreement shall be binding upon the Parties and their respective heirs, administrators, representatives, executors, successors and assigns, and shall inure to the benefit of the parties and their respective heirs, administrators, representatives, executors, successors and assigns.

8. Governing Law. This Agreement shall be governed by and construed and enforced pursuant to the laws of the State of California applicable to contracts made and entirely to be performed therein, without regard to its conflict of laws provisions.

9. Entire Agreement; Modification. This Agreement constitutes the entire understanding among the Parties and may not be modified without the express written consent of the Parties. This Agreement supersedes all prior written and/or oral and all contemporaneous oral agreements, understandings and negotiations regarding the subject matter hereof. If any individual term or condition of this Agreement is found to be unenforceable, that term or

condition shall be deemed stricken and the other terms and conditions shall remain in full force and effect.

10. Governing Law and Venue. This Agreement and any action related thereto will be governed, controlled, interpreted, and defined by and under the laws of the State of California as applied to transactions taking place wholly within California between California residents excluding that body of laws related to conflict of laws. All disputes will be resolved in state or federal court in the State of California, County of Orange as the exclusive forum and all parties expressly consent to the personal jurisdiction of such court(s).

11. Counterparts. This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original. Photographic and facsimile copies of such signed counterparts may be used in lieu of the originals for any purpose.

Employee and Company each affirm that they have read and understand this Agreement and hereby agree to voluntarily sign it as of the Effective Date. Employee and Company each declare under penalty of perjury that the foregoing is true and correct.

By: \_\_\_\_\_

Its: \_\_\_\_\_

EMPLOYEE:  
\_\_\_\_\_

Exhibit C

**Exhibits intentionally omitted**

Exhibit C – Page 1

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## CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER

I, Kent Eikanas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Healthcare REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2021

/s/ Kent Eikanas  
Kent Eikanas  
*Chief Executive Officer*  
*(Principal Executive Officer)*

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## CERTIFICATIONS OF PRINCIPAL FINANCIAL OFFICER

I, Elizabeth A. Pagliarini, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Healthcare REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2021

/s/ Elizabeth A. Pagliarini  
Elizabeth A. Pagliarini  
Chief Financial Officer  
(Principal Financial Officer)

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CERTIFICATIONS PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Kent Eikanas and Elizabeth A. Pagliarini, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge, the Quarterly Report of Summit Healthcare REIT, Inc. on Form 10-Q for the period ended September 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Summit Healthcare REIT, Inc.

Date: November 10, 2021

/s/ Kent Eikanas  
Kent Eikanas  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Date: November 10, 2021

/s/ Elizabeth A. Pagliarini  
Elizabeth A. Pagliarini  
*Chief Financial Officer*  
*(Principal Financial Officer)*

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