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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

Or

☐ **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	**73-1721791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1920 MAIN STREET, SUITE 400, IRVINE, CA	**92614**
(Address of principal executive offices)	**(Zip Code)**

949-852-1007
(Registrant's telephone number, including area code)

Cornerstone Core Properties REIT, Inc.
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer (1) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

As of November 13, 2013 we had 23,028,285 shares issued and outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 17,161,000	$ 999,000
Real estate properties (held in variable interest entity):		
Land	5,709,000	4,521,000
Buildings and improvements, net	36,944,000	23,093,000
Furniture and fixtures, net	3,679,000	2,750,000
Intangible lease assets, net	3,640,000	2,650,000
Certificate of need (license)	6,786,000	6,786,000
Real estate properties, net	56,758,000	39,800,000
Notes receivable, net (Note 8)	908,000	908,000
Deferred financing costs, net	713,000	690,000
Deferred acquisition costs	213,000	—
Receivable from related parties (Note 14)	164,000	7,000
Tenant and other receivables, net	1,020,000	512,000
Restricted cash	609,000	325,000
Deferred leasing commission, net	1,753,000	1,340,000
Other assets, net	24,000	296,000
Assets held for sale, net (Note 17)	567,000	44,851,000
Assets of variable interest entity held for sale (Note 17)	4,186,000	4,264,000
Total assets	$ 84,076,000	$ 93,992,000
LIABILITIES AND EQUITY (DEFICIT)		
Accounts payable and accrued liabilities	$ 748,000	$ 511,000
Payable to related parties	—	136,000
Prepaid rent, security deposits and deferred revenue	159,000	72,000
Security deposit	1,371,000	852,000
Distribution payable	5,000	—
Liabilities associated with real estate held for sale (Note 17)	52,000	22,762,000
Liabilities held in variable interest entity:		
Loan payable	41,534,000	28,450,000
Liabilities of variable interest entity held for sale (Note 17)	2,555,000	2,452,000
Total liabilities	46,424,000	55,235,000
Commitments and contingencies (Note 16)		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at September 30, 2013 and December 31, 2012		
Common stock, $0.001 par value; 290,000,000 shares authorized; 23,028,285 shares issued and outstanding at September 30, 2013 and December 31, 2012 respectively	23,000	23,000
Additional paid-in capital	117,226,000	117,226,000
Accumulated deficit	(77,117,000)	(76,206,000)
Total stockholders' equity	40,132,000	41,043,000
Noncontrolling interest	(2,480,000)	(2,286,000)
Total equity	37,652,000	38,757,000
Total liabilities and equity	$ 84,076,000	$ 93,992,000

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenues:				
Rental revenues	$ 1,551,000	$ 298,000	$ 4,185,000	$ 298,000
Tenant reimbursements and other income	165,000	23,000	380,000	23,000
Interest income from notes receivable	13,000	13,000	38,000	40,000
	1,729,000	334,000	4,603,000	361,000
Expenses:				
Property operating costs	216,000	33,000	519,000	33,000
General and administrative	694,000	757,000	2,552,000	2,489,000
Asset management fees and expenses	271,000	240,000	865,000	662,000
Real estate acquisition costs	121,000	737,000	257,000	737,000
Depreciation and amortization	627,000	130,000	1,709,000	130,000
(Recovery of) reserve for excess advisor obligation	(50,000)	—	(100,000)	988,000
	1,879,000	1,897,000	5,802,000	5,039,000
Operating loss	(150,000)	(1,563,000)	(1,199,000)	(4,678,000)
Other income and (expense):				
Other income	23,000	—	33,000	—
Interest expense	(574,000)	(123,000)	(1,517,000)	(122,000)
Loss from continuing operations	(701,000)	(1,686,000)	(2,683,000)	(4,800,000)
Discontinued operations:				
Income (loss) from discontinued operations	(1,009,000)	115,000	(1,009,000)	(234,000)
Impairment of real estate	—	—	(3,368,000)	(1,140,000)
Gain on sales of real estate	1,323,000	—	5,411,000	—
Income (loss) from discontinued operations	314,000	115,000	1,034,000	(1,374,000)
Net loss	(387,000)	(1,571,000)	(1,649,000)	(6,174,000)
Noncontrolling interest's share in loss	274,000	258,000	738,000	787,000
Net loss applicable to common shares	$ (113,000)	$ (1,313,000)	$ (911,000)	$ (5,387,000)
Basic and diluted loss per common share				
Continuing operations	$ (0.03)	$ (0.07)	$ (0.12)	$ (0.21)
Discontinued operations	0.03	0.01	0.08	(0.03)
Net loss applicable to common shares	$ (0.00)	$ (0.06)	$ (0.04)	$ (0.24)
Weighted average shares used to calculate basic and diluted net loss per common share	23,028,285	23,028,285	23,028,285	23,028,285
Distributions declared per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the Nine Months Ended September 30, 2013
(Unaudited)

	Common Stock						
	Number of Shares	Common Stock Par Value	Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance — January 1, 2013	**23,028,285**	**$ 23,000**	**$ 117,226,000**	**$ (76,206,000)**	**$ 41,043,000**	**$ (2,286,000)**	**$ 38,757,000**
Distribution	—	—	—	—	—	—	—
Redeemed Shares	—	—	—	—	—	—	—
Offering costs	—	—	—	—	—	—	—
Dividends paid to noncontrolling interests	—	—	—	—	—	(80,000)	(80,000)
Noncontrolling interest contribution	—	—	—	—	—	624,000	624,000
Net loss	—	—	—	(911,000)	(911,000)	(738,000)	(1,649,000)
Balance — September 30, 2013	**23,028,285**	**$ 23,000**	**$ 117,226,000**	**$ (77,117,000)**	**$ 40,132,000**	**$ (2,480,000)**	**$ 37,652,000**

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

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

	Nine Months Ended September 30,	
	2013	**2012**
Cash flows from operating activities:		
Net loss	$ (1,649,000)	$ (6,174,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred financing costs	119,000	99,000
Depreciation and amortization	2,215,000	1,294,000
Straight-line rents and amortization of acquired above (below) market leases, net	(441,000)	(264,000)
Bad debt expense (recovery), net	7,000	(19,000)
Impairment of real estate	3,368,000	1,140,000
Reserve for excess advisor obligation	—	988,000
Write-off of lease commission, straight-line rent receivables and other assets, net	1,049,000	—
Gain on sales of real estate, net	(5,411,000)	—
Change in operating assets and liabilities:		
Tenant and other receivables, net	38,000	95,000
Prepaid and other assets	621,000	(1,590,000)
Leasing commission	(704,000)	—
Restricted cash, net	(283,000)	(379,000)
Prepaid rent, security deposit and deferred revenues	12,000	(42,000)
Payable to related parties, net	(202,000)	(9,000)
Deferred costs and deposits	11,000	5,000
Accounts payable and accrued expenses	93,000	703,000
Net cash used in operating activities	(1,157,000)	(4,153,000)
Cash flows from investing activities		
Real estate acquisition	(18,555,000)	(32,100,000)
Deferred acquisition costs	(153,000)	—
Real estate improvements	(54,000)	(54,000)
Acquisition deposits	—	(348,000)
Proceeds from real estate dispositions	44,955,000	—
Net cash provided by (used in) investing activities	26,193,000	(32,502,000)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	13,125,000	37,000,000
Repayment of notes payable	(21,975,000)	(13,780,000)
Security deposits refunded/received, net	(66,000)	826,000
Non-controlling interest contribution	533,000	591,000
Distributions to noncontrolling interest	(75,000)	—
Deferred financing costs	(375,000)	(636,000)
Net cash (used in) provided by financing activities	(8,833,000)	24,001,000
Net increase (decrease) in cash	16,203,000	(12,654,000)
Cash and cash equivalents - beginning of period (including cash of VIE)	1,067,000	17,483,000
Cash and cash equivalents - end of period (including cash of VIE)	17,270,000	4,829,000
Less cash and cash equivalents of VIE held for sale – end of period (see Note 11)	(109,000)	(40,000)
Cash and cash equivalents – end of period	$ 17,161,000	$ 4,789,000
NON CASH INVESTING AND FINANCING		
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 1,790,000	$ 728,000
Supplemental disclosure of non-cash financing and investing activities		
Distribution not paid	$ 5,000	$ —
Deferred acquisition costs	$ 61,000	$ —
Deferred loan origination fees	$ 13,000	$ —
Proceeds from non-controlling interests	$ 90,000	$ —
Security deposit not received	$ 72,000	$ —
Reduction of excess offering costs	$ —	$ 988,000

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

1. Organization

Summit Healthcare REIT, Inc., (formerly Cornerstone Core Properties REIT, Inc.) a Maryland Corporation (the "Company"), was formed on October 22, 2004 for the purpose of engaging in the business of investing in and owning commercial real estate. 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. Subject to certain restrictions and limitations, our business is managed pursuant to an amended and restated advisory agreement (the "Advisory Agreement") by an affiliate, Cornerstone Realty Advisors, LLC (the "Advisor"); a Delaware limited liability company that was formed on November 30, 2004.

We formed Cornerstone Healthcare Partners LLC ("CHP LLC") with Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of our Advisor. We own 95% of CHP LLC, with the remaining 5% owned by CHREF. We acquired the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center and Pacific Health and Rehabilitation Center healthcare properties (collectively, the "JV Properties") through CHP LLC. In the third quarter of 2013, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, we caused CHP LLC to sell a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $550,000 as of September 30, 2013, of which we received $523,000 and CHREF received $27,000. At September 30, 2013, we owned a 91.3% interest in the JV Properties, CHREF, an affiliate of the Advisor, owned a 4.9% interest and third party investors owned 3.8%. CHP LLC may sell up to an aggregate 46% interest in these JV Properties, leaving us with 54%. As outside investors acquire additional interests in the JV Properties, our interest in the JV Properties, and that of CHREF, will be reduced proportionately.

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 our Annual Report on Form 10-K for the year ended December 31, 2012.

Principles of Consolidation and Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared by our management in accordance with generally accepted accounting principles of the United States of America ("GAAP") and in conjunction with the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Certain amounts have been reclassified for prior periods to conform to current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the condensed consolidated balance sheets and the related operating results reclassified from continuing to discontinued operations on the condensed consolidated income statements. Additionally certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements.

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. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the 2012 Annual Report on Form 10-K as filed with the SEC on March 29, 2013. Operating results for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). This requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, ASU 2013-02 requires presentation, either on the face of the income statement or in the notes, of significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income, but only if the amounts reclassified are required to be reclassified in their entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about these amounts. ASU 2013-02 was effective for us on January 1, 2013. The adoption of ASU 2013-02 did not have a material effect on the consolidated financial statement presentation.

In June 2013, the FASB issued Accounting Standards Update 2013-08, *Financial Services - Investment Companies Topic Amendments to the Scope, Measurement, and Disclosure Requirements* ("ASU 2013-08"). ASU 2013-08 clarifies the characteristics of an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. In addition, an entity is required to disclose (a) the fact that it is an investment company applying the guidance in the Financial Services - Investment Companies Topic, (b) information about any changes in the entity's status as an investment company, and (c) information about financial support provided to its investees. ASU 2013-08 will be effective for the period beginning on January 1, 2014. We expect that the adoption of ASU 2013-08 will not have a material impact on its consolidated financial statements or disclosures.

3. Fair Value Financial Instruments

Our condensed consolidated balance sheets include the following financial instruments: cash and cash equivalents, notes receivable, certain other assets, deferred costs and deposits, payable to related parties, prepaid rent, security deposits and deferred revenue, and notes payable. With the exception of notes receivable and notes payable discussed below, we consider the carrying values to approximate fair value for such financial instruments because of the short period of time between origination of the instruments and their expected payment.

As of September 30, 2013 and December 31, 2012, the fair value of notes receivable was $1.0 million compared to the carrying value of $0.9 million. The fair value of notes receivable was estimated by discounting the expected cash flows at current market rates at which management believes similar loans would be made. To estimate fair value at September 30, 2013, we discounted the expected cash flows using a rate of 10%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes receivable are classified as Level 3 assets within the fair value hierarchy.

As of September 30, 2013 and December 31, 2012, the fair value of notes payable, including notes payable classified as held for sale, was $41.9 million and $51.0 million compared to the carrying value of $41.5 million and $50.3 million, respectively. The fair value of notes payable is estimated by discounting the contractual cash payments at current market rates at which management believes similar loans would be made. To estimate fair value at September 30, 2013, we utilized discount rate of 5.0%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes payable are classified as Level 3 assets within the fair value hierarchy.

At September 30, 2013 and December 31, 2012, 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.

4. Investments in Real Estate

As of September 30, 2013, our healthcare portfolio consisted of seven purchased properties. Our healthcare properties are leased to operators on a triple net basis. Our remaining industrial property, Shoemaker, was 100.0% leased. The following table provides summary information regarding our properties.

Property [1]	Location	Date Purchased	Square Footage	Purchase Price	Debt	September 30, 2013 % Leased
Healthcare:						
Sheridan Care Center	Sheridan, OR	August 3, 2012	13,912	$ 4,100,000	$ 2,796,000	100.0 %
Fern Hill Care Center	Portland, OR	August 3, 2012	13,344	4,500,000	2,995,000	100.0 %
Farmington Square	Medford, OR	September 14, 2012	32,557	8,500,000	5,792,000	100.0 %
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	56,968	15,000,000	10,685,000	100.0 %
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	28,514	8,140,000	6,141,000	100.0 %
Danby House	Winston-Salem, NC	January 31, 2013	27,135	9,700,000	7,275,000	100.0 %
Heritage Woods of Aledo	Aledo, IL	July 2, 2013	25,261	8,625,000	5,850,000	100.0 %
Subtotal Healthcare:			197,691	58,565,000	41,534,000	100.0 %
Industrial (2):						
Shoemaker Industrial	Santa Fe Springs, CA	June 30, 2006	9,721	1,200,000	—	100.0 %
Total			207,412	$ 59,765,000	$ 41,534,000	100.0 %

(1) The above table excludes Sherburne Commons Residences, LLC ("Sherburne Commons"), a variable interest entity ("VIE") for which we became the primary beneficiary and began consolidating its financial results as of June 30, 2011. As of October 19, 2011, Sherburne Commons was classified as held for sale (See Note 17).

(2) The industrial properties have been classified as held for sale as of September 30, 2013 and December 31, 2012 (see Note 17).

As of September 30, 2013, our adjusted cost and accumulated depreciation and amortization related to investments in real estate and related intangible lease assets and liabilities, including those acquired through CHP LLC, were as follows:

Healthcare	Land	Buildings and Improvements	Furniture and Fixture	In-Place Lease Value	Certificate of Need
Investments in real estate and related intangible lease assets (liabilities)	$ 5,709,000	$ 38,052,000	$ 4,319,000	$ 3,935,000	$ 6,786,000
Less: accumulated depreciation and amortization	—	(1,108,000)	(640,000)	(295,000)	—
Net investments in real estate and related intangible lease assets (liabilities)	$ 5,709,000	$ 36,944,000	$ 3,679,000	$ 3,640,000	$ 6,786,000

Impairments

In accordance with Accounting Standards Codification ("ASC") 360, *Property, Plant, and Equipment* ("ASC 360"), we regularly conduct comprehensive reviews of our real estate assets for impairment. ASC 360 requires that asset values be analyzed whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable.

Indicators of potential impairment include the following:

- Changes in strategy resulting in a decreased holding period;
- Decreased occupancy levels;
- Deterioration of the rental market as evidenced by rent decreases over numerous quarters;
- Properties adjacent to or located in the same submarket as those with recent impairment issues;
- Significant decrease in market price;
- Tenant financial problems.

We recorded no impairment charges related to properties held for sale for the three months ended September 30, 2013 and 2012, respectively. We recorded an impairment charge of $3.4 million and $1.1 million related to properties held for sale for the nine months ended September 30, 2013 and 2012, respectively.

Real Estate Held for Sale and Sold

In the fourth quarter of 2011, we reclassified Nantucket Acquisition LLC ("Nantucket"), a VIE for which we are the primary beneficiary, as real estate held for sale. The financial results for this property have been reclassified to discontinued operations for all periods presented (see Note 17). In the fourth quarter of 2012, we listed the 20100 Western Avenue ("Western Avenue") and Carter Commerce Center ("Carter") properties for sale and reclassified their financial results for all periods presented to discontinued operations (See Note 17). On January 28, 2013, we entered into a purchase and sale agreement for the sale of a portion of our Marathon property for $1.3 million in cash. This transaction closed in June 2013. On February 26, 2013, our Board of Directors resolved to sell the remaining industrial properties and in March 2013, these properties were listed for sale. On March 11, 2013, we entered into two purchase and sale agreements for the sale of two of the four Shoemaker Industrial buildings for $0.5 million in cash each. The first building closed on August 5, 2013 and the second building closed on August 14, 2013. On May 14, 2013, we entered into a purchase and sale agreement for the sale of our 1830 Santa Fe property for $1.7 million in cash. This transaction closed in July 2013. On June 6, 2013, we entered into a purchase and sale agreement for the sale of our OSB portfolio for $24.0 million in cash. This transaction closed in September 2013. The financial results of the industrial properties for all periods presented have been reclassified to discontinued operations (See Note 17).

When assets are classified as held for sale, they are recorded at the lower of carrying value or the estimated fair value of the asset, net of selling costs. Accordingly, in the first quarter of 2012, we assessed Sherburne Commons, the property owned by Nantucket Acquisition LLC, to determine whether its carrying value exceeded its estimated fair value, net of selling costs. Consequently, we recorded an impairment charge of $1.1 million in the first quarter of 2012. We estimated fair value, net of selling costs, for Sherburne Commons based on a formal offer to acquire the property received from an independent third party. The property was deemed to be a Level 2 asset as our estimate of fair value was based on a non-binding purchase offer. We do not believe that this asset was a Level 1 asset as a purchase and sale agreement had not been signed as of the valuation date, giving the potential buyer the right to opt out of the transaction at its discretion (see Note 17).

In the first quarter of 2013, we listed all remaining industrial properties for sale and reported them as held for sale in discontinued operations. We assessed whether the fair values, net of estimated selling costs, for our industrial properties exceeded their carrying values. We estimated fair value, net of selling costs for Marathon, Shoemaker, Santa Fe and the Orlando Small Bay ("OSB") portfolio based on formal offers to acquire the properties received from an independent third parties. The properties were deemed to be a Level 1 asset as our estimate of fair value was based on the purchase offer. Based on this assessment in the second quarter of 2013, we recorded an impairment charge of $3.4 million related to our OSB portfolio and sold our Marathon property. In the third quarter of 2013, we sold our Santa Fe, two of four Shoemaker buildings and our OSB portfolio. No impairment was recorded in the third quarter of 2013.

Leasing Commissions

Leasing commissions paid to third party brokers and/or our Advisor are capitalized at cost and amortized on a straight-line basis over the related lease term. As of September 30, 2013 and December 31, 2012, the balance of capitalized leasing commissions was $1.8 million and $1.3 million, respectively. Amortization expense related to capitalized leasing commissions for the three months ended September 30, 2013 and 2012 was $41,000 and $10,000, respectively. Amortization expense related to capitalized leasing commission for the nine months ended September 30, 2013 and 2012 was $108,000 and $10,000, respectively.

5. Real Estate Acquisitions

Winston-Salem, North Carolina

On January 31, 2013, we acquired Danby House, an assisted living and memory care facility located in Winston-Salem, North Carolina ("Danby House") for $9.8 million. The facility is leased to Danby House, LLC, the prior operator of the facility, pursuant to a long-term triple-net lease. The initial lease term is ten years with a lessee option to renew for two additional five-year periods.

Aledo, Illinois

On July 2, 2013, we acquired Heritage Woods ("Aledo"), an assisted living facility located in Aledo, Illinois for $8.6 million. The facility is leased to Meridian Senior Living, LLC ("Meridian"), an unrelated third-party operator of healthcare properties, pursuant to a long-term triple-net lease. The initial lease term is fifteen years with a lessee option to renew for an additional five-year period.

Both transactions were accounted for as asset purchases. Under asset purchase accounting, the assets and liabilities of acquired properties are recorded as of the acquisition date at their respective fair values and consolidated in our financial statements. The following sets forth the allocation of the purchase price of the properties acquired in 2013 as well as the associated acquisitions costs, which have been capitalized or expensed as described below.

	Danby House	Aledo	Total
Land	$ 973,000	$ 215,000	$ 1,188,000
Buildings & improvements	6,972,000	7,033,000	14,005,000
Site improvements	292,000	451,000	743,000
Furniture & fixtures	978,000	426,000	1,404,000
In-place leases, legal and marketing costs	606,000	609,000	1,215,000
Real estate acquisition and capitalized costs	$ 9,821,000	$ 8,734,000	$ 18,555,000
Acquisition fees paid to Advisor, expensed	$ 136,000	$ 121,000	$ 257,000
Third-party acquisition costs, capitalized (included above)	$ 121,000	$ 109,000	$ 230,000

6. Allowance for Doubtful Accounts

Allowance for doubtful accounts was $0 and $0.2 million as of September 30, 2013 and December 31, 2012, respectively.

7. Concentration of Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily notes receivable and the note receivable from related party. Refer to Notes 8 and 9 with regard to credit risk evaluation of notes receivable and the note receivable from related party, respectively. Our cash is generally invested in investment-grade short-term instruments. As of September 30, 2013, we had cash accounts in excess of FDIC-insured limits. We do not believe the risk associated with this excess is significant.

As of September 30, 2013, excluding the VIE assets held for sale, we owned one property in California, four properties in Oregon, one property in Texas, one property in North Carolina, and one property in Illinois. Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states.

8. Notes Receivable

Notes receivable represent the combined balances due from the two loans to Servant Investments, LLC (“SI”) and Servant Healthcare Investments, LLC (“SHI”) (collectively, “Servant”). When the loans were negotiated, Servant was a sub-advisor in an alliance with the managing member of our Advisor.

On a quarterly basis, we evaluate the collectability of our notes receivable. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and borrower’s business models and future cash flows from operations. It is our policy to recognize interest income on the reserved loan on a cash basis.

The $1.0 million principal balance is payable pursuant to a promissory note from SHI which provides for interest at a fixed rate of 5.00% per annum. A principal payment of $0.7 million is due on December 22, 2013 and the remaining balance of $0.3 million is due on December 22, 2014.

As of September 30, 2013 and December 31, 2012, the SHI note receivable balance was $0.9 million. For the three months ended September 30, 2013 and 2012, interest income related to the note receivable was $13,000. For the nine months ended September 30, 2013 and 2012, interest income related to the note receivable was $38,000 and $40,000, respectively. The borrower is current on all interest income payments as of September 30, 2013. We determined that Servant is not a variable interest entity and there is no requirement to include this entity in our condensed consolidated balance sheets and condensed consolidated statements of operations.

9. Note Receivable from Related Party

This represents a note receivable from the participating first mortgage loan to Nantucket, owned and managed by Cornerstone Ventures Inc., an affiliate of our Advisor. The loan was made in connection with Nantucket’s purchase of Sherburne Commons and matures on January 1, 2015 with no option to extend and bears interest at a fixed rate of 8.0% for the term of the loan. Interest is payable monthly with the principal balance due at maturity. We have not recorded any interest income on this loan for the nine months ended September 30, 2013 and 2012.

Our quarterly evaluation of collectability involves judgment, estimates, a review of the underlying collateral and review of the Nantucket business model and projected future cash flows from operations. For our financial reporting purposes, Nantucket is considered a VIE and we are the primary beneficiary due to our enhanced ability to direct the activities of the VIE. Therefore, we have consolidated the operations since June 30, 2011 and, accordingly, eliminated the note receivable from related party in consolidation (see Note 11). For the three months ended September 30, 2013 and 2012, we recorded no impairment on this note. For the nine months ended September 30, 2013 and 2012, we recorded impairment charges related to the note of $0 and $1.1 million, respectively.

For the nine months ended September 30, 2013 and 2012, the note receivable balance increased by $0.3 million and $0.4 million, respectively, due to our funding Sherburne Commons’ operating shortfalls. We expect that additional future disbursements to fund operating shortfalls will be required while efforts are made to finalize the sale of the property. The following table reconciles the note receivable from Nantucket Acquisition from January 1, 2013 to September 30, 2013 and from January 1, 2012 to September 30, 2012**:**

	2013	2012
Balance at January 1,	$ —	$ —
Additions:		
Additions to note receivable from related party	292,000	435,000
Deductions:		
Repayments of note receivable from related party	—	—
Elimination of balance in consolidation of VIE	(292,000)	(435,000)
Balance at September 30,	$ —	$ —

10. Receivable from Related Party

The receivable from related party primarily consists of the “excess organization and offering costs” (defined below) paid to the Advisor related to our follow-on offering which terminated on June 10, 2012. According to the advisory agreement, within sixty days after the end of the month in which the offering terminates, our Advisor is obligated to reimburse us for any organization and offering expenses that exceed 3.5% of our offering gross proceeds. Consequently, we recorded a receivable from our Advisor for $1.0 million, but reserved the full amount based on our collectability analysis. On December 31, 2012, we reduced our reserve by $125,000 as this amount was collected in the first quarter of 2013. In June and September 2013, we received a $50,000 payment for a combined total of $100,000 for 2013 from our Advisor which was recorded as a recovery of excess advisor obligation on our Condensed Consolidated Statements of Operations. (See Note 14).

11. Consolidation of Variable Interest Entities

GAAP requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest has both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

In compliance with ASC 810, *Consolidation,* we continuously analyze and reconsider our initial determination of VIE status to determine whether we are the primary beneficiary by considering, among other things, whether we have the power to direct the activities of the VIE that most significantly impact its economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. We also consider whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE.

Nantucket Acquisition

As of September 30, 2013, we had a variable interest in a VIE in the form of a note receivable from Nantucket in the amount of $9.4 million (see Note 9). As a result of our issuing a notice of default with respect to the note, we determined that we were the primary beneficiary of the VIE. Therefore, we began consolidating the operations as of June 30, 2011. Assets of the VIE may only be used to settle obligations of the VIE and creditors of the VIE have no recourse to the general credit of the Company. In October 2011, the Sherburne Commons property was reclassified to real estate held for sale and the related assets and liabilities are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale on our condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012. Operating results for the property have been reclassified to discontinued operations on our condensed consolidated statement of operations for the three and nine months ended September 30, 2013 and 2012.

In the second quarter of 2012, we received a formal offer from an independent third party to acquire the property. Based upon this evidence and management's plan to sell the property, we determined that the offer, less estimated selling costs, approximates fair value. Consequently, we recorded an impairment charge of $1.1 million in the first quarter of 2012. As of the valuation date, Sherburne Commons was deemed to be a Level 2 asset as our estimate of fair value was based on a non-binding purchase offer. We do not believe that this asset was a Level 1 asset as a purchase and sale agreement had not been signed as of the valuation date, giving the potential buyer the right to opt out of the transaction at its discretion. No impairment charge was recorded in 2013.

Cornerstone Healthcare Partners LLC

We formed Cornerstone Healthcare Partners LLC ("CHP LLC") with Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of our Advisor. We own 95% of CHP LLC, with the remaining 5% owned by CHREF. We acquired the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center and Pacific Health and Rehabilitation Center healthcare properties (collectively, the "JV Properties") through CHP LLC. In the third quarter of 2013, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, we caused CHP LLC to sell a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $550,000 as of September 30, 2013, of which we received $523,000 and CHREF received $27,000. At September 30, 2013, we owned a 91.3% interest in the JV Properties, CHREF, an affiliate of the Advisor, owned a 4.9% interest and third party investors owned 3.8%. CHP LLC may sell up to an aggregate 46% interest in these JV Properties, leaving us with 54%. As outside investors acquire additional interests in the JV Properties, our interest in the JV Properties, and that of CHREF, will be reduced proportionately.

As Summit Healthcare REIT and CHREF are related parties and have voting rights that are disproportionate to their economic interests in CHP LLC, we determined that the entity is a VIE. As we have control over the entity, along with the right to receive a majority of the expected residual returns and the obligation to absorb a majority of the expected losses of the entity, we determined that we were the primary beneficiary of the VIE. Consequently, we have consolidated the operations of the VIE.

As of September 30, 2013, the Company has not provided, and is not required to provide, financial support to the VIE except for the services provided to the VIE in its capacity as manager. There are no arrangements requiring the Company to provide additional financial support to the VIE, including circumstances in which the VIE could be exposed to further losses. The properties that were purchased through the VIE are mortgaged by secured loans (see Note 15). These loans are secured by the healthcare properties purchased through the VIE and have no recourse to our general credit.

12. Payable to Related Parties

Payable to related parties at September 30, 2013 and December 31, 2012 consists of expense reimbursements payable to the Advisor.

13. Equity

Common Stock

As of September 30, 2013 and December 31, 2012, we have cumulatively issued 20.9 million shares of common stock for a total of $167.1 million of gross proceeds, exclusive of shares issued under our distribution reinvestment plan. We are not currently offering shares of our common stock for sale.

Distributions

We did not pay any distributions to stockholders during the nine months ended September 30, 2013 and 2012. Our distribution reinvestment plan was suspended indefinitely in December 2010. At this time, we cannot provide any assurance as to if or when we will resume our distribution reinvestment plan.

Stock Repurchase Program

Our Board of Directors suspended repurchases under the program effective December 31, 2010. At this time, we can make no assurance as to when and on what terms repurchases will resume.

14. Related Party Transactions

We have no employees. Our Advisor is primarily responsible for managing our business affairs and carrying out the directives of our Board of Directors. The Advisory Agreement entitles our Advisor to specified fees for certain services, investment / disposition of funds in real estate projects, reimbursement of organizational and offering costs incurred by the Advisor and certain other reimbursable costs and expenses incurred by the Advisor including, but not limited to, the following:

Acquisition Fees and Expenses - Pay our Advisor acquisition fees not to exceed 2.0% of the purchase price of an acquired property in addition to any out of pocket expenses. For the three months ended September 30, 2013 and 2012, the Advisor earned $0.1 million and $0.4 million of acquisition fees, respectively. For the nine months ended September 30, 2013 and 2012, the Advisor earned $0.3 million and $0.4 million of acquisition fees, respectively which are included in real estate acquisition costs on our Condensed Consolidated Statements of Operations.

Asset Management Fees and Expenses - Pay our Advisor a monthly asset management fee equal to one-twelfth of 0.75% of the Average Invested Assets (as defined in the Advisory Agreement). For the three months ended September 30, 2013 and 2012, the Advisor earned $0.2 million and $0.2 million, respectively, which were expensed and included in asset management fees and expenses in our Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2013 and 2012, the Advisor earned $0.7 million and $0.5 million, respectively, which were expensed and included in asset management fees and expenses in our Condensed Consolidated Statements of Operations.

Additionally, we will reimburse our Advisor for any direct and indirect costs and expenses incurred in providing asset management services to us, including personnel and related employment costs. For the three months ended September 30, 2013 and 2012, the Advisor was reimbursed $52,000 and $57,000, respectively. For the nine months ended September 30, 2013 and 2012, the Advisor was reimbursed $0.2 million and $0.1 million, respectively. These costs are included in asset management fees and expenses in our Condensed Consolidated Statements of Operations.

Disposition Fee - Pay our Advisor disposition fee not greater than 3% of the sales price of the property upon closing. These disposition fees may be paid in addition to real estate commissions paid to non-affiliates, provided that the total real estate commissions (including such disposition fee) paid to all persons shall not exceed an amount equal to the lesser of (i) 6% of the aggregate contract sales price of each property or (ii) the competitive real estate commission for each property. For the three months ended September 30, 2013 and 2012, the Advisor earned $0.2 million and $0, respectively. For the nine months ended September 30, 2013 and 2012, the Advisor earned $0.6 million and $0, respectively.

Organizational and Offering Costs – Pay our Advisor for reimbursement of any organizational and offering costs ("O&O"), but in no event will we have any obligation to reimburse the Advisor for costs in excess of 3.5% of the gross offerings raised. For the three months and nine months ended September 30, 2013 and 2012, we did not incur any such costs.

On June 10, 2012, our follow-on offering was terminated and per the Advisory Agreement, the Advisor is obligated to repay us O&O costs paid by us related to our follow-on offering that exceeded 3.5% of the gross proceeds of the offering. We have reimbursed our Advisor a total of $1.1 million in organizational and offering costs related to our follow-on offering, of which $1.0 million was in excess of the contractual limit. Consequently, in the second quarter of 2012, we recorded a receivable from the Advisor for $1.0 million reflecting the excess reimbursement. However, as a result of our evaluation of various factors related to collectability of this receivable, we reserved the full amount of the receivable as of June 30, 2012. On December 31, 2012, we reduced our reserve by $0.1 million as we collected this amount in early 2013. We received $50,000 and $0.1 million for the three and nine months ended September 30, 2013 which was recorded as a recovery in our Condensed Consolidated Statement of Operations. No assurances can be made when additional payments, if any, will occur.

Operating Expenses – Pay our Advisor's direct and indirect costs the Advisor has incurred in providing administrative and management services to us. For the three months ended September 30, 2013 and 2012, the Advisor incurred $0.3 million and $0.3 million of such costs, respectively. For the nine months ended September 30, 2013 and 2012, the Advisor incurred $0.9 million and $1.0 million of such costs, respectively. These costs are included in general and administrative expenses in our Condensed Consolidated Statements of Operations.

Per our charter and our Advisory Agreement, our Board of Directors has the responsibility of limiting our total operating expenses for the trailing four consecutive quarters to amounts that do not exceed the greater of 2% of our average invested assets or 25% of our net income, calculated in the manner set forth in our charter, unless a majority of the directors (including a majority of the independent directors) has made a finding that, based on unusual and non-recurring factors that they deem sufficient, a higher level of expenses is justified (the "2%/25% Test"). In the event that a majority of the directors (including a majority of the independent directors) does not determine that such excess expenses are justified, our Advisor must reimburse to us the amount of the excess expenses paid or incurred (the "Excess Amount").

For the trailing four-fiscal-quarter period ended September 30, 2013, our total operating expenses exceeded the greater of 2% of our average invested assets and 25% of our net income. We incurred operating expenses of approximately $4.6 million and incurred an Excess Amount of approximately $2.3 million. Our Board of Directors, including a majority of our independent directors, has determined that this Excess Amount is justified as unusual and non-recurring factors because of our small size (for a public reporting company) and as the Company has made substantial progress in execution of its repositioning strategy and has begun reducing its operating expenses. Therefore, the Board of Directors, including the independent directors, has unanimously resolved to permanently waive the Advisor's reimbursement obligation with respect to Excess Amount incurred in the four fiscal-quarter period ended September 30, 2013, which totals $2.3 million.

During the trailing four-fiscal-quarter period ended June 30, 2013, our total operating expenses exceeded the greater of 2% of our average invested assets and 25% of our net income as we incurred operating expenses of approximately $4.7 million and incurred an Excess Amount of approximately $2.4 million. Our Board of Directors, including a majority of our independent directors, determined that this Excess Amount was justified as unusual and non-recurring factors because of our small size (for a public reporting company) and the costs of repositioning of our real estate investments and deferred waiving this Excess Amount. A condition of such justification the Board required that the Excess Amount for the trailing four-fiscal-quarter period ended June 30, 2013, shall be carried over and included in total operating expenses in subsequent periods for purposes of the 2%/25% Test, with any waiver dependent on our Advisor's continued satisfactory progress with respect to executing the strategic repositioning alternative chosen by the independent directors. The Board of Directors, including the independent directors, has unanimously resolved to permanently waive the Advisor's reimbursement obligation with respect to Excess Amount incurred in the four fiscal-quarter period ended June 30, 2012, which totals $2.4 million as the Company has made substantial progress in execution of its repositioning strategy and has begun reducing its operating expenses.

We believe that the Company's projected operating expenses are likely to exceed the 2%/25% Test while pursuing our repositioning strategy and growth in assets under management. Any future waiver or adjustments dependent upon the Advisor's continued satisfactory progress executing the strategic repositioning and cost containment initiatives. The Board of Directors, including the independent directors, will continue to monitor the appropriateness of the expenses and the Advisor's fees and consider options to reduce the Company's expense structure.

Property Management and Leasing Fees and Expenses - For the three months ended September 30, 2013 and 2012, the Advisor earned property management fees of $43,000 and $10,000, respectively. For the nine months ended September 30, 2013 and 2012, the Advisor earned property management fees of $117,000 and $15,000, respectively. For the three months ended September 30, 2013 and 2012, the Advisor earned leasing fees of $0.3 million and $1.0 million, respectively. For the nine months ended September 30, 2013 and 2012, the Advisor earned leasing fees of $0.5 million and $1.0 million, respectively. The lease fees are capitalized and amortized to the property operating and maintenance expenses in our condensed consolidated statements of operations.

15. Notes Payable

Our total debt obligations are $41.5 million and will mature between 2016 and 2018. The $12.0 million that was classified as liabilities associated with real estate held for sale has been paid-off in the third quarter of 2013, including a prepayment penalty of $0.4 million. Our capitalized financing costs are $0.8 million and $1.1 million as of September 30, 2013 and December 31, 2012, respectively. These financing costs have been capitalized and are being amortized over the life of their respective financing agreements. For the three months ended September 30, 2013 and 2012, $44,000 and $27,000, respectively, of deferred financing costs were amortized. For the nine months ended September 30, 2013 and 2012, $119,000 and $99,000, respectively, of deferred financing costs were amortized. The amortization of these costs is included in interest expense in our Condensed Consolidated Statements of Operations.

Wells Fargo Bank, National Association

In the first quarter of 2013, we sold the Carter property for cash proceeds of $1.7 million and used $0.6 million to pay down the loan with Wells Fargo Bank, National Association ("Wells Fargo"). In the third quarter of 2013, we sold two of the four Shoemaker Industrial buildings, Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center for $25.1 million in cash and used $5.6 million of the proceeds to pay off the Wells Fargo loan in its entirety. At September 30, 2013 and December 31, 2012, we had net borrowings under the loan of $0 and $6.5 million, respectively. The weighted-average interest rate for the nine months ended September 30, 2013 and the year ended December 31, 2012 was 3.5% and 3.7%, respectively. During the three months ended September 30, 2013 and 2012, we incurred $35,000 and $59,000 of interest expense, respectively. During the nine months ended September 30, 2013 and 2012, we incurred $0.1 million and $0.2 million of interest expense, respectively.

Transamerica Life Insurance Company

The Transamerica Life Insurance Company ("Transamerica") loan agreement was secured by the Monroe North Commerce Center Property. On September 6, 2013, we sold this property, along with three other industrial properties, and used $6.7 million of the net proceeds to pay-off the Transamerica loan of $6.3 million and paid a prepayment penalty fee of $0.4 million. Therefore, as of September 30, 2013 and December 31, 2012, we had net borrowings of $0 and $6.5 million, respectively. During the three months ended September 30, 2013 and 2012, we incurred $68,000 and $96,000 of interest expense, respectively. During the nine months ended September 30, 2013 and 2012, we incurred $0.3 million and $0.3 million of interest expense, respectively.

General Electric Capital Corporation – Healthcare Properties

As of September 30, 2013 and December 31, 2012, we had an outstanding balance of $28.4 million and $28.5 million, respectively, under this General Electric Capital Corporation ("GE") loan agreement secured by the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center, and Pacific Health and Rehabilitation Center properties. During the three months ended September 30, 2013 and 2012, we incurred $0.4 million and $66,000, respectively, of interest expense under this loan. During the nine months ended September 30, 2013 and 2012, we incurred $1.1 million and $66,000, respectively, of interest expense under this loan.

The principal payments due on the GE loan for the October 1, 2013 to December 31, 2013 period and for each of the five following years ending December 31 are as follows:

Year	Principal Amount
October 1, 2013 to December 31, 2013	$ 115,000
2014	$ 492,000
2015	$ 523,000
2016	$ 551,000
2017	$ 26,728,000

We intend to refinance this loan with HUD insured debt to be secured by the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center, and Pacific Health and Rehabilitation facilities. In the fourth quarter of 2013, we have filed loan applications with HUD and have paid $0.2 million in fees and expenses associated with the refinancing. While there can be no assurances made with respect to the HUD refinancing, we expect these loans to close in the first quarter of 2014.

General Electric Capital Corporation – Western Property

On January 23, 2013, we sold the 20100 Western Avenue property for cash proceeds of $17.6 million and paid off the entire balance of the related loan ($8.9 million). Therefore, during the three months ended September 30, 2013 and 2012, we incurred $0 and $28,000, respectively, of interest expense related to this loan. During the nine months ended September 30, 2013 and 2012, we incurred $26,000 and $28,000, respectively, of interest expense related to this loan.

The PrivateBank and Trust Company

On January 31, 2013, we entered into a loan agreement with The PrivateBank and Trust Company for a loan (the "PB Loan") in the aggregate principal amount of $7.3 million secured by a first lien security interest in the Danby House facility. The PB Loan, which bears interest at one-month LIBOR (London Interbank Offer Rate) plus 4.00%, with a LIBOR floor of 1.00% or the Prime Rate plus 1.75%, with an all-in floor of 5.00%, matures on January 30, 2016, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the PB Loan will become due. The PB Loan amortizes over 25 years, with principal amounts being paid into a sinking fund. The PB Loan may be prepaid with no penalty if refinanced through the U.S. Department of Housing and Urban Development ("HUD"). During the three months ended September 30, 2013 and 2012, we incurred $93,000 and $0, respectively, of interest expense related to the PB Loan. During the nine months ended September 30, 2013 and 2012, we incurred $245,000 and $0, respectively, of interest expense related to the PB Loan.

The principal payments, including payments to be made to the sinking fund, due on the PB loan for the October 1, 2013 to December 31, 2013 period and for each of the five following years ending December 31 are as follows:

Year	Principal Amount
October 1, 2013 to December 31, 2013	$ 43,000
2014	$ 170,000
2015	$ 179,000
2016	$ 6,883,000

We intend to refinance this loan with HUD insured debt to be secured by the Danby House property. In the fourth quarter of 2013 we have filed loan applications with HUD and have paid $0.2 million in fees and expenses associated with the refinancing. While there can be no assurances made with respect to the HUD refinancing, we expect these loans to close in the first quarter of 2014.

General Electric Capital Corporation – Aledo Property

On July 2, 2013, we entered into a loan agreement with GE for a loan (the "Aledo Loan") in the aggregate principal amount of $5.9 million secured by a first lien security interest in the Heritage Woods of Aledo facility. The Aledo Loan, which bears interest for the first 12 months at 90-day LIBOR plus 4.50%, with a LIBOR floor of 0.50%, matures on July 1, 2018, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the Aledo Loan will become due. The Aledo Loan is interest only for the first 12 months of the loan, and amortizes over a 25 year period with a 6.00% fixed interest rate thereafter. The Aledo Loan may not be prepaid for the first 12 months of the loan. After the 12 months lockout period, the loan may be prepaid without penalty. If certain conditions are met, primarily adding an additional asset to the loan to be cross collateralized with the Heritage Woods of Aledo property, the Company may borrow an additional $0.9 million on the Aledo Loan. During the three and nine months ended September 30, 2013 and 2012, we incurred $74,000 and $0, respectively, of interest expense related to the Aledo Loan.

The principal payments due on the Aledo Loan for the October 1, 2013 to December 31, 2013 period and for each of the five following years ending December 31 are as follows:

Year	Principal Amount
October 1, 2013 to December 31, 2013	$ —
2014	$ 40,000
2015	$ 102,000
2016	$ 107,000
2017	$ 115,000
2018	$ 5,486,000

16. Commitments and Contingencies

We monitor our properties 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 liabilities with respect to our properties that would have a material effect on our consolidated financial condition, results of operations or 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 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 related to notes receivable as further described in Notes 8 and 9. We are not presently subject to any material litigation nor, to our knowledge, any material litigation threatened against us which, if determined unfavorably to us, would have a material effect on our consolidated financial statements.

17. Discontinued Operations

Assets Held for Sale

On February 26, 2013, our Board of Directors resolved to sell all of our remaining industrial properties. Therefore, the assets and liabilities of properties for which we have initiated plans to sell, but have not yet sold as of September 30, 2013, have been classified as assets and liabilities held for sale on the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2013, this represents the remaining assets and liabilities of two of our four Shoemaker buildings. The December 31, 2012 balance sheet includes these two buildings plus all the properties sold in 2013 listed below in "Divestures." The results of operations for the properties held for sale or sold are presented in discontinued operations on the accompanying Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2013 and 2012.

Divestitures

In accordance with ASC 360, *Property, Plant & Equipment*, we report results of operations from real estate assets that meet the definition of a component of an entity that have been sold, or meet the criteria to be classified as held for sale, as discontinued operations.

On January 23, 2013, we sold Western Avenue to MMB Management, LLC, an unrelated third party, for a sale price of $17.6 million. We used $8.9 million of the proceeds to pay off the GE loan related to the property. The property is located at 20100 Western Avenue, Torrance, California and is an 116,433 square feet industrial building which we acquired in December 2006.

On January 30, 2013, we sold our Carter Commerce Center property to Carter Commerce Center, LLC, an unrelated third party, for a sale price of $1.7 million. We used $0.6 million of the proceeds to pay down the Wells Fargo loan secured by the property. The property, located at 890 Carter Road, Orlando, Florida, is a 49,125 square feet industrial building we acquired in November 2007.

On June 27, 2013, we sold one of the two Marathon Center property buildings to Marathon Acquisitions, LLC, an unrelated third party, for $0.9 million in cash. Marathon Center, located in Tampa Florida, is a 25,117 square foot industrial property we acquired in April 2007.

On June 28, 2013, we sold the second of the two Marathon Center property buildings to Sulmor LLC, an unrelated third party, for $1.2 million in cash. Marathon Center, located in Tampa Florida, is a 26,903 square foot industrial property we acquired in April 2007.

On July 26, 2013, we sold our Santa Fe property to an unrelated third party for $1.7 million in cash. The property consists of 12,200 square feet of industrial space. We acquired the property in August 2010.

On August 5, 2013, we sold one of the four Shoemaker Industrial Buildings to an unrelated third party, for $0.5 million in cash. We used $0.4 million of the proceeds to pay down the Wells Fargo loan secured by the property. The Shoemaker Industrial building that was sold is located in Santa Fe Springs, California. We acquired the property in June 2006.

On August 14, 2013, we sold the second of the four Shoemaker Industrial Buildings to an unrelated third party, for $0.5 million in cash. We used $0.4 million of the proceeds to pay down the Wells Fargo loan secured by the property. The Shoemaker Industrial building that was sold is located in Santa Fe Springs, California. We acquired the property in June 2006.

On September 6, 2013, we sold the Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center properties to an unrelated third party for $24.0 million in cash. The Properties collectively comprise 526,694 square feet of industrial space we acquired from November 2007 through April 2008. We used $11.5 million of the sales proceeds to pay off the Wells Fargo Bank and Transamerica Life Insurance Company loans secured by the properties (see Note 15) and paid a prepayment penalty of $0.4 million related to the Transamerica loan.

Assets of Variable Interest Entity Held for Sale

In the fourth quarter of 2011, our Board of Directors authorized us to actively market the Sherburne Commons property, a VIE that we began consolidating on June 30, 2011 (see Note 11). The assets and liabilities of properties for which we have initiated plans to sell, but have not yet sold as of September 30, 2013

are classified as assets of VIE held for sale and liabilities of VIE held for sale on the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2013 and December 31, 2012, this represents the assets and liabilities of the Sherburne Commons property. The results of operations for the VIE held for sale are presented in discontinued operations on the accompanying Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2013 and 2012.

As of September 30, 2013, the Sherburne Commons property is under contract to be sold, pending an acceptable financial settlement with a trust benefiting the residents who paid entrance fees when they moved into the property. While the time for clearance of contingencies has expired per the terms of the purchase and sale agreement, the buyer continues to pursue the transaction and secure the needed consents from the town and current owner / occupants. Similarly, the Company is cooperating with the buyer and seeking the political and neighbor support for the change in ownership and operator of the senior living facility. However, there are no assurances that the transaction will be consummated on the terms of the current purchase and sale agreement.

ASC 360 requires that assets classified as held for sale be carried at the lesser of their carrying amount or estimated fair value, less estimated selling costs. Accordingly, we recorded an impairment charge of $1.1 million in the first quarter of 2012 to record the Sherburne Commons property at its estimated fair value, less estimated selling costs (see Note 11).

The following is a summary of the components of (loss) income from discontinued operations for the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Rental revenues, tenant reimbursements and other income	$ 1,149,000	$ 1,764,000	$ 3,788,000	$ 4,783,000
Operating expenses and real estate taxes	(2,054,000)	(1,256,000)	(4,291,000)	(3,854,000)
Depreciation and amortization	(104,000)	(393,000)	(506,000)	(1,163,000)
Impairment of real estate	—	—	(3,368,000)	(1,140,000)
Gain on sales of real estate, net	1,323,000	—	5,411,000	—
Income (loss) from discontinued operations	$ 314,000	$ 115,000	$ 1,034,000	$ (1,374,000)

The following table presents balance sheet information for the properties classified as held for sale as of September 30, 2013 and December 31, 2012.

	September 30, 2013	December 31, 2012
Investments in real estate held for sale:		
Land	$ 225,000	$ 11,525,000
Buildings and improvements, net	307,000	31,406,000
Intangible lease assets, net	—	32,000
Real estate held for sale, net	$ 532,000	$ 42,963,000
Other assets:		
Tenant and other receivables, net	$ 14,000	$ 672,000
Leasing commissions, net	1,000	481,000
Other assets	20,000	735,000
Non-real estate assets associated with real estate held for sale	$ 35,000	$ 1,888,000
Assets of variable interest entity held for sale:		
Cash and cash equivalents	$ 109,000	$ 68,000
Investments in real estate, net	3,905,000	3,905,000
Accounts receivable, inventory and other assets	172,000	291,000
Total assets	$ 4,186,000	$ 4,264,000
Liabilities		
Accounts payable and accrued liabilities	$ 33,000	$ 421,000
Tenant security deposits	19,000	497,000
Notes payable	—	21,844,000
Liabilities associated with real estate held for sale	$ 52,000	$ 22,762,000
Liabilities of variable interest entity held for sale:		
Note payable	$ 1,332,000	$ 1,332,000
Tenant security deposits	8,000	—
Loan payable	132,000	222,000
Accounts payable and accrued liabilities	508,000	454,000
Intangible lease liabilities, net	145,000	145,000
Interest payable	430,000	299,000
Liabilities of variable interest entity held for sale	$ 2,555,000	$ 2,452,000

18. Segment Reporting

ASC 280-10, "*Segment Reporting*," establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. Prior to the third quarter of 2012, we operated in one reportable segment: industrial. As we began to implement our repositioning strategy and acquire healthcare properties in the third quarter of 2012, we reported under two operating segments: industrial and healthcare. Our healthcare segment consists of our senior housing properties. These operating segments represent the segments for which separate financial information is available and for which operating results are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

On February 26, 2013, our Board of Directors has resolved that our remaining industrial properties should be listed for sale. Therefore, we have classified the industrial assets as held for sale and as of this date, we report our continuing operations under the healthcare segment.

We evaluate the performance of our properties based on net operating income ("NOI"). NOI is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as total rental revenues, tenant reimbursements and other income less property operating and maintenance expenses. NOI excludes interest income from notes receivable, general and administrative expense, asset management fees and expenses, real estate acquisition costs, depreciation and amortization, impairments, interest income, interest expense, and income from discontinued operations. We believe NOI provides investors relevant and useful information because it measures the operating performance of the real estate investment trust's ("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.

The following table reconciles NOI from net loss for the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	$ (387,000)	$ (1,571,000)	$ (1,649,000)	$ (6,174,000)
Interest income from notes receivable	(13,000)	(13,000)	(38,000)	(40,000)
General and administrative	694,000	757,000	2,552,000	2,489,000
Asset management fees and expenses	271,000	240,000	865,000	662,000
Real estate acquisition costs	121,000	737,000	257,000	737,000
Recovery of excess advisor obligation	(50,000)	—	(100,000)	988,000
Depreciation and amortization	627,000	130,000	1,709,000	130,000
Other/interest expense and income, net	551,000	123,000	1,484,000	122,000
Loss (income) from discontinued operations	(314,000)	(115,000)	(1,034,000)	1,374,000
Net operating income	$ 1,500,000	$ 288,000	$ 4,046,000	$ 288,000

19. Subsequent Events

On October 4, 2013, we acquired a 32 unit assisted living facility in Newport, North Carolina ("Carteret House"), a 40 unit assisted living facility in Hamlet, North Carolina ("Hamlet House"), and a 60 unit assisted living facility in Shelby, North Carolina ("Shelby House") from Meridian Senior Living ("Meridian") for a transaction purchase price of $15.3 million which was funded by $3.9 million in cash and an $11.4 million loan from The PrivateBank and Trust Company.

On October 28, 2013, we sold the third of the four Shoemaker Industrial buildings to an unrelated third party, for $0.6 million in cash. The Shoemaker Industrial Building that was sold is located in Santa Fe Springs, California. We acquired the property in June 2006.

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 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 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 II, Item 1A herein and Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 29, 2013.

Overview

We were incorporated on October 22, 2004 for the purpose of engaging in the business of investing in and owning commercial real estate. As of September 30, 2013, we had raised $167.1 million of gross proceeds from the sale of 20.9 million shares of our common stock in our initial and follow-on public offerings. In the first quarter of 2013, we acquired our sixth healthcare property and sold two industrial properties. In June 2013, we sold the Marathon property. Additionally, in July 2013, we acquired our seventh healthcare property, sold the Santa Fe property, in August 2013, sold two of four buildings of our Shoemaker property and in September 2013, we sold our OSB portfolio. (See Note 19 to the accompanying Notes to the Condensed Consolidated Financial Statements).

Our revenues, which are comprised largely of lease income, include rents reported on a straight-line basis over the initial term of each lease. Our growth depends, in part, on our ability to increase rental income on our healthcare properties and to increase rental rates and occupancy levels and control operating and other expenses at our industrial properties. Our operations are impacted by property-specific, market-specific, general economic and other conditions.

Repositioning Strategy - In June 2011, together with our Advisor, we began evaluating strategic options, including the repositioning of our assets that we believed could enhance shareholder value. Our repositioning strategy began with the sale of certain industrial properties (Goldenwest, Mack Deer Valley, Pinnacle Park and 2111 South Industrial Park) in 2011. The net property proceeds were used to de-lever our balance sheet by paying down and/or paying off certain short term higher interest-rate debt, renegotiating lower interest rates on other loan obligations, extending debt maturities and acquiring healthcare real estate properties.

Investing in healthcare real estate assets, more specifically senior housing facilities, is believed to be accretive to earnings and potentially shareholder value. Senior housing facilities include independent living facilities, skilled-nursing facilities ("SNF"), assisted living facilities and memory and other continuing care retirement communities. Each of these caters to different segments of the elderly population. The Company's repositioning strategy includes purchasing SNF's, assisted living facilities, and memory care facilities.

We formed Cornerstone Healthcare Partners LLC ("CHP LLC") with Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of our Advisor. We own 95% of CHP LLC, with the remaining 5% owned by CHREF. We acquired the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center and Pacific Health and Rehabilitation Center healthcare properties (collectively, the "JV Properties") through CHP LLC. In the third quarter of 2013, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, we caused CHP LLC to sell a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $550,000 as of September 30, 2013, of which we received $523,000 and CHREF received $27,000. At September 30, 2013, we owned a 91.3% interest in the JV Properties, CHREF, an affiliate of the Advisor, owned a 4.9% interest and third party investors owned 3.8%. CHP LLC may sell up to an aggregate 46% interest in these JV Properties, leaving us with 54%. As outside investors acquire additional interests in the JV Properties, our interest in the JV Properties, and that of CHREF, will be reduced proportionately.

During the second half of 2012 and first three quarters of 2013, CHP LLC acquired, through wholly-owned subsidiaries, seven senior-housing facilities. We obtained interim financing to purchase our healthcare facilities and intend to refinance the interim borrowings with long term financing. On July 2, 2013, we acquired the Aledo property, an assisted living facility (See Note 19 to the accompanying Notes to the Condensed Consolidated Financial Statements).

We lease our assisted living facilities and SNF's to single-tenant operators under triple net lease structures. Services provided by operators or tenants of assisted living facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicaid and Medicare. Assisted living facilities offer residents a place to reside that offers medical monitoring and little medical care while still offering personal privacy and freedom. SNF operators are typically more dependent on government reimbursement programs. SNF's, more commonly known as nursing homes, are a healthcare option for seniors that are in need of constant medical attention or recovery and therapy after a hospital visit but do not require the more extensive and sophisticated treatment available at hospitals. Sub-acute care services are provided to residents beyond room and board. Certain SNF's provide some services on an outpatient basis. Skilled nursing services are primarily paid for either by private sources, insurance, or through the Medicare and Medicaid programs.

Additionally, in order to move to our final phase of repositioning, during the first quarter of 2013, we listed and sold most of our remaining industrial assets for sale (See Note 17 Divestitures). As such, any remaining or sold industrial assets are now classified as held for sale on the accompanying September 30, 2013 and December 31, 2012 Condensed Consolidated Balance Sheets and presented as discontinued operations on our Condensed Consolidated Statements of Operations for all periods presented. We used the proceeds from the industrial segment dispositions to pay off the debt related to the industrial assets and reinvested a portion of the net proceeds into additional healthcare assets.

The Advisor believes the Company's outlook for raising new property level joint venture equity capital to support its growth and further diversify both operator and healthcare property sector risk is currently favorable. Based in part on this advice, the Board of Directors continues to advance the repositioning strategy while pursuing other growth initiatives that lower capital costs and enable us to reduce or improve our ability to cover our general and administrative costs over a broader base of assets.

For the remainder of 2013, the Board of Directors has requested that the Advisor raise new property level joint venture equity and attract new capital partners, including international partners, while management continues to evaluate opportunities for repositioning and growth and secures long term debt for recent and future acquisitions and/or development opportunities. Selling portions of the properties we own to joint venture partners, and using the proceeds for acquisitions of healthcare assets, allows us to diversify our property holdings (as to the number of operators, geographic location, level of care acuity, and age of property) and therefore lower the overall risk profile of our healthcare portfolio.

Portfolio

At September 30, 2013, our continuing operations consisted of investments in seven healthcare facilities, located in four states, consisting of four skilled nursing facilities and three assisted living / memory care facilities. Our discontinued operations consisted of one industrial property located in California and the Sherburne Commons VIE in Massachusetts. In the third quarter of 2013, we sold the Santa Fe property, two of the four Shoemaker Industrial buildings and our Orlando South Bay properties (see Note 19 of the Condensed Consolidated Financial Statements). Additionally, in the third quarter of 2013, we acquired Heritage Woods of Aledo, an assisted living facility in Aledo, Illinois (see Note 19 to the accompanying Notes to the Condensed Consolidated Financial Statements). The following tables summarize our investments in real estate as of September 30, 2013:

Real Estate Properties:

	Properties	Beds	Square Footage	Purchase Price
Skilled Nursing Facilities	4	330	112,738	$ 31,740,000
Assisted Living/Memory Care Facilities	3	236	84,953	26,825,000
Industrial Properties	1	n/a	9,721	2,400,000
Total Real Estate Properties	8	566	207,412	$ 60,965,000

Healthcare Properties

Property	Location	Date Purchased	Square Footage	Beds	Percentage of Beds Occupied [1]	2013 Revenue [2]
Sheridan Care Center	Sheridan, OR	August 3, 2012	13,912	51	71 %	$ 434,000
Fern Hill Care Center	Portland, OR	August 3, 2012	13,344	51	74 %	434,000
Farmington Square	Medford, OR	September 14, 2012	32,557	71	91 %	772,000
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	56,968	150	78 %	1,514,000
Pacific Health and Rehabilitation Center	Tigard, Oregon	December 24, 2012	28,514	78	81 %	821,000
Danby House	Winston-Salem, NC	January 31, 2013	27,135	99	87 %	873,000
Aledo	Aledo, Illinois	July 2, 2013	25,261	66	82 %	333,000
Total			197,691	566		$ 5,181,000

[1] Represents percentage of beds occupied by residents. Each of these facilities is leased to a single tenant under a triple net lease.

[2] Represents annualized revenue adjusted for timing of investment for facilities purchased in 2013.

Properties Held for Sale

Property	Location	Date Purchased	Square Footage	Occupancy
Shoemaker Industrial Bldgs.	Santa Fe Springs, CA	June 30, 2006	9,721	100.0 %
Total			9,721	

Market Outlook — Real Estate and Real Estate Finance Markets

Despite an increase of new home construction and positive gains in the stock markets and improved industrial rental occupancy level in 2012 and 2013, the U.S. economy remains fragile. Housing and real estate have a long way to go before recovery to the pre-recession levels as some homeowners continue to be underwater, unemployment is still high and the U.S. government continues to deficit spend. The difficulty of accessing capital previously experienced is slowly subsiding, but concern about credit risk, the U.S. economy, Europe's debt issues and the impact it may have on financial markets globally continues. As these concerns continue to unfavorably impact real estate demand, particularly our industrial product type and, if they continue, we may experience more vacancies, reduced rental rates, increase in rental concessions to existing and new tenants, including free rent which decreases cash flows from operations.

In contrast, senior housing remained resilient during the economic recession. Some of the largest REITs in the U.S. are Healthcare REITs. The senior housing and care market carries an approximate value of $270 billion and growing. Throughout the U.S., there are just over 22,000 independent living, assisted living and skilled nursing facilities.

Throughout the economic recession, senior housing occupancy held up well when compared to apartment, office, retail, industrial and hotel categories. Key demand drivers for senior housing include the strengthening demographics which include the growing number of baby boomers, a better understanding and acceptance of residents and senior housing as an alternative, more and more potential residents can afford senior housing and have more affluence. Residents are living longer and have better healthcare. Fewer family care givers are available and residents have no other alternative. It is forecasted that demographics will remain strong for decades.

Senior housing average cap rates tend to be higher than other asset classes, which improves returns on investment. During the recession, debt was less available. Currently, there are several lenders in the senior housing market offering attractive rates and leverage on the properties. Sources of debt include high yield bonds, insurance companies, commercial finance companies, commercial banks, HUD, Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have nearly $20 billion in total outstanding senior housing loans (assisted living and independent living).

In general, with experienced, quality operators mitigating risks associated with senior housing, and with our emphasis on skilled nursing, assisted living and memory care, we believe the senior housing market has a strong outlook for market fundamentals and provides solid and relatively stable returns.

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, 2012 as filed with the SEC.

Results of Operations

As of September 30, 2013, our properties primarily consisted of seven healthcare properties which were purchased commencing in the second half of 2012 through July of 2013 and two of the four buildings remaining from our Shoemaker property. The industrial properties were sold as follow: In January 2013, we sold Western Avenue and Carter properties for gross proceeds of $17.6 million and $1.7 million, respectively; in June 2013, we sold our Marathon property for gross proceeds of $2.1 million; in July 2013, we sold our Santa Fe property for $1.7 million; in August 2013, we sold two of the four Shoemaker Industrial buildings for $1.1 million; and in September 2013, we sold the Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center properties for $24.0 million. All industrial property financial activity is now reported for all periods presented as Assets Held for Sale on our Condensed Consolidated Balance Sheets and in Discontinued Operations on our Condensed Consolidated Statements of Operations.

The healthcare segment's financial results are reported as continuing operations on our Condensed Consolidated Statements of Operations. Below is a summary of the healthcare segment since executing our repositioning strategy. The table illustrates the favorable trend of growing revenues, net operating income and investments in healthcare real estate assets.

HEALTHCARE PROPERTIES:	Sept. 30, 2012	Dec. 31, 2012	Quarter Ending Mar. 31, 2013	Jun. 30, 2013	Sept. 30, 2013
Rental & other revenues	$ 321,000	$ 965,000	$ 1,387,000	$ 1,461,000	$ 1,716,000
Property operating expenses	33,000	64,000	143,000	161,000	216,000
Net operating income	$ 288,000	$ 901,000	$ 1,244,000	$ 1,300,000	$ 1,500,000
Number of healthcare properties owned	4	5	6	6	7
Investments in healthcare real estate:	$ 32,100,000	$ 40,245,000	$ 50,066,000	$ 50,066,000	$ 58,800,000

In October 2011, we reclassified the Sherburne Commons property as variable interest entity held for sale (see Note 17) and the results of its operations have been reported in discontinued operations for all periods presented.

Three months ended September 30, 2013 and 2012

	Three Months Ended September 30,			
	2013	2012	$ Change	% Change
Rental revenues, tenant reimbursements & other income	$ 1,716,000	$ 321,000	$ 1,395,000	434.6 %
Property operating expenses	(216,000)	(33,000)	(183,000)	554.5 %
Net operating income [(1)]	1,500,000	288,000	1,212,000	420.8 %
Interest income from notes receivable	13,000	13,000	—	0.0 %
General and administrative	(694,000)	(757,000)	63,000	(8.3)%
Asset management fees and expenses	(271,000)	(240,000)	(31,000)	12.9 %
Real estate acquisition costs	(121,000)	(737,000)	616,000	(83.6)%
Recovery of excess advisor obligation	50,000	—	50,000	N/A %
Depreciation and amortization	(627,000)	(130,000)	(497,000)	382.3 %
Interest and other expense and income, net	(551,000)	(123,000)	(428,000)	348.0 %
Loss from continuing operations	(701,000)	(1,686,000)	985,000	(58.4)%
Imcome from discontinued operations	314,000	115,000	199,000	173.0 %
Net loss	(387,000)	(1,571,000)	1,184,000	(75.4)%
Noncontrolling interests' share in losses	274,000	258,000	16,000	6.2 %
Net loss applicable to common shares	$ (113,000)	$ (1,313,000)	$ 1,200,000	(91.4)%

(1) NOI is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as total rental revenues, tenant reimbursements and other income less property operating and maintenance expenses. NOI excludes interest income from notes receivable, general and administrative expense, asset management fees and expenses, real estate acquisition costs, depreciation and amortization, impairments, interest income, interest expense, and income from discontinued operations. 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. See Note 18 for a summary table reconciling NOI from net loss.

Rental revenues, tenant reimbursements, other income, property operating expenses, depreciation and amortization increases are due to the healthcare properties acquired commencing in the third quarter of 2012. Our healthcare business segment did not exist until the third quarter of 2012. The results of revenues and expenses from our industrial properties are now classified as held for sale and reported under "Discontinued operations."

General and administrative expense decrease is due to lower transfer agent fees, lower legal and consulting costs offset by higher Advisor allocations.

Asset management fee increases are primarily due to increases in fees associated with the healthcare acquisitions of 2012 and 2013 offset by the impact of the Carter, Western Avenue and Orlando Small Bay property portfolio property sales during 2013.

Real estate acquisition cost decrease is primarily due to one acquisition in the third quarter of 2013 compared to three in the third quarter of 2012 and capitalizing third party costs associated with our 2013 purchases compared to expensing these costs in 2012.

Collection of (reserve for) excess advisor obligation represents organizational and offering costs incurred in excess of 3.5% limitation of the gross proceeds from our follow-on offering which terminated on June 10, 2012 (See Note 10 to the accompanying Notes to Condensed Consolidated Financial Statements). Our Advisory Agreement provides that the Advisor will reimburse any excess. Consequently, we recorded a receivable for the excess of $1.0 million which we fully reserved for as of June 30, 2012 based on our evaluation of the Advisor's inability to repay at that time. As of December 31, 2012, we reduced our reserve by approximately $0.1 million as we collected this amount in the first quarter of 2013. In the third quarter of 2013, we received an additional $50,000.

Interest expense increases in 2013 are primarily due to loans secured by the healthcare properties. The healthcare segment did not exist until the third quarter of 2012. Interest expenses from our industrial properties are now classified as held for sale and reported under "Discontinued operations."

The income from discontinued operations represents the results of operations for properties sold and/or classified as held for sale. During third quarter of 2013, we sold our Santa Fe, two of four Shoemaker Industrial buildings and remaining OSB properties to third parties. The income, primarily due to gain on sales of real estate, from discontinued operations was $0.3 million for the three months ended September 30, 2013 compared to income from discontinued operations of $0.1 million for the three months ended September 30, 2012.

Nine months ended September 30, 2013 and 2012

	Nine Months Ended September 30,			
	2013	**2012**	**$ Change**	**% Change**
Rental revenues, tenant reimbursements & other income	$ 4,565,000	$ 321,000	$ 4,244,000	1,322.1 %
Property operating expenses	(519,000)	(33,000)	(486,000)	1,472.7 %
Net operating income [(1)]	4,046,000	288,000	3,758,000	1,304.9 %
Interest income from notes receivable	38,000	40,000	(2,000)	(5.0)%
General and administrative	(2,552,000)	(2,489,000)	(63,000)	2.5 %
Asset management fees and expenses	(865,000)	(662,000)	(203,000)	30.7 %
Real estate acquisition costs	(257,000)	(737,000)	480,000	(65.1)%
Recovery of (reserve for) excess advisor obligation	100,000	(988,000)	1,088,000	(110.1)%
Depreciation and amortization	(1,709,000)	(130,000)	(1,579,000)	1,214.6 %
Interest and other expense and income, net	(1,484,000)	(122,000)	(1,362,000)	1,116.4 %
Loss from continuing operations	(2,683,000)	(4,800,000)	2,117,000	(44.1)%
Income (loss) from discontinued operations	1,034,000	(1,374,000)	2,408,000	(175.5)%
Net loss	(1,649,000)	(6,174,000)	4,525,000	(73.3)%
Noncontrolling interests' share in losses	738,000	787,000	(49,000)	(6.2)%
Net loss applicable to common shares	$ (911,000)	$ (5,387,000)	$ 4,476,000	(83.1)%

(1) NOI is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as total rental revenues, tenant reimbursements and other income less property operating and maintenance expenses. NOI excludes interest income from notes receivable, general and administrative expense, asset management fees and expenses, real estate acquisition costs, depreciation and amortization, impairments, interest income, interest expense, and income from discontinued operations. 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. See Note 18 for a summary table reconciling NOI from net loss.

Rental revenues, tenant reimbursements and other income, property operating expenses, depreciation and amortization increases are due to the healthcare properties acquired commencing in the third quarter of 2012 through July 2013. The healthcare segment did not exist in the first seven months of 2012. The results of revenues and related expenses from our industrial properties are now classified as held for sale and reported under "Discontinued operations."

Interest income from notes receivable for the nine months ended September 30, 2013 was comparable to the nine months ended September 30, 2012.

General and administrative expense increase is primarily due to higher audit and tax fees, higher Advisor allocations offset by lower transfer agent and lower legal fees.

Asset management fee increase is primarily due to higher fee associated with the healthcare acquisitions of 2012 and the first quarter of 2013 offset by the impact of the Marathon, Carter, Western Avenue, Santa Fe, two of the four Shoemaker Industrial buildings and remaining Orlando Small Bay property sales.

Real estate acquisition cost decrease is primarily due to capitalizing third party costs associated with our 2013 purchases compared to expensing these costs in 2012.

Collection of (reserve for) excess advisor obligation represents organizational and offering costs incurred in excess of 3.5% limitation of the gross proceeds from our follow-on offering which terminated on June 10, 2012 (See Note 10 to the accompanying Notes to the Condensed Consolidated Financial Statements). Our Advisory Agreement provides that the Advisor will reimburse any excess over the limitation. Consequently, we recorded a receivable for the excess of $1.0 million which we fully reserved for as of June 30, 2012 based on our evaluation of the Advisor's inability to repay at that time. As of December 31, 2012, we reduced our reserve by approximately $0.1 million as it became probable that we would collect this amount in the first quarter of 2013. In the nine months ended September 30, 2013, we collected $0.1 million.

Interest expense increase in 2013 is primarily due to the loans secured by the healthcare properties. The healthcare segment did not exist in the first seven months of 2012. Interest expenses from our industrial properties are now classified as held for sale and reported under "Discontinued operations."

The income from discontinued operations represents the results of operations for properties sold and/or classified as held for sale in accordance with ASC 360, *Property, Plant and Equipment.* Additionally, all prior periods presented for these properties are reclassified to discontinued operations for presentation purposes. In 2013, we sold our Western Avenue, Carter, Marathon, Santa Fe, OSB properties and two of four Shoemaker buildings to third parties and reclassified any remaining industrial properties as held for sale. The income from discontinued operations was $1.0 million for the nine months ended September 30, 2013 which consisted primarily of gain on sale of Western for $4.1 million offset by impairment of real estate on the OSB portfolio for $3.4 million, compared to loss from discontinued operations of $1.4 million for the nine months ended September 30, 2012 which consisted of impairment of real estate for $1.1 million.

Liquidity and Capital Resources

We are currently not offering our shares of common stock for sale. Going forward, we expect our primary sources of cash to be rental revenues, tenant reimbursements and interest income. In addition, we may increase cash through the sale of additional properties or borrowing against currently-owned properties. We expect our primary uses of cash to be for the repayment of principal on notes payable, funding future acquisitions, operating expenses, interest expense on outstanding indebtedness, advances to our VIE to fund operating shortfalls, and cash distributions. Operating expenses are expected to exceed operating revenues over the next twelve months. We plan to fund this operating shortfall from available cash and the net proceeds from property sales and property refinancing.

As of September 30, 2013, we had approximately $17.0 million in cash and cash equivalents on hand. Our liquidity will increase if cash from operations exceeds expenses, additional shares are offered, we receive net proceeds from the sale of a property or if refinancing results in excess loan proceeds and decrease as proceeds are expended in connection with the acquisitions, operation of properties and advances to our VIE held for sale. Based on current conditions, we believe that we have sufficient capital resources for the next twelve months.

Credit Facilities and Loan Agreements

As of September 30, 2013, we had debt obligations of approximately $41.5 million. The outstanding balance by loan agreement is as follows:

- GE Capital – Healthcare approximately $28.4 million maturing September 2017,
- The PrivateBank and Trust Company – approximately $7.3 million maturing January 2016, and
- GE Capital – approximately $5.9 million maturing July 2018.

Short-Term Liquidity Requirements

In addition to the capital requirements for recurring capital expenditures, tenant improvements and leasing commissions, we may incur expenditures for future healthcare acquisitions and/or renovations of our industrial existing properties, such as increasing the size of the properties by developing additional rentable square feet and/or making the space more appealing to potential industrial real estate buyers.

As of September 30, 2013, we have all the industrial properties and Sherburne Commons, held in Nantucket, listed for sale. We continue to pursue options for repaying and/or refinancing debt obligations, including our asset sales. We expect to fund our short-term liquidity requirements primarily from available cash and future net sales proceeds. Our Advisor has informed us that they believe that conditions may be acceptable to raise money through joint venture arrangements although there can be no assurances that any such transactions will have terms acceptable to us or will be consummated.

In recent years, financial markets have experienced unusual volatility and uncertainty and liquidity has tightened in all financial markets, including the debt and equity markets. Our ability to repay or refinance debt could be adversely affected by an inability to secure financing at reasonable terms, if at all.

Distributions

We did not pay any distributions to stockholders for the nine months ended September 30, 2013 and 2012. See Note 13 of the Condensed Consolidated Financial Statement Footnotes.

Funds from Operations and Modified Funds from Operations

Funds from operations ("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 extraordinary items, as defined GAAP, and gains or losses from sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships, joint ventures, noncontrolling interests and subsidiaries.

NAREIT recently issued updated reporting guidance that directs companies, for their computation of NAREIT FFO, to exclude impairments of depreciable real estate when write-downs are driven by measurable decreases in the fair value of real estate holdings. Previously, our calculation of FFO (consistent with NAREIT's previous guidance) did not exclude impairments of, or related to, depreciable real estate. Consistent with this current NAREIT reporting guidance, we have restated our 2012 FFO amount.

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, and extraordinary items, and as a result, when compared year to year, 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.

Changes in the accounting and reporting rules under GAAP have prompted a significant increase in the amount of non-cash and non-operating items included in FFO, as defined. Therefore, we use modified funds from operations ("MFFO"), which excludes from FFO real estate acquisition costs, amortization of above- or below-market rents, and non-cash amounts related to straight-line rents and impairment charges to further evaluate our operating performance. We compute MFFO in accordance with the definition suggested by the Investment Program Association (the "IPA"), the trade association for direct investment programs (including non-traded REITs). However, certain adjustments included in the IPA's definition are not applicable to us and are therefore not included in the foregoing definition.

We believe that MFFO is an important supplemental measure of operating performance because it excludes costs that management considers more reflective of investing activities or non-operating changes. Accordingly, we believe that MFFO can be a useful metric to assist management, investors and analysts in assessing the sustainability of our operating performance. As explained below, management's evaluation of our operating performance excludes these items in the calculation based on the following considerations:

- **Real estate acquisition costs.** In evaluating investments in real estate, including both business combinations and investments accounted for under the equity method of accounting, management's investment models and analyses differentiate costs to acquire the investment from the operations derived from the investment. These acquisition costs have been funded from the proceeds of our initial public offering and other financing sources and not from operations. We believe by excluding expenses acquisition costs; MFFO provides useful supplemental information that is comparable for each type of our real estate investments and is consistent with management's analysis of the investing and operating performance of our properties. Real estate acquisitions costs include those paid to our Advisor and to third parties.

- **Adjustments for amortization of above or below market rents.** Similar to depreciation and amortization of other real estate related assets that are excluded from FFO, GAAP implicitly assumes that the value of lease assets diminishes predictably over time and that these charges be recognized currently in revenue. Since real estate values and market lease rates in the aggregate have historically risen or fallen with market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the operating performance of our real estate.

- **Adjustments for straight-line rents**. Under GAAP, rental income recognition can be significantly different from underlying contract terms. By adjusting for these items, MFFO provides useful supplemental information on the economic impact of our lease terms and presents results in a manner more consistent with management's analysis of our operating performance.

FFO and MFFO should not be considered as an alternative to net income (loss) or as an indication of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. Both FFO and MFFO should be reviewed along with other GAAP measurements. Our FFO and MFFO, as presented, may not be comparable to amounts calculated by other REITs. The following is reconciliation from net income (loss) applicable to common shares, the most direct comparable financial measure calculated and presented with GAAP, to FFO and MFFO for the three months and nine months ended September 30, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net loss applicable to common shares	$ (113,000)	$ (1,313,000)	$ (911,000)	$ (5,387,000)
Adjustments:				
Depreciation and amortization of real estate assets:				
Continuing operations	627,000	130,000	1,709,000	130,000
Discontinued operations	104,000	394,000	506,000	1,164,000
Gain on sales of real estate, net	(1,323,000)	—	(5,411,000)	—
Impairment of real estate assets:				
Discontinued operations	—	—	3,368,000	1,140,000
Noncontrolling interests' share in losses	(274,000)	(258,000)	(738,000)	(787,000)
Noncontrolling interests' share in FFO	270,000	245,000	745,000	773,000
FFO applicable to common shares	$ (709,000)	(802,000)	(732,000)	(2,967,000)
Adjustments:				
Amortization of (below-) above-market rents	2,000	(7,000)	10,000	(20,000)
Straight-line rents	(193,000)	(205,000)	(451,000)	(244,000)
Amortization of deferred financing costs	44,000	27,000	119,000	99,000
(Recovery of) reserve for excess advisor obligation	(50,000)	—	(100,000)	988,000
Real estate acquisition costs	121,000	737,000	257,000	737,000
Modified funds from operations (MMFO) applicable to common shares	$ (785,000)	(250,000)	(897,000)	$ (1,407,000)
Weighted-average number of common shares				
Outstanding - basic and diluted	23,028,285	23,028,285	23,028,285	23,028,285
FFO per weighted average common shares	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.13)
MFFO per weighted average common shares	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.06)

Contractual Obligations

The following table reflects our contractual obligations as of September 30, 2013:

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Notes payable [1][5]	$ 41,534,000	$ 670,000	$ 35,348,000	$ 5,516,000	$ —
Interest expense related to long-term debt [2]	$ 7,764,000	$ 2,094,000	$ 5,447,000	$ 223,000	$ —
Below-market ground lease [3][4]	$ 3,609,000	$ —	$ 54,000	$ 128,000	$ 3,427,000

(1) This represents the sum of loans of GE and The PrivateBank and Trust Company.

(2) Interest expense related to the loan agreement with GE related to the acquisition of healthcare properties is based on three-months LIBOR, with a floor of 50 basis points, a spread or margin of 4.50%. Interest expense on The PrivateBank and Trust Company agreement is based on one-month LIBOR plus 4.00%, with a LIBOR of 1.00% or the Prime Rate plus 1.75%, with an all-in floor of 5.00%.

(3) The below-market ground lease relates to Sherburne Commons, a VIE for which we were deemed to be the primary beneficiary and began consolidating as of June 30, 2011. As of October 19, 2011, Sherburne Commons met the requirements for reclassification to real estate held for sale. Consequently, at September 30, 2013, the related assets and liabilities of the VIE are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale, respectively, on our condensed consolidated balance sheets.

(4) The below-market ground lease is a 50-year lease expiring in 2059 relating to land on which the Sherburne Commons senior housing facility is located. The land is leased from the town of Nantucket, Massachusetts with lease payments totaling $1 per year for years one through four, one-half of one percent of operating revenues, as defined in the ground lease, for years five through seven, and one percent of operating revenues, as defined in the ground lease, thereafter.

(5) The notes payable payment amounts include The PrivateBank and Trust Company loan of $7.3 million. Per our loan agreement, we are to make deposits into a sinking fund based on a 25 year amortization schedule. At maturity, the cumulative monthly deposits will be applied to the loan with the balance to be paid by us.

Subsequent Events

See Note 19 of the Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the acquisition, expansion and refinancing of our real estate investment portfolio and operations. Our profitability and the value of our investment portfolio may be adversely affected during any period as a result of interest rate changes. We invest our cash and cash equivalents in government-backed securities and FDIC-insured savings accounts which, by their nature, are subject to interest rate fluctuations. However, we believe that the primary market risk to which we will be exposed is interest rate risk related to our variable-rate loan agreement.

We borrow funds and make investments with a combination of fixed and variable rates. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed-rate debt or fixed-rate notes receivable unless such instruments mature or are otherwise terminated and/or need to be refinanced. However, interest rate changes will affect the fair value of our fixed-rate instruments. Conversely, changes in interest rates on variable-rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments.

As of September 30, 2013, we had borrowings outstanding of $41.5 million under our variable-rate loan agreements. An increase in the variable interest rate on the loan agreement constitutes a market risk as a change in rates would increase or decrease interest expense incurred and therefore cash flows available for distribution to shareholders. Based on the debt outstanding as of September 30, 2013, a one percent (1%) change in interest rates related to the variable-rate debt would result in a change in interest expense of approximately $415,000 per year, or $0.02 per common share on a basic and diluted basis.

In addition to changes in interest rates, the value of our real estate is subject to fluctuations based on changes in the real estate capital markets, market rental rates for office space, local, regional and national economic conditions and changes in the creditworthiness of tenants. All of these factors may also affect our ability to refinance our debt, if necessary.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934 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 Interim Chief Financial Officer (Principal Financial Officer), to allow timely decisions regarding required disclosure. Our Chief Executive Officer (Principal Executive Officer) and Interim Chief Financial Officer (Principal Financial Officer) have reviewed the effectiveness of our disclosure controls and procedures and have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

In designing and evaluating the disclosure controls and procedures, 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.

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 1A. Risk Factors

The following risk factors supplement the risks disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2012.

Forward-Looking Statements and Risk Factors

This section discusses the most significant factors that affect our business, operations and financial condition. It does not describe all risks and uncertainties applicable to us, our industry or ownership of our securities. If any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are not material, actually occur, we could be materially adversely affected. In that event, the value of our securities could decline.

This Form 10-Q and the documents incorporated by reference contain statements that constitute "forward-looking statements" as that term is defined in the federal securities laws. These forward-looking statements include, but are not limited to, those regarding:

- the continuing repositioning and expansion of our portfolio, including our ability to close our anticipated acquisitions and investments on currently anticipated terms, or within currently anticipated timeframes, or at all;
- the sale of industrial properties;
- the performance of our operators/tenants and properties;
- our ability to enter into agreements with new viable tenants for vacant space or for properties that we take back from financially troubled tenants, if any;
- our occupancy rates and the bed occupancy rates of our healthcare operators;
- our ability to acquire, develop and/or manage properties;
- our ability to make distributions to stockholders;
- our policies and plans regarding investments, financings and other matters;
- our tax status as a real estate investment trust;
- our critical accounting policies;
- our ability to appropriately balance the use of debt and equity;
- our ability to access capital markets or other sources of funds;
- to raise additional equity capital, including the joint venture participations, and;
- our ability to avoid take-over risks due to the depressed value of our common stock resulting from the prior impairment adjustments to the industrial portfolio.

When we use words such as "may," "will," "intend," "should," "believe," "expect," "anticipate," "project," "estimate" or similar expressions, we are making forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Our expected results may not be achieved, and actual results may differ materially from our expectations. This may be a result of various factors, including, but not limited to:

- the status of the economy;
- the status of capital markets, including availability and cost of capital;
- issues facing the health care industry, including the evolution of healthcare reform and changes to regulations and payment policies, responding to government investigations and punitive settlements and operators'/tenants' difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance;
- changes in financing terms;
- competition within the senior housing segment of the healthcare industry;
- negative developments in the operating results or financial condition of operators/tenants, including, but not limited to, their ability to pay rent, repay loans, and preserve required certificates of need covering the properties;
- our ability to find replacement operators should a healthcare property become distressed or suffer a loan default;
- our ability to transition or sell facilities with profitable results;
- acts of God affecting our properties;
- our ability to re-lease space at similar rates as vacancies occur;
- our ability to timely reinvest sale proceeds at similar rates to assets sold;
- operator/tenant or joint venture partner bankruptcies or insolvencies;
- the cooperation of joint venture partners;
- government regulations affecting Medicare and Medicaid reimbursement rates and operational requirements;
- liability or contract claims by or against operators/tenants and;
- unanticipated difficulties and/or expenditures.

Risk factors related to our operators' revenues and expenses

Our operators' revenues are primarily driven by occupancy, private pay rates, and Medicare and Medicaid reimbursement, if applicable. Expenses for these facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and state budget shortfalls. Operating costs continue to increase for our operators. To the extent that any decrease in revenues and/or any increase in operating expenses result in a property not generating enough cash to make payments to us, our revenues may be reduced and the credit of our operator and the value of other collateral would have to be relied upon. To the extent the value of such property is reduced, we may need to record an impairment for such asset. Furthermore, if we determine to dispose of an underperforming property, such sale may result in a loss. Any such impairment or loss on sale would negatively affect our financial results.

The continued weakened economy may have an adverse effect on our operators and tenants, including their ability to access credit or maintain occupancy and/or private pay rates. If the operations, cash flows or financial condition of our operators are materially adversely impacted by economic or other conditions, our revenue and operations may be adversely affected. Increased competition may affect our operators' ability to meet their obligations to us. The operators of our properties compete on a local and regional basis with operators of properties and other health care providers that provide comparable services. We cannot be certain that the operators of all of our facilities will be able to achieve and maintain occupancy and rate levels that will enable them to meet all of their obligations to us. Our operators are expected to encounter increased competition in the future that could limit their ability to attract residents or expand their businesses.

Transfers of health care facilities may require regulatory approvals and these facilities may not have efficient alternative uses

Transfers of health care facilities to successor operators frequently are subject to regulatory approvals or notifications, including, but not limited to, change of ownership approvals under certificate of need ("CON") or determination of need laws, state licensure laws and Medicare and Medicaid provider arrangements, that are not required for transfers of other types of real estate. The replacement of a health care facility operator could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. Alternatively, given the specialized nature of our facilities, we may be required to spend substantial time and funds to adapt these properties to other uses. If we are unable to timely transfer properties to successor operators or find efficient alternative uses, our revenue and operations may be adversely affected.

Risk factors related to government regulations

Some of our operators’ businesses are affected by government reimbursement. To the extent that an operator/tenant receives a significant portion of its revenues from government payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, court decisions, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries or carriers, government funding restrictions (at a program level or specific to certain facilities) and interruption or delays in payments due to any ongoing government investigation amid audits at such property. In recent years, government payors have frozen or reduced payments to health care providers due to budgetary pressures. Health care reimbursement will likely continue to be of paramount importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of our operators and properties. There can be no assurance that adequate reimbursement levels will be available for services provided by any property operator, whether the property receives reimbursement from Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an obligor's liquidity, financial condition and results of operations, which could adversely affect the ability of an obligor to meet its obligations to us.

Our operators and tenants generally are subject to varying levels of federal, state, local, and industry-regulated licensure, certification and inspection laws, regulation and standards. Our operators' or tenants' failure to comply with any of these laws, regulations, or standards could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension, decertification or exclusion from federal and state health care programs, loss of license or closure of the facility. Such actions may have an effect on our operators' or tenants' ability to make lease payments to us and, therefore, adversely impact us.

Many of our properties may require a license, registration, and/or CON to operate. Failure to obtain a license, registration, or CON, or loss of a required license, registration, or CON would prevent a facility from operating in the manner intended by the operators or tenants. These events could materially adversely affect our operators' or tenants' ability to make rent payments to us. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of health care facilities, by requiring a CON or other similar approval from a state agency.

The Patient Protection and Affordable Care Act of 2010, as modified by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Care Reform Laws") provide individual states with an increased federal medical assistance percentage under certain conditions. On June 28, 2012, The United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion will allow states not to participate in the expansion-and to forego funding for the Medicaid expansion-without losing their existing Medicaid funding. Given that the federal government substantially funds the Medicaid expansion, it is unclear whether any state will pursue this option, although at least some appear to be considering this option at this time. The participation by states in the Medicaid expansion could have the dual effect of increasing our tenants' revenues through new patients while further straining state budgets. While the federal government will pay for approximately 100% of those additional costs from 2014 to 2016, states will be expected to begin paying for part of those additional costs in 2017. With increasingly strained budgets, it is unclear how states will pay their share of these additional Medicaid costs and what other health care reimbursements could be reduced as a result. A significant reduction in other health care related spending by states to pay for increased Medicaid costs could affect our tenants' revenue streams.

More generally, and because of the dynamic nature of the legislative and regulatory environment for health care products and services, and in light of existing federal deficit and budgetary concerns, we cannot predict the impact that broad-based, far-reaching legislative or regulatory changes could have on the US economy, our business or that of our tenants.

Risk factors related to liability claims and insurance costs

In recent years, skilled nursing and senior housing operators have experienced substantial increases in both the number and size of patient care liability claims. As a result, general and professional liability insurance costs have increased in some markets. General and professional liability insurance coverage may be restricted or very costly, which may adversely affect the property operators' future operations, cash flows and financial condition, and may have a material adverse effect on the property operators' ability to meet their lease obligations to us.

Risk factors related to acquisitions

We are exposed to the risk that some of our acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. If we agree to provide construction funding to an operator/tenant and the project is not completed, we may need to take steps to ensure completion of' the project. Such expenditures may negatively affect our results of operations. Furthermore, there can be no assurance that our anticipated acquisitions and investments, the completion of which is subject to various conditions, will be consummated in accordance with anticipated timing, on anticipated terms, or at all.

Risk factors related to joint ventures

We have entered into, and may continue in the future to enter into, partnerships or joint ventures with other persons or entities. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility that our partner might become insolvent, refuse to make capital contributions when due or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments; that our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. In addition, our ability to transfer our interest in a joint venture to a third party may be restricted. In some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it. Joint ventures may require us to share decision-making authority with our partners, which could limit our ability to control the properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval, such as the sale, acquisition or financing of a property.

Risk factors related to our seniors housing operating properties

We are exposed to various operational risks with respect to our seniors housing operating properties that may increase our costs or adversely affect our ability to generate revenues. These risks include fluctuations in occupancy, Medicare and Medicaid reimbursement, if applicable, and private pay rates; economic conditions; competition; federal, state, local, and industry-regulated licensure, certification and inspection laws, regulations, and standards; the availability and increases in cost of general and professional liability insurance coverage; state regulation and rights of residents related to entrance fees; the availability and increases

We have paid, and may in the future, pay distributions from sources other than cash provided from operations.

We did not pay any distributions to stockholders during the nine months ended September 30, 2013 and 2012. Until our investments in real estate generate operating cash flow sufficient to make distributions to stockholders, we may pay a substantial portion of our distributions from borrowings in anticipation of future cash flow. To the extent that we use offering proceeds to fund distributions to stockholders, the amount of cash available for investment in properties will be reduced. No distributions were paid for the four quarters ended September 30, 2013 and 2012. For the four quarters ended September 30, 2013, net cash used in operating activities was $3.4 million. During this period, FFO was negative $1.2 million.

Any adverse changes in the financial health of our Advisor or its affiliates or our relationship with them could hinder our operating performance and the return on your investment. We may have difficulty finding a qualified successor advisor, and any successor advisor may not be as well suited to manage us. These potential changes could result in a significant disruption of our business and may adversely affect the value of your investment in us.

We are dependent on our Advisor to manage our operations and our portfolio of real estate assets. Our Advisor depends upon the fees and other compensation that it receives from us in connection with the purchase, financing, leasing and management and sale of our properties to conduct its operations. To date, the fees we pay to our Advisor have been inadequate to cover its operating expenses. To cover its operational shortfalls, our Advisor has relied on cash raised in private offerings of its sole member. If our Advisor is unable to secure additional capital, it may become unable to meet its obligations and we might be required to find alternative service providers, which could result in a significant disruption of our business and may adversely affect the value of your investment in us. Additionally, our Advisor may not be able to reimburse us for excess offering costs or other amounts due to us.

Our stockholders have limited control over changes in our policies and operations, which increases the uncertainty and risks our stockholders face.

Our Board of Directors determines our major policies, including our policies regarding investment, financing, growth, debt capitalization, REIT qualification and distributions. Our Board of Directors continually evaluates alternatives to maximize value for our stockholders. As a result of this process, or otherwise, our Board of Directors may determine that it is in the best interest of the company to change, amend or revise certain of our major policies. Our Board of Directors may amend or revise these policies without a vote of the stockholders. Under Maryland General Corporation Law and our charter, our stockholders have a right to vote only on certain limited matters. Our board's broad discretion in setting policies and directing our Advisor and our stockholders' inability to exert control over those policies increases the uncertainty and risks our stockholders face.

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 during the period covered by this Form 10-Q.

(b) Not applicable.

(c) During the nine months ended September 30, 2013, 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
3.1	Amendment and Restatement of Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K filed on March 24, 2006).
3.2	Amended and Restated Bylaws (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 ("Post-Effective Amendment No. 1")).
3.3	Articles of Amendment of Cornerstone Core Properties REIT, Inc. 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).
4.1	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")).
4.2	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).
4.3	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).
10.1	Purchase and Sale Agreement dated December 28, 2012 by and between the Company and MMB Management, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 4, 2013).
10.2	Purchase and Sale Agreement dated as of November 12, 2012 and assigned to Buyer on January 31, 2013 between Cornerstone Healthcare Real Estate Fund, Inc. and IP-Winston Salem Health Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.3	Loan agreement between lender and HP Winston-Salem, LLC dated January 31, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.4	Purchase and Sale Agreement effective January 28, 2013 and assigned to Buyer on July 2, 2013 between HP Aledo, LLC and Aledo Senior Housing, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 3, 2013).
10.5	Purchase and Sale Agreement dated July 30, 2013 by and between the Company and Hamlet Health Investors, LLC and Newport Health Investors, LLC.
10.6	Purchase and Sale Agreement dated July 30, 2013 by and between the Company and WPC Salem, LLC.
10.7	Purchase and Sale Agreement dated June 6, 2013 by and between the Company and Rio Hondo Capital Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 29, 2013).
31.1	Certification of Principal Operating Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Operating Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following information from the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2013, 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 this 13th day of November 2013.

SUMMIT HEALTHCARE REIT, INC.

By: /s/ Kent Eikanas
Kent Eikanas
President / Chief Operating Officer
(Principal Operating Officer)

By: /s/ Timothy C. Collins
Timothy C. Collins
Chief Financial Officer
(Principal Financial Officer)

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made and entered into as of this 30 day of July, 2013 (the "**Effective Date**"), by and among HAMLET HEALTH INVESTORS, LLC a North Carolina limited liability company ("**HHI**") and NEWPORT HEALTH INVESTORS, LLC ("**NHI**"), a North Carolina limited liability company (collectively, "**Seller**"), and CORNERSTONE CORE PROPERTIES REIT, INC. a Maryland corporation, or its assignee ("**Buyer**").

1. Purchase and Sale. On the terms and conditions set forth herein, Seller shall sell, assign, transfer, convey and deliver to Buyer and Buyer shall purchase from Seller its interest in the following, which are hereinafter referred to collectively as the "**Property**":

(a) The improvements located on the Real Property, consisting of two (2) assisted living and memory care facilities as described in Schedule 1(a) attached hereto (singularly, a "**Facility**" and collectively, the "**Facilities**"), owned by Seller, and all right, title and interest of Seller in and to the items described in (a) through (f) herein;

(b) All of the real estate on which each Facility is situated, together with all tenements, easements, appurtenances, privileges, rights of way, and other rights incident thereto, all building and improvements and any parking lot to such Facility located thereon situated in the State of North Carolina (the "**State**"), which is described in Exhibit A attached hereto and made a part hereof by this reference (collectively, the "**Real Property**");

(c) All of the tangible personal property, inventory, equipment, machinery, supplies including drugs and other supplies, spare parts, furniture, furnishings, warranty claims, contracts, including but not limited to supply contracts, contracts rights, intellectual property, including but not limited to patents, trade secrets, and all rights and title to the names under which each Facility operates, mailing lists, customer lists, vendor lists, resident files, books and records owned by the Seller, who may retain copies of same, and shall have reasonable access to such books and records after the Closing as required for paying taxes and responding to legal inquiry, as such personal property is described in Schedule 1(c) attached hereto (collectively, the "**Personal Property**");

(d) All transferable licenses, permits, certifications, assignable guaranties and warranties in favor of Seller, approvals or authorizations and all assignable intangible property not enumerated herein which is used by the Seller in connection with each Facility, and all other assets whether tangible or intangible; provided, that Seller shall retain all licenses required to be retained by Seller in order to operate the current business within each Facility;

(e) All trade names or other names commonly used to identify the Facility and all goodwill associated therewith. The intent of the parties is to transfer to Buyer only such names and goodwill associated with each Facility itself and not with Seller or any affiliate of Seller, so as to avoid any interference with the unrelated business activities of Seller; and

(f) All telephone numbers used in connection with the operation of each Facility, and to the extent not described above, all goodwill of Seller associated with each Facility (the items described in clauses (e) and (f) above are collectively referred to as "**Intangibles**").

2. Excluded Assets. Seller's cash, investment securities, bank account(s) and accounts receivable, and deposits attributable and relating to the operation of each Facility, and Seller's corporate minute books and corporate tax returns, partnership records, and other corporate and partnership records shall be excluded from each Facility sold by Seller to Buyer hereunder as well as Seller's real property not identified in Schedule 1(a) (the "**Excluded Assets**").

3. Purchase Price; Deposits. The following shall apply with respect to the Purchase Price of the Property:

(a) The purchase price (the "**Purchase Price**") payable by Buyer to Seller for the Property is Ten Million Eight Hundred Thousand and 00/100 Dollars ($10,800,000.00).

(b) The Purchase Price as allocated to each Facility by Seller is set forth on Schedule 3 attached hereto and made a part hereof.

(c) Within three (3) business days after this Agreement is fully executed by the parties, Buyer shall deposit the sum of Twenty-Five Thousand and 00/100 Dollars ($25,000.00) as an earnest money deposit ("**Initial Deposit**") with Lawyers Title Insurance Company, at its office at 4100 Newport Place Drive, Suite 120, Newport Beach, California 92660, Attention: Debi Calmelat ("**Title Company**" or "**Escrow Agent**") and Escrow Agent will deposit it into an interest-bearing account with the interest for the benefit of Buyer. In addition, if Buyer has not terminated this Agreement on or before the expiration of the Due Diligence Period (defined below), then Buyer shall deposit with Escrow Agent an additional Twenty-Five Thousand and 00/100 Dollars ($25,000.00) ("**Additional Deposit**") within three (3) business days following the expiration of the Due Diligence Period (the Initial Deposit and the Additional Deposit are collectively referred to as the "**Deposits**"). Interest earned on the Deposit shall be paid to the party entitled to such amount as provided in this Agreement.

(d) At Closing, the Deposit shall be credited against the Purchase Price and Buyer shall deposit the balance of the Purchase Price in Cash to the Escrow Agent.

(e) Buyer shall not assume or pay, and Seller shall continue to be responsible for, any and all debts, obligations and liabilities of any kind or nature, fixed or contingent, known or unknown, of Seller not expressly assumed by Buyer in this Agreement. Specifically, without limiting the foregoing, Buyer shall not assume any obligation, liability, cost, expense, claim, action, suit or proceeding pending as of the Closing, nor shall Buyer assume or be responsible for any subsequent claim, action, suit or proceeding arising out of or relating to any such other event occurring, with respect to the manner in which Seller conducted its business at the Facilities, on or prior to the date of the Closing Date. In addition, Buyer shall not assume successor liability obligations to Medicaid, HMO or any other third party payer programs or be responsible for recoupment's, fines, or penalties required to be paid to such parties as a result of the operation of the Facilities prior to the Closing Date by Seller or Sellers' operating entities, Hamlet AL Holdings, LLC and Newport AL Holdings, LLC (each an "**Operator**", and collectively, "**Operators**").

4. Closing. The closing of the purchase and sale transactions pursuant to this Agreement ("**Closing**") shall occur on the date that is thirty (30) days after the expiration of the Due Diligence Period ("**Closing Date**"). The Closing shall take place through Seller's delivery of a special warranty deed and Buyer's delivery of cash or immediately available funds through an escrow agreement (the "**Escrow**") to be established with the Escrow Agent pursuant to form escrow instructions which shall be modified to be consistent with the terms and provisions of this Agreement, and which shall be mutually agreed upon by the parties hereto.

5. Conveyance. Title to each Facility shall be conveyed to Buyer by a special warranty deed and bill of sale in form agreed to by the parties prior to the end of the Due Diligence Period, as defined herein. Fee simple indefeasible title to the Real Property and title to the Personal Property, shall be conveyed from Seller to Buyer or Buyer's nominee in "AS-IS, WHERE-IS" condition, free and clear of all liens, charges, easements and encumbrances of any kind, other than:

(a) Liens for real estate taxes or assessments not yet due and payable;

(b) The standard printed exceptions included in the PTR, as defined in Section 14(a) herein; unless objected to in writing by Buyer during the Due Diligence Period;

(c) Such exceptions that appear in the PTR and that are either waived or approved by Buyer in writing pursuant to Section 14(b) herein;

(d) Liens or encumbrances caused by the actions of Buyer but not those caused by the actions of Seller; and

(e) Those matters identified as Permitted Exceptions on the attached Exhibit B.

The items described in this Section 5 are sometimes collectively referred to as the "**Permitted Exceptions**."

6. Buyer's Due Diligence.

(a) Buyer shall have sixty (60) days from the Effective Date to complete Buyers Due Diligence (the "**Due Diligence Period**"); provided, however, that if Seller does not deliver the Due Diligence Items in the time frames set forth in Section 10(a)(v) below, the Due Diligence Period shall be extended on a day-by-day basis for each day of delay in delivery of the Due Diligence Items beyond the time periods set forth in Section 10(a)(v) below. During the Due Diligence Period, Seller shall permit the officers, employees, directors, agents, consultants, attorneys, accountants, lenders, appraisers, architects, investors and engineers designated by Buyer and representatives of Buyer (collectively, the "**Buyer's Consultants**") access to, and entry upon the Real Property and each Facility to perform its normal and customary due diligence, including, without limitation, the following (collectively, the "**Due Diligence Items**"):

(i) Review of vendor contracts ("**Contracts**") and leases ("**Leases**") to which each Facility (or the Seller, on behalf of such Facility) are a party, as set forth on Schedule 8(f) attached hereto;

(ii) Conduct environmental investigations (including a Phase 1 Environmental Audit);

(iii) Inspection of the physical structure of each Facility;

(iv) Review of current PTR, as defined in Section 14 herein, and underlying documents referenced therein;

(v) Review of ALTA Surveys, as defined in Section 14 herein, for each Facility;

(vi) Inspection of the books and records of each Facility and that portion of the Seller's books and records which pertain to the Facilities;

(vii) Review of the Due Diligence Items, as described in Schedule 10(a)(v) attached hereto, to be provided by Seller within five (5) business days following the Effective Date;

(viii) Conduct such other inspections or investigations as Buyer may reasonably require relating to the ownership, operation or maintenance of the Facilities;

(ix) Review of resident files, agreements, and any other documentation regarding the residents of the Facilities, which review shall in all events be subject to all applicable laws, rules and regulations concerning the review of medical records and other types of patient records; and

(x) Review of files maintained by the State relating to the Facilities; and

(xi) Review of all drawings, plans and specifications and all engineering reports for the Facilities in the possession of or readily available to Seller; and

(xii) Seller will furnish copies of all environmental reports, property condition reports, appraisals, title reports and ALTA Surveys (or surveys) that it currently has in its possession.

(xiii) Review copies of currently effective written employment manuals or written employment policies and/or procedures have been provided to or for employees.

Notwithstanding the foregoing provisions of this Subsection, in the event Seller fails to deliver all Due Diligence Items listed in Schedule 10(a)(v) on or before the time set forth in Subsection (a)(vii) above, then the Due Diligence Period shall be deemed extended on a day-to-day basis until Seller completes such delivery of the Due Diligence Items to Buyer.

(b) Buyer agrees and acknowledges that: (i) Buyer will not disclose the Due Diligence Items or any other materials received from Seller pursuant to this Agreement (the "**Property Information**") or any of the provisions, terms or conditions thereof, or any information disclosed therein or thereby, to any party outside of Buyer's organization, other than Buyer's Consultants whom shall also not disclose the Property Information to third parties; (ii) the Property Information is delivered to Buyer solely as an accommodation to Buyer; (iii) Seller has not undertaken any independent investigation as to the truth, accuracy or completeness of any matters set out in or disclosed by the Property Information; and(iv) except as expressly contained in this Agreement, Seller has not made and does not make any warranties or representations of any kind or nature regarding the truth, accuracy or completeness of the information set out in or disclosed by the Property Information.

(c) All due diligence activities of Buyer at the Facilities shall be scheduled with Seller upon two (2) business days prior notice. Reviews, inspections and investigations at the Facilities shall be conducted by Buyer in such manner so as not to disrupt the operation of the Facilities.

(d) Buyer may, at its sole cost, obtain third party engineering and physical condition reports and Phase I Environmental Audits covering each Facility, certified to Buyer, prepared by an engineering and/or environmental consultants acceptable to Buyer; provided, no inspection by Buyer's Consultants shall involve the taking of samples or other physically invasive procedures (such as a Phase II environmental audit) without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. Notwithstanding anything to the contrary contained in this Agreement, Buyer shall indemnify, defend (with counsel acceptable to Seller) and hold Seller and its employees and agents, and each of them, harmless from and against any and all losses, claims, damages and liabilities, without limitation, attorneys' fees incurred in connection therewith) arising out of or resulting from Buyer' or Buyer's Consultant's exercise of its right of inspection as provided for in this Section 6; provided, however, such indemnification shall not extend to matters merely discovered by Buyer and/ or the acts or omissions of Seller or any third party. The indemnification obligation of Buyer under this Section 6 shall survive the termination of this Agreement indefinitely. Following any audit or inspection as provided for herein, Buyer shall return the Real Property and the Facilities to the condition in which they existed immediately prior to such audit or inspection.

(e) If the results of the foregoing inspections and audits are not acceptable to Buyer in its sole and absolute discretion, Buyer may, upon notice to Seller given on or before 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period, terminate this Agreement, and in such event, neither party shall have any further rights and obligations under this Agreement, except for obligations which expressly survive the termination of this Agreement. Failure of Buyer to deliver written notice of approval prior to 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period shall be deemed to constitute Buyer's disapproval of the matters described in this Section 6(a). If this Agreement shall be terminated prior to Closing, upon Seller's request, Buyer shall promptly return or destroy all copies of the Due Diligence Items.

(f) During the Due Diligence Period, Buyer shall obtain, at Buyer's election, a third party inspection report with respect to each Facility (the **Inspection Report**"). If the Inspection Report recommends any critical repairs (the "**Critical Repairs**") be made to any Facility, Buyer shall provide Seller with written notice of the same prior to the expiration of the Due Diligence Period, and the Critical Repairs shall be listed on a new Schedule 6(f) to be attached to the Agreement. Seller shall make all Critical Repairs listed in the Inspection Report to such Facility at least ten (10) business days prior to the Closing, at Seller's sole cost and expense (not to exceed One Hundred Thousand Dollars ($100,000) per Facility ("**Seller's Critical Repair Cap**")). Buyer shall be responsible for any Critical Repair costs for any Facility over the Seller's Critical Repair Cap. Seller shall deliver to Buyer a completion letter or similar notice documenting the completion of the repairs (the "**Repair Completion Notice**") executed by Seller and Seller's contractor and/or architect who performed and/or supervised the construction of the repairs. The Critical Repairs shall be constructed in a workmanlike manner and in accordance with all applicable laws.

7. Prorations; Closing Costs; Possession; Post Closing Assistance.

(a) There will be no prorations at the Closing and Operator, its successors or assigns shall remain responsible for all taxes, costs and expenses relating to the Facilities following the Closing pursuant to the Post Closing Lease (as defined in Section 12(a)(v)).

(b) Seller shall pay any state, county and local transfer taxes arising out of the transfer of the Real Property.

(c) Buyer shall pay the cost of the standard owner's title insurance policy, as described in this Agreement. Buyer shall also pay the cost of any lender's policy for Buyer's lender, any title endorsements requested by Buyer and its lender and the cost of updating or obtaining new Surveys. Seller and Buyer shall equally share the fees of Escrow Agent. All other costs associated with title and survey matters shall be paid in accordance with Forsyth County (and local) custom and practice.

(d) Buyer and Seller shall each pay their own attorney's fees. Buyer shall pay for all costs of review of the Due Diligence Items and its additional due diligence inspection costs including, without limitation, the cost of any environmental reports.

(e) On the Closing Date, each Operator shall retain possession of its respective Facility pursuant to the Post Closing Lease.

8. Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer that:

(a) Legality.

(i) Organization, Corporate Powers, Etc. Each Seller entity is duly organized, validly existing and in good standing under the laws of the State of North Carolina. Each Seller has the full power, authority and legal right (A) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document, as defined herein, to which it is a party, (B) to transfer good, indefeasible title to the Property to Buyer free and clear of all liens, claims and encumbrances except for Permitted Exceptions (as defined in Section 5 hereof), and (C) to carry out the transactions contemplated hereby and by such other instruments to be carried out by such party.

(ii) Due Authorization, Etc. This Agreement and the Closing Documents (collectively the "**Transaction Documents**") have been, and each instrument provided for herein or therein to which Seller is a party will be, when executed and delivered as contemplated hereby authorized, executed and delivered by Seller and the Transaction Documents constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of Seller and enforceable in accordance with their terms.

(iii) Governmental Approvals. To the best of Seller's knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Seller is a party or for the validity or enforceability thereof against such party other than the recording or filing for recordation of the North Carolina form Special Warranty Deed (the "**Deed**") which recordings shall be accomplished at Closing.

(iv) Other Rights. No right of first refusal, option or preferential purchase or other similar rights are held by any person with respect to any portion of the Property.

(v) No Litigation. Except as set forth on Schedule 8(a)(v) attached hereto, neither Seller nor its registered agent for service of process has been served with summons with respect to any actions or proceedings pending or, to Seller's actual knowledge, no such actions or proceedings are threatened, against Seller before or by any court, arbitrator, administrative agency or other governmental authority, which (A) individually or in the aggregate, are expected, in the reasonable judgment of Seller, to materially and adversely affect Seller's ability to carry out any of the transactions contemplated by any of the Transaction Documents or (B) otherwise involve any portion of the Property including, without limitation, the Facilities.

(vi) No Conflicts. Neither the execution and delivery of the Transaction Documents to which Seller is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby to be carried out by such party will result in (A) a breach or violation of (1) any material law or governmental rule or regulation applicable to Seller now in effect, (2) any provision of any of Seller's organizational documents, (3) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Seller, or (4) any material agreement or instrument to which Seller is a party or by which Seller or its respective properties are bound; (B) the acceleration of any obligations of Seller; or (C) the creation of any lien, claim or encumbrance upon any properties or assets of Seller.

(b) Property.

As of the Effective Date and the Closing Date, except as set forth on Schedule 8(b):

(i) Seller has no actual knowledge of and has not received any notice of outstanding deficiencies or work orders of any authority having jurisdiction over any portion of the Property;

(ii) Seller has no actual knowledge of and has not received any notice of any claim, requirement or demand of any licensing or certifying agency supervising or having authority over the Facility to rework or redesign it in any material respect or to provide additional furniture, fixtures, equipment or inventory so as to conform to or comply with any law which has not been fully satisfied;

(iii) Seller has not received any notice from any governmental authority of any material violation of any law applicable to any portion of the Real Property or to the Facilities;

(c) Condemnation. There is no pending or, to the actual knowledge of Seller, threatened condemnation or similar proceeding or assessment affecting the Real Property, nor, to the actual knowledge of Seller, is any such proceeding or assessment contemplated by any governmental authority.

(d) Hazardous Substances. Except as disclosed on Schedule 8(d), which includes a list of all environmental reports provided by Seller to Buyer in connection with this Agreement (the "**Seller Environmental Reports**"), to Seller's actual knowledge, there has been no production, storage, manufacture, voluntary or involuntary transmission, use, generation, treatment, handling, transport, release, dumping, discharge, spillage, leakage or disposal at, on, in, under or about the Real Property of any Hazardous Substances by Seller, or any affiliate or agent thereof, except in strict compliance with all applicable Laws. To Seller's actual knowledge and except as disclosed on Schedule 8(d), there are no Hazardous Substances at, on, in, under or about the Real Property in violation of any Law, and to Seller's actual knowledge, there is no proceeding or inquiry by any federal, state or local governmental agency with respect thereto. For purposes of this Agreement, "**Hazardous Substances**" shall mean any hazardous or toxic substances, materials or wastes, including, without limitation, those substances, materials and wastes listed in the United States Department of Transportation Table (49 CFR 172.1 01) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302 and amendments thereto) or such substances, materials and wastes which are or become regulated under any applicable local, state or federal law (collectively, "**Laws**"), including, without limitation, any material, waste or substance which is (i) a hazardous waste as defined in the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. § 6901 et seq.); (ii) a pollutant or contaminant or hazardous substance as defined in the Comprehensive Environmental Response. Compensation and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.); (iii) a hazardous substance pursuant to § 311 of the Clean Water Act (33 U.S.C. § 1251, et seq., 33 U.S.C. § 1321) or otherwise listed pursuant to § 307 of the Clean Water Act (33 U.S.C. § 1317); (iv) a hazardous waste pursuant to § 1004 of the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); (v) polychlorinated biphenyls (PCBs) as defined in the Federal Toxic Substance Control Act, as amended (15 U.S.C. § 2501 et seq.); (vi) hydrocarbons, petroleum and petroleum products; (vii) asbestos; (viii) formaldehyde or medical or biohazardous waste; (ix) radioactive substances; (x) flammables and explosives; (xi) any state statutory counterparts to those federal statutes listed herein; or (vii) any other substance, waste or material which could presently or at any time in the future require remediation at the behest of any governmental agency. Any reference in this definition to Laws shall include all rules and regulations which have been promulgated with respect to such Laws.

(e) Brokers. Neither Seller nor Buyer has dealt with any broker or finder in connection with the transactions contemplated hereby. Each party represents and warrants to the other party that it has not dealt with any broker, salesman, finder or consultant with respect to this Agreement or the transactions contemplated hereby. Each party agrees to indemnify, protect, defend, protect and hold the other party harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from such indemnifying party's breach of the foregoing representation. The provisions of this Section 8(e) shall survive the Closing or earlier termination of this Agreement.

(f) Leases and Contracts. Schedule 8(f) is a list of all Leases and Contracts relating to the Facilities to which Seller is a party or by which Seller may be bound. Seller has made or will promptly make available to Buyer true, complete and accurate copies of all Leases and Contracts including, without limitation, any modifications thereto. All of the Leases and Contracts are in full force and effect without claim of material default there under, and, except as may be set forth on Schedule 8(f).

(g) Financial Statements. Schedule 8(g) contains (i) the balance sheets of the Operator for the last three (3) fiscal years ending prior to the date of this Agreement (audited if available and unaudited to the extent audited statements are not available) and the unaudited balance sheets for each of the past three (3) fiscal quarters completed prior to the date of this Agreement and (ii) the related consolidated statements of income, results of operations, changes in members' equity and changes in financial position with respect to each such period as compared with the immediately prior period (collectively, the "**Financial Statements**"). The Financial Statements taken as a whole (A) fairly present the financial condition and results of operation of the Operators for the periods indicated, (B) are true, accurate, correct and complete in all material respects, and (C) except as stated in Schedule 8(g) (or in the notes to the Financial Statements) have been prepared in accordance with the Operator's tax basis reporting, as consistently applied. Except as disclosed in Schedule 8(g), or otherwise disclosed in writing to Buyer, to Seller's actual knowledge neither Seller, as to any Facility, nor any Facility is obligated for or subject to any material liabilities, contingent or absolute, and whether or not such liabilities would be disclosed in accordance with tax basis reporting, and Schedule 8(g) sets forth all notes payable, other long term indebtedness and, to Seller's actual knowledge, all other liabilities to which the Facilities and the Real Property are or at Closing (and following Closing) will be subject, other than new indebtedness obtained by Buyer in connection with its purchase of the Property. Seller has received no notice of default under any such instrument.

(h) Interests in Competitors, Suppliers and Customers. Other than the Operator entities and except as set forth on Schedule 8(h), or in Schedule 1(a) as constituting a part of the Facilities, Seller does not have any interest in any property used in the operation of, or holds an interest in, any competitor, supplier or customer of Seller or the Facilities.

(i) No Foreign Persons. Neither Seller nor its members is a foreign person within the meaning of Sections 897 or 1445 of the Code, nor is Seller a U.S. Real Property Holding Company within the meaning of Section 897 of the Code.

(j) Licensure. As of the date hereof, except as set forth on Schedule 8(j) attached hereto, there is no action pending or, to the actual knowledge of Seller, recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate the Facilities, or certification of the Facilities, or any material action of any other type with regard to licensure or certification. Each Facility is operating and functioning as an assisted living and memory care facility without any waivers from a governmental agency affecting such Facility except as set forth in Schedule 8(j), and is fully licensed for an assisted living and memory care facility, as applicable, by the State for the number of beds and licensure category set forth in Schedule 1(a) hereto. Schedule 8(j) attached hereto contains a complete and accurate list of all life safety code waivers or other waivers affecting each Facility.

(k) Regulatory Compliance.

(i) Seller or the Operator has duly and timely filed all reports and other items required to be filed (collectively, the "**Reports**") with respect to any cost based or other form of reimbursement program or any other third party payor (including without limitation, Medicaid, medically indigent assistance, Blue Cross, Blue Shield, any health maintenance, preferred provider, independent practice or other healthcare related organizations, peer review organizations, or other healthcare providers or payors) (collectively, "**Payors**") and have timely paid all amounts shown to be due thereon. At the time of filing, to Seller's actual knowledge, each Report was true, accurate and complete. To Seller's actual knowledge, all rights and obligations of the Facilities or Seller under such Reports are accurately reflected or provided for in the Financial Statements.

(ii) Except as set forth in Schedule 8(k) attached hereto, (A) neither Seller nor, to Seller's actual knowledge, the Operator is delinquent in the payment of any amount due under any of the Reports for the Facilities, (B) there are no written or threatened proposals by any Payors for collection of amounts for which Seller or any Facility could be liable, (D) there are no current or pending claims, assessments, notice, proposal to assess or audits of Seller or Operator or any Facility with respect to any of the Reports, and, to Seller's actual knowledge, no such claims, assessments, notices, or proposals to assess or audit are threatened, and (D) neither Seller nor Operator has executed any presently effective waiver or extension of the statute of limitations for the collection or assessment of any amount due under or in connection with any of the Reports with respect to any Facility.

(iii) Except as set forth in Schedule 8(k) attached hereto, neither Seller nor the Operator has received notice of failure to comply with all applicable Laws, settlement agreements, and other agreements with any state or federal governmental body relating to or regarding any Facility (including all applicable environmental, health and safety requirements), and Seller or the Operator has and maintains all permits, licenses, authorizations, registrations, approvals and consents of governmental authorities and all health facility licenses, accreditations, Medicaid, and other Payor certifications necessary for its activities and business including the operation of each Facility as currently conducted. Each health facility license, Medicaid and other Payor certifications, Medicaid provider agreement and other agreements with any Payors is in full force and effect without any waivers of any kind (except as disclosed in Schedule 8 (k)) and has not been amended or otherwise modified, rescinded or revoked or assigned nor, to Seller's actual knowledge, (A) is there any threatened termination, modification, recession, revocation or assignment thereof, (B) no condition exists nor has any event occurred which, in itself or with the giving of notice, lapse of time or both would result in the suspension, revocation, termination, impairment, forfeiture, or non-renewal of any governmental consent applicable to Seller or to any Facility or of any participation or eligibility to participate in any Medicaid, or other Payor program and (C) there is no claim that any such governmental consent, participation or contract is not in full force and effect.

(l) Regulatory Surveys. Seller shall deliver to Buyer, in the manner required pursuant to the terms of this Agreement, complete and accurate copies of the survey or inspection reports made by any governmental authority with respect to each Facility during the calendar years 2009, 2010, 2011 and year-to-date 2012. To the best of Seller's knowledge, after diligent investigation, and except as shown on Schedule 8(l), all exceptions, deficiencies, violations, plans of correction or other indications of lack of compliance in such reports have been fully corrected and there are no bans or limitations in effect, pending or threatened with respect to admissions to any Facility nor any licensure curtailments in effect, pending or threatened with respect to any Facility. Seller shall continue to deliver all such surveys, inspection reports as and when same are received and/or filed as the case may be prior to the Closing.

(m) Licensed Bed/Current Rate Schedule. As of the Effective Date, Schedule 8(m) sets forth (i) the number of licensed beds and the number of operating beds in the Facility, (ii) the current standard private rates charged by each Facility to all of its residents, and (iii) the number of beds or units presently occupied in, and the occupancy percentage at, the Facility, including the current rates charged by each Facility for each such occupied bed or unit. Neither Seller nor any Operator has any life care arrangement in effect with any current or future resident.

(n) Operations. Each Facility is adequately equipped and each Facility includes sufficient and adequate numbers of furniture, furnishings, equipment, consumable inventory, and supplies to operate such Facility as each is presently operated by Seller. Personal Property used to operate each Facility and to be conveyed to Buyer is free and clear of liens, security interests, encumbrances, leases and restrictions of every kind and description, except for Permitted Encumbrances and any liens, security interests and encumbrances to be released at Closing.

(o) No Misstatements, Etc. To the best of Seller's knowledge, neither the representations and warranties of Seller stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor the Due Diligence Items or any certificate or instrument furnished or to be furnished to Buyer by Seller in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(p) Supplementation of Schedules; Change in Representations and Warranties. Seller shall have the continuing right and obligation to supplement and amend the Schedules herein on a regular basis including, without limitation, Schedule 8(g), and Seller's warranties and representations required hereunder, as necessary or appropriate (i) in order to make any representation or warranty not misleading due to events, circumstances or the passage of time or (ii) with respect to any matter hereafter arising or discovered up to and including the Closing Date, but Buyer shall not be deemed to have approved such supplemental Schedules unless Buyer expressly acknowledges approval of same in writing. In the event Seller amends any such Schedules, or Buyer or Seller gains actual knowledge prior to the Closing that any representation or warranty made by the other party contained in this Section 8 is otherwise untrue or inaccurate, such party shall, within five (5) days after gaining such actual knowledge but in any event prior to the Closing, provide the other party with written notice of such inaccuracy, whereupon the noticed party shall promptly commence, and use its best efforts to prosecute to completion, the cure of such matter, to the extent any such matter is curable. If any such matter is not curable within reason and is material, in Buyer's reasonable business judgment, Buyer shall have the right to terminate this Agreement upon written notice to Seller within five (5) business days of receipt or delivery of such notice, as applicable, on the same basis as set forth in Section 13(a) if during the Due Diligence Period and in Section 13(b)(i)(i) herein if after expiration of the Due Diligence Period.

(q) Survival of Representations and Warranties; Updates. The representations and warranties of Seller in this Agreement shall not be merged with the Deeds at the Closing and shall survive the Closing for the period of one (1) year provided such warranties shall be deemed made as of the date provided; provided, Seller understands and agrees that the Post Closing Lease, shall provide for a lengthier period of survival with respect to certain matters referenced therein.

For purposes of this Agreement, the phrase "to Seller's actual knowledge" or words of similar import shall mean the actual knowledge of Charles E. Trefzger, Jr.

9. Representations and Warranties of Buyer. Buyer hereby warrants and represents to Seller that:

(a) Organization, Corporate Powers, Etc. Buyer is a limited liability company, validly existing and in good standing under the laws of the State of Delaware and is duly qualified and in good standing in each other state or jurisdiction in which the nature of its business requires the same except where a failure to be so qualified does not have a material adverse effect on the business, properties, condition (financial or otherwise) or operations of that person. Buyer has full power, authority and legal right (i) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document to which it is a party, and (ii) to carry out the transactions contemplated hereby and by such other instruments to be carried out by Buyer pursuant to the Transaction Documents.

(b) Due Authorization, Etc. The Transaction Documents have been, and each instrument provided for herein or therein to which Buyer is a party will be, when executed and delivered as contemplated hereby, duly authorized, executed and delivered by Buyer and the Transaction Documents constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of the Buyer enforceable in accordance with their terms.

(c) Governmental Approvals. To Buyer's actual knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Buyer is a party or for the validity or enforceability thereof against such party.

(d) No Litigation. Except as set forth on Schedule 9(d) attached hereto, neither Buyer nor its registered agent for service of process has been served with summons with respect to any actions or proceedings pending or, to Buyer's actual knowledge, no such actions or proceedings are threatened, against Buyer before or by any court, arbitrator, administrative agency or other governmental authority, which individually or in the aggregate, are expected, in the reasonable judgment of Buyer, to materially and adversely affect Buyer's ability to carry out any of the transactions contemplated by any of the Transaction Documents.

(e) No Conflicts. Neither the execution and delivery of the Transaction Documents to which Buyer is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby to be carried out by such party will result in (i) a breach or violation of (A) any material law or governmental rule or regulation applicable to Buyer now in effect, (B) any provision of any Buyer's organizational documents, (C) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Buyer, or (D) any material agreement or instrument to which Buyer is a party or by which Buyer or its respective properties are bound; (ii) the acceleration of any obligations of Buyer; or (iii) the creation of any lien, claim or encumbrance upon any properties or assets of Buyer.

(f) No Misstatements, Etc. To the best of Buyer's knowledge, neither the representations and warranties of Buyer stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor any certificate or instrument furnished or to be furnished to Seller by Buyer in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(g) Survival of Representations and Warranties; Updates. The representations and warranties of Buyer in this Agreement shall not be merged with the Deeds at the Closing and shall survive the Closing for the period of one (1) year.

10. Covenants of Seller. Seller covenants with respect to the Facilities as follows:

(a) Pre-Closing. Between the date of this Agreement and the Closing Date, except as contemplated by this Agreement or with the prior written consent of Buyer, which shall not be unreasonably withheld, conditioned or delayed:

(i) Seller shall use its best efforts to cause the Operator to operate the Facilities diligently, in accordance with the Operator's obligations under its lease or other arrangement with Seller, and only in the ordinary course of business and consistent with past practice.

(ii) Seller shall use its best efforts to prevent the Operator from making any material change in the operation of any Facility, and shall prevent the Operator from selling or agreeing to sell any items of machinery, equipment or other assets of the Facility, or otherwise entering into any agreement affecting any Facility, except in the ordinary course of business;

(iii) Seller shall use its best efforts to prevent the Operator from entering into any Lease or Contract or commitment affecting any Facility, except for Leases or Contracts entered into in the ordinary course of business;

(iv) During normal business hours and consistent with Section 6(c) herein, Seller shall provide Buyer or its designated representative with access to the Facility upon prior notification and coordination with Seller and the Operator; provided, Buyer shall not materially interfere with the operation of any Facility. At such times Seller and the Operator shall permit Buyer to inspect the books and records of each Facility;

(v) Within five (5) business days following the execution of this Agreement by the parties, Seller shall deliver to Buyer the due diligence items described on the Due Diligence List attached hereto as Schedule 10(a)(v) (the "**Due Diligence Items**"); provided, in the event certain Due Diligence Items ("**Unavailable Items**") are not readily accessible to Seller, Seller may identify the Unavailable Items by written notice to Buyer within such five (5) business day period and shall use its best efforts to deliver all Unavailable Items to Buyer as promptly as possible, but in no event more than ten (10) business days following the execution of this Agreement. If Buyer requests additional items not included on Schedule 10(a)(v), it will do so by written request delivered by Seller and Seller will use its best efforts to provide such information within five (5) business days within receipt of the request; and, provided further, Seller shall continue to cause Operator to deliver to Buyer, following the expiration of the Due Diligence Period, financial reports showing, among other things, the EBITDAR (defined below) for the Facilities for the trailing six (6) month annualized operations for any given period. The term "**EBITDAR**" means "earnings before interest, taxes, depreciation, amortization and rent and reserves (reserves meaning additions to capital reserves)."

(vi) Seller shall use its best efforts to prevent the Operator from moving residents from any Facility, except (a) to any other Facility which is owned by Seller and constitutes part of the Property as defined herein, (b) for health treatment purposes or otherwise at the request of the resident, family member or other guardian or (c) upon court order or the request of any governmental authority having jurisdiction over such Facility;

(vii) Seller shall use commercially reasonable efforts to cause the Operators to retain the services and goodwill of the employees of such Operator until the Closing;

(viii) Seller shall maintain in force, or shall cause each Operator to maintain in force, the existing hazard and liability insurance policies, or comparable coverage, for each Facility as are in effect as of the date of this Agreement;

(ix) Seller shall, and shall cause each Operator, to file all returns, reports and filings of any kind or nature, including but not limited to, cost reports referred to in this Agreement, required to be filed by Seller or the Operator on a timely basis and shall timely pay all taxes or other obligations and liabilities or recoupments which are due and payable with respect to each Facility in the ordinary course of business with respect to the periods Seller or Operator operated each Facility;

(x) Seller shall cause each Operator (a) to maintain all required operating licenses in good standing, (b) to operate each Facility in accordance with its current business practices and (c) to promptly notify Buyer in writing of any notices of material violations or investigations received from any applicable governmental authority;

(xi) Seller shall use commercially reasonable efforts to cause each Operator to make all customary repairs, maintenance and replacements required to maintain its Facility in substantially the same condition as on the date of Buyer's inspection thereof, ordinary wear and tear excepted;

(xii) Seller shall promptly notify Buyer in writing of any Material Adverse Change, as defined herein, of which Seller becomes aware in the condition or prospects of the Facilities including, without limitation, sending Buyer copies of all surveys and inspection reports of all governmental agencies received after the date hereof and prior to Closing, promptly following receipt thereof by the Operator. For purposes of this Agreement, a "**Material Adverse Change**" shall mean: (i) a decrease in the adjusted rolling six (6) month EBITDAR to less than One Million One Hundred Fifty-Three Thousand Four Hundred Thirty and 00/100 Dollars ($1,153,430.00), cumulatively, or (ii) loss of licensure, or (iii) loss of Medicaid participation, or (iv) any adverse action by a governmental agency which, with the passage of time, would reasonably be expected to materially affect in a negative manner licensure at any Facility, or any adverse action in any Facility which would reasonably be expected to materially affect in a negative manner such Facility's participation or eligibility to participate in any Medicaid, or other Payor program, unless appropriate corrective action has been taken by the Operator, in the ordinary course of business, or (v) failure to settle with the appropriate governmental authority, or to satisfy on or before the Closing (either directly with such governmental authority or by funds escrowed by Seller for such purposes) all claims for reimbursements, recoupments, taxes, fines or penalties which may be due to any governmental authority having jurisdiction over any Facility, or (vi) the occurrence of a title or survey defect occurring after the date of this Agreement which would reasonably be expected to adversely affect the ability of Buyer to operate the assisted living and memory care facility at its respective Facility or to obtain financing for such Facility, or (vii) the commencement of any third party litigation which interferes with Seller's ability to close the transactions contemplated by this Agreement, or (viii) any damage, destruction or condemnation affecting any Facility in which the estimate of damage exceeds $100,000 per Facility and such damage or destruction has not been repaired, or Buyer as not otherwise waived such condition prior to Closing. In the event of any occurrence described in clause (iv) above, Operator shall deliver a copy of the Plan of Correction or otherwise notify Buyer in writing of the planned action, and such Plan of Correction or other corrective action which has been approved by the applicable regulatory agency or agencies.

(xiii) Seller agrees to cause each Operator to remedy any compliance deficiency cited in any written notice from, or in any settlement agreement or other Plan of Correction or other agreement with, any state governmental body, or in the event of state proceedings against any Operator or any Facility, or receipt by any Operator of such notice prior to the Closing Date, of any condition which would affect the truth or accuracy of any representations or warranties set forth in this Agreement by Seller; provided, however, in the event a physical plant deficiency is cited which Seller has insufficient time to remedy before the Closing Date, in accordance with the approval of the appropriate state agency, then the same shall be deemed remedied when the costs of correcting said deficiency (based upon reasonable estimates from established vendors selected by Seller and Buyer and approved by Seller and by Buyer, in its sole and absolute discretion) shall be held back in the Escrow at the Closing and not released to Seller until such deficiency is corrected by Seller; and, provided further, a non-physical plant deficiency which cannot be remedied prior to the Closing, in accordance with the approval of the appropriate state agency, will be deemed to be remedied for purposes of this Section if such Operator develops a Plan of Correction addressing the deficiency(ies) and such Plan of Correction is approved by the applicable State agency. Seller shall use its best efforts to remedy any such deficiency subsequent to the Closing which is to be remedied as a result of a Plan of Correction filed by Seller or any Operator prior to the Closing, and Buyer shall cooperate with such efforts by Seller; provided, Seller shall bear all costs associated with such remedy. In the event any such Plan of Correction agreed to by Seller and Operator prior to the Closing is not approved by the applicable State agency subsequent to Closing, Seller shall promptly use its best efforts, and shall cause such Operator to use its best efforts, to amend the Plan of Correction in such a manner that is necessary to obtain acceptance by the State of the amended Plan of Correction as soon as practicable after submittal. Notwithstanding any other provision of this Agreement, the obligation of Seller pursuant to this Subsection 10(a)(xiii) shall survive the Closing for such period of time as is necessary to remedy such deficiency.

(xiv) Seller shall, at its cost and on or before Closing, obtain payoffs or other lender documentation required to obtain timely releases of financing statements and tax and judgment liens affecting or relating to each Facility which have been filed or recorded in the State with the Office of the Secretary of State and the appropriate County Recorder's Office.

(xv) Seller shall promptly comply with any notices of violations received relating to each Facility and shall deliver to Buyer a copy of any such notice received and evidence of compliance with such notice.

(xvi) Seller shall complete the Critical Repairs in accordance with Section 6(f) of this Agreement.

(b) Closing. On or before the Closing Date, Seller shall deliver the following documents to Escrow Agent relating to the Facilities ("**Closing Documents**"):

(i) One (1) original executed Deed for each Facility, in recordable form;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of the bill of sale for the Personal Property ("**Bill of Sale**"), an assignment of Seller's interest in the Contracts and Leases ("**Assignment of Contracts and Leases**"), and other instruments of transfer and conveyance in form and substance to be agreed upon prior to the expiration of the Due Diligence Period transferring and assigning to Buyer the Real Property, Personal Property and the Intangibles to be transferred as provided herein with respect to the Facilities ("**Instruments of Assignment**");

(iv) One (1) original of the executed Repair Completion Notice for each Facility, as applicable, to the extent not previously delivered to Buyer.

(v) One (1) original executed certificate executed by Seller confirming that Seller's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Seller's Confirmation**");

(vi) All contractor's and manufacturer's guaranties and warranties, if any, in Seller's possession relating to each Facility (collectively, the "**Warranties**"), which delivery will be made by leaving such materials at the Facility; and

(vii) Two (2) original executed counterparts of each of the FIRPTA Certificate, escrow agreements and other documents required by the Title Company in connection with the transactions contemplated by this Agreement (collectively, the "**Title Company Documents**").

11. Covenants of Buyer. Buyer hereby covenants as follows:

(a) Pre-Closing. Between the date hereof and the Closing Date, except as contemplated by this Agreement or with the consent of Seller, Buyer agrees that Buyer shall not take any action inconsistent with its obligations under this Agreement or which could hinder or delay the consummation of the transaction contemplated by this Agreement. Between the date hereof and the Closing Date, Buyer agrees that Buyer shall not (i) make any commitments to any governmental authority, (ii) enter into any agreement or contract with any governmental authority or third parties, or (iii) alter, amend, terminate or purport to terminate in any way any governmental approval or permit affecting the Real Property, Personal Property or Facility, which would be binding upon Seller, any Real Property Owner, the Facility or Personal Property after any termination of this Agreement.

(b) Closing. On or before the Closing Date, Buyer shall deposit the following with Escrow Agent:

(i) The Purchase Price in accordance with the requirements of this Agreement;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of each of the Instruments of Assignment requiring Buyer's signature;

(iv) One (1) original executed certificate executed by Buyer confirming that Buyer's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Buyer's Confirmation**"); and

(v) Two (2) original executed counterparts of each of the Title Company Documents requiring Buyer's signature.

12. Conditions to Closing.

(a) Conditions to Buyer's Obligations. All obligations of Buyer under this Agreement are subject to the reasonable satisfaction and fulfillment, prior to the Closing Date, of each of the following conditions. Any one or more of such conditions may be waived in writing by Buyer.

(i) Seller's Representations, Warranties and Covenants. Seller's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein, shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made, except to the extent that Buyer has discovered, or Seller has provided Buyer with written notice (the "**Supplemental Notice**") prior to Closing that Seller has just become aware, that a representation is untrue or inaccurate, and Buyer nevertheless elects not to terminate this Agreement at the expiration of the Due Diligence Period, or, if the Supplemental Notice is delivered after the Due Diligence Period, Buyer elects to proceed with closing the transaction despite such inaccuracy, whereupon Buyer will be deemed to have waived any right of recourse or damages against Seller resulting from such inaccuracy disclosed in the Supplemental Notice. Upon receipt of a Supplemental Notice from Seller after the expiration of the Due Diligence Period, Buyer shall have the right to (a) terminate this Agreement upon written notice to Seller within five (5) days after receipt of the Supplemental Notice, or (b) elect to proceed with closing the transaction as set forth in this Agreement. If Seller provides Buyer with a Supplemental Notice within ten (10) business days of Closing, then Buyer shall have the right, at its option and upon written notice to Seller, to extend the Closing Date for up to ten (10) business days in order to analyze and review the issues disclosed in the Supplemental Notice.

(ii) Seller's Performance. Seller shall have performed all of its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Damage and Condemnation. Prior to the Closing Date, no portion of any Facility shall have been damaged or destroyed by fire or other casualty where the estimate of damage to such Facility exceeds 10% of the Purchase Price allocated to such Facility, or proceedings be commenced or threatened to take or condemn any material part of the Real Property or improvements comprising a Facility by any public or quasi-public authority under the power of eminent domain. A proceeding shall be deemed to be "material" if such condemnation or taking (i) relates to the material taking or closing of any right of access to any Real Property or Facility, (ii) cause the Real Property or Facility to become non-conforming with then current legal requirements governing such Real Property or Facility, (iii) results in the loss of parking that is material to the operation of such Facility, or (iv) result in the loss of value in excess of 10% of the Purchase Price allocated to such Facility, in Buyer's reasonable judgment. If such Facility shall have been so damaged or destroyed, Seller shall deliver prompt written notice of such condemnation, damage or destruction to Buyer. In the event Buyer waives this condition, by written notice to Seller within fifteen (15) business days of receipt of notice of such proceeding, and the Closing occurs, Seller shall assign to Buyer all its right to any insurance proceeds in connection therewith. If proceedings shall be so commenced or threatened to take or condemn the Real Property or the Facility or portion thereof prior to Closing, and if Buyer waives this condition and the Closing occurs, Seller shall pay or assign to Buyer all Seller's right to the proceeds of any condemnation award in connection thereof.

(iv) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Buyer, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of any Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect any Facility or the business or prospects of any Facility.

(v) Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operators and Buyer shall have agreed upon the form of the post closing lease (the "**Post Closing Lease**") between Buyer, as landlord, and Operator, as tenant. The Post Closing Lease shall be in substantially the form attached hereto and incorporated herein by reference as Exhibit C.

(vi) No Material Adverse Change. No Material Adverse Change shall have occurred in any Facility.

(vii) Removal of Personal Property Liens. Seller shall have removed (or shall have sufficient payoff or other documents to remove such liens) all personal property liens which are related to the Facilities and the Facilities shall be free and clear of all liens, claims and encumbrances other than Permitted Exceptions once such payoffs are made at Closing.

(viii) Title Insurance Policies. Title Company shall be prepared to issue the (i) Owners Title Insurance Policy for each Facility as of the Closing Date, with coverage in the amount of the allocable portion of the Purchase Price for such Facility, insuring Buyer as owner of such Facility subject only to the Permitted Exceptions, and (ii) ALTA Title Insurance Policy for each Facility as of the Closing Date, with coverage in the amount of the allocable portion of Buyer's loan from Buyer's lender ("**Lender**"), insuring Lender's lien against each Facility subject only to such exceptions as may be approved by Lender, and with such endorsements as may be required by Lender.

(ix) Close of Escrow Under Purchase Agreement for Shelby House. Concurrently herewith, Buyer, as buyer, and WPC Salem, LLC, an affiliate of Seller, as seller, are entering into a Purchase and Sale Agreement (the "**Shelby Purchase Agreement**") with respect to the purchase and sale of certain assisted living facility located at 950 Hardin Drive, Shelby, NC 28150 (the "**Shelby Facility**"). The close of escrow under the Shelby Purchase Agreement shall be an express condition to Buyer's obligation to close under this Agreement.

(b) Conditions to Seller's Obligations. All obligations of Seller under this Agreement are subject to the fulfillment, prior to the Closing Date, of each of the following conditions. Anyone or more of such conditions may be waived by Seller in writing.

(i) Buyer's Representations, Warranties and Covenants. Buyer's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made.

(ii) Buyer's Performance. Buyer shall have performed its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Seller, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of any Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect any Facility or the business or prospects of any Facility.

(iv) No Actions. There shall be no action pending or recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate any Facility or the certification of any Facility, or any action of any other type with regard to licensure or certification or with respect to Medicaid provider billing agreements necessary to operate any Facility.

(v) Execution of Post Closing Lease and Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operator and Buyer shall have agreed upon the form of the Post Closing Lease. Further, it shall be a condition to Closing that Operators and Buyer execute the Post Closing Lease simultaneously with Closing.

13. Termination; Defaults.

(a) Termination For Failure of Condition. Either party may terminate this Agreement for non-satisfaction or failure of a condition to the obligation of either party to consummate the transaction contemplated by this Agreement (including, without limitation, Buyer's election to disapprove the condition of the title or Surveys pursuant to Section 14 herein), unless such matter has been satisfied or waived by the date specified in this Agreement or by the Closing Date (as same may be extended by the parties to allow the parties to satisfy or waive conditions to close in the manner provided in this Agreement). In the event of such a termination, Escrow Agent shall promptly return (i) to Buyer, all funds of Buyer in its possession, including the Deposit and all interest accrued thereon, and (ii) to Seller and Buyer, all documents deposited by them respectively, which are then held by Escrow Agent. Thereafter, neither party shall have any continuing obligation or liability to the other party except for any such matters that expressly survive the Closing or termination of this Agreement, as provided herein. The provisions of this Section 13(a) are intended to apply only in the event of a failure of condition, as set forth herein, which is not the result of a default by either party, but which shall not apply in the event the non-terminating party is in default of its obligations under this Agreement.

(b) Termination For Cause.

(i) If the Agreement is terminated by Seller because Buyer fails to consummate the Closing as a result of a default by Buyer under this Agreement, Seller's sole and exclusive remedy prior to the Closing Date shall be to terminate this Agreement by giving written notice of termination to Buyer and Escrow Agent, whereupon (A) Escrow Agent shall promptly release to Seller the Deposit, and all interest accrued thereon, (B) Escrow Agent shall return to Buyer and Seller all documents deposited by them respectively, which are then held by Escrow Agent, (C) the parties shall be released and relieved of all obligations to each other under this Agreement, except for provisions that expressly survive termination as provided herein (including without limitation, indemnification provisions), (D) Buyer shall return to Seller all documents received by it during the course of its Due Diligence and (E) Buyer shall have no further right to purchase the Property or legal or equitable claims against Seller (except for any breach by Seller of provisions that survive termination) and/or the Property. Buyer shall have no liability to Seller under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Buyer acknowledges that the provisions of this Subsection are a material part of the consideration being given to Seller for entering into this Agreement and that Seller would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Seller against Buyer or by Buyer against Seller commenced after the Closing Date, Seller and Buyer expressly waive any right to any speculative, consequential, or punitive damages. The parties acknowledge and agree that Seller's actual damages as a result of Buyer's default would be difficult or impossible to ascertain and that the deliveries and payments provided for in this paragraph constitute reasonable compensation for its actual damages. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13(b)(i) and by their initials below agree to be bound by its terms.

_____ _____

Sellers' Initials Buyer's Initials

(ii) Buyer shall have the right to terminate this Agreement in the event Seller defaults in the performance of its obligations under this Agreement, or in the event WPC Salem, LLC, defaults in the performance of their respective obligations under the Shelby Purchase Agreement. If this Agreement is terminated by Buyer because Seller has defaulted in the performance of its obligations under this Agreement, and/or a default by WPC Salem, LLC, under the Shelby Purchase Agreement, Buyer's sole and exclusive remedies prior to the Closing Date shall be either: (A) to terminate this Agreement by giving written notice of termination to Seller and Escrow Agent and pursue any and all remedies for Buyer's out-of-pocket costs (including attorneys' fees and court costs), attributable to the termination of this Agreement supported by documentary evidence, excluding any speculative or punitive damages, whereupon (i) Escrow Agent shall promptly return to Buyer the Deposit, and all interest accrued thereon, and (ii) Escrow Agent shall return to Seller and Buyer all documents deposited by them respectively, which are then held by Escrow Agent, or (B) to pursue the remedy of specific performance of Seller's obligation to perform its obligations under this Agreement. Seller shall have no liability to Buyer under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Seller acknowledges that the provisions of this Subsection are a material part of the consideration being given to Buyer for entering into this Agreement and that Buyer would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Buyer against Seller or by Seller against Buyer commenced after the Closing Date, Buyer and Seller expressly waive any right to any speculative, consequential, punitive or special damages including, without limitation, lost profits. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13.2(b) and by their initials below agree to be bound by its terms.

Sellers' Initials _____ Buyer's Initials _____

(c) General. In the event a party elects to terminate this Agreement such party shall deliver a notice of termination to the other party.

14. Surveys and PTR.

(a) Buyer has previously obtained a preliminary title report (the "**PTR**") covering the Real Property and each Facility dated prior to the date of this Agreement, together with legible copies of any and all instruments referred to in the PTR as constituting exceptions to title of the Real Property (the "**Title Documents**").

(b) Seller shall have delivered to Buyer a copy of the existing surveys, if any, in Seller's possession for each Facility ("**Surveys**") in accordance with Section 10(a)(v) herein. Buyer shall be responsible for obtaining an update of the Surveys or new Surveys, at Buyer's sole cost ("**New Surveys**"). On or before ten (10) business days prior to the expiration of the Due Diligence Period, Buyer shall notify Seller and the Title Company ("**Buyer's Title Notice**") of any objections which Buyer may have to the PTR and/or Surveys. If Buyer objects to any matters (other than the Permitted Exceptions, as defined herein) which, in Buyer's determination, might adversely affect the ability of Buyer to operate any of the Facilities, Seller shall use its reasonable business efforts to cure same, but shall not be obligated to cure matters other than to obtain the release (at Closing) of the existing mortgage and other monetary liens caused by Seller which may be released by payment of the mortgage payoff or lien amount from Seller's Closing proceeds (collectively, "**Monetary Liens**"). If Seller delivers written notice to Buyer ("**Seller's Title Notice**"), on or before the expiration of the Due Diligence Period that Seller is willing to remove any exceptions objected to by Buyer, then Seller shall be obligated to remove such exceptions on or prior to the Closing and such exceptions shall not be Permitted Exceptions. If Seller does not provide Buyer with Seller's Title Notice or Seller's Title Notice does not provide for Seller's agreement to remove all exceptions objected to by Buyer, then Buyer shall have the right to terminate this Agreement prior to the expiration of the Due Diligence Period or waive Buyer's objection to any exceptions Seller has not agreed to remove with such exceptions becoming Permitted Exceptions upon Buyer waiving its due diligence contingency. Buyer shall, promptly following the execution of this Agreement, commence to use its best efforts to obtain the New Surveys as soon as practicable. Notwithstanding the foregoing provisions of this Subsection (b), Buyer shall have the right to object, promptly upon learning of any such new matters during the Due Diligence Period, to any matters raised in the New Surveys which were not addressed in the Surveys, and the parties shall cooperate with the Title Company, during the Due Diligence Period and as promptly as possible following the delivery of Buyer's objections to such new matters in the New Surveys, to resolve any such matters to Buyer's satisfaction. The Due Diligence Period shall not be extended for resolution of any such matters in the New Surveys.

15. Cooperation. Following the execution of this Agreement, Buyer and Seller agree that if any event should occur, either within or without the knowledge or control of Buyer or Seller, which would prevent fulfillment of the conditions to the obligations of any party hereto to consummate the transaction contemplated by this Agreement, each such party shall use reasonably commercial efforts to cure or to cause the cure of the same as expeditiously as possible. In addition, each party shall cooperate fully with each other in preparing, filing, prosecuting, and taking any other actions with respect to, any applications, requests, or actions which are or may be reasonable and necessary to obtain the consent of any governmental instrumentality or any third party or to accomplish the transaction contemplated by this Agreement.

16. Indemnification.

(a) Indemnification Provisions.

(i) Subject to the limitation on damages contained in Section 13(b)(ii) hereof, Seller hereby agrees to indemnify, protect, defend and hold harmless Buyer and its officers, directors members shareholders tenants, successors and assigns harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Seller contained in this Agreement or in any certificate or document delivered by Seller pursuant to any of the provisions of this Agreement, unless Seller cures such matter in the manner provided in Section 8(p) herein or (B) the failure to discharge any federal, state or local tax liability, or to pay any other assessments, recoupments, claims, fines, penalties or other amounts or liabilities accrued or payable with respect to any activities of Seller prior to the Closing Date (whether brought before or after the Closing Date), or (C) any obligation which is expressly the responsibility of Seller under this Agreement, or (D) any amounts required to cure citation violations issued by any state health or human services authority on any Facility relating to any period prior to the Closing Date (whether brought before or after the Closing Dates), or (E) any claim by any employee of Seller relating to any period of employment prior to the Closing Date (whether brought before or after the Closing Date), or (F) the existence against the Real Property of any mechanic's or materialmen's claims resulting from the action or inaction of Seller or anyone acting under authority of Seller, or (G) any other cost, claim or liability arising out of or relating to events (other than as a result of the actions of Buyer or Buyer's Consultants) or Seller's ownership, operation or use of any Facility prior to the Closing Date. Any amount due under the aforesaid indemnity shall be due and payable by Seller within 30 days after demand thereof. Seller shall have the right to contest any such claims, liabilities or obligations as provided herein.

(ii) Subject to the limitation on damages contained in Section 13(b)(i) hereof, Buyer hereby agrees to indemnify, protect, defend and hold harmless Seller and its officers, directors, members, shareholders and tenants harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Buyer contained in this Agreement or in any certificate or document delivered by Buyer pursuant to any of the provisions of this Agreement, unless Buyer cures such matter in the manner provided in Section 8(p) herein, or (B) the existence against the Real Property of any mechanic's or materialmen's claims arising from actions of Buyer or Buyer's Consultants prior to the Closing, or (C) any claim by any employee of Buyer relating to any period after the Closing Date, or (D) any other cost, claim or liability arising out of or relating to events (other than as a result of Seller, Seller's operator, Seller's lessee, or Seller's consultants) of Buyer's ownership, operation or use of any Facility after the Closing Date, or (E) any obligation which is expressly the responsibility of Buyer under this Agreement. Any amount due under the aforesaid indemnity shall be due and payable by Buyer within thirty (30) days after demand therefor. Buyer shall have the right to contest any such claims, liabilities or obligations as provided herein or any other cost, claim or liability arising out of or relating to events or Buyer's ownership, operation or use of the Facilities after the Closing Date.

(iii) The parties intend that all indemnification claims be made as promptly as practicable by the party seeking indemnification (the "**Indemnified Party**"). Whenever any claim shall arise for indemnification hereunder, the Indemnifying Party shall promptly notify the party from whom indemnification is sought (the "**Indemnitor**") of the claim, and the facts constituting the basis for such claim (the "**Indemnification Claim**"). Failure to notify the Indemnitor will not relieve the Indemnitor of any liability that it may have to the Indemnified Party, except to the extent the defense of such action is materially and irrevocably prejudiced by the Indemnified Party's failure to give such notice.

(iv) An Indemnitor shall have the right to defend against an Indemnification Claim, with counsel of its choice reasonably satisfactory to the Indemnified Party, if (a) within fifteen (15) days following the receipt of notice of the Indemnification Claim the Indemnitor notifies the Indemnified Party in writing that the Indemnitor will indemnify the Indemnified Party from and against the entirety of any damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (b) the Indemnitor provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnitor will have the financial resources to defend against the Indemnification Claim and pay, in cash, all damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (c) the Indemnification Claim involves only money damages and does not seek an injunction or other equitable relief, (d) settlement of, or an adverse judgment with respect to, the Indemnification Claim is not in the good faith judgment of the Indemnified Party likely to establish a precedential custom or practice materially adverse to the continuing business interests of the Indemnified Party, and (e) the Indemnitor continuously conducts the defense of the Indemnification Claim actively and diligently.

(v) So long as the Indemnitor is conducting the defense of the Indemnification Claim in accordance with Section 16(a)(iv), then (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Indemnification Claim, (B) the Indemnified Party shall not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnitor (not to be withheld unreasonably), and (C) the Indemnitor will not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld or delayed, provided that it will not be deemed to be unreasonable for an Indemnified Party to withhold its consent with respect to (i) any breach of any law, order or permit, (ii) any violation of the rights of any person, or (iii) any matter which Indemnified Party believes could have a material adverse effect on any other actions to which the Indemnified Party or its Affiliates are party or to which Indemnified Party has a good faith belief it may become party. Notwithstanding the foregoing provisions of this Subsection (v), if Indemnified Party refuses its consent to any of the matters set forth in clauses (i) through (iii) above, the indemnity amount shall be determined as if such consent had been given and Indemnitor shall pay over to the Indemnified Party such amount and be absolved from any further obligation as to that particular claim; Indemnified Party may then resolve the claim in the manner it sees fit without further recourse against Indemnitor.

(vi) Each party hereby consents to the non-exclusive jurisdiction of any governmental body, arbitrator, or mediator in which an action is brought against any Indemnified Party for purposes of any Indemnification Claim that an Indemnified Party may have under this Agreement with respect to such action or the matters alleged therein, and agrees that process may be served on such party with respect to such claim anywhere in the world, provided however, that any venue relating to any claim or proceeding arising out of this Agreement or any other agreement between Sellers and Buyer shall be the State and the laws of the State shall apply.

(b) Insurance Proceeds. In determining the amount of damages for which either party is entitled to assert an Indemnification Claim, the amount of any such claims or damages shall be determined after deducting therefrom the amount of any insurance coverage or proceeds or other third party recoveries received by such other party in respect of such damages. If an indemnification payment is received by the Indemnified Party in respect of any damages and the Indemnified Party later receives insurance proceeds or other third party recoveries in respect of such damages, the Indemnified Party shall immediately pay to the Indemnifying Party a sum equal to the lesser of the actual amount of net insurance proceeds or other third party recoveries (remaining after recovery costs and expenses) or the actual amount of the indemnification payment previously paid by or on behalf of the Indemnified Party.

(c) No Incidental, Consequential and Certain Other Damages. An Indemnitor shall not be liable to an Indemnified Party for incidental, consequential, enhanced, punitive or special damages unless such damages are included in a third-party claim and such Indemnified Party is liable to the third party claimant for such damages.

(d) Indemnification if Negligence of Indemnity; No Waiver of Rights or Remedies.

Each Indemnified Party's rights and remedies set forth in this Agreement shall survive the Closing or other termination of this Agreement, shall not be deemed waived by such Indemnified Party's consummation of the Closing of the sale transactions (unless the Indemnified Party has knowledge of the existence of an Indemnification Claim at Closing and decides to proceed with Closing)and will be effective regardless of any inspection or investigation conducted by or on behalf of such Indemnified Party or by its directors, officers, employees, or representatives or at any time (unless such inspection or investigation reveals the existence of an Indemnified Claim and such party proceeds with Closing), whether before or after the Closing Date.

(e) Other Indemnification Provisions. A claim for any matter not involving a third party may be asserted by notice to the Party from whom indemnification is sought.

(f) Dispute Resolution. Any dispute arising out of or relating to claims for indemnification pursuant to this Article 16 or any other dispute hereunder, shall be resolved in accordance with the procedures specified herein, which shall be the sole and exclusive procedure for the resolution of any such disputes.

17. Notices. Any notice, request for consent or approval, election or other communication provided for or required by this Agreement shall be in writing and shall be delivered by hand, by air courier service, postage prepaid (certified with return receipt requested), fax transmission or electronic transmission followed by delivery of the hard copy of such communication by air courier service or mail as aforesaid, addressed to the person to whom such notice is intended to be given at such address as such person may have previously furnished in writing to the such party's last known address. Until receipt of written notice to the contrary, the parties' addresses for notices shall be:

To Buyer:

Cornerstone Core Properties REIT, Inc.
c/o Cornerstone Healthcare Properties
1920 Main Street, Suite 400
Irvine, CA 92614
Attention: Kent Eikanas
Phone: (949) 812-4335
Email: KEikanas@crefunds.com

With a Copy to:

Heffernan Seubert & French LLP
1075 Curtis Street
Menlo Park, CA 94025
Attention: Rachel Rosati Warner
Phone: (650) 322-2919
Email: rwarner@hsfllp.com

To Seller: Hamlet Health Investors, LLC
P.O. Box 2568
Hickory, NC 28603
Phone: (828) 322-5535
Email: CET@meridiansenior.com

Newport Health Investors, LLC
P.O. Box 2568
Hickory, NC 28603
Phone: (828) 322-5535
Email: CET@meridiansenior.com

With a Copy to: John A. Cocklereece, Jr.
Bell, Davis & Pitt, P.A.
100 North Cherry Street, Suite 600
Winston-Salem, NC 27101
Phone: (336) 722-3700
E-mail:jcockelreece@belldavispitt.com

18. Sole Agreement. This Agreement constitutes the entire understanding between the parties with respect to the transactions contemplated herein, and all prior or contemporaneous oral agreements, understandings representations and statement, and all prior written agreements, understandings, letters of intent and proposals are merged into this Agreement. Neither this Agreement nor any provisions hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument.

19. Assignment; Successors. Neither party shall assign this Agreement without the prior written consent of the other; provided, however, Buyer may assign all of its rights, title, liability, interest and obligation pursuant to this Agreement to one or more entities owned, controlled by or under common control with Buyer. Subject to the limitations on assignment set forth above, all the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the heirs, successors and assigns of the parties hereto.

20. Severability. Should any one or more of the provisions of this Agreement be determined to be invalid, unlawful or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby and each such provision shall be valid and remain in full force and effect.

21. Risk of Loss. Until the Closing Date, Seller shall bear the risk of loss for the Facilities and after the Closing Date, the risk of loss of the Facilities shall be governed by the Post Closing Lease.

22. Holidays. If any date herein set forth for the performance of any obligations by Seller or Buyer or for the delivery of any instrument or notice as herein provided should be on a Saturday, Sunday or legal holiday, the compliance with such obligations or delivery shall be deemed acceptable on the next business day following such Saturday, Sunday or legal holiday. As used herein, the term "legal holiday" means any state or federal holiday for which financial institutions or post offices are generally closed in the State for observance thereof.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which together shall be deemed to constitute one and the same instrument. Facsimile signature pages or electronically transmitted signature pages shall constitute original counterparts for all purposes.

24. Covenant Not to Compete; Non-Solicitation of Employees. For a period of three (3) years following the Closing Date, each Seller agrees (i) not to own, manage, lease or operate a long term assisted living facility which is located within a ten (10) mile radius of each Facility and (ii) not to solicit the transfer of patients or residents of any of the Facilities to any long term assisted living facility which is managed, leased or operated by any entity owned and/or controlled by any of the Seller entities or such individual within a ten (10) mile radius of each Facility.

25. Exhibits and Schedules. To the extent that one or more Exhibits or Schedules are not attached to this Agreement at the time this Agreement is executed, Seller and Buyer agree that this Agreement is not rendered unenforceable by reason of such fact. Seller shall provide such exhibits to Buyer during the Due Diligence Period as promptly as possible in order to allow the parties to agree upon such Exhibits and Schedules and to afford Buyer adequate time in which to complete its due diligence review prior to the expiration of the Due Diligence Period.

26. Prevailing Party. Subject to the limitations as otherwise set forth in this Agreement, if an action shall be brought on account of any breach of or to enforce or interpret any of the terms, covenants or conditions of this Agreement, the prevailing party shall be entitled to recover from the other party, as part of the prevailing party's costs, reasonable attorney's fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

27. Time is of the Essence. Time is of the essence of this Agreement.

28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

[Signatures on Following Pages]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement by parties legally entitled to do so as of the day and year first set forth above.

"SELLER":

HAMLET HEALTH INVESTORS, LLC, a North Carolina limited liability company

By:/s/ Charles Trefzger
Its: Manager

NEWPORT HEALTH INVESTORS, LLC, a North Carolina limited liability company

By:/s/ Charles Trefzger
Its: Manager

"BUYER":

CORNERSTONE CORE PROPERTIES REIT, INC., a Maryland corporation

By:/s/ Kent Eikanas
Kent Eikanas, President

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made and entered into as of this 30 day of July, 2013 (the "**Effective Date**"), by and between WPC SALEM, LLC, a North Carolina limited liability company ("**Seller**"), and CORNERSTONE CORE PROPERTIES REIT, INC., a Maryland corporation, or its assignee ("**Buyer**").

1. Purchase and Sale. Seller is the optionee pursuant to the certain Option Agreement dated as of August 16, 2012 (the "**Option Agreement**"), whereby Clifford E. Hemingway ("**Hemingway**"), the sole owner of Shelby Health Investors, LLC, a North Carolina limited liability company ("**SHI**"), granted to Charles E. Trefzger, Jr. ("**Trefzger**") the exclusive option (the "**Option**") to purchase the Property (as defined below). SHI is the owner of the Property (as defined below). Trefzger has assigned all of its right, title and interest under the Option Agreement to Seller pursuant to that certain Assignment of Purchase Option dated July __, 2013 (the "**Option Assignment**"). Seller intends to exercise and close on the Option contemporaneously with the closing of the transaction contemplated herein.

On the terms and conditions set forth herein, Seller shall sell, assign, transfer, convey and deliver to Buyer and Buyer shall purchase from Seller its interest in the following, which are hereinafter referred to collectively as the "**Property**":

(a) The improvements located on the Real Property, consisting of one (1) assisted living facility as described in Schedule 1(a) attached hereto (the "**Facility**") currently owned by SHI, and all right, title and interest of Seller in and to the items described in (a) through (f) herein;

(b) All of the real estate on which the Facility is situated, together with all tenements, easements, appurtenances, privileges, rights of way, and other rights incident thereto, all building and improvements and any parking lot to the Facility located thereon situated in the State of North Carolina (the "**State**"), which is described in Exhibit A attached hereto and made a part hereof by this reference (collectively, the "**Real Property**");

(c) All of the tangible personal property, inventory, equipment, machinery, supplies including drugs and other supplies, spare parts, furniture, furnishings, warranty claims, contracts, including but not limited to supply contracts, contracts rights, intellectual property, including but not limited to patents, trade secrets, and all rights and title to the names under which the Facility operates, mailing lists, customer lists, vendor lists, resident files, books and records owned by the Seller, who may retain copies of same, and shall have reasonable access to such books and records after the Closing as required for paying taxes and responding to legal inquiry, as such personal property is described in Schedule 1(c) attached hereto (collectively, the "**Personal Property**");

(d) All transferable licenses, permits, certifications, assignable guaranties and warranties in favor of Seller, approvals or authorizations and all assignable intangible property not enumerated herein which is used by the Seller in connection with the Facility, and all other assets whether tangible or intangible; provided, that Seller shall retain all licenses required to be retained by Seller in order to operate the current business within the Facility;

(e) All trade names or other names commonly used to identify the Facility and all goodwill associated therewith. The intent of the parties is to transfer to Buyer only such name(s) and goodwill associated with the Facility itself and not with Seller or any affiliate of Seller, so as to avoid any interference with the unrelated business activities of Seller; and

(f) All telephone numbers used in connection with the operation of the Facility, and to the extent not described above, all goodwill of Seller associated with the Facility (the items described in clauses (e) and (f) above are collectively referred to as "**Intangibles**").

2. Excluded Assets. Seller's cash, investment securities, bank account(s) and accounts receivable, and deposits attributable and relating to the operation of the Facility, and Seller's corporate minute books and corporate tax returns, partnership records, and other corporate and partnership records shall be excluded from the Facility sold by Seller to Buyer hereunder as well as Seller's real property not identified in Schedule 1(a) (the "**Excluded Assets**").

3. Purchase Price; Deposits. The following shall apply with respect to the Purchase Price of the Property:

(a) The purchase price (the "**Purchase Price**") payable by Buyer to Seller for the Property is Four Million Five Hundred Thousand and 00/100 Dollars ($4,500,000.00).

(b) Intentionally deleted.

(c) Within three (3) business days after this Agreement is fully executed by the parties, Buyer shall deposit the sum of Twenty-Five Thousand and 00/100 Dollars ($25,000.00) as an earnest money deposit ("**Initial Deposit**") with Lawyers Title Insurance Company, at its office at 4100 Newport Place Drive, Suite 120, Newport Beach, California 92660, Attention: Debi Calmelat ("**Title Company**" or "**Escrow Agent**") and Escrow Agent will deposit it into an interest-bearing account with the interest for the benefit of Buyer. In addition, if Buyer has not terminated this Agreement on or before the expiration of the Due Diligence Period (defined below), then Buyer shall deposit with Escrow Agent an additional Twenty-Five Thousand and 00/100 Dollars ($25,000.00) ("**Additional Deposit**") within three (3) business days following the expiration of the Due Diligence Period (the Initial Deposit and the Additional Deposit are collectively referred to as the "**Deposits**"). Interest earned on the Deposit shall be paid to the party entitled to such amount as provided in this Agreement.

(d) At Closing, the Deposit shall be credited against the Purchase Price and Buyer shall deposit the balance of the Purchase Price in Cash to the Escrow Agent.

(e) Buyer shall not assume or pay, and Seller shall continue to be responsible for, any and all debts, obligations and liabilities of any kind or nature, fixed or contingent, known or unknown, of Seller not expressly assumed by Buyer in this Agreement. Specifically, without limiting the foregoing, Buyer shall not assume any obligation, liability, cost, expense, claim, action, suit or proceeding pending as of the Closing, nor shall Buyer assume or be responsible for any subsequent claim, action, suit or proceeding arising out of or relating to any such other event occurring, with respect to the manner in which Seller conducted its business at the Facility, on or prior to the date of the Closing Date. In addition, Buyer shall not assume successor liability obligations to Medicaid, HMO or any other third party payer programs or be responsible for recoupment's, fines, or penalties required to be paid to such parties as a result of the operation of the Facility prior to the Closing Date by Seller or the Facility's operator, Shelby AL Holdings, LLC (the **"Operator"**).

4. Closing. The closing of the purchase and sale transaction pursuant to this Agreement (**"Closing**") shall occur on the date that is thirty (30) days after the expiration of the Due Diligence Period (**"Closing Date**"). The Closing shall take place through Seller's delivery of a special warranty deed and Buyer's delivery of cash or immediately available funds through an escrow agreement (the **"Escrow**") to be established with the Escrow Agent pursuant to form escrow instructions which shall be modified to be consistent with the terms and provisions of this Agreement, and which shall be mutually agreed upon by the parties hereto.

5. Conveyance. Title to the Facility shall be conveyed by Seller to Buyer by a special warranty deed and bill of sale in form agreed to by the parties prior to the end of the Due Diligence Period, as defined herein. Fee simple indefeasible title to the Real Property and title to the Personal Property, shall be conveyed from Seller to Buyer or Buyer's nominee in "AS-IS, WHERE-IS" condition, free and clear of all liens, charges, easements and encumbrances of any kind, other than:

(a) Liens for real estate taxes or assessments not yet due and payable;

(b) The standard printed exceptions included in the PTR, as defined in Section 14(a) herein; unless objected to in writing by Buyer during the Due Diligence Period;

(c) Such exceptions that appear in the PTR and that are either waived or approved by Buyer in writing pursuant to Section 14(b) herein;

(d) Liens or encumbrances caused by the actions of Buyer but not those caused by the actions of Seller; and

(e) Those matters identified as Permitted Exceptions on the attached Exhibit B.

The items described in this Section 5 are sometimes collectively referred to as the "**Permitted Exceptions**."

6. Buyer's Due Diligence.

(a) Buyer shall have sixty (60) days from the Effective Date to complete Buyers Due Diligence (the "**Due Diligence Period**"); provided, however, that if Seller does not deliver the Due Diligence Items in the time frames set forth in Section 10(a)(v) below, the Due Diligence Period shall be extended on a day-by-day basis for each day of delay in delivery of the Due Diligence Items beyond the time periods set forth in Section 10(a)(v) below. Seller shall obtain the consent of SHI to Buyer's entry on the Real Property and the Facility as provided herein. During the Due Diligence Period, Seller shall permit the officers, employees, directors, agents, consultants, attorneys, accountants, lenders, appraisers, architects, investors and engineers designated by Buyer and representatives of Buyer (collectively, the "**Buyer's Consultants**") access to, and entry upon the Real Property and the Facility to perform its normal and customary due diligence, including, without limitation, the following (collectively, the "**Due Diligence Items**"):

(i) Review of vendor contracts ("**Contracts**") and leases ("**Leases**") to which the Facility (or the Seller, on behalf of the Facility) is a party, as set forth on Schedule 8(f) attached hereto;

(ii) Conduct environmental investigations (including a Phase 1 Environmental Audit);

(iii) Inspection of the physical structure of the Facility;

(iv) Review of current PTR, as defined in Section 14 herein, and underlying documents referenced therein;

(v) Review of ALTA Survey, as defined in Section 14 herein, for the Facility;

(vi) Inspection of the books and records of the Facility and that portion of the Seller's books and records which pertain to the Facility;

(vii) Review of the Due Diligence Items, as described in Schedule 10(a)(v) attached hereto, to be provided by Seller within five (5) business days following the Effective Date;

(viii) Conduct such other inspections or investigations as Buyer may reasonably require relating to the ownership, operation or maintenance of the Facility;

(ix) Review of resident files, agreements, and any other documentation regarding the residents of the Facility, which review shall in all events be subject to all applicable laws, rules and regulations concerning the review of medical records and other types of patient records;

(x) Review of files maintained by the State relating to the Facility;

(xi) Review of all drawings, plans and specifications and all engineering reports for the Facility in the possession of or readily available to Seller;

(xii) Seller will furnish copies of all environmental reports, property condition reports, appraisals, title reports and ALTA Survey (or surveys) that it currently has in its possession;

(xiii) Review copies of currently effective written employment manuals or written employment policies and/or procedures have been provided to or for employees; and

(xiv) Review of the Option Agreement, the Exercise Notice (as defined below) and all amendments and modifications thereto.

Notwithstanding the foregoing provisions of this Subsection, in the event Seller fails to deliver all Due Diligence Items listed in Schedule 10(a)(v) on or before the time set forth in Subsection (a)(vii) above, then the Due Diligence Period shall be deemed extended on a day-to-day basis until Seller completes such delivery of the Due Diligence Items to Buyer.

(b) Buyer agrees and acknowledges that: (i) Buyer will not disclose the Due Diligence Items or any other materials received from Seller pursuant to this Agreement (the "**Property Information**") or any of the provisions, terms or conditions thereof, or any information disclosed therein or thereby, to any party outside of Buyer's organization, other than Buyer's Consultants whom shall also not disclose the Property Information to third parties; (ii) the Property Information is delivered to Buyer solely as an accommodation to Buyer; (iii) Seller has not undertaken any independent investigation as to the truth, accuracy or completeness of any matters set out in or disclosed by the Property Information; and(iv) except as expressly contained in this Agreement, Seller has not made and does not make any warranties or representations of any kind or nature regarding the truth, accuracy or completeness of the information set out in or disclosed by the Property Information.

(c) All due diligence activities of Buyer at the Facility shall be scheduled with Seller upon two (2) business days prior notice. Reviews, inspections and investigations at the Facility shall be conducted by Buyer in such manner so as not to disrupt the operation of the Facility.

(d) Buyer may, at its sole cost, obtain third party engineering and physical condition reports and Phase I Environmental Audits covering the Facility, certified to Buyer, prepared by an engineering and/or environmental consultants acceptable to Buyer; provided, no inspection by Buyer's Consultants shall involve the taking of samples or other physically invasive procedures (such as a Phase II environmental audit) without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. Notwithstanding anything to the contrary contained in this Agreement, Buyer shall indemnify, defend (with counsel acceptable to Seller) and hold Seller and its employees and agents, and each of them, harmless from and against any and all losses, claims, damages and liabilities, without limitation, attorneys' fees incurred in connection therewith) arising out of or resulting from Buyer' or Buyer's Consultant's exercise of its right of inspection as provided for in this Section 6; provided, however, such indemnification shall not extend to matters merely discovered by Buyer and/ or the acts or omissions of Seller or any third party. The indemnification obligation of Buyer under this Section 6 shall survive the termination of this Agreement indefinitely. Following any audit or inspection as provided for herein, Buyer shall return the Real Property and the Facility to the condition in which they existed immediately prior to such audit or inspection.

(e) If the results of the foregoing inspections and audits are not acceptable to Buyer in its sole and absolute discretion, Buyer may, upon notice to Seller given on or before 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period, terminate this Agreement, and in such event, neither party shall have any further rights and obligations under this Agreement, except for obligations which expressly survive the termination of this Agreement. Failure of Buyer to deliver written notice of approval prior to 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period shall be deemed to constitute Buyer's disapproval of the matters described in this Section 6(a). If this Agreement shall be terminated prior to Closing, upon Seller's request, Buyer shall promptly return or destroy all copies of the Due Diligence Items.

(f) During the Due Diligence Period, Buyer shall obtain, at Buyer's election, a third party inspection report with respect to each Facility (the **Inspection Report**"). If the Inspection Report recommends any critical repairs (the "**Critical Repairs**") be made to any Facility, Buyer shall provide Seller with written notice of the same prior to the expiration of the Due Diligence Period, and the Critical Repairs shall be listed on a new Schedule 6(f) to be attached to the Agreement. Seller shall make all Critical Repairs listed in the Inspection Report to such Facility at least ten (10) business days prior to the Closing, at Seller's sole cost and expense (not to exceed One Hundred Thousand Dollars ($100,000) ("**Seller's Critical Repair Cap**")). Buyer shall be responsible for any Critical Repair costs for any Facility over the Seller's Critical Repair Cap. Seller shall deliver to Buyer a completion letter or similar notice documenting the completion of the repairs (the "**Repair Completion Notice**") executed by Seller and Seller's contractor and/or architect who performed and/or supervised the construction of the repairs. The Critical Repairs shall be constructed in a workmanlike manner and in accordance with all applicable laws.

7. Prorations; Closing Costs; Possession; Post Closing Assistance.

(a) There will be no prorations at the Closing and Operator, its successors or assigns shall remain responsible for all taxes, costs and expenses relating to the Facility following the Closing pursuant to the Post Closing Lease (as defined in Section 12(a)(v)).

(b) Seller shall pay any state, county and local transfer taxes arising out of the transfer of the Real Property.

(c) Buyer shall pay the cost of the standard owner's title insurance policy, as described in this Agreement. Buyer shall also pay the cost of any lender's policy for Buyer's lender, any title endorsements requested by Buyer and its lender and the cost of updating or obtaining new Surveys. Seller and Buyer shall equally share the fees of Escrow Agent. All other costs associated with title and survey matters shall be paid in accordance with Forsyth County (and local) custom and practice.

(d) Buyer and Seller shall each pay their own attorney's fees. Buyer shall pay for all costs of review of the Due Diligence Items and its additional due diligence inspection costs including, without limitation, the cost of any environmental reports.

(e) On the Closing Date, the Operator, or its successor, Shelby House, LLC shall retain possession of the Facility pursuant to the Post Closing Lease.

8. Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer that:

(a) Legality.

(i) Organization, Corporate Powers, Etc. Seller has the full power, authority and legal right (A) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document, as defined herein, to which he is a party, (B) to transfer good, indefeasible title to the Property to Buyer free and clear of all liens, claims and encumbrances except for Permitted Exceptions (as defined in Section 5 hereof), and (C) to carry out the transactions contemplated hereby and by such other instruments to be carried out by him. Seller is the sole owner of the right to purchase the Property pursuant to the Option Agreement, and has the full legal power and authority to perform the terms of the Option Agreement.

(ii) Due Authorization, Etc. This Agreement and the Closing Documents (collectively the "**Transaction Documents**"), and the Option Agreement have been, and each instrument provided for herein or therein to which Seller is a party will be, when executed and delivered as contemplated hereby authorized, executed and delivered by Seller and the Transaction Documents and the Option Agreement constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of Seller and enforceable in accordance with their terms.

(iii) Governmental Approvals. To the best of Seller's knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Seller is a party or for the validity or enforceability thereof against such party other than the recording or filing for recordation of the North Carolina form Special Warranty Deed (the "**Deed**") which recordings shall be accomplished at Closing.

(iv) Other Rights. Except for the Option, no right of first refusal, option or preferential purchase or other similar rights are held by any person with respect to any portion of the Property. Neither Seller, nor SHI, has alienated, encumbered, transferred, leased, assigned or otherwise conveyed its interest in the Option Agreement, and neither party shall enter into any such agreement prior to the Close of Escrow.

(v) No Litigation. Except as set forth on Schedule 8(a)(v) attached hereto, Seller has not been served with summons with respect to any actions or proceedings pending or, to Seller's actual knowledge, no such actions or proceedings are threatened, against Seller before or by any court, arbitrator, administrative agency or other governmental authority, which (A) individually or in the aggregate, are expected, in the reasonable judgment of Seller, to materially and adversely affect Seller's ability to carry out any of the transactions contemplated by any of the Transaction Documents or (B) otherwise involve any portion of the Property including, without limitation, the Facility.

(vi) No Conflicts. Neither the execution and delivery of the Transaction Documents or the Option Agreement, to which Seller is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby will result in (A) a breach or violation of (1) any material law or governmental rule or regulation applicable to Seller now in effect, (2) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Seller, or (3) any material agreement or instrument to which Seller is a party or by which Seller or his respective properties are bound; (B) the acceleration of any obligations of Seller; or (C) the creation of any lien, claim or encumbrance upon any properties or assets of Seller.

(b) Property.

As of the Effective Date and the Closing Date, except as set forth on Schedule 8(b):

(i) Seller has no actual knowledge of and has not received any notice of, and to Seller's knowledge, SHI has not received any notice of, outstanding deficiencies or work orders of any authority having jurisdiction over any portion of the Property;

(ii) Seller has no actual knowledge of and has not received any notice of, and to Seller's knowledge, SHI has not received any notice of any claim, requirement or demand of any licensing or certifying agency supervising or having authority over the Facility to rework or redesign it in any material respect or to provide additional furniture, fixtures, equipment or inventory so as to conform to or comply with any law which has not been fully satisfied;

(iii) Seller has not received any notice from, and to Seller's knowledge, SHI has not received any notice from, any governmental authority of any material violation of any law applicable to any portion of the Real Property or to the Facility;

(c) Condemnation. There is no pending or, to the actual knowledge of Seller, threatened condemnation or similar proceeding or assessment affecting the Real Property, nor, to the actual knowledge of Seller, is any such proceeding or assessment contemplated by any governmental authority, and to Seller's knowledge, SHI has not received any notice with respect to any pending or threatened condemnation.

(d) Hazardous Substances. Except as disclosed on Schedule 8(d), which includes a list of all environmental reports provided by Seller to Buyer in connection with this Agreement (the "**Seller Environmental Reports**"), to Seller's actual knowledge, there has been no production, storage, manufacture, voluntary or involuntary transmission, use, generation, treatment, handling, transport, release, dumping, discharge, spillage, leakage or disposal at, on, in, under or about the Real Property of any Hazardous Substances by SHI, or any affiliate or agent thereof, except in strict compliance with all applicable Laws. To Seller's actual knowledge and except as disclosed on Schedule 8(d), there are no Hazardous Substances at, on, in, under or about the Real Property in violation of any Law, and to Seller's actual knowledge, there is no proceeding or inquiry by any federal, state or local governmental agency with respect thereto. For purposes of this Agreement, "**Hazardous Substances**" shall mean any hazardous or toxic substances, materials or wastes, including, without limitation, those substances, materials and wastes listed in the United States Department of Transportation Table (49 CFR 172.1 01) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302 and amendments thereto) or such substances, materials and wastes which are or become regulated under any applicable local, state or federal law (collectively, "**Laws**"), including, without limitation, any material, waste or substance which is (i) a hazardous waste as defined in the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. § 6901 et seq.); (ii) a pollutant or contaminant or hazardous substance as defined in the Comprehensive Environmental Response. Compensation and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.); (iii) a hazardous substance pursuant to § 311 of the Clean Water Act (33 U.S.C. § 1251, et seq., 33 U.S.C. § 1321) or otherwise listed pursuant to § 307 of the Clean Water Act (33 U.S.C. § 1317); (iv) a hazardous waste pursuant to § 1004 of the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); (v) polychlorinated biphenyls (PCBs) as defined in the Federal Toxic Substance Control Act, as amended (15 U.S.C. § 2501 et seq.); (vi) hydrocarbons, petroleum and petroleum products; (vii) asbestos; (viii) formaldehyde or medical or biohazardous waste; (ix) radioactive substances; (x) flammables and explosives; (xi) any state statutory counterparts to those federal statutes listed herein; or (vii) any other substance, waste or material which could presently or at any time in the future require remediation at the behest of any governmental agency. Any reference in this definition to Laws shall include all rules and regulations which have been promulgated with respect to such Laws.

(e) Brokers. Neither Seller nor Buyer has dealt with any broker or finder in connection with the transactions contemplated hereby. Each party represents and warrants to the other party that it has not dealt with any broker, salesman, finder or consultant with respect to this Agreement or the transactions contemplated hereby. Each party agrees to indemnify, protect, defend, protect and hold the other party harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from such indemnifying party's breach of the foregoing representation. The provisions of this Section 8(e) shall survive the Closing or earlier termination of this Agreement.

(f) Leases and Contracts. Schedule 8(f) is a list of all Leases and Contracts relating to the Facility to which Seller or SHI is a party or by which Seller or SHI may be bound. Seller has made or will promptly make available to Buyer true, complete and accurate copies of all Leases and Contracts including, without limitation, any modifications thereto. All of the Leases and Contracts are in full force and effect without claim of material default there under, and, except as may be set forth on Schedule 8(f).

(g) Financial Statements. Schedule 8(g) contains (i) the balance sheets of the Operator for the last three (3) fiscal years ending prior to the date of this Agreement (audited if available and unaudited to the extent audited statements are not available) and the unaudited balance sheets for each of the past three (3) fiscal quarters completed prior to the date of this Agreement and (ii) the related consolidated statements of income, results of operations, changes in members' equity and changes in financial position with respect to each such period as compared with the immediately prior period (collectively, the "**Financial Statements**"). The Financial Statements taken as a whole (A) fairly present the financial condition and results of operation of the Operator for the periods indicated, (B) are true, accurate, correct and complete in all material respects, and (C) except as stated in Schedule 8(g) (or in the notes to the Financial Statements) have been prepared in accordance with the Operator's tax basis reporting, as consistently applied. Except as disclosed in Schedule 8(g), or otherwise disclosed in writing to Buyer, to Seller's actual knowledge neither Seller, as to the Facility, nor is the Facility obligated for or subject to any material liabilities, contingent or absolute, and whether or not such liabilities would be disclosed in accordance with tax basis reporting, and Schedule 8(g) sets forth all notes payable, other long term indebtedness and, to Seller's actual knowledge, all other liabilities to which the Facility and the Real Property are or at Closing (and following Closing) will be subject, other than new indebtedness obtained by Buyer in connection with its purchase of the Property. Seller has received no notice of default under any such instrument.

(h) Interests in Competitors, Suppliers and Customers. Other than the Operator and except as set forth on Schedule 8(h), or in Schedule 1 (a) as constituting a part of the Facility, neither Seller nor SHI has any interest in any property used in the operation of, or holds an interest in, any competitor, supplier or customer of Seller or the Facility.

(i) No Foreign Persons. Seller is not a foreign person within the meaning of Sections 897 or 1445 of the Code, nor is Seller a U.S. Real Property Holding Company within the meaning of Section 897 of the Code.

(j) Licensure. As of the date hereof, except as set forth on Schedule 8(j) attached hereto, there is no action pending or, to the actual knowledge of Seller, recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate the Facility, or certification of the Facility, or any material action of any other type with regard to licensure or certification. The Facility is operating and functioning as an assisted living and memory care facility without any waivers from a governmental agency affecting the Facility except as set forth in Schedule 8(j), and is fully licensed for an assisted living and memory care facility, as applicable, by the State for the number of beds and licensure category set forth in Schedule 1(a) hereto. Schedule 8(j) attached hereto contains a complete and accurate list of all life safety code waivers or other waivers affecting the Facility.

(k) Regulatory Compliance.

(i) Seller, SHI or the Operator has duly and timely filed all reports and other items required to be filed (collectively, the "**Reports**") with respect to any cost based or other form of reimbursement program or any other third party payor (including without limitation, Medicaid, medically indigent assistance, Blue Cross, Blue Shield, any health maintenance, preferred provider, independent practice or other healthcare related organizations, peer review organizations, or other healthcare providers or payors) (collectively, "**Payors**") and have timely paid all amounts shown to be due thereon. At the time of filing, to Seller's actual knowledge, each Report was true, accurate and complete. To Seller's actual knowledge, all rights and obligations of the Facility or Seller or SHI under such Reports are accurately reflected or provided for in the Financial Statements.

(ii) Except as set forth in Schedule 8(k) attached hereto, (A) neither Seller nor, to Seller's actual knowledge, the Operator or SHI is delinquent in the payment of any amount due under any of the Reports for the Facility, (B) there are no written or threatened proposals by any Payors for collection of amounts for which Seller, SHI or the Facility could be liable, (D) there are no current or pending claims, assessments, notice, proposal to assess or audits of Seller, SHI or Operator or the Facility with respect to any of the Reports, and, to Seller's actual knowledge, no such claims, assessments, notices, or proposals to assess or audit are threatened, and (D) neither Seller, SHI nor Operator has executed any presently effective waiver or extension of the statute of limitations for the collection or assessment of any amount due under or in connection with any of the Reports with respect to the Facility.

(iii) Except as set forth in Schedule 8(k) attached hereto, neither Seller, SHI nor the Operator has received notice of failure to comply with all applicable Laws, settlement agreements, and other agreements with any state or federal governmental body relating to or regarding the Facility (including all applicable environmental, health and safety requirements), and Seller or the Operator has and maintains all permits, licenses, authorizations, registrations, approvals and consents of governmental authorities and all health facility licenses, accreditations, Medicaid, and other Payor certifications necessary for its activities and business including the operation of the Facility as currently conducted. Each health facility license, Medicaid and other Payor certifications, Medicaid provider agreement and other agreements with any Payors is in full force and effect without any waivers of any kind (except as disclosed in Schedule 8 (k)) and has not been amended or otherwise modified, rescinded or revoked or assigned nor, to Seller's actual knowledge, (A) is there any threatened termination, modification, recession, revocation or assignment thereof, (B) no condition exists nor has any event occurred which, in itself or with the giving of notice, lapse of time or both would result in the suspension, revocation, termination, impairment, forfeiture, or non-renewal of any governmental consent applicable to Seller or to the Facility or of any participation or eligibility to participate in any Medicaid, or other Payor program and (C) there is no claim that any such governmental consent, participation or contract is not in full force and effect.

(l) Regulatory Surveys. Seller shall deliver to Buyer, in the manner required pursuant to the terms of this Agreement, complete and accurate copies of the survey or inspection reports made by any governmental authority with respect to the Facility during the calendar years 2009, 2010, 2011 and year-to-date 2012. To the best of Seller's knowledge, after diligent investigation, and except as shown on Schedule 8(l), all exceptions, deficiencies, violations, plans of correction or other indications of lack of compliance in such reports have been fully corrected and there are no bans or limitations in effect, pending or threatened with respect to admissions to the Facility nor any licensure curtailments in effect, pending or threatened with respect to the Facility. Seller shall continue to deliver all such surveys, inspection reports as and when same are received and/or filed as the case may be prior to the Closing.

(m) Licensed Bed/Current Rate Schedule. As of the Effective Date, Schedule 8(m) sets forth (i) the number of licensed beds and the number of operating beds in the Facility, (ii) the current standard private rates charged by the Facility to all of its residents, and (iii) the number of beds or units presently occupied in, and the occupancy percentage at, the Facility, including the current rates charged by the Facility for each such occupied bed or unit. Neither Seller nor the Operator has any life care arrangement in effect with any current or future resident.

(n) Operations. The Facility is adequately equipped and includes sufficient and adequate numbers of furniture, furnishings, equipment, consumable inventory, and supplies to operate the Facility as is presently operated by Seller. Personal Property used to operate the Facility and to be conveyed to Buyer is free and clear of liens, security interests, encumbrances, leases and restrictions of every kind and description, except for Permitted Encumbrances and any liens, security interests and encumbrances to be released at Closing.

(o) No Misstatements, Etc. To the best of Seller's knowledge, neither the representations and warranties of Seller stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor the Due Diligence Items or any certificate or instrument furnished or to be furnished to Buyer by Seller in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(p) Option Agreement. Seller has provided to Buyer, a true, correct and complete copy of the Option Agreement (including all amendments), and all material notices and other communications between Seller and Hemingway and/or SHI. The Option Agreement is in full force and effect, and is binding on Hemingway and Seller and has not been modified or amended. Neither Hemingway nor Seller is in breach or default under the Option Agreement, and there is no fact or circumstance existing, which, with the passage of time, giving of notice, or both, would constitute a breach of default by either party under the Option Agreement.

(q) Supplementation of Schedules; Change in Representations and Warranties. Seller shall have the continuing right and obligation to supplement and amend the Schedules herein on a regular basis including, without limitation, Schedule 8(g), and Seller's warranties and representations required hereunder, as necessary or appropriate (i) in order to make any representation or warranty not misleading due to events, circumstances or the passage of time or (ii) with respect to any matter hereafter arising or discovered up to and including the Closing Date, but Buyer shall not be deemed to have approved such supplemental Schedules unless Buyer expressly acknowledges approval of same in writing. In the event Seller amends any such Schedules, or Buyer or Seller gains actual knowledge prior to the Closing that any representation or warranty made by the other party contained in this Section 8 is otherwise untrue or inaccurate, such party shall, within five (5) days after gaining such actual knowledge but in any event prior to the Closing, provide the other party with written notice of such inaccuracy, whereupon the noticed party shall promptly commence, and use its best efforts to prosecute to completion, the cure of such matter, to the extent any such matter is curable. If any such matter is not curable within reason and is material, in Buyer's reasonable business judgment, Buyer shall have the right to terminate this Agreement upon written notice to Seller within five (5) business days of receipt or delivery of such notice, as applicable, on the same basis as set forth in Section 13(a) if during the Due Diligence Period and in Section 13(b)(i)(i) herein if after expiration of the Due Diligence Period.

(r) Survival of Representations and Warranties; Updates. The representations and warranties of Seller in this Agreement shall not be merged with the Deed at the Closing and shall survive the Closing for the period of one (1) year provided such warranties shall be deemed made as of the date provided; provided, Seller understands and agrees that the Post Closing Lease, shall provide for a lengthier period of survival with respect to certain matters referenced therein.

9. Representations and Warranties of Buyer. Buyer hereby warrants and represents to Seller that:

(a) Organization, Corporate Powers, Etc. Buyer is a limited liability company, validly existing and in good standing under the laws of the State of Delaware and is duly qualified and in good standing in each other state or jurisdiction in which the nature of its business requires the same except where a failure to be so qualified does not have a material adverse effect on the business, properties, condition (financial or otherwise) or operations of that person. Buyer has full power, authority and legal right (i) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document to which it is a party, and (ii) to carry out the transactions contemplated hereby and by such other instruments to be carried out by Buyer pursuant to the Transaction Documents.

(b) Due Authorization, Etc. The Transaction Documents have been, and each instrument provided for herein or therein to which Buyer is a party will be, when executed and delivered as contemplated hereby, duly authorized, executed and delivered by Buyer and the Transaction Documents constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of the Buyer enforceable in accordance with their terms.

(c) Governmental Approvals. To Buyer's actual knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Buyer is a party or for the validity or enforceability thereof against such party.

(d) No Litigation. Except as set forth on Schedule 9(a)(iv) attached hereto, neither Buyer nor its registered agent for service of process has been served with summons with respect to any actions or proceedings pending or, to Buyer's actual knowledge, no such actions or proceedings are threatened, against Buyer before or by any court, arbitrator, administrative agency or other governmental authority, which individually or in the aggregate, are expected, in the reasonable judgment of Buyer, to materially and adversely affect Buyer's ability to carry out any of the transactions contemplated by any of the Transaction Documents.

(e) No Conflicts. Neither the execution and delivery of the Transaction Documents to which Buyer is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby to be carried out by such party will result in (i) a breach or violation of (A) any material law or governmental rule or regulation applicable to Buyer now in effect, (B) any provision of any Buyer's organizational documents, (C) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Buyer, or (D) any material agreement or instrument to which Buyer is a party or by which Buyer or its respective properties are bound; (ii) the acceleration of any obligations of Buyer; or (iii) the creation of any lien, claim or encumbrance upon any properties or assets of Buyer.

(f) No Misstatements, Etc. To the best of Buyer's knowledge, neither the representations and warranties of Buyer stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor any certificate or instrument furnished or to be furnished to Seller by Buyer in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(g) Survival of Representations and Warranties; Updates. The representations and warranties of Buyer in this Agreement shall not be merged with the Deed at the Closing and shall survive the Closing for the period of one (1) year.

10. Covenants of Seller. Seller covenants with respect to the Facility as follows:

(a) Pre-Closing. Between the date of this Agreement and the Closing Date, except as contemplated by this Agreement or with the prior written consent of Buyer, which shall not be unreasonably withheld, conditioned or delayed:

(i) Seller shall use its best efforts to cause the Operator to operate the Facility diligently, in accordance with the Operator's obligations under its lease or other arrangement with Seller, and only in the ordinary course of business and consistent with past practice.

(ii) Seller shall use its best efforts to prevent the Operator from making any material change in the operation of the Facility, and shall prevent the Operator from selling or agreeing to sell any items of machinery, equipment or other assets of the Facility, or otherwise entering into any agreement affecting the Facility, except in the ordinary course of business;

(iii) Seller shall use its best efforts to prevent the Operator from entering into any Lease or Contract or commitment affecting the Facility, except for Leases or Contracts entered into in the ordinary course of business;

(iv) During normal business hours and consistent with Section 6(c) herein, Seller shall provide Buyer or its designated representative with access to the Facility upon prior notification and coordination with Seller and the Operator; provided, Buyer shall not materially interfere with the operation of the Facility. At such times Seller and the Operator shall permit Buyer to inspect the books and records of the Facility;

(v) Within five (5) business days following the execution of this Agreement by the parties, Seller shall deliver to Buyer the due diligence items described on the Due Diligence List attached hereto as Schedule 10(a)(v) (the "**Due Diligence Items**"); provided, in the event certain Due Diligence Items ("**Unavailable Items**") are not readily accessible to Seller, Seller may identify the Unavailable Items by written notice to Buyer within such five (5) business day period and shall use its best efforts to deliver all Unavailable Items to Buyer as promptly as possible, but in no event more than ten (10) business days following the execution of this Agreement. If Buyer requests additional items not included on Schedule 10(a)(v), it will do so by written request delivered by Seller and Seller will use its best efforts to provide such information within five (5) business days within receipt of the request; and, provided further, Seller shall continue to cause Operator to deliver to Buyer, following the expiration of the Due Diligence Period, financial reports showing, among other things, the EBITDAR (defined below) for the Facility for the trailing six (6) month annualized operations for any given period. The term "**EBITDAR**" means "earnings before interest, taxes, depreciation, amortization and rent and reserves (reserves meaning additions to capital reserves)."

(vi) Seller shall use its best efforts to prevent the Operator from moving residents from the Facility, except (a) to any other facility which is owned by Seller and constitutes part of the Property as defined herein, (b) for health treatment purposes or otherwise at the request of the resident, family member or other guardian or (c) upon court order or the request of any governmental authority having jurisdiction over the facility;

(vii) Seller shall use commercially reasonable efforts to cause the Operator to retain the services and goodwill of the employees of the Operator until the Closing;

(viii) Seller shall maintain in force, or shall cause the Operator to maintain in force, the existing hazard and liability insurance policies, or comparable coverage, for the Facility as are in effect as of the date of this Agreement;

(ix) Seller shall, and shall cause the Operator, to file all returns, reports and filings of any kind or nature, including but not limited to, cost reports referred to in this Agreement, required to be filed by Seller or the Operator on a timely basis and shall timely pay all taxes or other obligations and liabilities or recoupments which are due and payable with respect to the Facility in the ordinary course of business with respect to the periods Seller or Operator operated the Facility;

(x) Seller shall cause the Operator (a) to maintain all required operating licenses in good standing, (b) to operate the Facility in accordance with its current business practices and (c) to promptly notify Buyer in writing of any notices of material violations or investigations received from any applicable governmental authority;

(xi) Seller shall use commercially reasonable efforts to cause the Operator to make all customary repairs, maintenance and replacements required to maintain its Facility in substantially the same condition as on the date of Buyer's inspection thereof, ordinary wear and tear excepted;

(xii) Seller shall promptly notify Buyer in writing of any Material Adverse Change, as defined herein, of which Seller becomes aware in the condition or prospects of the Facility including, without limitation, sending Buyer copies of all surveys and inspection reports of all governmental agencies received after the date hereof and prior to Closing, promptly following receipt thereof by the Operator. For purposes of this Agreement, a "**Material Adverse Change**" shall mean: (i) a decrease in the adjusted rolling six (6) month EBITDAR to less than Four Hundred Seventy-Five Thousand and 00/100 Dollars ($475,000.00), or (ii) loss of licensure, or (iii) loss of Medicaid participation, or (iv) any adverse action by a governmental agency which, with the passage of time, would reasonably be expected to materially affect in a negative manner licensure at the Facility, or any adverse action in the Facility which would reasonably be expected to materially affect in a negative manner the Facility's participation or eligibility to participate in any Medicaid, or other Payor program, unless appropriate corrective action has been taken by the Operator, in the ordinary course of business, or (v) failure to settle with the appropriate governmental authority, or to satisfy on or before the Closing (either directly with such governmental authority or by funds escrowed by Seller for such purposes) all claims for reimbursements, recoupments, taxes, fines or penalties which may be due to any governmental authority having jurisdiction over the Facility, or (vi) the occurrence of a title or survey defect occurring after the date of this Agreement which would reasonably be expected to adversely affect the ability of Buyer to operate the assisted living and memory care facility at its Facility or to obtain financing for the Facility, or (vii) the commencement of any third party litigation which interferes with Seller's ability to close the transactions contemplated by this Agreement, or (viii) any damage, destruction or condemnation affecting the Facility in which the estimate of damage exceeds $100,000 and such damage or destruction has not been repaired, or Buyer as not otherwise waived such condition prior to Closing. In the event of any occurrence described in clause (iv) above, Operator shall deliver a copy of the Plan of Correction or otherwise notify Buyer in writing of the planned action, and such Plan of Correction or other corrective action which has been approved by the applicable regulatory agency or agencies.

(xiii) Seller agrees to cause the Operator to remedy any compliance deficiency cited in any written notice from, or in any settlement agreement or other Plan of Correction or other agreement with, any state governmental body, or in the event of state proceedings against the Operator or the Facility, or receipt by the Operator of such notice prior to the Closing Date, of any condition which would affect the truth or accuracy of any representations or warranties set forth in this Agreement by Seller; provided, however, in the event a physical plant deficiency is cited which Seller has insufficient time to remedy before the Closing Date, in accordance with the approval of the appropriate state agency, then the same shall be deemed remedied when the costs of correcting said deficiency (based upon reasonable estimates from established vendors selected by Seller and Buyer and approved by Seller and by Buyer, in its sole and absolute discretion) shall be held back in the Escrow at the Closing and not released to Seller until such deficiency is corrected by Seller; and, provided further, a non-physical plant deficiency which cannot be remedied prior to the Closing, in accordance with the approval of the appropriate state agency, will be deemed to be remedied for purposes of this Section if such Operator develops a Plan of Correction addressing the deficiency(ies) and such Plan of Correction is approved by the applicable State agency. Seller shall use its best efforts to remedy any such deficiency subsequent to the Closing which is to be remedied as a result of a Plan of Correction filed by Seller or the Operator prior to the Closing, and Buyer shall cooperate with such efforts by Seller; provided, Seller shall bear all costs associated with such remedy. In the event any such Plan of Correction agreed to by Seller and Operator prior to the Closing is not approved by the applicable State agency subsequent to Closing, Seller shall promptly use its best efforts, and shall cause such Operator to use its best efforts, to amend the Plan of Correction in such a manner that is necessary to obtain acceptance by the State of the amended Plan of Correction as soon as practicable after submittal. Notwithstanding any other provision of this Agreement, the obligation of Seller pursuant to this Subsection 10(a)(xiii) shall survive the Closing for such period of time as is necessary to remedy such deficiency.

(xiv) Seller shall, at its cost and on or before Closing, obtain payoffs or other lender documentation required to obtain timely releases of financing statements and tax and judgment liens affecting or relating to the Facility which have been filed or recorded in the State with the Office of the Secretary of State and the appropriate County Recorder's Office.

(xv) Seller shall promptly comply with any notices of violations received relating to the Facility and shall deliver to Buyer a copy of any such notice received and evidence of compliance with such notice.

(xvi) Seller shall complete the Critical Repairs in accordance with Section 6(f) of this Agreement.

(xvii) Seller shall provide to Buyer immediately upon receipt copies of any and all notices of default given by Hemingway to Seller. Seller will continue to strictly comply with all terms and provisions of the Option Agreement, and Seller will not do or permit anything to be done, the doing of which, or refrain from doing anything the omission of which, will be ground for declaring a termination or forfeiture of the Option Agreement. Seller will not terminate, amend, extend, assign, transfer or otherwise modify the Option Agreement without the prior written consent of Buyer. Seller agrees that Buyer shall have the right, but not the obligation, to cure any defaults by Seller under the Option Agreement, and upon Seller's default under the Option Agreement, Buyer shall have the right to require Seller to assign to Buyer the Option Agreement, and Buyer may pursue any and all rights and remedies under this Agreement.

(b) Closing. On or before the Closing Date, Seller shall deliver the following documents to Escrow Agent relating to the Facility ("**Closing Documents**"):

(i) One (1) original executed Deed for the Facility, in recordable form;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of the bill of sale for the Personal Property ("**Bill of Sale**"), an assignment of Seller's interest in the Contracts and Leases ("**Assignment of Contracts and Leases**"), and other instruments of transfer and conveyance in form and substance to be agreed upon prior to the expiration of the Due Diligence Period transferring and assigning to Buyer the Real Property, Personal Property and the Intangibles to be transferred as provided herein with respect to the Facility ("**Instruments of Assignment**");

(iv) One (1) original of the executed Repair Completion Notice for the Facility to the extent not previously delivered to Buyer.

(v) One (1) original executed certificate executed by Seller confirming that Seller's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Seller's Confirmation**");

(vi) All contractor's and manufacturer's guaranties and warranties, if any, in Seller's possession relating to the Facility (collectively, the "**Warranties**"), which delivery will be made by leaving such materials at the Facility; and

(vii) Two (2) original executed counterparts of each of the FIRPTA Certificate, escrow agreements and other documents required by the Title Company in connection with the transactions contemplated by this Agreement (collectively, the "**Title Company Documents**").

(viii) A copy of the fully executed deed and other documents (including a bill of sale and assignment of contracts and leases) evidencing the transfer of the Property from SHI to Seller (the "**SHI Transfer Documents**").

(ix) A copy of the notice by which Seller exercises its right to purchase the Property pursuant to the Option Agreement (the "**Exercise Notice**").

11. Covenants of Buyer. Buyer hereby covenants as follows:

(a) Pre-Closing. Between the date hereof and the Closing Date, except as contemplated by this Agreement or with the consent of Seller, Buyer agrees that Buyer shall not take any action inconsistent with its obligations under this Agreement or which could hinder or delay the consummation of the transaction contemplated by this Agreement. Between the date hereof and the Closing Date, Buyer agrees that Buyer shall not (i) make any commitments to any governmental authority, (ii) enter into any agreement or contract with any governmental authority or third parties, or (iii) alter, amend, terminate or purport to terminate in any way any governmental approval or permit affecting the Real Property, Personal Property or the Facility, which would be binding upon Seller, the Real Property, the Facility or Personal Property after any termination of this Agreement.

(b) Closing. On or before the Closing Date, Buyer shall deposit the following with Escrow Agent:

(i) The Purchase Price in accordance with the requirements of this Agreement;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of each of the Instruments of Assignment requiring Buyer's signature;

(iv) One (1) original executed certificate executed by Buyer confirming that Buyer's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Buyer's Confirmation**"); and

(v) Two (2) original executed counterparts of each of the Title Company Documents requiring Buyer's signature.

12. Conditions to Closing.

(a) Conditions to Buyer's Obligations. All obligations of Buyer under this Agreement are subject to the reasonable satisfaction and fulfillment, prior to the Closing Date, of each of the following conditions. Anyone or more of such conditions may be waived in writing by Buyer.

(i) Seller's Representations, Warranties and Covenants. Seller's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein, shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made, except to the extent that Buyer has discovered, or Seller has provided Buyer with written notice (the "**Supplemental Notice**") prior to Closing that Seller has just become aware, that a representation is untrue or inaccurate, and Buyer nevertheless elects not to terminate this Agreement at the expiration of the Due Diligence Period, or, if the Supplemental Notice is delivered after the Due Diligence Period, Buyer elects to proceed with closing the transaction despite such inaccuracy, whereupon Buyer will be deemed to have waived any right of recourse or damages against Seller resulting from such inaccuracy disclosed in the Supplemental Notice. Upon receipt of a Supplemental Notice from Seller after the expiration of the Due Diligence Period, Buyer shall have the right to (a) terminate this Agreement upon written notice to Seller within five (5) days after receipt of the Supplemental Notice, or (b) elect to proceed with closing the transaction as set forth in this Agreement. If Seller provides Buyer with a Supplemental Notice within ten (10) business days of Closing, then Buyer shall have the right, at its option and upon written notice to Seller, to extend the Closing Date for up to ten (10) business days in order to analyze and review the issues disclosed in the Supplemental Notice.

(ii) Seller's Performance. Seller shall have performed all of its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Damage and Condemnation. Prior to the Closing Date, no portion of the Facility shall have been damaged or destroyed by fire or other casualty where the estimate of damage to the Facility exceeds 10% of the Purchase Price, or proceedings be commenced or threatened to take or condemn any material part of the Real Property or improvements comprising a Facility by any public or quasi-public authority under the power of eminent domain. A proceeding shall be deemed to be "material" if such condemnation or taking (i) relates to the material taking or closing of any right of access to any Real Property or the Facility, (ii) cause the Real Property or the Facility to become non-conforming with then current legal requirements governing such Real Property or Facility, (iii) results in the loss of parking that is material to the operation of the Facility, or (iv) result in the loss of value in excess of 10% of the Purchase Price, in Buyer's reasonable judgment. If the Facility shall have been so damaged or destroyed, Seller shall deliver prompt written notice of such condemnation, damage or destruction to Buyer. In the event Buyer waives this condition, by written notice to Seller within fifteen (15) business days of receipt of notice of such proceeding, and the Closing occurs, Seller shall assign to Buyer all its right to any insurance proceeds in connection therewith. If proceedings shall be so commenced or threatened to take or condemn the Real Property or the Facility or portion thereof prior to Closing, and if Buyer waives this condition and the Closing occurs, Seller shall pay or assign to Buyer all Seller's right to the proceeds of any condemnation award in connection thereof.

(iv) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Buyer, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of the Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect the Facility or the business or prospects of the Facility.

(v) Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operator and Buyer shall have agreed upon the form of the post closing lease (the "**Post Closing Lease**") between Buyer, as landlord, and Shelby House, LLC, as tenant. The Post Closing Lease shall be in substantially the form attached hereto and incorporated herein by reference as Exhibit C.

(vi) No Material Adverse Change. No Material Adverse Change shall have occurred in the Facility.

(vii) Removal of Personal Property Liens. Seller shall have removed (or shall have sufficient payoff or other documents to remove such liens) all personal property liens which are related to the Facility and the Facility shall be free and clear of all liens, claims and encumbrances other than Permitted Exceptions once such payoffs are made at Closing.

(viii) Title Insurance Policies. Title Company shall be prepared to issue the (i) Owners Title Insurance Policy for the Facility as of the Closing Date, with coverage in the amount of the Purchase Price for the Facility, insuring Buyer as owner of the Facility subject only to the Permitted Exceptions, and (ii) ALTA Title Insurance Policy for the Facility as of the Closing Date, with coverage in the amount of the allocable portion of Buyer's loan from Buyer's lender ("**Lender**"), insuring Lender's lien against the Facility subject only to such exceptions as may be approved by Lender, and with such endorsements as may be required by Lender.

(ix) Close of Escrow Under Option Agreement. All conditions under the Option Agreement shall have been satisfied, Seller shall have closed escrow under the Option Agreement, and Seller shall be prepared to convey title to the Property to Buyer as provided in this Agreement.

(x) Close of Escrow Under Purchase Agreement for Hamlet House and Carteret. Concurrently herewith, Buyer, as buyer, and certain affiliates of Seller, as seller, are entering into a Purchase and Sale Agreement (the "**Hamlet/Newport Purchase Agreement**") with respect to the purchase and sale of certain assisted living and memory care facilities located at (i) 632 Freeman Mill Road, Hamlet, NC, (the "**Hamlet Facility**") and (ii) 3020 Market Street, Newport, NC 28570 (the "**Newport Facility**"). The close of escrow under the Hamlet/Newport Purchase Agreement shall be an express condition to Buyer's obligation to close under this Agreement.

(b) Conditions to Seller's Obligations. All obligations of Seller under this Agreement are subject to the fulfillment, prior to the Closing Date, of each of the following conditions. Any one or more of such conditions may be waived by Seller in writing.

(i) Buyer's Representations, Warranties and Covenants. Buyer's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made.

(ii) Buyer's Performance. Buyer shall have performed its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Seller, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of the Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect the Facility or the business or prospects of the Facility.

(iv) No Actions. There shall be no action pending or recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate the Facility or the certification of the Facility, or any action of any other type with regard to licensure or certification or with respect to Medicaid provider billing agreements necessary to operate the Facility.

(v) Execution of Post Closing Lease and Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operator and Buyer shall have agreed upon the form of the Post Closing Lease. Further, it shall be a condition to Closing that Operator and Buyer execute the Post Closing Lease simultaneously with Closing.

(vi) Purchase of Property by Seller. Seller shall have successfully exercised and closed on the Option.

13. Termination; Defaults.

(a) Termination For Failure of Condition. Either party may terminate this Agreement for non-satisfaction or failure of a condition to the obligation of either party to consummate the transaction contemplated by this Agreement (including, without limitation, Buyer's election to disapprove the condition of the title or the Survey pursuant to Section 14 herein), unless such matter has been satisfied or waived by the date specified in this Agreement or by the Closing Date (as same may be extended by the parties to allow the parties to satisfy or waive conditions to close in the manner provided in this Agreement). In the event of such a termination, Escrow Agent shall promptly return (i) to Buyer, all funds of Buyer in its possession, including the Deposit and all interest accrued thereon, and (ii) to Seller and Buyer, all documents deposited by them respectively, which are then held by Escrow Agent. Thereafter, neither party shall have any continuing obligation or liability to the other party except for any such matters that expressly survive the Closing or termination of this Agreement, as provided herein. The provisions of this Section 13(a) are intended to apply only in the event of a failure of condition, as set forth herein, which is not the result of a default by either party, but which shall not apply in the event the non-terminating party is in default of its obligations under this Agreement.

(b) Termination For Cause.

(i) If the Agreement is terminated by Seller because Buyer fails to consummate the Closing as a result of a default by Buyer under this Agreement, Seller's sole and exclusive remedy prior to the Closing Date shall be to terminate this Agreement by giving written notice of termination to Buyer and Escrow Agent, whereupon (A) Escrow Agent shall promptly release to Seller the Deposit, and all interest accrued thereon, (B) Escrow Agent shall return to Buyer and Seller all documents deposited by them respectively, which are then held by Escrow Agent, (C) the parties shall be released and relieved of all obligations to each other under this Agreement, except for provisions that expressly survive termination as provided herein (including without limitation, indemnification provisions), (D) Buyer shall return to Seller all documents received by it during the course of its Due Diligence and (E) Buyer shall have no further right to purchase the Property or legal or equitable claims against Seller (except for any breach by Seller of provisions that survive termination) and/or the Property. Buyer shall have no liability to Seller under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Buyer acknowledges that the provisions of this Subsection are a material part of the consideration being given to Seller for entering into this Agreement and that Seller would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Seller against Buyer or by Buyer against Seller commenced after the Closing Date, Seller and Buyer expressly waive any right to any speculative, consequential, or punitive damages. The parties acknowledge and agree that Seller's actual damages as a result of Buyer's default would be difficult or impossible to ascertain and that the deliveries and payments provided for in this paragraph constitute reasonable compensation for its actual damages. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13(b)(i) and by their initials below agree to be bound by its terms.

_____ _____

Sellers' Initials Buyer's Initials

(ii) Buyer shall have the right to terminate this Agreement in the event Seller defaults in the performance of its obligations under this Agreement, or in the event Hamlet Health Investors, LLC and/or Newport Health Investors, LLC, defaults in the performance of their respective obligations under the Hamlet/Newport Purchase Agreement. If this Agreement is terminated by Buyer because Seller has defaulted in the performance of its obligations under this Agreement, and/or a default by Hamlet Health Investors, LLC and/or Newport Health Investors, LLC, under the Hamlet/Newport Purchase Agreement, Buyer's sole and exclusive remedies prior to the Closing Date shall be either: (A) to terminate this Agreement by giving written notice of termination to Seller and Escrow Agent and pursue any and all remedies for Buyer's out-of-pocket costs (including attorneys' fees and court costs), attributable to the termination of this Agreement and supported by documentary evidence, excluding any speculative or punitive damages, whereupon (i) Escrow Agent shall promptly return to Buyer the Deposit, and all interest accrued thereon, and (ii) Escrow Agent shall return to Seller and Buyer all documents deposited by them respectively, which are then held by Escrow Agent, or (B) to pursue the remedy of specific performance of Seller's obligation to perform its obligations under this Agreement. Seller shall have no liability to Buyer under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Seller acknowledges that the provisions of this Subsection are a material part of the consideration being given to Buyer for entering into this Agreement and that Buyer would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Buyer against Seller or by Seller against Buyer commenced after the Closing Date, Buyer and Seller expressly waive any right to any speculative, consequential, punitive or special damages including, without limitation, lost profits. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13.2(b) and by their initials below agree to be bound by its terms.

_____ _____

Sellers' Initials Buyer's Initials

(c) General. In the event a party elects to terminate this Agreement such party shall deliver a notice of termination to the other party.

14. Surveys and PTR.

(a) Buyer has previously obtained a preliminary title report (the "**PTR**") covering the Real Property and the Facility dated prior to the date of this Agreement, together with legible copies of any and all instruments referred to in the PTR as constituting exceptions to title of the Real Property (the "**Title Documents**").

(b) Seller shall have delivered to Buyer a copy of the existing survey, if any, in Seller's possession for the Facility ("**Survey**") in accordance with Section 10(a)(v) herein. Buyer shall be responsible for obtaining an update of the Survey or new Survey, at Buyer's sole cost ("**New Survey**"). On or before ten (10) business days prior to the expiration of the Due Diligence Period, Buyer shall notify Seller and the Title Company ("**Buyer's Title Notice**") of any objections which Buyer may have to the PTR and/or Survey. If Buyer objects to any matters (other than the Permitted Exceptions, as defined herein) which, in Buyer's determination, might adversely affect the ability of Buyer to operate the Facility, Seller shall use its reasonable business efforts to cure same, but shall not be obligated to cure matters other than to obtain the release (at Closing) of the existing mortgage and other monetary liens caused by Seller which may be released by payment of the mortgage payoff or lien amount from Seller's Closing proceeds (collectively, "**Monetary Liens**"). If Seller delivers written notice to Buyer ("**Seller's Title Notice**"), on or before the expiration of the Due Diligence Period that Seller is willing to remove any exceptions objected to by Buyer, then Seller shall be obligated to remove such exceptions on or prior to the Closing and such exceptions shall not be Permitted Exceptions. If Seller does not provide Buyer with Seller's Title Notice or Seller's Title Notice does not provide for Seller's agreement to remove all exceptions objected to by Buyer, then Buyer shall have the right to terminate this Agreement prior to the expiration of the Due Diligence Period or waive Buyer's objection to any exceptions Seller has not agreed to remove with such exceptions becoming Permitted Exceptions upon Buyer waiving its due diligence contingency. Buyer shall, promptly following the execution of this Agreement, commence to use its best efforts to obtain the New Survey as soon as practicable. Notwithstanding the foregoing provisions of this Subsection (b), Buyer shall have the right to object, promptly upon learning of any such new matters during the Due Diligence Period, to any matters raised in the New Survey which were not addressed in the Survey, and the parties shall cooperate with the Title Company, during the Due Diligence Period and as promptly as possible following the delivery of Buyer's objections to such new matters in the New Survey, to resolve any such matters to Buyer's satisfaction. The Due Diligence Period shall not be extended for resolution of any such matters in the New Survey.

15. Cooperation. Following the execution of this Agreement, Buyer and Seller agree that if any event should occur, either within or without the knowledge or control of Buyer or Seller, which would prevent fulfillment of the conditions to the obligations of any party hereto to consummate the transaction contemplated by this Agreement, each such party shall use reasonably commercial efforts to cure or to cause the cure of the same as expeditiously as possible. In addition, each party shall cooperate fully with each other in preparing, filing, prosecuting, and taking any other actions with respect to, any applications, requests, or actions which are or may be reasonable and necessary to obtain the consent of any governmental instrumentality or any third party or to accomplish the transaction contemplated by this Agreement.

16. Indemnification.

(a) Indemnification Provisions.

(i) Subject to the limitation on damages contained in Section 13(b)(ii) hereof, Seller hereby agrees to indemnify, protect, defend and hold harmless Buyer and its officers, directors members shareholders tenants, successors and assigns harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Seller contained in this Agreement or in any certificate or document delivered by Seller pursuant to any of the provisions of this Agreement, unless Seller cures such matter in the manner provided in Section 8(p) herein or (B) the failure to discharge any federal, state or local tax liability, or to pay any other assessments, recoupments, claims, fines, penalties or other amounts or liabilities accrued or payable with respect to any activities of SHI prior to the Closing Date (whether brought before or after the Closing Date), or (C) any obligation which is expressly the responsibility of Seller under this Agreement, or (D) any amounts required to cure citation violations issued by any state health or human services authority on the Facility relating to any period prior to the Closing Date (whether brought before or after the Closing Dates), or (E) any claim by any employee of SHI or Operator relating to any period of employment prior to the Closing Date (whether brought before or after the Closing Date), or (F) the existence against the Real Property of any mechanic's or materialmen's claims resulting from the action or inaction of SHI or anyone acting under authority of SHI, including Operator, or (G) any other cost, claim or liability arising out of or relating to events (other than as a result of the actions of Buyer or Buyer's Consultants) or SHI's ownership, operation or use of the Facility prior to the Closing Date. Any amount due under the aforesaid indemnity shall be due and payable by Seller within 30 days after demand thereof. Seller shall have the right to contest any such claims, liabilities or obligations as provided herein.

(ii) Subject to the limitation on damages contained in Section 13(b)(i) hereof, Buyer hereby agrees to indemnify, protect, defend and hold harmless Seller and its officers, directors, members, shareholders and tenants harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Buyer contained in this Agreement or in any certificate or document delivered by Buyer pursuant to any of the provisions of this Agreement, unless Buyer cures such matter in the manner provided in Section 8(p) herein, or (B) the existence against the Real Property of any mechanic's or materialmen's claims arising from actions of Buyer or Buyer's Consultants prior to the Closing, or (C) any claim by any employee of Buyer relating to any period after the Closing Date, or (D) any other cost, claim or liability arising out of or relating to events (other than as a result of Seller, Operator, Seller's lessee or Seller's consultants) of Buyer's ownership, operation or use of the Facility after the Closing Date, or (E) any obligation which is expressly the responsibility of Buyer under this Agreement. Any amount due under the aforesaid indemnity shall be due and payable by Buyer within thirty (30) days after demand therefor. Buyer shall have the right to contest any such claims, liabilities or obligations as provided herein or any other cost, claim or liability arising out of or relating to events or Buyer's ownership, operation or use of the Facility after the Closing Date.

(iii) The parties intend that all indemnification claims be made as promptly as practicable by the party seeking indemnification (the "**Indemnified Party**"). Whenever any claim shall arise for indemnification hereunder, the Indemnifying Party shall promptly notify the party from whom indemnification is sought (the "**Indemnitor**") of the claim, and the facts constituting the basis for such claim (the "**Indemnification Claim**"). Failure to notify the Indemnitor will not relieve the Indemnitor of any liability that it may have to the Indemnified Party, except to the extent the defense of such action is materially and irrevocably prejudiced by the Indemnified Party's failure to give such notice.

(iv) An Indemnitor shall have the right to defend against an Indemnification Claim, with counsel of its choice reasonably satisfactory to the Indemnified Party, if (a) within fifteen (15) days following the receipt of notice of the Indemnification Claim the Indemnitor notifies the Indemnified Party in writing that the Indemnitor will indemnify the Indemnified Party from and against the entirety of any damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (b) the Indemnitor provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnitor will have the financial resources to defend against the Indemnification Claim and pay, in cash, all damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (c) the Indemnification Claim involves only money damages and does not seek an injunction or other equitable relief, (d) settlement of, or an adverse judgment with respect to, the Indemnification Claim is not in the good faith judgment of the Indemnified Party likely to establish a precedential custom or practice materially adverse to the continuing business interests of the Indemnified Party, and (e) the Indemnitor continuously conducts the defense of the Indemnification Claim actively and diligently.

(v) So long as the Indemnitor is conducting the defense of the Indemnification Claim in accordance with Section 16(a)(iv), then (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Indemnification Claim, (B) the Indemnified Party shall not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnitor (not to be withheld unreasonably), and (C) the Indemnitor will not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld or delayed, provided that it will not be deemed to be unreasonable for an Indemnified Party to withhold its consent with respect to (i) any breach of any law, order or permit, (ii) any violation of the rights of any person, or (iii) any matter which Indemnified Party believes could have a material adverse effect on any other actions to which the Indemnified Party or its Affiliates are party or to which Indemnified Party has a good faith belief it may become party. Notwithstanding the foregoing provisions of this Subsection (v), if Indemnified Party refuses its consent to any of the matters set forth in clauses (i) through (iii) above, the indemnity amount shall be determined as if such consent had been given and Indemnitor shall pay over to the Indemnified Party such amount and be absolved from any further obligation as to that particular claim; Indemnified Party may then resolve the claim in the manner it sees fit without further recourse against Indemnitor.

(vi) Each party hereby consents to the non-exclusive jurisdiction of any governmental body, arbitrator, or mediator in which an action is brought against any Indemnified Party for purposes of any Indemnification Claim that an Indemnified Party may have under this Agreement with respect to such action or the matters alleged therein, and agrees that process may be served on such party with respect to such claim anywhere in the world, provided however, that any venue relating to any claim or proceeding arising out of this Agreement or any other agreement between Sellers and Buyer shall be the State and the laws of the State shall apply.

(b) Insurance Proceeds. In determining the amount of damages for which either party is entitled to assert an Indemnification Claim, the amount of any such claims or damages shall be determined after deducting therefrom the amount of any insurance coverage or proceeds or other third party recoveries received by such other party in respect of such damages. If an indemnification payment is received by the Indemnified Party in respect of any damages and the Indemnified Party later receives insurance proceeds or other third party recoveries in respect of such damages, the Indemnified Party shall immediately pay to the Indemnifying Party a sum equal to the lesser of the actual amount of net insurance proceeds or other third party recoveries (remaining after recovery costs and expenses) or the actual amount of the indemnification payment previously paid by or on behalf of the Indemnified Party.

(c) No Incidental, Consequential and Certain Other Damages. An Indemnitor shall not be liable to an Indemnified Party for incidental, consequential, enhanced, punitive or special damages unless such damages are included in a third-party claim and such Indemnified Party is liable to the third party claimant for such damages.

(d) Indemnification if Negligence of Indemnity; No Waiver of Rights or Remedies.

Each Indemnified Party's rights and remedies set forth in this Agreement shall survive the Closing or other termination of this Agreement, shall not be deemed waived by such Indemnified Party's consummation of the Closing of the sale transactions (unless the Indemnified Party has knowledge of the existence of an Indemnification Claim at Closing and decides to proceed with Closing) and will be effective regardless of any inspection or investigation conducted by or on behalf of such Indemnified Party or by its directors, officers, employees, or representatives or at any time (unless such inspection or investigation reveals the existence of an Indemnified Claim and such party proceeds with Closing), whether before or after the Closing Date.

(e) Other Indemnification Provisions. A claim for any matter not involving a third party may be asserted by notice to the Party from whom indemnification is sought.

(f) Dispute Resolution. Any dispute arising out of or relating to claims for indemnification pursuant to this Article 16 or any other dispute hereunder, shall be resolved in accordance with the procedures specified herein, which shall be the sole and exclusive procedure for the resolution of any such disputes.

17. Notices. Any notice, request for consent or approval, election or other communication provided for or required by this Agreement shall be in writing and shall be delivered by hand, by air courier service, postage prepaid (certified with return receipt requested), fax transmission or electronic transmission followed by delivery of the hard copy of such communication by air courier service or mail as aforesaid, addressed to the person to whom such notice is intended to be given at such address as such person may have previously furnished in writing to the such party's last known address. Until receipt of written notice to the contrary, the parties' addresses for notices shall be:

To Buyer:

Cornerstone Core Properties REIT, Inc.
c/o Cornerstone Healthcare Properties
1920 Main Street, Suite 400
Irvine, CA 92614
Attention: Kent Eikanas
Phone: (949) 812-4335
Email: KEikanas@crefunds.com

With a Copy to:

Heffernan Seubert & French LLP
1075 Curtis Street
Menlo Park, CA 94025
Attention: Rachel Rosati Warner
Phone: (650) 322-2919
Email: rwarner@hsfllp.com

To Seller:

WPC Salem, LLC
Attn: Charles E. Trefzger, Jr.
P.O. Box 2568
Hickory, NC 28603
Phone: (828) 322-5535
Email: CET@meridiansenior.com

With a Copy to: John A. Cocklereece, Jr.
Bell, Davis & Pitt, P.A.
100 North Cherry Street, Suite 600
Winston-Salem, NC 27101
Phone: (336) 722-3700
E-mail:jcockelreece@belldavispitt.com

18. Sole Agreement. This Agreement constitutes the entire understanding between the parties with respect to the transactions contemplated herein, and all prior or contemporaneous oral agreements, understandings representations and statement, and all prior written agreements, understandings, letters of intent and proposals are merged into this Agreement. Neither this Agreement nor any provisions hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument.

19. Assignment; Successors. Neither party shall assign this Agreement without the prior written consent of the other; provided, however, Buyer may assign all of its rights, title, liability, interest and obligation pursuant to this Agreement to one or more entities owned, controlled by or under common control with Buyer. Subject to the limitations on assignment set forth above, all the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the heirs, successors and assigns of the parties hereto.

20. Severability. Should any one or more of the provisions of this Agreement be determined to be invalid, unlawful or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby and each such provision shall be valid and remain in full force and effect.

21. Risk of Loss. Until the Closing Date, Seller shall bear the risk of loss for the Facility and after the Closing Date, the risk of loss of the Facility shall be governed by the Post Closing Lease.

22. Holidays. If any date herein set forth for the performance of any obligations by Seller or Buyer or for the delivery of any instrument or notice as herein provided should be on a Saturday, Sunday or legal holiday, the compliance with such obligations or delivery shall be deemed acceptable on the next business day following such Saturday, Sunday or legal holiday. As used herein, the term “legal holiday” means any state or federal holiday for which financial institutions or post offices are generally closed in the State for observance thereof.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which together shall be deemed to constitute one and the same instrument. Facsimile signature pages or electronically transmitted signature pages shall constitute original counterparts for all purposes.

24. Covenant Not to Compete; Non-Solicitation of Employees. For a period of three (3) years following the Closing Date, Seller agrees (i) not to own, or operate a long term assisted living facility which is located within a ten (10) mile radius of the Facility and (ii) not to solicit the transfer of patients or residents of the Facility to any long term assisted living facility which is managed, leased or operated by any entity owned and/or controlled by any entity owned and/or controlled by any entities of Seller within a ten (10) mile radius of the Facility.

25. Exhibits and Schedules. To the extent that one or more Exhibits or Schedules are not attached to this Agreement at the time this Agreement is executed, Seller and Buyer agree that this Agreement is not rendered unenforceable by reason of such fact. Seller shall provide such exhibits to Buyer during the Due Diligence Period as promptly as possible in order to allow the parties to agree upon such Exhibits and Schedules and to afford Buyer adequate time in which to complete its due diligence review prior to the expiration of the Due Diligence Period.

26. Prevailing Party. Subject to the limitations as otherwise set forth in this Agreement, if an action shall be brought on account of any breach of or to enforce or interpret any of the terms, covenants or conditions of this Agreement, the prevailing party shall be entitled to recover from the other party, as part of the prevailing party's costs, reasonable attorney's fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

27. Time is of the Essence. Time is of the essence of this Agreement.

28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

[Signatures on Following Pages]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement by parties legally entitled to do so as of the day and year first set forth above.

"SELLER":

WPC SALEM, LLC, a
North Carolina limited liability company

By: /s/ Charles Trefzger
Name: Charles Trefzger
Its: Manager

"BUYER":

CORNERSTONE CORE PROPERTIES REIT,
INC., a Maryland corporation

By: /s/ Kent Eikanas
Kent Eikanas, President

Exhibit 31.1

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.

/s/ Kent Eikanas

Date: November 13, 2013

Kent Eikanas
President / Chief Operating Officer

Exhibit 31.2

CERTIFICATIONS OF PRINCIPAL FINANCIAL OFFICER

I, Timothy C. Collins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of **SUMMIT HEALTHCARE REIT**, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2013

/s/ Timothy C. Collins
Timothy C. Collins
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

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

Kent Eikanas and Timothy C. Collins, 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 nine month period ended September 30, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Summit Healthcare REIT, Inc.

Date: November 13, 2013

/s/ Kent Eikanas
Kent Eikanas
President / Chief Operating Officer
(Principal Operating Officer)

Date: November 13, 2013

/s/ Timothy C. Collins
Timothy C. Collins
Chief Financial Officer
(Principal Financial Officer)