

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 March 31, 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)

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

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

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 May 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
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

**SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

	March 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 14,752,000	\$ 14,658,000
Restricted cash	2,999,000	2,933,000
Real estate properties, net	44,541,000	44,921,000
Notes receivable	203,000	262,000
Tenant and other receivables, net	3,929,000	4,677,000
Deferred leasing commissions, net	519,000	536,000
Other assets, net	705,000	1,203,000
Equity-method investments	10,897,000	11,375,000
Total assets	<u>\$ 78,545,000</u>	<u>\$ 80,565,000</u>
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	\$ 2,477,000	\$ 2,530,000
Security deposits	664,000	664,000
Loans payable, net of debt issuance costs	45,027,000	45,274,000
Total liabilities	<u>48,168,000</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 March 31, 2021 and December 31, 2020	—	—
Common stock, \$0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at March 31, 2021 and December 31, 2020	23,000	23,000
Additional paid-in capital	116,371,000	116,335,000
Accumulated deficit	(86,214,000)	(84,456,000)
Total stockholders' equity	<u>30,180,000</u>	<u>31,902,000</u>
Noncontrolling interests	197,000	195,000
Total equity	<u>30,377,000</u>	<u>32,097,000</u>
Total liabilities and equity	<u>\$ 78,545,000</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 March 31,	
	2021	2020
Revenues:		
Total rental revenues	\$ 924,000	\$ 1,600,000
Acquisition and asset management fees	329,000	326,000
Interest income from notes receivable	9,000	7,000
Total operating revenue	1,262,000	1,933,000
Expenses:		
Property operating costs	220,000	257,000
General and administrative	1,631,000	939,000
Depreciation and amortization	399,000	417,000
Total operating expenses	2,250,000	1,613,000
Operating (loss) income	(988,000)	320,000
(Loss) income from equity-method investees	(235,000)	30,000
Other income	5,000	42,000
Interest expense	(522,000)	(593,000)
Net loss	(1,740,000)	(201,000)
Noncontrolling interests' share in net (income) loss	(18,000)	(12,000)
Net loss applicable to common stockholders	\$ (1,758,000)	\$ (213,000)
Basic and diluted loss per common share:		
Net loss applicable to common stockholders	\$ (0.08)	\$ (0.01)
Weighted average shares used to calculate basic and diluted earnings per common share	23,027,978	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			Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital				
Balance — January 1, 2021	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	—	—	—	(1,758,000)	(1,758,000)	18,000	(1,740,000)
Balance — March 31, 2021	<u>23,027,978</u>	<u>\$ 23,000</u>	<u>\$ 116,371,000</u>	<u>\$ (86,214,000)</u>	<u>\$ 30,180,000</u>	<u>\$ 197,000</u>	<u>\$ 30,377,000</u>

	Common Stock			Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital				
Balance — January 1, 2020	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	—	—	—	(213,000)	(213,000)	12,000	(201,000)
Balance — March 31, 2020	<u>23,027,978</u>	<u>\$ 23,000</u>	<u>\$ 116,226,000</u>	<u>\$ (84,056,000)</u>	<u>\$ 32,193,000</u>	<u>\$ 200,000</u>	<u>\$ 32,393,000</u>

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

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

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (1,740,000)	\$ (201,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of debt issuance costs	18,000	33,000
Depreciation and amortization	399,000	417,000
Straight-line rents	406,000	(62,000)
Stock-based compensation expense	36,000	42,000
Loss (income) from equity-method investees	235,000	(30,000)
Change in operating assets and liabilities:		
Tenant and other receivables, net	294,000	300,000
Other assets	473,000	(110,000)
Accounts payable and accrued liabilities	(30,000)	(198,000)
Net cash provided by operating activities	91,000	191,000
Cash flows from investing activities:		
Investment in equity-method investees	(123,000)	-
Distributions received from equity-method investees	413,000	381,000
Payments from notes receivable	60,000	91,000
Net cash provided by investing activities	350,000	472,000
Cash flows from financing activities:		
Payments of loans payable	(265,000)	(206,000)
Distributions paid to noncontrolling interests	(16,000)	(12,000)
Net cash used in financing activities	(281,000)	(218,000)
Net increase in cash, cash equivalents and restricted cash	160,000	445,000
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>\$ 17,751,000</u>	<u>\$ 16,522,000</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 431,000	\$ 503,000

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

MARCH 31, 2021

(Unaudited)

1. Organization

Summit Healthcare REIT, Inc. (“Summit”) is a real estate investment trust that owns 100% of three 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, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 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 March 31, 2021, we own a 95.3% interest in the four JV Properties, and CHREF owns a 4.7% interest. See

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 March 31, 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 March 31, 2021 and December 31, 2020, we have a 35% interest in the Fantasia JV which owns two properties.

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 March 31, 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 March 31, 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 March 31, 2021 and December 31, 2020, we have a 10% interest in the FPH JV which owns six properties.

Indiana JV– Equity-Method Investment

In February 2019, through our wholly-owned subsidiary, Summit Indiana, LLC, we formed a new joint venture, a Delaware limited liability company (the “Indiana JV”). On March 13, 2019, we entered into a Limited Liability Company Agreement (“Indiana JV Agreement”) with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method. As of March 31, 2021 and December 31, 2020, we have a 15% interest in the Indiana JV which owns 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 operating member of the Indiana JV (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 months ended March 31, 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.

	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 14,752,000	\$ 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>\$ 17,751,000</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, including to every state in the United States and more than 200 countries. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. 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.

In October 2020, under a court order, a receiver assumed the responsibilities of operating and managing the Pennington Gardens facility in Chandler, Arizona. For the period ended March 31, 2021, this tenant experienced a material adverse effect on its operations related to COVID-19, and that has affected its ability to make its rent payments in 2021. We are currently working with this tenant on a revised rent schedule for 2021, and during the three month period ended March 31, 2021 recorded rent payments on a cash basis and wrote off the remaining straight-line rent receivable. We have not seen any impact on debt payments from borrowers or notes receivable.

Additionally, some of our Equity-Method Investment tenants have experienced decreased occupancy and increased operating costs related to COVID-19, and for the Indiana JV, this has had a material adverse effect on their ability to meet their financial and other contractual obligations to the Indiana JV, including the payment of rent, which resulted in a temporary rent reduction.

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. Healthcare personnel and residents of long-term care facilities, including SNF, AL, and MC facilities, have been 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. 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

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted and amended in December 2020 (the “CARES Act”). The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. In particular, the CARES Act created an emergency lending facility known as the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) and provides federally insured and, in some cases, forgivable loans to certain eligible businesses so that those businesses can continue to cover certain of their near-term operating expenses and retain employees. We did not obtain a PPP loan. We have evaluated the CARES Act and determined that there was no impact on the Company for the three month period ended March 31, 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 March 31, 2021 and December 31, 2020, our investments in real estate properties including those held by our consolidated subsidiaries (excluding the 50 properties owned by our unconsolidated Equity-Method Investments) are set forth below:

	March 31, 2021	December 31, 2020
Land	\$ 6,237,000	\$ 6,237,000
Buildings and improvements	48,295,000	48,295,000
Less: accumulated depreciation	(10,188,000)	(9,853,000)
Buildings and improvements, net	38,107,000	38,442,000
Furniture and fixtures	4,230,000	4,230,000
Less: accumulated depreciation	(4,033,000)	(3,988,000)
Furniture and fixtures, net	197,000	242,000
Real estate properties, net	\$ 44,541,000	\$ 44,921,000

For the three months ended March 31, 2021 and 2020, depreciation expense (excluding leasing commission amortization) was approximately \$0.4 million and \$0.4 million, respectively.

As of March 31, 2021, our portfolio consisted of seven 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 50 properties owned by our unconsolidated Equity-Method Investments) as of March 31, 2021:

Property	Location	Date Purchased	Type ⁽¹⁾	Purchase Price	Loans Payable, Excluding Debt Issuance Costs
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	\$ 4,100,000	\$ 4,290,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	3,764,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	SNF	15,000,000	11,695,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	6,274,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	8,625,000	6,828,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	3,500,000	3,779,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	13,400,000	10,292,000
Total:				\$ 57,265,000	\$ 46,922,000

- (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 50 properties owned by our unconsolidated Equity-Method Investments) as of March 31, 2021, for the period from April 1, 2021 to December 31, 2021 and for each of the four following years and thereafter ending December 31 are as follows:

Years ending	
April 1, 2021 to December 31, 2021	\$ 3,394,000
2022	4,613,000
2023	4,708,000
2024	4,350,000
2025	4,437,000
Thereafter	15,441,000
	<u>\$ 36,943,000</u>

2021 Acquisitions

None.

2020 Acquisitions

None.

Leasing Commissions

As a self-managed REIT, we no longer pay leasing commissions. Leasing commissions are capitalized at cost and amortized on a straight-line basis over the related lease term. As of March 31, 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 and \$0.6 million, respectively. Amortization expense for each of the three months ended March 31, 2021 and 2020 was approximately \$17,000.

4. Loans Payable

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

	March 31, 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.	\$ 10,292,000	\$ 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 March 31, 2021 and December 31, 2020, collateralized by Sheridan, Fernhill, Pacific Health, Friendship Haven, Aledo and Sundial Assisted Living.	<u>\$ 36,630,000</u>	<u>\$ 36,857,000</u>
	46,922,000	47,187,000
Less debt issuance costs	(1,895,000)	(1,913,000)
Total loans payable	<u>\$ 45,027,000</u>	<u>\$ 45,274,000</u>

As of March 31, 2021, we have total debt obligations of approximately \$46.9 million that will mature between 2039 and 2055. All of our properties are financed with HUD-insured loans by various lenders. See table above listing loans payable for further information. See Note 3 for loans payable balance for each property.

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. As of March 31, 2021, we were in compliance with all of our debt covenants.

In connection with our loans payable, we incurred debt issuance costs. As of March 31, 2021 and December 31, 2020, the unamortized balance of the debt issuance costs was approximately \$1.9 million. 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 March 31, 2021 and 2020, \$18,000 and \$33,000, respectively, of debt issuance costs were amortized and included in interest expense in our condensed consolidated statements of operations.

During the three months ended March 31, 2021 and 2020, we incurred approximately \$0.5 million and \$0.6 million of interest expense (excluding debt issuance costs amortization), respectively, related to our loans payable.

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

Years Ending	Principal Amount
April 1, 2021 to December 31, 2021	\$ 811,000
2022	1,116,000
2023	1,158,000
2024	1,201,000
2025	1,246,000
Thereafter	41,390,000
	<u>\$ 46,922,000</u>

5. Equity-Method Investments

As of March 31, 2021 and December 31, 2020, the balances of our Equity-Method Investments were approximately \$10.9 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 March 31, 2021 and December 31, 2020, the balance of our equity-method investment related to the SUL JV was approximately \$2.6 million and \$2.7 million, respectively.

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 March 31, 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 March 31, 2021 and December 31, 2020, the balance of our equity-method investment related to the Fantasia II JV was approximately \$1.4 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 March 31, 2021 and December 31, 2020, the balance of our equity-method investment related to the Fantasia III JV was approximately \$1.6 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 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 March 31, 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

The Indiana JV will continue until an event of dissolution occurs, as defined in the Indiana JV Agreement.

Under the Indiana JV Agreement, net operating cash flow of the Indiana JV is distributed monthly to the members *pari passu* in accordance with their respective capital percentages, and thereafter as defined in the Indiana JV Agreement.

As of March 31, 2021 and December 31, 2020, the balance of our equity-method investment related to the Indiana JV was approximately \$2.9 million 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 results of operations of our Equity-Method Investments for the three months ended March 31, 2021 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Indiana JV	Combined Total
Revenue	\$ 5,176,000	\$ 929,000	\$ 921,000	\$ 2,056,000	\$ 890,000	\$ 250,000	\$ 10,222,000
Income (Loss) from Operations	\$ 1,547,000	\$ 71,000	\$ 485,000	\$ 1,037,000	\$ 421,000	\$ (1,646,000)	\$ 1,915,000
Net Income (Loss)	\$ 178,000	\$ 288,000	\$ 249,000	\$ 514,000	\$ 847,000	\$ (3,598,000)	\$ (1,522,000)
Summit interest in Equity-Method Investments net income (loss)	\$ 18,000	\$ 100,000	\$ 50,000	\$ 52,000	\$ 85,000	\$ (540,000)	\$ (235,000)

The results of operations of our Equity-Method Investments for the three months ended March 31, 2020 are summarized below:

	SUL JV	Fantasia JV	Fantasia II JV	Fantasia III JV	FPH JV	Indiana JV	Combined Total
Revenue	\$ 4,550,000	\$ 1,053,000	\$ 891,000	\$ 2,000,000	\$ 885,000	\$ 2,947,000	\$ 12,326,000
Income from Operations	\$ 1,878,000	\$ 189,000	\$ 506,000	\$ 1,037,000	\$ 421,000	\$ 1,868,000	\$ 5,899,000
Net Income (Loss)	\$ 955,000	\$ (20,000)	\$ 265,000	\$ 400,000	\$ (1,354,000)	\$ (104,000)	\$ 142,000
Summit interest in Equity-Method Investments net income (loss)	\$ 96,000	\$ (7,000)	\$ 53,000	\$ 39,000	\$ (135,000)	\$ (16,000)	\$ 30,000

Distributions from Equity-Method Investments

As of March 31, 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:

	March 31, 2021	December 31, 2020
SUL JV	\$ 271,000	\$ 466,000
Fantasia JV	79,000	36,000
Fantasia II JV	52,000	51,000
Fantasia III JV	202,000	257,000
FPH JV	26,000	26,000
Indiana JV	498,000	498,000
Total	\$ 1,128,000	\$ 1,334,000

For the three months ended March 31, 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:

	Three Months Ended March 31, 2021			Three Months Ended March 31, 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	\$ 336,000	\$ 18,000	\$ 318,000	\$ 119,000	\$ 95,000	\$ 24,000
Fantasia JV	-	-	-	144,000	-	144,000
Fantasia II JV	73,000	50,000	23,000	46,000	46,000	-
Fantasia III JV	123,000	51,000	72,000	57,000	40,000	17,000
FPH JV	38,000	38,000	-	49,000	-	49,000
Indiana JV	-	-	-	147,000	-	147,000
Total	\$ 570,000	\$ 157,000	\$ 413,000	\$ 562,000	\$ 181,000	\$ 381,000

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 each of the three months ended March 31, 2021 and 2020, we recorded approximately \$0.3 million 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:

	March 31, 2021	December 31, 2020
Straight-line rent receivables	\$ 2,366,000	\$ 2,772,000
Distribution receivables from Equity-Method Investments	1,128,000	1,334,000
Asset management fees	384,000	432,000
Other receivables	51,000	139,000
Total	<u>\$ 3,929,000</u>	<u>\$ 4,677,000</u>

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 March 31, 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 March 31, 2021 and December 31, 2020, we had the following receivables and reserves related to CRA:

	Receivables	Reserves	Balance
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)	-
Total	<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 March 31, 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 March 31, 2021, we owned one property in California, three properties in Oregon, one property in Texas, one property in Illinois, and one property in Arizona (excluding the 50 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 March 31, 2021, we leased our seven real estate properties to five different tenants under long-term triple net leases, and four of the five tenants represented more than 10% of our rental revenue. For the three months ended March 31, 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 rental revenue greater than 10% (35%, 24%, 20% and 15%).

As of March 31, 2021, we had one tenant that constituted a significant asset concentration as the net assets of the tenants was 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 March 31, 2021 and December 31, 2020, the fair value of loans payable was \$52.3 million and \$52.6 million, compared to the principal balance (excluding debt discount) of \$46.9 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 March 31, 2021, we utilized discount rates ranging from 2.8% to 4.2% and a weighted average discount rate of 2.8%. 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 months ended March 31, 2021 and 2020.

At March 31, 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 a scheduling order to govern discovery and pretrial matters. 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 March 31, 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.

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 1, 2018, 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 March 31, 2021:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2021	1,871,908	\$ 2.09		
Granted	—			
Exercised	—			
Cancelled/forfeited	—			
Options outstanding at March 31, 2021	<u>1,871,908</u>	<u>\$ 2.09</u>	<u>6.57</u>	<u>\$ 1,524,000</u>
Options exercisable at March 31, 2021	<u>1,793,296</u>	<u>\$ 2.08</u>	<u>6.49</u>	<u>\$ 1,474,000</u>

For our outstanding non-vested options as of March 31, 2021, the weighted average grant date fair value per share was \$0.58. As of March 31, 2021, we have unrecognized stock-based compensation expense related to unvested stock options which is expected to be recognized as follows:

Years Ending December 31,

April 1, 2021 to December 31, 2021	\$ 30,000
2022	15,000
2023	1,000
	<u>\$ 46,000</u>

The stock-based compensation expense reported for the three months ended March 31, 2021 and 2020 was approximately \$36,000 and \$42,000, respectively, and is included in general and administrative expense in the condensed consolidated statements of operations.

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 March 31, 2021, our ownership interests in our seven real estate properties of senior housing facilities was as follows: 100% ownership of three 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, a 10% equity interest in an unconsolidated equity-method investment that holds six properties and a 15% equity interest in an unconsolidated equity-method investment that holds 14 properties (collectively, our “Equity-Method Investments”). 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 seven real estate properties, including rents reported on a straight-line basis 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, including to every state in the United States and more than 200 countries. 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. Furthermore, infections at our facilities could lead to material increases in litigation costs for which our tenants, or possibly we, may be liable.

For the period ended March 31, 2021, one of our tenants has experienced a material adverse effect on its operations related to COVID-19, and that has affected its ability to make its rent payments. We are currently working with this tenant on a revised rent schedule for 2021, and during the three month period ended March 31, 2021 recorded rent payments on a cash basis and wrote off the remaining straight-line rent receivable. We have not seen any impact on debt payments from borrowers on notes receivable. Additionally, some of our Equity-Method Investment tenants have experienced decreased occupancy and increased operating costs related to COVID-19, and for the Indiana JV, this has had a material adverse effect on their ability to meet their financial and other contractual obligations to the Indiana JV, including the payment of rent, which resulted in a temporary rent reduction.

If these types of developments continue or increase in severity, or arise with more frequency, 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.

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 created to provide approximately \$2.1 trillion in direct economic stimulus assistance to business owners to help maintain on-going operations. Federally funded grants and forgivable loan programs under the CARES Act have become available to those operators and businesses that qualify. These programs include the Paycheck Protection Program (PPP), a SBA-backed loan program that helps businesses keep their workforce employed during the COVID-19 crisis with a forgivable loan feature if certain qualifications are met. The Department of Health and Human Service's Provider Relief Fund (HHS) is a fund distributing \$150 billion to hospitals and healthcare providers on the front line of the COVID-19 outbreak. Also, the Treasury's Coronavirus Relief Fund (CRF) provides \$150 billion federal funded grants to individual states and local agencies to disburse to its providers that meet relevant COVID-related criteria. 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, have been 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 March 31, 2021, our portfolio consisted of seven 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 50 properties held by our unconsolidated Equity-Method Investments) regarding these properties as of March 31, 2021:

	Properties	Beds	Square Footage	Purchase Price
SNF	4	337	109,306	\$ 31,740,000
AL or AL/MC	3	221	136,765	25,525,000
Total Real Estate Properties	7	558	246,071	\$ 57,265,000

Property	Location	Date Purchased	Type	Beds	2021 Rental Revenue¹
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	51	\$ 123,000
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	63	131,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County TX	September 14, 2012	SNF	150	353,000
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	73	242,000
Brookstone of Aledo	Aledo, IL	July 2, 2013	AL	66	191,000
Sundial Assisted Living	Redding, CA	December 18, 2013	AL	65	99,000
Pennington Gardens	Chandler, AZ	July 17, 2017	AL/MC	90	30,000
Total				558	

¹ Represents year-to-date rental revenue based on in-place leases, including straight-line rent, through March 31, 2021 and excluding \$174,000 in tenant reimbursement revenue.

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 sole 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.

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:

	March 31, 2021	December 31, 2020
Condensed Combined Balance Sheets:		
Total Assets	\$ 408,890,000	\$ 415,591,000
Total Liabilities	\$ 320,580,000	\$ 324,414,000
Members Equity:		
Summit	\$ 11,010,000	\$ 11,489,000
JV Partners	\$ 77,300,000	\$ 79,688,000
Total Members Equity	\$ 88,310,000	\$ 91,177,000
	Three Months Ended	Three Months Ended
	March 31, 2021	March 31, 2020
Condensed Combined Statements of Income:		
Total Revenue:	\$ 10,222,000	\$ 12,326,000
Net Operating Income	\$ 6,362,000	\$ 9,577,000
Income from Operations	\$ 1,915,000	\$ 5,899,000
Net (Loss) Income	\$ (1,522,000)	\$ 142,000
Summit equity interest in Equity-Method Investments net (loss) income	\$ (235,000)	\$ 30,000
JV Partners interest in Equity-Method Investments net (loss) income	\$ (1,287,000)	\$ 112,000

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.

Under the SUL LLC Agreement, as amended, 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%.

The following reconciles our 10% equity investment in the SUL JV from inception through March 31, 2021:

JV 2 Properties (Colorado, Oregon and Virginia) – April 2015	\$ 1,059,000
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	4,902,000
Income from equity-method investee	1,330,000
Distributions	(3,583,000)
Total investment at March 31, 2021	\$ 2,649,000

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:

	March 31, 2021	December 31, 2020
Condensed Consolidated Balance Sheets of SUL JV:		
Real estate properties and intangibles, net	\$ 128,577,000	\$ 129,793,000
Cash and cash equivalents	5,612,000	6,548,000
Other assets	12,778,000	11,932,000
Total Assets:	\$ 146,967,000	\$ 148,273,000
Loans payable, net	\$ 104,166,000	\$ 104,552,000
Other liabilities	8,085,000	9,115,000
Members' equity:		
Best Years	31,952,000	31,841,000
Summit	2,764,000	2,765,000
Total Liabilities and Members' Equity	\$ 146,967,000	\$ 148,273,000
	Three Months Ended	Three Months Ended
	March 31, 2021	March 31, 2020
Condensed Consolidated Statements of Income of SUL JV:		
Total revenue	\$ 5,176,000	\$ 4,550,000
Property operating expenses	(2,255,000)	(1,229,000)
Net operating income	2,921,000	3,321,000
General and administrative expense	(100,000)	(94,000)
Depreciation and amortization expense	(1,274,000)	(1,349,000)
Income from operations	1,547,000	1,878,000
Interest expense	(1,159,000)	(1,225,000)
Amortization of deferred financing costs	(53,000)	(53,000)
Interest income	1,000	3,000
Other income and expense	(158,000)	352,000
Net income	\$ 178,000	\$ 955,000
Summit equity interest in SUL JV net income	\$ 18,000	\$ 96,000

As of March 31, 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.

Under the Fantasia Agreements, net operating cash flow of the Fantasia JVs is distributed monthly, first to the Operating Partnership and Fantasia *pari passu* (8% for Fantasia I and II and 9% for Fantasia III) until each member has received an amount equal to its accrued, but unpaid return, and thereafter 50% to Fantasia and 50% to the Operating Partnership for Fantasia I, 70% to Fantasia and 30% to the Operating Partnership for Fantasia II, and 75% to Fantasia and 25% to the Operating Partnership for Fantasia III. All capital proceeds from the sale of the properties held by the Fantasia JVs, a refinancing or another capital event, will be paid first to the Operating Partnership and Fantasia *pari passu* as noted above until each has received an amount equal to its accrued but unpaid return plus its total capital contribution, and thereafter to Fantasia and to the Operating Partnership, as noted above.

The following reconciles our equity investments in the Fantasia JVs from inception through March 31, 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	1,236,000
Distributions	(2,596,000)
Total Fantasia investments at March 31, 2021	\$ 5,041,000

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:

	March 31, 2021	December 31, 2020
Condensed Combined Balance Sheets of Fantasia JVs:		
Real estate properties, net	\$ 100,624,000	\$ 101,351,000
Cash and cash equivalents	5,869,000	7,497,000
Other assets	7,038,000	6,526,000
Total Assets:	\$ 113,531,000	\$ 115,374,000
Loans payable, net	\$ 75,567,000	\$ 75,661,000
Other liabilities	6,535,000	8,359,000
Members' equity:		
Fantasia JVs	26,388,000	26,330,000
Summit	5,041,000	5,024,000
Total Liabilities and Members' Equity	\$ 113,531,000	\$ 115,374,000

Condensed Combined Statements of Income of Fantasia JVs:	Three Months	Three Months
	Ended	Ended
	March 31, 2021	March 31, 2020
Total revenue	\$ 3,906,000	\$ 3,944,000
Property operating expenses	(1,476,000)	(1,395,000)
Net operating income	2,430,000	2,549,000
General and administrative expense	(110,000)	(90,000)
Depreciation and amortization expense	(727,000)	(727,000)
Income from operations	1,593,000	1,732,000
Interest expense	(893,000)	(1,029,000)
Amortization of debt issuance costs	(16,000)	(73,000)
Other income	367,000	15,000
Net income	\$ 1,051,000	\$ 645,000
Summit equity interest in Fantasia JVs net income	\$ 202,000	\$ 85,000

As of March 31, 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.

Under the FPH LLC Agreement, net operating cash flow of the FPH JV is distributed monthly, 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 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.

The following reconciles our equity investment in the FPH JV from inception through March 31, 2021:

Iowa properties – November 2017	\$ 929,000
Total investment	929,000
Loss from equity-method investee	(30,000)
Distributions	(609,000)
Total FPH investment at March 31, 2021	\$ 290,000

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

Condensed Consolidated Balance Sheets of FPH JV:	March 31, 2021	December 31, 2020
Real estate properties, net	\$ 25,761,000	\$ 26,068,000
Cash and cash equivalents	1,443,000	1,430,000
Other assets	1,141,000	1,079,000
Total Assets:	\$ 28,345,000	\$ 28,577,000
Loans payable, net	\$ 21,087,000	\$ 21,195,000
Other liabilities	2,736,000	3,407,000
Members' equity:		
Fantasia JVs	4,232,000	3,730,000
Summit	290,000	245,000
Total Liabilities and Members' Equity	\$ 28,345,000	\$ 28,577,000

Condensed Consolidated Statements of Operations of FPH JV:	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Total revenue	\$ 890,000	\$ 885,000
Property operating expenses	(125,000)	(122,000)
Net operating income	765,000	763,000
General and administrative expense	(37,000)	(35,000)
Depreciation and amortization expense	(307,000)	(307,000)
Income from operations	421,000	421,000
Interest expense	(251,000)	(259,000)
Amortization of debt issuance costs	(15,000)	(15,000)
Other income and expense	692,000	(1,501,000)
Net income (loss)	\$ 847,000	\$ (1,354,000)
Summit equity interest in FPH JV net income (loss)	\$ 85,000	\$ (135,000)

As of March 31, 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:

Property	Location	Type	Number of Beds
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
Total:			511

Indiana JV

In February 2019, we formed a new joint venture, a Delaware limited liability company (the “Indiana JV”), and on March 13, 2019, we entered into a Limited Liability Company Agreement (“Indiana JV Agreement”) through our wholly-owned subsidiary, Summit Indiana, LLC, with two unrelated parties: a real estate holding company and a global institutional asset management firm, both Delaware limited liability companies. The Indiana JV is not consolidated in our condensed consolidated financial statements and is accounted for under the equity-method.

Under the Indiana JV Agreement, net operating cash flow of the Indiana JV is distributed monthly to the members *pari passu* in accordance with their respective capital percentages, and thereafter as defined in the Indiana JV Agreement.

The following reconciles our equity investment in the Indiana JV from inception through March 31, 2021:

Indiana properties – March 2019	\$ 4,906,000
Total investment	4,906,000
Loss from equity-method investee	(689,000)
Distributions	(1,302,000)
Total Indiana JV investment at March 31, 2021	\$ 2,915,000

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

Condensed Consolidated Balance Sheets of Indiana JV:	March 31, 2021	December 31, 2020
Real estate properties, net	\$ 113,712,000	\$ 115,438,000
Cash and cash equivalents	2,620,000	3,528,000
Other assets	3,715,000	4,401,000
Total Assets:	\$ 120,047,000	\$ 123,367,000
Loans payable, net	\$ 95,709,000	\$ 95,633,000
Other liabilities	6,695,000	6,492,000
Members' equity:		
Indiana JV	14,728,000	17,787,000
Summit	2,915,000	3,455,000
Total Liabilities and Members' Equity	\$ 120,047,000	\$ 123,367,000

Condensed Consolidated Statements of Operations of Indiana JV:	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Total revenue	\$ 250,000	\$ 2,947,000
Property operating expenses	(4,000)	(3,000)
Net operating income	246,000	2,944,000
General and administrative expense	(166,000)	(172,000)
Depreciation and amortization expense	(1,726,000)	(904,000)
(Loss) income from operations	(1,646,000)	1,868,000
Interest expense	(1,876,000)	(1,896,000)
Amortization of debt issuance costs	(76,000)	(76,000)
Net loss	\$ (3,598,000)	\$ (104,000)
Summit equity interest in Indiana JV net loss	\$ (540,000)	\$ (16,000)

As of March 31, 2021, the 14 properties of our unconsolidated equity-method investments in Indiana JV, all of which are 100% leased on a triple net basis, are as follows:

Property	Location	Type	Number of Beds
Bloomington Nursing and Rehab	Bloomington, IN	SNF	38
Summerfield Health Care Center	Cloverdale, IN	SNF	43
University Nursing and Rehab	Evansville, IN	SNF/AL	47/22
Sugar Creek Nursing and Rehab	Greenfield, IN	SNF	60
Hanover Nursing Center	Hanover, IN	SNF/AL	125/12
New Albany Nursing and Rehabilitation	New Albany, IN	SNF/AL	122/21
Willow Manor Nursing and Rehab	Vincennes, IN	SNF	170
North Ridge Village and Rehab Center	Albion, IN	SNF/AL	77/12
Greenhill Manor	Fowler, IN	SNF	64
Meridian Nursing and Rehab	Indianapolis, IN	SNF	44
Wintersong Village	Knox, IN	SNF	48
Essex Nursing and Rehab	Lebanon, IN	SNF	38
Washington Nursing Center	Washington, IN	SNF	140
Rural Health Care	Indianapolis, IN	SNF	50
Total:			1,133

Distributions from Equity-Method Investments

For the three months ended March 31, 2021 and 2019, we recorded distributions and cash received for distributions from our Equity-Method Investments as follows:

	Three Months Ended March 31,	
	2021	2020
Distributions	\$ 366,000	\$ 493,000
Cash received for distributions	\$ 570,000	\$ 562,000

Acquisition and Asset Management Fees

We serve as the manager or operating member (collectively, 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 those agreements. Additionally, we are paid an annual asset management fee for managing the properties owned by our Equity-Method Investments, as defined in the agreements. For each of the three months ended March 31, 2021 and 2020, we recorded approximately \$0.3 million in acquisition and asset management fees from our Equity-Method Investments.

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 March 31, 2021 Compared to Three Months Ended March 31, 2020

	Three Months Ended March 31,		\$ Change
	2021	2020	
Total rental revenues	\$ 924,000	\$ 1,600,000	\$ (676,000)
Property operating costs	(220,000)	(257,000)	37,000
Net operating income ⁽¹⁾	704,000	1,343,000	(639,000)
Acquisition & asset management fees	329,000	326,000	3,000
Interest income from notes receivable	9,000	7,000	2,000
General and administrative	(1,631,000)	(939,000)	(692,000)
Depreciation and amortization	(399,000)	(417,000)	18,000
(Loss) income from equity-method investees	(235,000)	30,000	(265,000)
Other income	5,000	42,000	(37,000)
Interest expense	(522,000)	(593,000)	71,000
Net (loss)	(1,740,000)	(201,000)	(1,539,000)
Noncontrolling interests' share in (income)	(18,000)	(12,000)	(6,000)
Net (loss) applicable to common stockholders	\$ (1,758,000)	\$ (213,000)	\$ (1,545,000)

- (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, 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 decreased approximately \$0.6 million for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 primarily due to the reduction in rental revenue and write off of straight-line rent from Pennington Gardens (see Note 2 to the accompanying Notes to Condensed Consolidated Financial Statements under *Coronavirus (COVID-19)*).

The net increase in general and administrative expenses of \$0.7 million for the three months ended March 31, 2021 compared to the three months ended March 31, 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 \$0.1 million.

The net decrease of approximately \$0.3 million in (loss) income from equity-method investments for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 is primarily due to the an increase in the loss related to a reduction in rental revenue recorded for the Indiana JV, our Equity-Method Investment, due to COVID-19 related issues (see Note 2 to the accompanying Notes to Condensed Consolidated Financial Statements under *Coronavirus (COVID-19)*).

Liquidity and Capital Resources

As of March 31, 2021, we had approximately \$14.7 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.

All of our debt obligations are long-term, fixed rate U.S. Department of Housing and Urban Development (“HUD”)-insured loans that mature between 2039 and 2055.

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

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted and was amended in December 2020 (the “CARES Act”). The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. In particular, the CARES Act created an emergency lending facility known as the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) and provides federally insured and, in some cases, forgivable loans to certain eligible businesses so that those businesses can continue to cover certain of their near-term operating expenses and retain employees. We did not obtain a PPP loan. We have evaluated the CARES Act and determined that there was no impact to the Company for the three month period ended March 31, 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 March 31, 2021, we had debt obligations of approximately \$46.9 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 \$36.6 million maturing from September 2039 through April 2055

Distributions

We made no stockholder distributions during the three months ended March 31, 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.

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 ended March 31, 2021 and 2020:

	Three Months Ended	
	March 31, 2021	March 31, 2020
Net loss applicable to common stockholders (GAAP)	\$ (1,758,000)	\$ (213,000)
Adjustments:		
Depreciation and amortization	399,000	417,000
Depreciation and amortization related to non-controlling interests	(10,000)	(10,000)
Depreciation related to Equity-Method Investments	550,000	558,000
Funds (used in) provided by operations (FFO) applicable to common stockholders	\$ (819,000)	\$ 752,000
Weighted-average number of common shares outstanding – basic and diluted	23,027,978	23,027,978
FFO per weighted average common shares – basic and diluted	\$ (0.04)	\$ 0.03

Subsequent Event

None.

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 three months ended March 31, 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.

Item 6. Exhibits.

Ex.	Description
<u>3.1</u>	<u>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).</u>
<u>3.2</u>	<u>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).</u>
<u>3.3</u>	<u>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).</u>
<u>3.4</u>	<u>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).</u>
<u>4.1</u>	<u>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")).</u>
<u>4.2</u>	<u>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).</u>
<u>4.3</u>	<u>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).</u>
<u>4.4</u>	<u>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).</u>
<u>31.1</u>	<u>Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32</u>	<u>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.</u>
101.1	The following information from the Company's quarterly report on Form 10-Q for the quarter ended March 31, 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.

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: May 17, 2021

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

Date: May 17, 2021

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

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: May 17, 2021

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

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.

/s/ Elizabeth A. Pagliarini

Elizabeth A. Pagliarini

Chief Financial Officer

(Principal Financial Officer)

Date: May 17, 2021

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 March 31, 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: May 17, 2021

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

Date: May 17, 2021

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