

E-002-15
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APR 16 2015

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

HEALTH FACILITIES &
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Fresenius Medical Care Waterloo
Address 624 Voris-Jost Drive
City Waterloo Zip Code 62298 County Monroe
Name of current licensed entity for the facility Fresenius Medical Care of Illinois, LLC
Does the current licensee: own this facility _____ OR lease this facility X (if leased, check if sublease)
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. _____
State Senate District Number _____ Mailing address of the State Senator _____
Illinois State Representative for the district where the facility is located: Rep. _____
State Representative District Number _____ Mailing address of the State Representative _____

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant GAHC3 Waterloo IL Dialysis Center, LLC
Address 18191 Von Karman Avenue, Suite 300
City, State & Zip Code Irvine, CA 92612
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify _____

4. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed Fresenius Medical Care of Illinois, LLC
Address 920 Winter Street
City, State & Zip Code Waltham, MA 02451
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify _____

5. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site GAHC3 Waterloo IL Dialysis Center, LLC
Address 18191 Von Karman Avenue, Suite 300
City, State & Zip Code Irvine, CA 92612
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify _____

- 6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
- Purchase resulting in the issuance of a license to an entity different from current licensee;
 - Lease resulting in the issuance of a license to an entity different from current licensee;
 - Stock transfer resulting in the issuance of a license to a different entity from current licensee;
 - Stock transfer resulting in no change from current licensee;
 - Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
 - Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
 - Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
 - Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
 - Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
 - Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
 - Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"
- 7. APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.
- 8. FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**.
- 9. ANTICIPATED ACQUISITION PRICE:** \$ 2,238,000
- 10. FAIR MARKET VALUE OF THE FACILITY:** \$ 2,238,000
(to determine fair market value, refer to 77 IAC 1130.140)
- 11. DATE OF PROPOSED TRANSACTION:** June 1, 2015
- 12. NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.
- 13. BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4**.
- 14. TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**.
- 15. FINANCIAL STATEMENTS.** (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as **ATTACHMENT #6**. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking **YES X**, and indicate the date the entity was formed 4/6/15

16. PRIMARY CONTACT PERSON. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

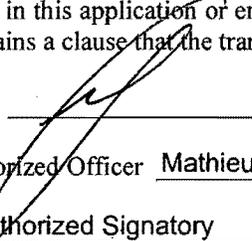
Name: Douglas Hance, Esq.
Address: 171 17th Street NW Suite 2100
City, State & Zip Code: Atlanta, GA 30363
Telephone () Ext. (404) 873-8104

17. ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Hedy Rubinger, Esq.
Address: 171 17th Street NW Suite 2100
City, State & Zip Code: Atlanta, GA 30363
Telephone () Ext. (404) 873-8724

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Mathieu Streiff

Title of Authorized Officer: Authorized Signatory

Address: 18191 Von Karman Ave., Suite 300

City, State & Zip Code: Irvine, CA 92612

Telephone (949) 270-9200 Date: _____

NOTE: complete a separate signature page for each co-applicant and insert following this page.

Index of Attachments

1. Application Fee
2. Type and Source of Funds
3. Narrative Description
4. Background of Applicant
5. Transaction Document
6. Financial Statements

Attachment 1
Application Fee

Attachment 2

Type and Source of Funds

This transaction will be funded by cash from a parent company (Griffin-American Healthcare REIT III, Inc.).

Attachment 3

Narrative Description

This transaction involves the sale of the real estate of Southern Illinois Center for Health in Waterloo, Illinois. The campus includes a dialysis center. The new real estate owner of the dialysis center will be GAHC3 Waterloo IL Dialysis Center, LLC.

Attachment 4

Background of Applicant

Please see the attached ownership memorandum for GAHC3 Waterloo IL Dialysis Center, LLC as well as a current Certificate of Good Standing from the Illinois Secretary of State.

Ownership Memorandum for Applicant

GAHC3 Waterloo IL Dialysis Center, LLC (Proposed Real Estate Owner)

18191 Von Karman Avenue
Suite 300
Irvine, CA 92612

Ownership

GAHC3 Southern Illinois MOB Portfolio, LLC (100%)

GAHC3 Southern Illinois MOB Portfolio, LLC

18191 Von Karman Avenue
Suite 300
Irvine, CA 92612

Ownership

Griffin-American Healthcare REIT III Holdings, LP (100%)

Griffin-American Healthcare REIT III Holdings, LP

18191 Von Karman Avenue
Suite 300
Irvine, CA 92612

Ownership

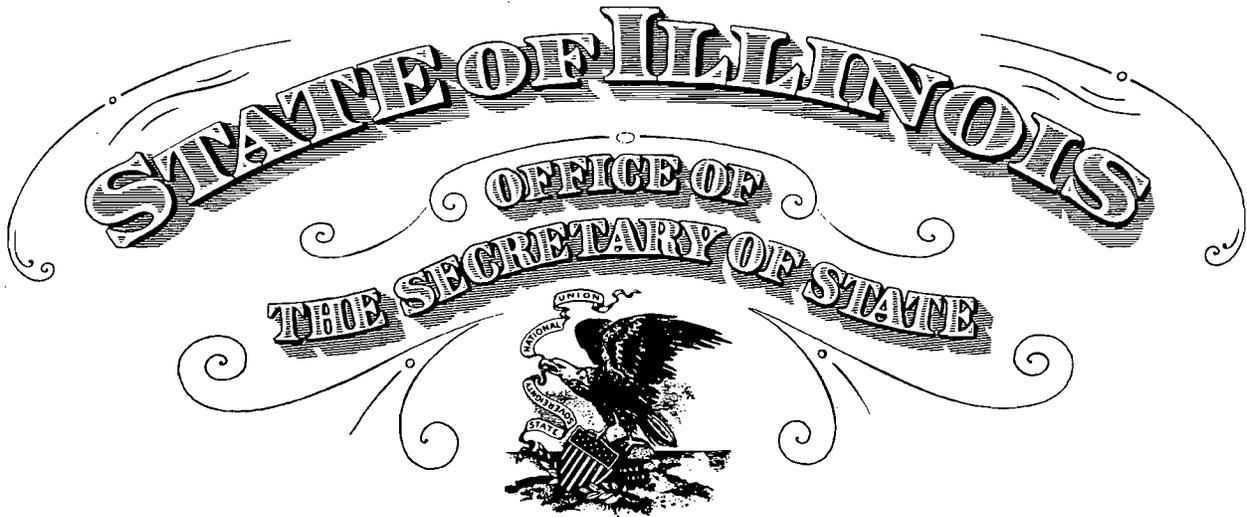
Griffin-American Healthcare REIT III, Inc. (99.99%)
Others with less than a 5% ownership interest in the Proposed Real Estate Owner

Griffin-American Healthcare REIT III, Inc.

18191 Von Karman Avenue
Suite 300
Irvine, CA 92612

Ownership

Others with less than a 5% ownership interest in the Proposed Real Estate Owner



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

GAHC3 WATERLOO IL DIALYSIS CENTER, LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANACT BUSINESS IN ILLINOIS ON APRIL 07, 2015, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A FOREIGN LIMITED LIABILITY COMPANY ADMITTED TO TRANACT BUSINESS IN THE STATE OF ILLINOIS.



In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 8TH day of APRIL A.D. 2015 .

Jesse White

Authentication #: 1509800924

Authenticate at: <http://www.cyberdriveillinois.com>

SECRETARY OF STATE

Attachment 5
Transaction Document

PURCHASE AND SALE AGREEMENT

between

MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC,
an Illinois limited liability company

and

SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION,
an Illinois corporation,
(collectively, "Sellers")

and

GAHC3 SOUTHERN ILLINOIS MOB PORTFOLIO, LLC
a Delaware limited liability company,
("Buyer")

Property:

SOUTHERN ILLINOIS CENTER FOR HEALTH
Waterloo, Illinois

April 13, 2015

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this "Agreement") is entered into effective as of the 13th day of April, 2015 (the "Effective Date"), by and between MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company ("MDCA"), SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation ("SIMDC") (MDCA and SIMDC collectively referred to herein as "Sellers" and individually as "Seller") and GAHC3 SOUTHERN ILLINOIS MOB PORTFOLIO, LLC, a Delaware limited liability company ("Buyer"). Chicago Title Insurance Company ("Escrow Agent") joins in this Agreement for the limited purposes set forth herein.

BACKGROUND

A. This Agreement is made with reference to the following property (collectively, the "Property"):

(1) Sellers' fee interest in that certain real property located at 509 Hamacher Street, Waterloo, Illinois 62298 ("MOB/Imaging Center"), 501 Hamacher Street, Waterloo, Illinois 62298 ("Surgery Center") and that certain real property located at 624 Voris-Yost Drive, Waterloo, Illinois 62298 ("Dialysis Center"), which land is more particularly described on *Exhibit "A"* attached hereto and incorporated herein by this reference, together with all easements, rights and privileges appurtenant thereto, if any (collectively, the "Land"), expressly excluding the real property described on *Exhibit "E"* attached hereto (the "Excluded Property");

(2) All of Sellers' right, title and interest in and to the medical office buildings located upon the Land (the "Buildings"), together with all improvements, structures, fixtures and parking areas located on the Land, if any, and appurtenant thereto (the Building and such improvements, structures, fixtures and parking areas being hereinafter collectively referred to as the "Improvements," and the Land and the Improvements being hereinafter collectively referred to as the "Real Property");

(3) All of Sellers' right, title and interest in and to the tenant leases relating to the Improvements and other occupancy agreements with tenants occupying or using all or any portion of the Real Property (collectively with all amendments thereto, the "Leases"), any and all security deposits, letters of credit, advance rental, or like payments, if any, held by Sellers (collectively, the "Security Deposits"), and all guaranties of the Leases, if any, held by Sellers;

(4) All of Sellers' right, title and interest in and to all fixtures, equipment, furniture, furnishings, appliances, supplies and other personal property of every nature and description attached or pertaining to, or otherwise used in connection with, the Real Property, owned by Sellers and located within the Real Property but expressly excluding any of the foregoing owned or leased by any tenant and any personal property owned by a third party and leased to Sellers (the "Personalty"); and

(5) All of Sellers' right, title and interest in and to all intangible rights and property used in connection with the foregoing, if any, including, without limitation, all development rights, contract rights, guaranties, licenses, plans, drawings permits and warranties

and all of Sellers' rights, title and interest, if any, in and to the trade name "Southern Illinois Center for Health Medical Office Building" as well as all of Sellers' rights and remedies under all construction, design and related agreements relating to the Buildings (collectively, the "Intangible Property").

B. Sellers are prepared to sell, transfer and convey the Property to Buyer, and Buyer is prepared to purchase and accept the same from Sellers, all for the Purchase Price and on the other terms and conditions hereinafter set forth.

TERMS AND CONDITIONS

In consideration of the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto agree:

1. Sale and Purchase. Sellers hereby agree to sell, transfer and convey the Property to Buyer, and Buyer hereby agrees to purchase and accept the Property from Sellers, in each case for the Purchase Price and on and subject to the other terms and conditions set forth in this Agreement.

2. Purchase Price. The purchase price for the Property (the "Purchase Price") shall be Twelve Million One Hundred Eighty-Five Thousand and No/100 Dollars (\$12,185,000.00). Two Million Nine Hundred Sixty Thousand Dollars and No/100 Dollars (\$2,960,000) of the Purchase Price shall be allocated to the Surgery Center, Six Million Nine Hundred Eighty-Seven Thousand Dollars and No/100 Dollars (\$6,987,000) of the Purchase Price shall be allocated to the MOB/Imaging Center and Two Million Two Hundred Thirty-Eight Thousand Dollars and No/100 Dollars (\$2,238,000) of the Purchase Price shall be allocated to the Dialysis Center. In the event that any of the Leases are amended or modified prior to the Closing Date (except as expressly set forth in Section 7.2 of this Agreement) and such amendments or modifications cause the existing rental rates of such leases to increase, the Purchase Price shall be increased in proportion to the additional base rent, on a per year basis ("Adjustment Amount"), generated by such amendment or modification ("Purchase Price Adjustment"). Notwithstanding the foregoing, (a) the term "Adjustment Amount" shall not include any above-market tenant inducements, including but not limited to, above-market free rent abatement, tenant improvement allowances or leasing commissions, and (b) any such amendment or modification shall be subject to the provisions of Section 8.1 of this Agreement. Such Purchase Price Adjustment shall be based on the Adjustment Amount and capitalized by a 7.15% capitalization rate (e.g., an Adjustment Amount of One Hundred Dollars (\$100) per year would increase the Purchase Price by One Thousand Three Hundred Ninety-Eight and 60/100 Dollars (\$1,398.60). Notwithstanding the foregoing, in no event shall the Purchase Price exceed Twelve Million Seven Hundred Four Thousand One Hundred Sixty-Five Dollars (\$12,704,165).

The Purchase Price, subject to the terms and conditions hereinafter set forth, shall be paid to Sellers by Buyer as follows:

2.1 Deposit. Within three (3) business days following the mutual execution and delivery of this Agreement by Buyer and Sellers, Buyer shall deliver to Escrow Agent, in immediately available funds, to be held in escrow and delivered in accordance with this Agreement, a cash deposit in the amount of Five Hundred Thousand and No/100 Dollars

(\$500,000.00) (together with any interest earned thereon, the "Deposit"). Failure of Buyer to timely deliver the Deposit in accordance with the provisions of this Section 2.1 shall entitle Sellers to immediately terminate this Agreement. Upon the expiration of the Inspection Period and the satisfaction, waiver or deemed waiver of the Title Objections raised by Buyer pursuant to Section 3.3 below, and except as expressly set forth elsewhere in this Agreement, the Deposit shall become a non-refundable deposit payable to Sellers in proportion to the allocation set forth above.

2.2 Reserved.

2.3 Payment at Closing. At the consummation of the transaction contemplated hereby (the "Closing"), Buyer shall deliver to Escrow Agent cash or immediately available funds in an amount equal to the Purchase Price, less the Deposit. The Purchase Price, subject to adjustments and apportionments as set forth herein, shall be paid at Closing by wire transfer of immediately available federal funds, transferred to the order or account of Sellers or such other person as Sellers may designate in writing.

The delivery and recording of documents and the disbursement of funds shall be effectuated through the Escrow Agent at the Closing and pursuant to the closing instructions from the parties hereto, which closing instructions shall not modify or diminish the parties' respective obligations hereunder.

2.4 Independent Consideration. Sellers and Buyer acknowledge and agree that One Hundred Dollars (\$100.00) of the Deposit shall be paid to Sellers if this Agreement is terminated for any reason (the "Independent Contract Consideration"), in addition to any other rights Sellers may have hereunder. Moreover, Sellers and Buyer acknowledge and agree that the Independent Contract Consideration has been bargained for and agreed to as additional consideration for Sellers' execution and delivery of this Agreement and is non-refundable to Buyer.

3. Inspection Period. To the extent in the Sellers' possession or control, Sellers shall deliver to Buyer within three (3) business days following the Effective Date of this Agreement, or make available to Buyer at the offices of the Sellers or its property management company, accurate and complete copies of all of the information set forth on Exhibit "N" (collectively, the "Property Information") except for any materials which are confidential, privileged or proprietary in nature, such as (but not limited to) internal memoranda and analyses, appraisals, financial projections, client and investor correspondence and other similar materials (the "Proprietary Materials"). All Property Information shall be uploaded to an online due diligence room, and access thereto shall be given to: LuAnn Chu, Paralegal & Manager, Due Diligence, American Healthcare Investors LLC, 18191 Von Karman Avenue, Suite 300, Irvine, CA 92612, Direct: 949-270-9237, lchu@ahinvestors.com, and such other persons as Buyer shall reasonably direct. In the event that the Closing does not occur in accordance with the terms of this Agreement, Buyer shall upon written request of Sellers either return to Sellers or provide an affidavit to Sellers stating that Buyer has destroyed or caused to be destroyed all of the documents, material or information regarding the Property supplied to Buyer by Sellers.

3.1 During the Inspection Period (as defined below), subject to the terms of the Leases affecting the Property, Buyer, its agents and representatives, shall be entitled to enter

upon the Real Property from time to time (as coordinated through Sellers' property manager), including all leased areas, upon reasonable prior notice to Sellers (and, to the extent applicable, the tenants under the Leases), to perform inspections and tests of the Property, including surveys, environmental studies, examinations and tests of all structural and mechanical systems within the Improvements, and to examine the books and records of Sellers and Sellers' property manager relating to the Property. Before entering upon the Property, Buyer shall furnish to Sellers evidence of general liability insurance coverage in such amounts and insuring against such risks as Sellers may reasonably require.

Notwithstanding the foregoing, Buyer shall not be permitted to interfere unreasonably with Sellers' operations at the Property or disturb or interfere with any tenant's rights or occupancy at the Property, and the scheduling of any inspections shall take into account the timing and availability of access to tenants' premises, subject to tenants' rights under the Leases or otherwise. If Buyer wishes to engage in any testing which is invasive, which will damage or disturb any portion of the Property, which will involve sampling, or which will involve testing of subsurface soils, surface water, or groundwater, Buyer shall obtain Sellers' prior written consent thereto, which may be withheld or conditioned by Sellers in their sole and absolute subjective discretion. Buyer shall repair any damage to the Property caused by any such tests or investigations, and indemnify, defend and hold harmless Sellers, their members and affiliates and their respective directors, officers, managers, employees, agents, successors and assigns from any and all liabilities, claims, losses, suits, demands, costs and expenses resulting from Buyer's entry onto the Property or any inspections undertaken by Buyer.

3.2 The term "Inspection Period," as used herein, shall mean the period commencing on the Effective Date and ending at 5:00 p.m. Pacific Standard time on the date which is thirty (30) days following the later of (a) Buyer's receipt of the Property Information, or (b) the Effective Date. Buyer may terminate this Agreement in its sole discretion by giving written notice of such election to Sellers at any time prior to the expiration of the Inspection Period, in which event the Deposit shall be returned forthwith to Buyer and, except as expressly set forth herein, neither party shall have any further liability or obligation to the other hereunder. In the absence of such written notice of termination, the contingency provided for in this Section 3.2 no longer shall be applicable, and this Agreement shall continue in full force and effect.

3.3 Title and Survey Matters. Within five (5) business days following the Effective Date, Buyer shall cause Escrow Agent (in its capacity as title company issuing the title policy described below, ("Title Company") to furnish to Buyer and Sellers a title commitment (the "Title Commitment") with respect to the Property together with copies of all instruments listed as exceptions to title. Buyer will have until the expiration of the Inspection Period to give written notice to Sellers specifying Buyer's objections to the Title Commitment, title exceptions listed therein, and the survey (collectively, "Title Objections"), if any. If Buyer timely notifies Sellers in writing of the Title Objections, Sellers shall have five (5) business days after receipt of such notice (the "Title Cure Period") to elect (but shall have no obligation whatsoever) to cure any Title Objection, and if so elected, shall either (a) satisfy the Title Objections at Sellers' sole cost and expense and cause the Title Company to revise the Title Commitment to reflect such satisfaction, or (b) provide Buyer and the Title Company with satisfactory evidence that Sellers can and will cure such Title Objections prior to or at Closing (any such matters, the "Committed Cure Exceptions"); *provided, however*, Sellers shall be obligated to remove, pay and/or satisfy

prior to or at Closing any liens against the Property granted or caused by Sellers or their agents (each, a "Monetary Lien"). Failure by Sellers to timely respond in writing to any Title Objections shall be deemed Sellers' decision not to cure any Title Objections. If Sellers elect not to satisfy any of the Title Objections within the Title Cure Period, Buyer has the option, exercisable within five (5) days after the expiration of the Title Cure Period, to either (i) waive the unsatisfied Title Objections, in which event the unsatisfied Title Objections will become Permitted Exceptions (hereinafter defined), or (ii) terminating this Agreement and receiving back the Deposit (less the Independent Contract Consideration), in which latter event Sellers and Buyer will have no further obligations, one to the other, with respect to the subject matter of this Agreement, except for return of the Deposit (less the Independent Contract Consideration) and other provisions that survive this Agreement by their terms. If Buyer fails to notify Sellers in writing within five (5) days after the expiration of the Title Cure Period that Buyer has elected to terminate this Agreement pursuant to this Section 3.3, then Buyer shall be deemed to have waived all unsatisfied Title Objections. If, after the expiration of the Inspection Period, Title Company amends or adds any exception to the Title Commitment other than at the request of Buyer (including any liens against the Property for a liquidated amount that Sellers are not obligated hereunder to satisfy at Closing), the Title Company will notify Buyer and Sellers immediately. Within two (2) business days after Buyer receives notice from Title Company (and the Closing Date shall be extended if needed so that the Closing shall not occur prior to the end of such two (2) business day period), together with a copy of such intervening lien or matter, Buyer shall notify Sellers in writing of any objections thereto (a "Supplemental Title Objection"). If Buyer fails to notify Sellers of such Supplemental Title Objection within such two (2) business day period, Buyer shall be deemed to have waived any objection and approved all such exceptions. If the Supplemental Title Objection is material and adverse to the Property, is not caused by Buyer and Sellers do not agree to remove such matter (other than any Monetary Lien), then Buyer may within two (2) business days after the Supplemental Title Objection, terminate this Agreement and receive a return of the Deposit (less the Independent Contract Consideration), in which latter event Sellers and Buyer will have no further obligations, one to the other, with respect to the subject matter of this Agreement, except for return of the Deposit (less the Independent Contract Consideration) and other provisions that survive this Agreement by their terms. If Sellers have not received written notice from Buyer that Buyer has elected to terminate this Agreement within such two (2) business day period of time, then Buyer shall be deemed to have waived any unsatisfied Supplemental Title Objection. "Permitted Exceptions" shall mean any title or survey item, other than Monetary Liens: (i) not raised as Title Objections by Buyer, or (ii) raised as Title Objections by Buyer but thereafter waived or deemed waived.

4. Representations and Warranties of Sellers. Each Seller individually represents and warrants, solely with respect as itself, the actions to be taken by it, and the Property owned by it (but not with respect to the other Seller, the other Seller's actions, or the Property owned by the other Seller) to Buyer as follows:

4.1 Authority. MDCA is a limited liability company organized under the laws of the State of Illinois and SIMDC is a corporation organized under the laws of the State of Illinois and Sellers have all requisite power and authority to enter into this Agreement and perform their obligations hereunder. The execution, delivery and performance of this Agreement and all documents contemplated hereby by each Seller has been duly and validly authorized by all necessary action on the part of such Seller, and all required consents and approvals have been

duly obtained and will not result in a breach of any of the terms or provisions of, or constitute a default under any indenture, agreement or instrument to which such Seller is a party. This Agreement is a legal, valid and binding obligation of each Seller, enforceable against such Seller in accordance with its terms, subject to the effect of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws affecting the rights of creditors generally.

4.2 No Conflict. Neither the execution, delivery or performance of this Agreement nor compliance herewith (i) conflicts or will conflict with or results or will result in a breach of or constitutes or will constitute a default under (a) the operating agreement of each Seller or any other agreement or instrument to which such Seller is a party or by which all or any part of such Seller's Property is bound or (b) any law or any order, writ, injunction or decree of any court or governmental authority, (ii) results in the creation or imposition of any lien, charge or encumbrance upon its property pursuant to any such agreement or instrument, or (iii) violates any restriction, requirement, covenant or condition to which all or any part of such Seller's Property is bound.

4.3 OFAC Compliance. Neither such Seller nor any of its affiliates, nor any of its respective partners, members, shareholders or other equity owners, and none of its respective employees, officers, directors, representatives or agents is, nor will they become, a person or entity with whom United States persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control ("OFAC") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked Persons List) or under any statute, executive order (including, without limitation, the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action, and is not and will not engage in any dealings or transactions or be otherwise associated with such persons or entities.

4.4 No Governmental Authority Required. No authorization, consent or approval of any governmental authority (including, without limitation, courts) is required for the execution and delivery by such Seller of this Agreement or the performance of its obligations hereunder.

4.5 No Actions. There are no actions, suits or proceedings pending, or, to the best of each Seller's knowledge, threatened against (i) such Seller's Property or any portion thereof, or (ii) such Seller.

4.6 Credit of the Property. Seller has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by Seller's creditors, (iii) suffered the appointment of a receiver to take possession of all or substantially all of Seller's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, (v) admitted in writing its inability to pay its debts as they come due or (vi) made an offer of settlement, extension or composition to its creditors generally.

4.7 Governmental Commitments. Seller has not entered into any material commitments or agreements with any governmental authorities or agencies affecting the portion of such Seller's Property being conveyed to Buyer. Buyer acknowledges that SIMDC has

entered into an agreement with the City of Waterloo to perform certain improvements to the Excluded Property.

4.8 Leases. Seller has delivered or made available to Buyer or will deliver as part of the Property Information true and complete copies of the tenant leases. The list of tenant leases set forth on *Exhibit "B"* attached hereto is true, correct and complete. Each of the tenant leases is in full force and effect. Such Seller is "landlord" or "lessor" under the tenant leases relating to such Seller's Property and is entitled to assign to Buyer, without the consent of any party, the tenant leases. The rent roll to be provided to Buyer is true, correct, and complete. There are no rights to renew, extend or terminate the tenant leases or expand any tenant lease premises, except as shown in the rent roll and the tenant leases. There is no tenant lease which provides that a tenant pays rent in the form of percentage rent. No rent or other payments have been collected in advance for more than one (1) month and no rents or other deposits are held by Seller, except the security deposits described on the rent roll and rent for the current month. Neither Seller nor any tenant is in default under its respective tenant lease, and to Seller's knowledge there exists no condition or circumstance or written notice of any condition or circumstance which, with the passage of time, would constitute a default under any of the tenant leases by any party, except in each case as shown on the rent roll. No tenant has asserted any claim of offset or other defense in respect of its or Seller's obligations under its respective tenant lease. No tenant has (i) to Seller's knowledge filed for bankruptcy or taken any similar debtor-protection measure, (ii) defaulted under its tenant lease, (iii) discontinued operations at the Property or (iv) given notice of its intention to do any of the foregoing.

4.9 No Condemnation. Seller has not received any written notice of any pending or contemplated condemnation, eminent domain or similar proceeding with respect to all or any portion of the Real Property and, to Seller's actual knowledge, no such proceedings are threatened.

4.10 Contracts. There are no construction, management, commission, brokerage, leasing, service, equipment, supply, maintenance or concession agreements entered into by or on behalf of Seller in effect with respect to such Seller's Real Property or the Personalty, except as set forth in *Exhibit "C"* (collectively, the "Contracts"). Seller delivered or will deliver as part of the Property Information or made available to Buyer true and complete copies of the Contracts. Seller has not, within the last year, received any written notice of any default under any contract that has not been cured or waived. To Seller's knowledge, neither Seller nor any counterparty is in material default under any Contracts, and to Seller's knowledge no event exists which, with the passage of time or the giving of notice or both, will become a material default thereunder on the part of the Seller or any counterparty.

4.11 Tenant Improvement Allowances. There are no tenant improvement allowances, tenant improvement obligations of Seller, leasing commissions and/or rent concessions with respect to any of the Leases, except as set forth on *Exhibit "B-1"*.

4.12 Correction of Conditions. Seller has not received any written notice from, and, to Seller's knowledge, there are no grounds for, any association, declarant or easement holder requiring the correction of any condition with respect to such Seller's Property, or any part thereof, by reason of a violation of any other restrictions or covenants recorded against the

Property. To Seller's knowledge Seller is not in default under any such document, nor, to Seller's knowledge, is any other party subject to any such document.

4.13 Compliance. Seller has not received any written notice from, and, to Seller's knowledge there are no grounds for, any governmental agency requiring the correction of any condition with respect to the Property, or any part thereof, by reason of a violation of any applicable federal, state, county or municipal law, code, rule or regulation (including those respecting the Americans With Disabilities Act), which has not been cured or waived. To Seller's knowledge, Seller's and such Seller's Property are in compliance with all applicable federal, state, county and municipal laws, codes, rules and/or regulations. Seller has not received written notice from any governmental agency or other body of any existing violations of any federal, state, county or municipal laws, ordinances, orders, codes, regulations or requirements affecting the Real Property which have not been cured.

4.14 Zoning. To Seller's knowledge, such Seller's Property is properly zoned for its current use. To Seller's knowledge there is no pending or, to the best of Seller's knowledge, threatened request, application or proceeding to alter or restrict the zoning or other use restrictions applicable to the Property. To Seller's knowledge there is no plan, study or effort by any governmental authority or agency or any private party or entity that in any way affects or would affect the authorization of the current use and operation of the Property.

4.15 Property Permits. Seller has not received any written notice of an intention to revoke any certificate of occupancy, license, or permit issued in connection with such Seller's Property.

4.16 Structural Defects. To Seller's knowledge, there are no material defects in the structural elements of the Improvements and all Improvements (including, without limitation, machinery, equipment, electrical, plumbing, heating and air conditioning systems and equipment) located on such Seller's Property are in good mechanical working order, condition and repair, and are structurally safe and sound and have no material defect (reasonable wear and tear excepted), and to Seller's knowledge there is no leak or material defect in any roof located upon such Seller's Property.

4.17 Hazardous Materials. To Seller's knowledge, there are no Hazardous Materials (as defined below) stored on, incorporated into, located on, present in or used on such Seller's Property in violation of, and requiring remediation under, any laws, ordinances, statutes, codes, rules or regulations. For purposes of this Agreement, the term "Hazardous Materials" shall mean any substance which is or contains: (i) any "hazardous substance" as now or hereafter defined in Section 101(14) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. § 9601, *et seq.*) ("CERCLA") or any regulations promulgated under CERCLA; (ii) any "hazardous waste" as now or hereafter defined in the Resource Conservation and Recovery Act (42 U.S.C. § 6901, *et seq.*) ("RCRA") or regulations promulgated under RCRA; (iii) any substance regulated by the Toxic Substances Control Act (15 U.S.C. § 2601, *et seq.*); (iv) gasoline, diesel fuel or other petroleum hydrocarbons; (v) asbestos and asbestos containing materials, in any form, whether friable or non-friable; (vi) polychlorinated biphenyls; (vii) radon gas; and (viii) any additional substances or materials which are now or hereafter classified or considered to be hazardous or toxic under any laws, ordinances, statutes, codes, rules, regulations, agreements, judgments, orders and

decrees now or hereafter enacted, promulgated, or amended, of the United States, the state, the county, the city or any other political subdivision in which the Property is located and any other political subdivision, agency or instrumentality exercising jurisdiction over the owner of the Property, the Property or the use of the Property relating to pollution, the protection or regulation of human health, natural resources or the environment, or the emission, discharge, release or threatened release of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or waste into the environment (including, without limitation, ambient air, surface water, ground water or land or soil). Seller has received no notice that such Seller's Property or any portion thereof contains any form of toxic mold. No treatment has been undertaken by Seller with respect to termite or similar infestation, fungi, or dry rot on such Seller's Property other than normal periodic service, and to Seller's knowledge, there is no damage to any portion of such Seller's Property from termite or similar infestation, fungi or dry rot.

4.18 Litigation. To Seller's knowledge there is no action, suit, court or arbitration proceedings, or administrative action or proceeding, which is pending or threatened against or affecting such Seller's Property or arising out of the ownership, management or operation of the Real Property.

4.19 FIRPTA. Seller is not a "foreign person" as defined in Section 1445(f)(3) of the Internal Revenue Code.

4.20 No Bankruptcy. Seller has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition of Seller's creditors, (iii) suffered the appointment of a receiver to take possession of all, or substantially all, of Seller's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, (v) admitted in writing its inability to pay its debts as they come due or (vi) made an offer of settlement, extension or composition to its creditors generally.

4.21 Liens. To Seller's knowledge there are no claims pending or unpaid bills which would result in the creation of any lien on such Seller's Property for any improvements completed or in progress, including, but not limited to, water, sewage, street paving, electrical or power improvements, except for the approximately Ninety-Seven Thousand and No/100 Dollars (\$97,000.00) owed to contractors by the tenant occupying the Dialysis Center. There are no delinquent bills or claims in connection with any repair of such Seller's Property by Seller or other work or material purchased by Seller in connection with such Seller's Property which will not be paid by or at the Closing or placed in escrow pursuant to the provisions of this Agreement. Seller shall provide Buyer with such assurances and protections as reasonably requested by Buyer, that such amount shall be timely and fully paid.

4.22 Insurance. Seller has received no notices or requests from any insurance company issuing any policy of insurance covering such Seller's Property requesting the performance of any work with respect to such Seller's Property or the Improvements located thereon which has not been fully complied with. Seller represents that such Seller's Property is currently insured as set forth in the Property Information.

4.23 Operation. Seller has not received any written notice relating to the operation of such Seller's Property from any agency, board, commission, bureau or other

instrumentality of any government, whether federal, state or local, that, Seller is not in compliance in all material respects with, nor does Seller have any knowledge that Seller is not in compliance with, all applicable statutes, rules, regulations and requirements of all federal, state and local commissions, boards, bureaus and agencies having jurisdiction over Seller and such Seller's Property and Improvements. With respect to such Seller's Property, Sellers has timely filed all reports, data and other information required to be filed with such commissions, boards, bureaus and agencies where a failure to file timely would have a material adverse effect on the transactions contemplated hereby or the intended operation of the Property and Improvements.

4.24 Change of Facts. Seller shall immediately notify Buyer, in writing, of any event or condition known to Seller which occurs prior to the Closing, which causes a change in the truth of any of the representations or warranties.

4.25 On-Site Employees. There are no on-site employees of Seller or its affiliates at the Property, and upon the Closing Date, Buyer shall have no obligation to employ or continue to employ any individuals employed by Seller or its affiliates in connection with the Property.

4.26 Information. To Seller's knowledge, all information given by Seller to Buyer in this Agreement or in connection with the transactions contemplated hereunder shall be true and accurate in every material respect as of the date hereof and at the Closing, the foregoing representations and warranties of Seller shall be remade as of the Closing Date, and Seller has not failed to disclose any fact to Buyer known to Seller necessary to make the statements herein or otherwise provided in connection with the transactions contemplated hereunder not misleading and Seller has no knowledge or information of any facts, circumstances, or conditions that are inconsistent with the representations and warranties contained herein. Seller shall promptly inform Buyer in writing if Seller becomes aware that there occurs any (i) material adverse change in the condition, financial or otherwise, of such Seller's Property, or the operation thereof, at any time prior to the Closing Date or (ii) if any information, document, agreement or other material delivered to Buyer by Seller is amended, superseded, modified or supplemented.

4.27 No Other Options. Other than this Agreement and the Permitted Exceptions, such Seller's Property is not subject to any outstanding agreement(s) of sale or options, rights of first refusal or other rights of purchase. Buyer acknowledges that SIMDC has disclosed the existence of the right of first refusal in favor of Missouri Baptist Medical Center, which SIMDC represents and warrants was waived by Missouri Baptist Medical Center pursuant to a letter dated February 10, 2015, with respect to the economic terms of this transaction, provided the transactions contemplated herein are closed within six (6) months after the date of said letter.

4.28 Survivability of Representations and Warranties. The representations and warranties of Seller and Buyer set forth in this Agreement are remade as of the Closing Date and shall not be deemed to be merged into or waived by the instruments of Closing and shall survive after the Closing Date for a period of twelve (12) months.

4.29 Limitations Regarding Representations and Warranties. For purposes of this Agreement "to Seller's knowledge" or "to the actual knowledge of Seller" or phrases of

similar construction shall mean and refer to the actual knowledge of William J. Rebholz, without duty to investigate. Sellers represent and warrant that: (i) William J. Rebholz is the managing member of MDCA; (ii) William J. Rebholz is the Chief Executive Office of SIMDC; and (iii) in his capacity with each Seller, William J. Rebholz is responsible for oversight of material items affecting the Property. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, IT IS UNDERSTOOD AND AGREED THAT SELLERS ARE NOT MAKING AND HAVE NOT AT ANY TIME MADE ANY WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, WITH RESPECT TO THE PROPERTY, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OR REPRESENTATIONS AS TO HABITABILITY, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

BUYER ACKNOWLEDGES AND AGREES THAT UPON CLOSING SELLERS SHALL SELL AND CONVEY TO BUYER AND BUYER SHALL ACCEPT THE PROPERTY "AS IS, WHERE IS, WITH ALL FAULTS", EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, AND/OR IN THE TRANSACTION DOCUMENTS REFERENCED HEREIN.

BUYER REPRESENTS TO SELLERS THAT BUYER HAS CONDUCTED, OR WILL CONDUCT PRIOR TO CLOSING, SUCH INVESTIGATIONS OF THE PROPERTY, INCLUDING BUT NOT LIMITED TO, THE PHYSICAL AND ENVIRONMENTAL CONDITIONS THEREOF, ZONING, ENTITLEMENT AND USE RESTRICTIONS AFFECTING THE PROPERTY, AS BUYER DEEMS NECESSARY OR DESIRABLE TO SATISFY ITSELF AS TO THE CONDITION OF THE PROPERTY AND THE EXISTENCE OR NONEXISTENCE OR CURATIVE ACTION TO BE TAKEN WITH RESPECT TO ANY HAZARDOUS OR TOXIC SUBSTANCES ON OR DISCHARGED FROM THE PROPERTY, AND AS TO BUYER'S PROPOSED DEVELOPMENT AND/OR USE OF THE PROPERTY, AND WILL RELY SOLELY UPON SAME AND NOT UPON ANY INFORMATION PROVIDED BY OR ON BEHALF OF SELLERS OR ITS AGENTS OR EMPLOYEES WITH RESPECT THERETO AND THE REPRESENTATIONS AND WARRANTIES OF SELLERS EXPRESSLY SET FORTH HEREIN.

THE PROVISIONS OF THIS SECTION SHALL SURVIVE CLOSING OR ANY TERMINATION OF THIS AGREEMENT WITHOUT LIMIT.

5. Representations of Buyer. Buyer represents and warrants that:

5.1 Authority. Buyer is a limited liability company, duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by Buyer has been duly authorized.

5.2 No Conflict. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder on the part of Buyer does not and will not violate any applicable law, ordinance, statute, rule, regulation, order, decree or judgment, conflict with or result in the breach of any material terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge, or encumbrance upon any of the property or assets of the Buyer by reason of the terms of any contract, mortgage, lien, lease,

agreement, indenture, instrument or judgment to which Buyer is a party or which is or purports to be binding upon Buyer or which otherwise affects Buyer, which will not be discharged, assumed or released at Closing. No action by any federal, state or municipal or other governmental department, commission, board, bureau or instrumentality is necessary to make this Agreement a valid instrument binding upon Buyer in accordance with its terms.

5.3 Source of Funds. Buyer has available to it unrestricted funds which it may use in its sole discretion to pay the full Purchase Price and otherwise comply with the provisions of this Agreement. Buyer acknowledges and agrees that its obligations hereunder are not contingent upon Buyer obtaining financing for the purchase of the Property.

5.4 OFAC Compliance. Buyer is in compliance with the requirements of Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) (the "Order") and other similar requirements contained in the rules and regulations of OFAC and in any enabling legislation or other Executive Orders or regulations in respect thereof (the Order and such other rules, regulations, legislation or executive orders are collectively referred to herein as the "Orders"). Neither Buyer nor any beneficial owner of Buyer:

5.4.1 is listed on the Specifically Designated Nationals and Blocked Persons List maintained by OFAC pursuant to the Orders or on any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders (collectively, the "Lists");

5.4.2 is a person who has been determined by competent authority to be subject to the prohibitions contained in the Orders;

5.4.3 is owned or controlled by, or acts for or on behalf of, any person or entity listed on the Lists or any other person or entity who has been determined by competent authority to be subject to the prohibitions contained in the Orders; or

5.4.4 shall transfer or permit the transfer of any interest in Buyer or any beneficial owner in Buyer to any person or entity who is, or any of whose beneficial owners are, listed on the Lists.

6. Conditions Precedent.

6.1 Conditions Precedent to Buyer's Obligations. All of Buyer's obligations hereunder are expressly conditioned on the satisfaction at or before the time of Closing hereunder, or at or before such earlier time as may be expressly stated below, of each of the following conditions (any one or more of which may be waived in writing in whole or in part by Buyer, at Buyer's option):

6.1.1 Accuracy of Representations. All of the representations and warranties of Sellers contained in this Agreement shall have been true and correct in all material respects when made, and shall be true and correct in all material respects on the date of Closing with the same effect as if made on and as of such date, except (i) as the same may be modified as a result of matters permitted or contemplated by the terms of this Agreement or otherwise as a result of matters outside of the control of Sellers or (ii) to the extent modifications thereto do not

materially and adversely affect the value to Buyer of the transactions contemplated by this Agreement.

6.1.2 Performance. Sellers shall have performed, observed and complied with all material covenants, agreements and conditions required by this Agreement to be performed, observed and complied with on its part prior to or as of Closing hereunder.

6.1.3 Documents and Deliveries. All instruments and documents required on Sellers' part to effectuate this Agreement and the transactions contemplated hereby shall be delivered at Closing and shall be in form and substance consistent with the requirements herein.

6.1.4 Tenant Estoppel Certificates. Sellers shall have met the Estoppel Certificate Requirement. Sellers shall request from each of the tenants at the Property, and promptly deliver to Buyer to the extent received, estoppel certificates either (a) substantially in the form of *Exhibit "D"* attached hereto or (b) in such form as is permitted by any tenant Lease (in either case, an "Estoppel Certificate" or "Estoppel Certificates"); *provided, however*, that if the Estoppel Certificate is not substantially in the form of *Exhibit "D"* attached hereto, Buyer shall have the right to review and approve such Estoppel Certificate, which approval shall be deemed given if Buyer does not provide specific objections to the form of the Estoppel Certificate within three (3) days after receipt thereof. Further, Buyer shall have the right to review and approve all Estoppel Certificates before such Estoppel Certificates are sent to any tenant, which approval shall be deemed given if Buyer does not provide specific objectives to the Estoppel Certificate within three (3) days after receipt thereof. For purposes of this Agreement, the "Estoppel Certificate Requirement" shall be receipt by Buyer of Estoppel Certificates duly executed by the tenants under the leases listed on *Exhibit "B-2"* attached hereto, such certificates to be dated (i) not more than forty-five (45) days prior to Closing. An Estoppel Certificate shall be deemed to satisfy the Estoppel Certificate Requirement notwithstanding the respective tenant's qualifying any statement or certification therein by a "best of knowledge" standard or similar provision and notwithstanding any other revisions thereon except to the extent the same are inconsistent with the Lease documents provided by Sellers to Buyer and/or the representations of Sellers contained herein. To the extent the Closing is extended pursuant to the terms of this Agreement or by mutual agreement of Buyer and Sellers, Buyer agrees to accept Estoppel Certificates dated more than forty-five (45) days prior to such extended Closing Date and shall not require Sellers to obtain new Estoppel Certificates dated within forty-five (45) days of such extended Closing Date.

6.1.5 Intentionally Deleted.

6.1.6 Restrictive Covenant. On or prior to the Closing Date, SIMDC shall have caused the Restrictive Covenant (defined below) to be recorded against the Excluded Property.

6.1.7 Title Policy. On the Closing Date, the Title Company shall be unconditionally obligated and prepared, subject to the payment of the applicable title insurance premium and other related charges, to issue to Buyer a 2006 ALTA Extended Coverage Owner's Policy of Title Insurance insuring the fee simple title to the Real Property in Buyer with liability in the amount of the Purchase Price, subject only to the Permitted Exceptions.

6.1.8 Certificate of Need. On or prior to the Closing Date, Buyer shall have obtained any Certificate of Need required by local governmental authorities to lawfully effectuate this transaction. Buyer and Seller shall cooperate in good faith to obtain any such Certificate of Need, and to provide to the applicable governmental authority any information reasonably required for the same.

6.2 Conditions Precedent to Sellers' Obligations. All of Sellers' obligations hereunder are expressly conditioned on the satisfaction at or before the time of Closing hereunder of each of the following conditions (any one or more of which may be waived in writing in whole or in part by Sellers, at Sellers' opinion):

6.2.1 Accuracy of Representations. All of the representations and warranties of Buyer contained in this Agreement shall have been true and correct in all material respects when made, and shall be true and correct in all material respects on the date of Closing with the same effect as if made on and as of such date, except (i) as the same may be modified as a result of matters permitted or contemplated by the terms of this Agreement or otherwise as a result of matters outside of the control of Buyer or (ii) to the extent modifications thereto do not materially and adversely affect the value to Seller of the transactions contemplated by this Agreement.

6.2.2 Intentionally Deleted.

6.2.3 Performance. Buyer shall have performed, observed and complied with all material covenants, agreements and conditions required by this Agreement to be performed, observed and complied with on its part prior to or as of Closing hereunder.

6.2.4 Funds and Documents. All funds and documents required on Buyer's part to effectuate this Agreement and the transactions contemplated hereby shall be delivered at Closing and shall be in form and substance consistent with the requirements herein.

6.2.5 Certificate of Need. On or prior to the Closing Date, Buyer shall have obtained any Certificate of Need required by local governmental authorities to lawfully effectuate this transaction. Buyer and Seller shall cooperate in good faith to obtain any such Certificate of Need, and to provide to the applicable governmental authority any information reasonably required for the same.

7. Failure of Conditions. Except as expressly set forth herein, in the event (i) Sellers shall not be able to convey title to the Property on the Closing Date in accordance with the provisions of this Agreement or (ii) the Estoppel Certificate Requirement has not been satisfied and in any such case Buyer has performed and is not in breach or default hereunder, then Buyer shall have the option, exercisable by written notice to Sellers at or prior to Closing, of (1) accepting at Closing such title as Sellers are able to convey and/or waiving any unsatisfied condition precedent, with no deduction from or adjustment of the Purchase Price, or (2) declining to proceed to Closing. In the latter event, except as expressly set forth herein, all obligations, liabilities and rights of the parties under this Agreement shall terminate, and the Deposit shall be returned to Buyer.

7.1 Intentionally Deleted.

7.2 Failure to Amend ATI Lease. SIMDC shall use good faith efforts to cause ATI Physical Therapy (currently occupying Suite 101 of the MOB/Imaging Center) to amend its lease ("ATI Lease"), in a form reasonably approved by Buyer (the "ATI Lease Amendment"), to extend the existing term until October 31, 2020 at a triple net rate of Twenty-One and No/100 Dollars (\$21) per square foot with a three percent (3%) annual rent escalation. Notwithstanding anything to the contrary contained in this Agreement, in the event that the ATI Lease Amendment is not executed prior to the Outside Closing Date, then Buyer shall have the right, at Buyer's sole and absolute discretion, to extend the Closing Date to any business day within the period that is forty (40) days following the Outside Closing Date but in no event later than June 30, 2015 (the "Extended Closing Date") by providing written notice to Sellers on the Outside Closing Date (an "Extension Notice"). Further, in the event that (i) the ATI Lease Amendment is not executed prior to the Outside Closing Date and Buyer has not provided Sellers an Extension Notice or (ii) Buyer provides Sellers an Extension Notice and the ATI Lease Amendment is not executed prior to the Extended Closing Date then, Buyer shall not have the option to terminate this Agreement, but, as Buyer's sole and exclusive remedy, a portion of the Purchase Price in the amount of Five Hundred Thousand Dollars (\$500,000) (the "Holdback Amount") shall be retained by Escrow Agent subject to the terms of a post-closing escrow agreement to be executed and delivered at Closing by Buyer, Seller and Escrow Agent in the form attached hereto as *Exhibit "O"* (the "Post-Closing Escrow Agreement"). The Holdback Amount shall be held and disbursed by Escrow Agent in compliance with the Post-Closing Escrow Agreement. In the event the parties are unable to obtain an executed ATI Lease Amendment prior to the Closing Date, Seller shall use commercially reasonable efforts to amend the ATI Lease, in a form reasonably approved by Buyer, prior to its expiration, to extend the existing term until October 31, 2020 at a triple-net rate of Twenty-One and No/100 Dollars (\$21.00) per square foot with a three percent (3%) annual rent escalation, or such other terms rental rates as acceptable to Buyer and Seller, and Buyer shall cooperate in good faith with Seller to obtain such ATI Lease amendment, in accordance with the Post-Closing Escrow Agreement. This Section 7.2 shall survive the Closing.

7.3 No Effect of Dual Extension Notice. In the event Buyer provides Sellers with an Extension Notice as provided in Sections 7.1 and 7.2 of this Agreement, such dual extension shall not be deemed to extend the Closing Date to any day following the Extended Closing Date as defined in Section 7.1 of this Agreement.

8. Pre-Closing Matters. From and after the expiration of the Inspection Period and until the Closing or earlier termination of this Agreement, except as otherwise set forth below:

8.1 Leasing Matters. Except for the lease described in Section 7.2 of this Agreement Sellers shall not, without the written consent of Buyer, which shall be at Buyer's sole and absolute discretion (i) effect any material change in any Lease, (ii) renew or extend the term of any Lease, unless the same is an extension or expansion permitted pursuant to the terms of an existing Lease, or (iii) enter into any new Lease or cancel or terminate any Lease. When seeking consent to a new or modified Lease, Sellers shall provide notice of the identity of the tenant, a term sheet, letter of intent or draft lease amendment containing material business terms (including, without limitation, rent, expense base, concessions, tenant improvement allowances, brokerage commissions, and expansion and extension options) and whatever credit and background information with respect to such tenant as Sellers customarily obtains in connection

with similar leases of the Property. Buyer shall be deemed to have consented to any proposed Lease or Lease modification if it has not responded to Sellers within three (3) business days after receipt of such information. Sellers shall deliver to Buyer copies of executed versions of any such documents within three (3) business days after the full execution and delivery thereof.

8.2 Adjustment of New Leasing Expenses. Any tenant improvement costs, rent abatements, rent concessions or commissions under Leases or renewals, or any other tenant inducement provided by Sellers to any tenant, entered into after the Effective Date in accordance with the terms of this Agreement shall be apportioned between Sellers and Buyer as of the date of the Closing. Sellers shall be responsible for the share of such costs attributable to the portion, if any, of the term of the Lease or renewal occurring prior to the Closing, and Buyer shall be responsible for the share of such costs attributable to the portion of the term of the Lease or renewal occurring after the Closing, with the cost of any tenant improvement, refurbishment rent abatements, rent concessions or commission under said Leases being amortized over the term of the Lease or renewal on a straight line basis. To the extent that said costs are the responsibility of Buyer, they shall be credited to Sellers at Closing, if paid by Sellers prior to Closing, or paid by Buyer, if due after Closing. To the extent that said costs are the responsibility of Sellers, they shall be credited to Buyer at Closing, if not paid as of Closing, or paid by Sellers prior to Closing.

8.3 Adjustments of Leasing Expenses. Any tenant improvement costs, rent abatements, concessions or commissions under Leases or renewals, or any other tenant inducement provided by Sellers to any tenant, entered into prior to the Effective Date, whether payable prior to or after Closing, shall be Sellers' responsibility and credited to Buyer at Closing if not paid by Sellers prior to Closing. To the extent that any tenant terminates its Lease and pays a termination penalty pursuant to the terms of its Lease, the termination penalty shall be paid to the Buyer and if paid to Sellers prior to Closing, shall be credited to Buyer at Closing.

8.4 Termination for Default. Notwithstanding anything in this Agreement to the contrary, Sellers may cancel or terminate any Lease or commence collection, unlawful detainer or other remedial action against any tenant with Buyer's consent, not to be unreasonably withheld, upon the occurrence of a default by the tenant under said Lease. Sellers shall deliver to Buyer copies of all default notices and correspondence delivered to or received from any of the tenants in connection with the Leases after the Effective Date of this Agreement.

8.5 Operation of Property. From and after the date of this Agreement and until the Closing or earlier termination of this Agreement, Sellers shall operate, maintain and manage the Property in the same manner as Sellers have in the past, including continuing repair and preventative maintenance and maintenance of insurance with respect thereto.

8.6 Contracts. Buyer shall give notice to Sellers on or before the expiration of the Inspection Period of any Contracts which Buyer elects to not continue after Closing, and Sellers shall take such steps as are necessary to terminate such Contracts to the extent such Contracts are able to be terminated. All Contracts not so terminated (collectively, the "Assigned Contracts") shall be assigned to and assumed by Buyer at Closing. From and after the Effective Date of this Agreement, Sellers shall provide Buyer with copies of any new Contracts. From and after the Effective Date, Sellers shall not enter into any new Contracts which are not terminable with thirty (30) days or less prior notice without Buyer's consent. From and after the expiration

of the Inspection Period, Sellers shall not enter into any new Contracts without the prior written consent of Buyer, which consent shall not be unreasonably withheld, conditioned or delayed. Buyer shall be deemed to have consented to any proposed new Contract if Buyer has not responded within three (3) business days after Sellers' request for consent thereto.

8.7 No Contracting for Sale of Property. Sellers shall not enter into any contract or other written agreement for sale of the Property with any other party.

8.8 No Liens on Property. Sellers shall not voluntarily create any liens, easements or other conditions affecting any portion of the Property without the prior written consent of Buyer, which shall not be unreasonably withheld, conditioned or delayed.

8.9 Restrictive Covenant. Promptly after the Effective Date and prior to the expiration of the Inspection Period, Buyer and Seller shall cooperate in good faith to agree upon and finalize a restrictive covenant to be recorded against the Real Property and the Excluded Property (the "Restrictive Covenant") at Closing. The Restrictive Covenant shall provide that SIMDC and/or any of SIMDC's heirs, executors, administrators, successors and assigns shall not build any healthcare related facilities on the Excluded Property nor use the Excluded property for any healthcare related activity without Buyer's prior written consent, which consent shall be in Buyer's sole and absolute discretion; *provided, however*, the following healthcare related facilities and uses shall not require the prior written consent of Buyer: (i) in-patient beds, (ii) skilled nursing, (iii) sleep clinic, (iv) women's wellness center, (v) urgent care, (vi) hospital, (vii) orthodontics, (viii) oral surgery, (ix) dental, (x) radiation oncology, (xi) orthopedic center of excellence, (xii) infusion center and/or (xiii) pharmacy. Further, the Restrictive Covenant shall provide that the benefits thereof shall run with the Real Property and inure to the benefit of Buyer and Buyer's heirs, executors, administrators, successors and assigns. Finally, the Restrictive Covenant shall provide that the burdens thereof shall run with the Excluded Property and shall be binding upon SIMDC and SIMDC's heirs, executors, administrators, successors and assigns.

9. Closing; Deliveries.

9.1 Time of Closing. The Closing shall take place on the date that is the later of (a) ten (10) days following the expiration of the Inspection Period and (b) five (5) business days following the date the ATI Lease Amendment is executed (such date, the "Closing Date") through an escrow closing with the Escrow Agent, unless otherwise agreed to in writing by both Sellers and Buyer; *provided, however*, the Closing Date shall be no later than thirty (30) days following the expiration of the Inspection Period and in no event later than June 30, 2015 (the "Outside Closing Date") unless the Closing Date is extended by Buyer as provided in Sections 7.1 and 7.2 of this Agreement. If any date on which the Closing would occur by operation of this Agreement is not a business day, the Closing shall occur on the next business day. As used in this Agreement, "business day" shall mean any day which is not a Saturday, Sunday or legal holiday.

9.2 Sellers Deliveries. On or prior to the Closing Date, each Seller shall deliver to Escrow Agent the following:

9.2.1 Special warranty deed (the "Deed") for the Real Property owned by such Seller substantially in the form attached hereto as *Exhibit "F,"* duly executed and acknowledged by Seller.

9.2.2 A bill of sale (the "Bill of Sale") for the Personalty from Seller, substantially in the form attached hereto as *Exhibit "G,"* duly executed by Seller.

9.2.3 An assignment and assumption of Leases, Contracts and Security Deposits (the "Assignment and Assumption of Leases, Contracts and Security Deposits") from Seller, substantially in the form attached hereto as *Exhibit "H,"* duly executed by Seller.

9.2.4 An assignment of the Intangible Property (the "Assignment of Intangible Property") from Seller, substantially in the form attached hereto as *Exhibit "I,"* duly executed by Seller.

9.2.5 A notice to tenants (the "Tenant Notice Letter") from Seller advising of the sale of the Property and directing that rent and other payments thereafter be sent to Buyer at the address provided by Buyer at Closing, substantially in the form attached hereto as *Exhibit "J,"* duly executed by Seller.

9.2.6 An owner's affidavit sufficient for Title Company to issue, without extra charge, an owner's policy of title insurance free of any exceptions for unfiled mechanics' or materialmen's liens for work performed by Seller (but not any tenants) prior to Closing, or for rights of parties in possession other than pursuant to the Leases.

9.2.7 A Non-Foreign Affidavit as required by the Foreign Investors in Real Property Tax Act ("FIRPTA"), as amended, in the form of *Exhibit "K,"* duly executed by Seller.

9.2.8 A certification by Seller substantially in the form attached hereto as *Exhibit "M"* that all representations and warranties made by such Seller in Section 4 of this Agreement are true and correct in all material respects on the date of Closing, except as may be set forth in such certificate.

9.2.9 The Restrictive Covenant duly executed and acknowledged by SIMDC.

9.2.10 Keys or combinations to all locks at the Property, to the extent in Seller's possession. Buyer hereby acknowledges and agrees that Seller shall be permitted to make the items described in this Section 9.2.10 available to Buyer at the Property in lieu of delivering them to Escrow Agent.

9.2.11 Originals of the Leases and copies of lease files at the Real Property, and originals of any Assumed Contracts (except the Proprietary Materials), in each case to the extent in Seller's possession. Buyer hereby acknowledges and agrees that Seller shall be permitted to make the items described in this Section 9.2.11 available to Buyer at the Property in lieu of delivering them to Escrow Agent.

9.2.12 All other instruments and documents reasonably required to effectuate this Agreement and the transactions contemplated thereby.

9.3 Buyer Deliveries. On or prior to the Closing Date, Buyer shall deliver to Escrow Agent the following:

9.3.1 A wire transfer of the Purchase Price in the amount required under Section 2.3 hereof (subject to the adjustments provided for in this Agreement).

9.3.2 A certification by Buyer substantially in the form attached hereto as *Exhibit "M"* that all representations and warranties made by Buyer in Section 5 of this Agreement are true and correct in all material respects on the date of Closing, except as may be set forth in such certificate.

9.3.3 The Bill of Sale, duly executed by Buyer.

9.3.4 The Assignment and Assumption of Leases, Contracts and Security Deposits, duly executed by Buyer.

9.3.5 The Assignment of Intangible Property, duly executed by Buyer.

9.3.6 The Restrictive Covenant, duly executed and acknowledged by Buyer.

9.3.7 All other instruments and documents reasonably required to effectuate this Agreement and the transactions contemplated thereby.

10. Apportionments; Taxes; Expenses.

10.1 Apportionments.

10.1.1 Taxes and Operating Expenses. All real estate taxes, charges and assessments affecting the Property ("Taxes"), all charges for water, electricity, sewer rental, gas, telephone, fuel oil and all other utilities ("Operating Expenses"), to the extent not paid directly by tenants, and all common area maintenance charges billed to tenants on an estimated basis ("CAM Charges") shall be prorated on a per diem basis as of the date of Closing. Buyer shall be entitled to all income and responsible for all expenses for the period beginning at 12:01 a.m. Central Standard time on the date of Closing, except as set forth herein. If any Taxes have not been finally assessed as of the date of Closing for the current fiscal year of the taxing authority, then the same shall be adjusted at Closing based upon the most recently issued bills therefor, and shall be re-adjusted when and if final bills are issued. If any Operating Expenses or CAM Charges cannot conclusively be determined as of the date of Closing, then the same shall be adjusted at Closing based upon the most recently issued bills thus far or as otherwise reasonably estimated by Buyer and Sellers, and readjusted within 120 days after the end of the calendar year in which the Closing occurs or as soon thereafter as final adjustment figures are available including final tenant reimbursement reconciliations. Buyer hereby agrees to assume all non-delinquent assessments affecting the Property, whether special or general, subject to proration on a per diem basis as of the Closing Date.

All refunds of Taxes received by Sellers or Buyer after the Closing with respect to the property tax appeals ("Tax Refund") shall be applied (A) first, to reimburse Sellers or Buyer, as the case may be, for third party expenses incurred in protesting and obtaining such Tax Refund, (B) second, to Buyer to the extent that such Tax Refund is required to be paid to (or credited against other amounts payable by) any tenant under any leases or other agreement, and (C) third, (x) to Sellers if such Tax Refund is for any period which ends before the Closing Date, (y) to Buyer if such Tax Refund is for any period which commences on or after the Closing Date, or (z) to Sellers and Buyer prorated based on the Closing Date, if such Tax Refund is for a period which includes the Closing Date. If Sellers or Buyer receives any Tax Refund, then each shall retain or promptly pay such amounts (or portions thereof) in order that such payments are applied in the manner set forth in this Subsection. Buyer and Sellers agree to cooperate with respect to any pending Tax Refund request, and the provisions of this subsection shall survive Closing.

10.1.2 Rents. Except for delinquent rent, all rent under the Leases shall be prorated to the date of Closing on a collected basis. Delinquent rent shall not be prorated but shall remain the property of Sellers. Payments received from tenants from and after the date of Closing shall be applied first to rents then due for the current period and then to amounts owed to Buyer with respect to periods following the Closing, and then to rents delinquent as of the Closing Date. Buyer shall use reasonable efforts to collect delinquent rents for the benefit of Sellers, and shall cooperate with Sellers in the collection of any delinquent amounts, but shall not be required to terminate any Leases or evict any tenants. Any unpaid monetary obligations of Sellers under any leases shall be prorated as set forth in Sections 8.2 and 8.3.

10.1.3 Charges under Assigned Contracts. The unpaid monetary obligations of Sellers with respect to any of the Assigned Contracts shall be prorated on a per diem basis as of the date of Closing.

10.1.4 Security Deposits. The Security Deposits (together with any accrued interest thereon as may be required by law or contract) shall be transferred or credited to Buyer as of the date of Closing, and to the extent Sellers have any Security Deposits held in the form of a letter of credit, such letters of credit shall, at Sellers' expense (to the extent not the responsibility of the tenant under the applicable Lease), be transferred to Buyer as of Closing.

10.1.5 Bankruptcy Distributions. Any portion of bankruptcy distributions (whether or not Sellers have filed its proof of claim as of the date hereof) or payments pursuant to (i) settlement agreements (whether prepared by Sellers' in-house counsel or outside counsel), (ii) arrearage payment plans by letters signed by Sellers or its agent, (iii) lease termination agreements, (iv) promissory notes, or (v) judgments (whether already obtained by Sellers or which result from lawsuits or proceedings filed prior to the Closing) providing for the payment of specified sums, either in a lump sum or in installments, in all cases which are applicable to the time period prior to the date of Closing but payable after the date of Closing and actually received by Buyer, shall be payable to Sellers.

10.1.6 Survival. The provisions of this Section 10.1 shall survive the Closing to the extent any monies may be payable pursuant to this Section 10.1 to either party subsequent to the transfer of title to the Property to Buyer. Any reimbursements payable by any tenant under the terms of any Lease affecting the Property as of the Closing Date, which

reimbursements pertain to such tenant's pro rata share of increased operating expenses or common area maintenance costs incurred with respect to the Property at any time prior to the Closing, shall, to the extent not capable of being prorated at Closing, be prorated upon Buyer's actual receipt of any such reimbursements, on the basis of the respective share of such costs or expenses paid by the Sellers and the Buyer during the period in respect of which such reimbursements are payable; and Buyer agrees to pay to Sellers, Sellers' pro rata portion of such reimbursements within thirty (30) days after Buyer's receipt thereof. Conversely, if any tenant under any such Lease shall become entitled at any time after Closing to a refund of tenant reimbursements actually paid by such tenant prior to Closing, then, Sellers shall, within thirty (30) days following Buyer's demand therefor, pay to Buyer any amount equal to Sellers' pro rata share of such reimbursement refund obligations, said proration to be calculated on the same basis as hereinabove set forth. It is agreed that adjustment billings to tenants for operating expenses, common area maintenance charges, taxes or insurance premiums for the accounting year in which the Closing occurs shall be billed by Buyer and shall be adjusted between Sellers and Buyer based upon the respective percentages of the total related expenses paid by each of Buyer and Sellers for such accounting year. To satisfy Buyer's foregoing obligation to bill tenants for the full calendar year 2014, within thirty (30) days following Closing, Sellers shall provide Buyer with general ledgers for calendar year 2014 through the Closing Date.

10.2 Closing Costs. Sellers shall pay any transfer, documentary stamp, excise and other taxes imposed upon recordation of the Deeds conveying the Real Property to Buyer, and the base premium for an owner's policy of title insurance in the amount of the Purchase Price. Buyer shall pay for any extended coverage or endorsements required by Buyer on the title insurance policy, as well as for the title insurance premiums for any lender title insurance policy, the cost of updating the Survey or obtaining a new survey, the costs of its due diligence studies and reports, and any recording costs and other charges, excluding those related to the release of any security deed or other liens created by Sellers. Costs and fees of the Escrow Agent, if any, shall be divided equally between Sellers and Buyer. Sellers and Buyer shall each pay the costs of its own counsel.

11. Damage or Destruction; Condemnation; Insurance.

If at any time prior to the date of Closing there is damage or destruction to the Property, the cost for repair of which exceeds One Hundred Thousand Dollars (\$100,000) and the Property cannot be restored to its original condition prior to Closing, or if more than five percent (5%) of the rentable area of the Building is condemned or taken by eminent domain proceedings by any public authority, then, at Buyer's option, this Agreement shall terminate, and the Deposit shall be returned to Buyer, and except as expressly set forth herein, neither party shall have any further liability or obligation to the other hereunder.

If there is any damage or destruction or condemnation or taking, regardless of the cost of any repair, and if Buyer elects not to terminate this Agreement as herein provided (to the extent Buyer is entitled to do so), then (1) in the case of a taking, all condemnation proceeds paid or payable to Sellers shall belong to Buyer and shall be paid over and assigned to Buyer at Closing, and Sellers shall be paid at Closing for the reasonable expenses incurred by Sellers in connection with such taking; and (2) in the case of a casualty, Sellers shall assign to Buyer all rights to any insurance proceeds paid or payable under the applicable insurance policies, less any costs of collection and any sums expended in restoration, and the Sellers' deductible shall be a

credit to Buyer against the Purchase Price, and the parties shall proceed with the Closing without any reduction in the Purchase Price payable to Sellers.

12. Remedies.

12.1 Buyer Default. In the event Buyer breaches or fails, without legal excuse, to complete the purchase of the Property or to perform its obligations under this Agreement and such failure continues for five (5) business days following receipt of written notice regarding same (other than the failure of Buyer to deliver "Buyer's Deliveries" pursuant to Section 9.3 hereunder, for which there shall be no grace or cure period), then Sellers shall, as their exclusive remedy therefor, be entitled to receive the Deposit, plus all interest earned and accrued thereon, as liquidated damages (and not as a penalty) in lieu of, and as full compensation for, all other rights or claims of Sellers against Buyer by reason of such default. Thereupon this Agreement shall terminate and the parties shall be relieved of all further obligations and liabilities hereunder, except as expressly set forth herein. Buyer and Sellers acknowledge that the damages to Sellers resulting from Buyer's breach would be difficult, if not impossible, to ascertain with any accuracy, and that the liquidated damage amount set forth in this Section represents both parties' best efforts to approximate such potential damages.

12.2 Sellers Default. In the event Sellers breach or fail, without legal excuse, to complete the sale of the Property or to perform its obligations under this Agreement and such failure continues for five (5) business days following receipt of written notice regarding same (other than the failure of Sellers to deliver "Sellers' Deliveries" pursuant to Section 9.2 hereunder, for which there shall be no grace or cure period), Buyer may, as its sole and exclusive remedy therefor, subject to the next paragraph of this Section 12.2, either: (i) enforce specific performance of this Agreement against Sellers; *provided that* any action for specific performance shall be commenced within sixty (60) days after such default; or (ii) terminate this Agreement, in which latter case Buyer shall receive a return of the Deposit and Buyer shall have the right recover from Sellers all title, escrow, legal and inspection fees and any other expenses incurred by Buyer in connection with the performance of its due diligence review of the Property, including, without limitation, environmental and engineering consultants' fees and the fees incurred in connection with the preparation and negotiation of this Agreement up to a maximum of Seventy-Five Thousand Dollars (\$75,000.00) ("Out of Pocket Expenses")

Notwithstanding anything to the contrary contained in this Agreement, Buyer agrees that its recourse against Sellers under this Agreement or under any other agreement, document, certificate or instrument delivered by Sellers to Buyer, or under any law applicable to the Property or this transaction, shall be strictly limited to Sellers' interest in the Property, and that in no event shall Buyer seek or obtain any recovery or judgment against any of Sellers' other assets (if any) or against any of Sellers' partners or any member, director, officer, employee, beneficiary or shareholder of any of the foregoing; *provided, however*, in the event specific performance is unavailable or impractical due to Seller's actions, then Buyer shall have any and all rights and remedies available at law and/or equity.

13. Possession. Possession of the Property shall be tendered to Buyer at Closing, subject to the rights of tenants under the Leases and to the other matters permitted pursuant to this Agreement.

14. Notices. All notices and other communications provided for herein shall be in writing and shall be sent to the address set forth below (or such other address as a party may hereafter designate for itself by notice to the other parties as required hereby) of the party for whom such notice or communication is intended:

14.1 If to Buyer:

American Healthcare Investors, LLC
c/o Griffin-American Healthcare REIT III, Inc.
18191 Von Karman Avenue, Suite 300
Irvine, California 92612
Attention: Danny Prosky
Email: dprosky@ahinvestors.com

With a copy to:

Cox, Castle & Nicholson LLP
2029 Century Park East, 21st Floor
Los Angeles, California 90067
Attention: David Lari
Email: dlari@coxcastle.com
Telephone: (310) 284-2292

If to Sellers:

SIMDC and MDCA
Attn: William J. Rebholz
509 Hamachen Street, Suite 202
Waterloo, IL 62298
E-mail: brebholz@htc.net

With a copy to:

Polsinelli, PC
100 S. Fourth Street, Suite 1000
St. Louis, MO 63102
Attention: Joseph Bealmear
Email: jbealmear@polsinelli.com
Telephone: (314) 889-7003

If to Escrow Agent:

Chicago Title Insurance Company
2828 Routh Street, Suite 800
Dallas, Texas 75201
Attention: Shannon Bright
Email: brights@ctt.com

Any such notice or communication shall be sufficient if sent by registered or certified mail, return receipt requested, postage prepaid; by hand delivery; by overnight courier service; or by e-mail (provided that such e-mail delivery is confirmed by the sender, by delivery service or by mail in the manner previously described within 24 hours after such transmission is sent). Any such notice or communication shall be effective when delivered or when delivery is refused.

15. Brokers. Buyer and Sellers each represents to the other that it has not dealt with any broker or agent in connection with this transaction other than JDS Real Estate Services dba Brown Gibbons Lang and Company Real Estate Partners, to whom Sellers shall pay a commission pursuant to a separate agreement if, as and when the Closing and funding occur, but not otherwise. Each party hereby indemnifies and holds harmless the other party from all loss, cost and expense (including reasonable attorneys' fees) arising out of a breach of its representation or undertaking set forth in this Section 15. The provisions of this Section 15 shall survive Closing or the termination of this Agreement without limit.

16. Escrow Agent. Escrow Agent shall hold the Deposit in accordance with the terms and provisions of this Agreement, subject to the following:

16.1 Obligations. Escrow Agent undertakes to perform only such duties as are expressly set forth in this Agreement and no implied duties or obligations shall be read into this Agreement against Escrow Agent.

16.2 Reliance. Escrow Agent may act in reliance upon any writing or instrument or signature which it, in good faith, believes, and any statement or assertion contained in such writing or instrument, and may assume that any person purporting to give any writing, notice, advice or instrument in connection with the provisions of this Agreement has been duly authorized to do so. Escrow Agent shall not be liable in any manner for the sufficiency or correctness as to form, manner and execution, or validity of any instrument deposited in escrow, nor as to the identity, authority, or right of any person executing the same, and Escrow Agent's duties under this Agreement shall be limited to those provided in this Agreement. Upon receipt by Escrow Agent from either Buyer or Sellers (the "Notifying Party") of any notice or request (the "Escrow Demand") to perform any act or disburse any portion of the monies held by Escrow Agent under the terms of this Agreement, Escrow Agent shall give written notice to the other party (the "Notified Party"). If within seven (7) days after the giving of such notice, Escrow Agent does not receive any written objection to the Escrow Demand from the Notified Party, Escrow Agent shall comply with the Escrow Demand. If Escrow Agent does receive written objection from the Notified Party in a timely manner, Escrow Agent shall take no further action until the dispute between the parties has been resolved.

16.3 Indemnification. Unless Escrow Agent discharges any of its duties under this Agreement in a negligent manner or is guilty of willful misconduct with regard to its duties under this Agreement, Sellers and Buyer shall indemnify Escrow Agent and hold it harmless from any and all claims, liabilities, losses, actions, suits or proceedings at law or in equity, or other expenses, fees, or charges of any character or nature, which it may incur or with which it may be threatened by reason of its acting as Escrow Agent under this Agreement; and in such connection Sellers and Buyer shall indemnify Escrow Agent against any and all expenses

including reasonable attorneys' fees and the cost of defending any action, suit or proceeding or resisting any claim in such capacity.

16.4 Disputes. If the parties (including Escrow Agent) shall be in disagreement about the interpretation of this Agreement, or about their respective rights and obligations, or the propriety of any action contemplated by Escrow Agent, or the application of the Deposit, Escrow Agent shall hold the Deposit until the receipt of written instructions from both Buyer and Sellers or a final order of a court of competent jurisdiction. In addition, in any such event, Escrow Agent may, but shall not be required to, file an action in interpleader to resolve the disagreement. Escrow Agent shall be indemnified for all costs and reasonable attorneys' fees in its capacity as Escrow Agent in connection with any such interpleader action and shall be fully protected in suspending all or part of its activities under this Agreement until a final judgment in the interpleader action is received.

16.5 Counsel. Escrow Agent may consult with counsel of its own choice and have full and complete authorization and protection in accordance with the opinion of such counsel. Escrow Agent shall otherwise not be liable for any mistakes of fact or errors of judgment, or for any acts or omissions of any kind, unless caused by its negligence or willful misconduct.

16.6 Interest. All deposits into the escrow shall be held by the Escrow Agent in an interest bearing account. All interest earned on the Deposit shall be deemed to be part of the Deposit and shall accrue to the benefit of Buyer except to the extent the Deposit becomes payable to Sellers pursuant to Section 12.1. In such event the interest earned on the Deposit shall accrue to the benefit of Sellers.

17. Indemnification.

17.1 Seller's Indemnification. From and after the Closing, each Seller shall reimburse, indemnify, defend and hold harmless Buyer and Buyer's employees, agents, representatives, contractors and invitees from and against any and all damage, loss or liability resulting from: (a) non-contractual claims of third-parties relating to the use, operation or ownership of such Seller's Property attributable to periods at or before the Closing, (b) breaches prior to Closing by Seller of its obligations under any contract assigned to Buyer in accordance with this Agreement, (c) any obligations with respect to any contract relating to or affecting such Seller's Property not assumed by Buyer, whether allocable to a period prior to or after the Closing and (d) Seller's failure to pay any expenses required under this Agreement.

17.2 Buyer's Indemnification. From and after Closing, Buyer shall reimburse, indemnify, defend and hold Sellers and Sellers' employees, agents, representatives, contractors and invitees harmless from and against any and all damage, loss or liability resulting from: (a) any non-contractual claims of third-parties relating to the use, operation or ownership of the Property from and after the Closing, (b) breaches by Buyer on or after Closing of its obligations under any Assigned Contract and (c) Buyer's failure to pay the expenses required under this Agreement.

17.3 Survival. The terms and provisions of this Section 17 shall survive the Closing.

18. Miscellaneous.

18.1 Assignability. Sellers shall not assign any of their right, title, claim or interest in, to or under this Agreement. Buyer may assign any or all of its rights and obligations under this Agreement to any one or more persons or entities upon notice to Sellers and provided such assignee assumes in writing all of Buyer's obligations hereunder.

18.2 Cooperation with S-X 3-14 Audit. Sellers acknowledge that that it is Buyer's intention that the ultimate acquirer of the Property will be affiliated with a publicly registered company ("Registered Company"). Sellers acknowledge that they have been advised that if such acquirer is affiliated with a Registered Company, such Registered Company (and such acquirer) are required to make certain filings with the Securities and Exchange Commission (the "SEC Filings") that relate to the most recent pre-acquisition fiscal year (the "Audited Year") and the current fiscal year through the date of acquisition (the "Stub Period") for the Property. To assist Buyer and Registered Company in preparing the SEC Filings, Sellers covenant and agree no later than five (5) Business Days after the mutual execution of this Agreement by Buyer and Sellers, Sellers shall provide Buyer and the Registered Company with the following information (to the extent such items are not duplicative of items contained in the Property Information): (i) access to bank statements for the Audited Year and Stub Period; (ii) rent roll as of the end of the Audited Year and Stub Period; (iii) operating statements for the Audited Year and Stub Period; (iv) access to the general ledger for the Audited Year and Stub Period; (v) cash receipts schedule for each month in the Audited Year and Stub Period; (vi) access to invoice for expenses and capital improvements in the Audited Year and Stub Period; (vii) accounts payable ledger and accrued expense reconciliations; (viii) check register for the 3-months following the Audited Year and Stub Period; (ix) all leases and 5-year lease schedules; (x) copies of all insurance documentation for the Audited Year and Stub Period and (xi) copies of accounts receivable aging as of the end of the Audited Year and Stub Period along with an explanation for all accounts over 30 days past due as of the end of the Audited Year and Stub Period. In addition, no later than five (5) Business Days prior to the Closing Date, Sellers shall provide to Buyer: (1) a signed representation letter in the form attached hereto as *Exhibit "P"*; (2) a signed audit request letter in the form attached hereto as *Exhibit "Q"*; and (3) a signed audit response letter from Sellers' attorney in the form attached hereto as *Exhibit "R."* Buyer agrees that it will only require Sellers to audit their financials if such audit is requested by the Securities and Exchange Commission, and Buyer will pay the actual expenses associated with such audit of Sellers' financials.

18.3 Governing Law; Bind and Inure. This Agreement shall be governed by the law of the State of Illinois and shall bind and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and personal representatives.

18.4 Recording. Neither this Agreement nor any notice or memorandum hereof shall be recorded in any public land record. A violation of this prohibition shall constitute a material breach entitling the non-breaching party to terminate this Agreement.

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

18.6 Liability. Buyer acknowledges that the covenants, obligations, representations and warranties of each Seller relate only to: (i) the condition of that Seller; (ii)

the condition of that Seller's Property; and (iii) that Seller's performance under this Agreement. In no event shall either Seller be liable for the actions, inactions, or misrepresentations of the other Seller under this Agreement, it being agreed that the liability of each Seller shall be limited to its obligations under this Agreement. Without limiting the foregoing, no covenant or representation that can only logically be made or given by SIMDC (including but not limited to covenants or conditions relating to the ATI Lease Amendment) shall be binding on MDCA, and, conversely, no covenant or representation that can only logically be made or given by MDCA shall be binding on SIMDC. In no event shall either Seller be obligated to close hereunder, if Buyer fails to close on the purchase of the Property from the other Seller.

18.7 Further Assurances. Each party will, whenever and as often as it shall be requested to do so by the other party, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered any and all such further conveyances, assignments, approvals, consents and any and all other documents and do any and all other acts as may be necessary to carry out the intent and purpose of this Agreement, including, without limitation, with respect to the provisions of Section 18.2 above. The provisions of this Section 18.7 shall survive the Closing.

18.8 Exclusivity. Until the Closing Date or the date that this Agreement is terminated, Sellers shall not enter into any contract, or enter into or continue any negotiations, to sell the Property to any person or entity other than Buyer, nor will Sellers solicit proposals from any person or entity other than Sellers' agents, attorneys and lenders and Buyer regarding the possible sale of the Property.

18.9 Non-Solicitation. For the period beginning on the Closing Date and ending on the fifth (5th) anniversary of the Closing Date, Sellers covenant and agree that they shall not, nor shall they permit any of their Affiliates, or their successors and assigns, solicit any tenant of the Property for the purpose of leasing space to such tenant at another property managed, operated or otherwise controlled by Sellers or their Affiliates. For the purposes of this Section, the term (a) "Affiliate" means any corporation, limited liability company, partnership, joint venture or other entity, regardless of how organized or identified, which is directly or indirectly controlled by either Seller, and (b) "control" means, when used with respect to any person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities, by contract, or otherwise, and the terms "controlling" and "controlled" have correlative meanings. Buyer acknowledges that certain members of Sellers may have minority ownership interests in other medical office buildings, including but not limited to certain medical office buildings in Columbia, Illinois ("Columbia MOBs"). Buyer also acknowledges that certain tenants of the Property currently lease or may lease space in such buildings in the Columbia MOBs in addition to the spaces leased in the Property. Notwithstanding anything herein to the contrary, neither such leases nor any communications with such joint tenants shall be prohibited under this Section. In addition, this Section shall not apply to any tenant of the Property if such tenant is seeking to expand its leased premises and Buyer does not have sufficient contiguous vacant space available in the Property to accommodate such expansion. The provisions of this Section shall survive the Closing.

18.10 Headings. The headings preceding the text of the paragraphs and subparagraphs hereof are inserted solely for convenience of reference and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

18.11 Intentionally Deleted.

18.12 Exhibits. All Exhibits which are referred to herein and which are attached hereto or are bound separately and initialed by the parties are expressly made and constitute a part of this Agreement.

18.13 Use of Proceeds to Clear Title. To enable Sellers to make conveyance as herein provided, Sellers may, at the time of Closing, direct the Escrow Agent to use the Purchase Price or any portion thereof to clear the title of any or all encumbrances or interests; *provided that* provision reasonably satisfactory to Buyer's attorney is made for prompt recording of all instruments so procured in accordance with conveyancing practice in the jurisdiction in which the Property is located.

18.14 Submission not an Offer or Option. The submission of this Agreement or a summary of some or all of its provisions for examination or negotiation by Buyer or Sellers does not constitute an offer by Sellers or Buyer to enter into an agreement to sell or purchase the Property, and neither party shall be bound to the other with respect to any such purchase and sale until a definitive agreement satisfactory to the Buyer and Sellers in their sole discretion is executed and delivered by both Sellers and Buyer.

18.15 Entire Agreement; Amendments. This Agreement and the Exhibits and Schedules hereto set forth all of the promises, covenants, agreements, conditions and undertakings between the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings, inducements or conditions, express or implied, oral or written, except as contained herein. This Agreement may not be changed orally but only by an agreement in writing, duly executed by or on behalf of the party or parties against whom enforcement of any waiver, change, modification, consent or discharge is sought.

18.16 Counterparts; Electronic Signatures. This Agreement may be executed and delivered in any number of counterparts, each of which so executed and delivered shall be deemed to be an original and all of which shall constitute one and the same instrument. Facsimile and electronically transmitted signatures shall for all purposes be treated as originals.

18.17 Attorneys' Fees. In the event of any litigation arising out of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and costs.

18.18 Waiver of Jury Trial. Each party to this Agreement hereby expressly waives any right to trial by jury of any claim, demand, action or cause of action (each, an "Action") (a) arising out of this Agreement, including any present or future amendment thereof or (b) in any way connected with or related or incidental to the dealings of the parties or any of them with respect to this Agreement (as hereafter amended) or any other instrument, document or agreement executed or delivered in connection herewith, or the transactions related hereto or thereto, in each case whether such Action is now existing or hereafter arising, and whether

sounding in contract or tort or otherwise and regardless of which party asserts such Action; and each party hereby agrees and consents that any such Action shall be decided by court trial without a jury, and that any party to this Agreement may file an original counterpart or a copy of this Section 18.18 with any court as written evidence of the consent of the parties to the waiver of any right they might otherwise have to trial by jury.

18.19 No Waiver. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver, nor shall a waiver in any instance constitute a waiver in any subsequent instance. No waiver shall be binding unless executed in writing by the party making the waiver.

18.20 Rules of Construction. Article and Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement. All references to "Article" or "Sections" without reference to a document other than this Agreement, are intended to designate articles and sections of this Agreement, and the words "herein," "hereof," "hereunder," and other words of similar import refer to this Agreement as a whole and not to any particular Article or Section, unless specifically designated otherwise. The use of the term "including" shall mean in all cases "including but not limited to," unless specifically designated otherwise. No rules of construction against the drafter of this Agreement shall apply in any interpretation or enforcement of this Agreement, any documents or certificates executed pursuant hereto, or any provisions of any of the foregoing.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

SELLERS:

MEDICAL DEVELOPMENT COMPANY OF AMERICA, L.L.C., an Illinois limited liability company

By: WDR
Name: WILLIAM R. REHOLZ
Its: MANAGING MEMBER

SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation

By: M. Kirk
Name: MICHAEL KIRK
Its: VICE PRESIDENT

BUYER:

GAHC3 SOUTHERN ILLINOIS MOB PORTFOLIO, LLC, a Delaware limited liability company

By: Griffin American Healthcare REIT III Holdings, LP, a Delaware limited partnership, its Sole Member

By: Griffin-American Healthcare REIT III, Inc., a Maryland corporation its General Partner

By: _____
Name: _____
Title: _____

ESCROW AGENT:

CHICAGO TITLE INSURANCE COMPANY

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

SELLERS:

MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company

By: _____
Name: _____
Its: _____

SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation

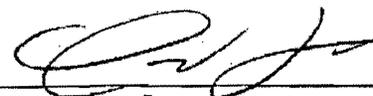
By: _____
Name: _____
Its: _____

BUYER:

GAHC3 SOUTHERN ILLINOIS MOB PORTFOLIO, LLC, a Delaware limited liability company

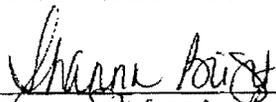
By: Griffin-American Healthcare REIT III Holdings, LP,
a Delaware limited partnership,
its Sole Member

By: Griffin-American Healthcare REIT III, Inc.,
a Maryland corporation
its General Partner

By: 
Name: Cora Lo
Title: Secretary

ESCROW AGENT:

CHICAGO TITLE INSURANCE COMPANY

By: 
Name: Shanna Bight
Title: Escrow Officer

List of Exhibits

- Exhibit "A"* Description of Land
- Exhibit "B"* List of Leases
- Exhibit "B-1"* List of Unpaid Commissions and Tenant Improvement Costs
- Exhibit "B-2"* List of Tenants From Whom Estoppel Certificates are Required
- Exhibit "C"* List of Contracts
- Exhibit "D"* Form of Estoppel Certificate
- Exhibit "E"* Description of Excluded Property
- Exhibit "F"* Form Deed
- Exhibit "G"* Form of Bill of Sale
- Exhibit "H"* Form of Assignment and Assumption of Leases, Contracts and Security Deposits
- Exhibit "I"* Form of Assignment of Intangible Property
- Exhibit "J"* Form of Tenant Notice Letter
- Exhibit "K"* Form of Non-Foreign Affidavit
- Exhibit "L"* Form of Restrictive Covenant
- Exhibit "M"* Form of Certificate of Representations and Warranties
- Exhibit "N"* Property Information
- Exhibit "O"* Post-Closing Escrow Agreement
- Exhibit "P"* Form of Representation Letter
- Exhibit "Q"* Form of Audit Request Letter
- Exhibit "R"* Form of Audit Response Letter

Exhibit "A"

Description of the Land

Lots 1, 2 and 3 as shown on the Final Plat Southern Illinois Center for Health Phase 1 recorded in the Recorder's Office for Monroe County, Illinois, on March 25, 2015, as document number 376157.

Exhibit "B"
List of Leases

Southern Illinois Medical Development Corporation
dba: Southern Illinois Center for Health

Leases in force as of March 25, 2015

1. Lease with Monroe Physical Therapy and Sports Medicine (Suite 101) dated November 9, 2000, as amended and assigned (to ATI).
2. Lease with Family Practice Associates, PC, (Suite 102) dated July 11, 2007, as amended.
3. Lease with Progressive Family Care, PC, (Suite 103) dated July 11, 2007, as amended.
4. Lease Assignment and Assumption with Progressive Family Care, PC, (Suite 200A) dated June 27, 2007, as amended.
5. Lease with Laboratory Corporation of America, LLC, (Suite 200B) dated December 5, 2011.
6. Lease with Quest Diagnostics, LLC, (Suite 201) dated February 6, 2001, as amended.
7. Lease with Brennan OB/GYN Associates, PC, (Suite 203) dated December 16, 2002, as amended. Assignment pending.
8. Lease with The Heart Center, (Suite 204) dated October 1, 1998, as amended.
9. Lease with ENT and Sleep Medicine Associates, LLC, (Suite 205) dated December 1, 2010, as amended.
10. Lease with RAI Care Centers of Illinois II, LLC (Suite 206) dated August 5, 2008, as amended.
11. Lease with Southern Illinois Imaging Associates, LLC, (Suite 300) dated March 29, 2006, as amended.

Southern Illinois Medical Development Corporation
dba: Southern Illinois Multi-Specialty Clinic

Time Share Leases in force as of March 25, 2015

1. Time Share Lease with Neal Neuman, MD/Urology Consultants, Ltd. dated March 14, 2000, as amended.
2. Time Share Lease with Thomas Spence, MD/Pulmonary and Critical Care Medicine, Inc. dated March 14, 2000.
3. Time Share Lease with King Orthopedics, LLC dated April 1, 2014.
4. Time Share Lease with Midwest Vascular and General Surgery, Inc. dated January 1, 2003, as amended.
5. Time Share Lease with Dermatology Associates, Inc. dated September 1, 2013.
6. Time Share Lease with Next Step Foot and Ankle Centers, Inc. dated January 30, 2012.
7. Time Share Lease with James M. Goldring, MD dated September 17, 2002, as amended.
8. Time Share Lease with Heartland Women's Healthcare, Ltd. dated May 1, 2014.
9. Time Share Lease with Douglas R. Berson, MD, LLC dated October 14, 2002, as amended. Assignment and Assumption of Lease to Allergy and Asthma Care of St. Louis, P.C. effective February 1, 2015, signatures pending.
10. Time Share Lease with Giuseppe Aliperti, MD dated July 26, 2002, as amended.
11. Time Share Lease with Vigilant Pain Management, LTD dated February 1, 2012.
12. Time Share Lease with Missouri Foot and Ankle, Inc. dated September 1, 2014.
13. Time Share Lease with Orthopedic Associates, LLC dated December 4, 2007, as amended.
14. Time Share Lease with St. Louis Cardiovascular Center, dated September 1, 1998, as amended.

Exhibit "B-1"

List of Unpaid Commissions and Tenant Improvement Costs

Suite 205 – approximately \$5,500 outstanding

ATI Space – approximately \$35,000 provided or anticipated to be provided in connection with the ATI Lease Amendment.

Exhibit "B-2"

List of Tenants From Whom Estoppel Certificates are Required

ATI Physical Therapy – Suite 101
Family Practice Associates – Suite 102
Progressive Family Care – Suite 103/200A
Multi-Specialty Clinic – Suite 202
Southern Illinois Imaging – Suite 300
Monroe County Surgical – Suite 400
Fresenius – Suite 500

Exhibit "C"
List of Contracts

MCS/MDCA Vendor List

| Service Type: | Name | Address | Phone Number | Contracted dates: | Billing | Cancellation Notice |
|-------------------------------------|-------------------------------------|--|---------------|--------------------------------|-----------|---------------------|
| Janitorial | JANITRON MAINTENANCE | 738 NAPTON AVE., VALLEY PARK, MO 63088-1961 | (314)645-0505 | 9/28/11-9/28/13; then annually | Monthly | 15 days |
| HVAC monitoring & PM | JARRELL MECHANICAL CONTRACTORS | 4208 RIDER TRAIL NORTH, EARTH CITY, MO 63045 | (314)291-0100 | Annually beginning 10/25/11 | Quarterly | 30 days |
| Landscaping & irrigation--via SIMDC | LOYET LANDSCAPE MAINT INC. | 261 HUGHES LANE, ST. CHARLES, MO 63301 | (314)894-9593 | Jan 1, 2015 - Dec 31, 2015 | Monthly | |
| Trash removal | RELIABLE SANITATION SERVICE | P.O. BOX 210, WATERLOO, IL 62298 | (618)939-3333 | None | Monthly | |
| Pest control | V. SMITH PEST CONTROL, INC. | P.O. BOX 404, WATERLOO, IL 62298 | (618)939-2844 | None | Monthly | |
| Fire panel monitoring | TECH ELECTRONICS, INC | P.O. BOX 790379, ST. LOUIS, MO 63179 | (314)645-6200 | Annually beginning 4/25/12 | Monthly | 10 days |
| Fire extinguisher inspection | WEBER FIRE & SAFETY EQUIP. CO. | P.O. BOX 29109, ST. LOUIS, MO 63126 | (314)351-5055 | None | As needed | |
| Systems monitoring | AUTOMATIC CONTROL EQUIPMENT SYSTEMS | 2480 NORTH LARK, ST. CHARLES, MO 63026 | (636)677-6697 | None | As needed | |
| Generator | FABICK POWER SYSTEMS | 101 FABICK DRIVE, FENTON, MO 63026 | 636-349-5500 | Annually beginning 12/1/12 | Monthly | 30 days |

SIMDC Vendor List

| Service Type: | Name | Address | Phone Number | Contracted dates: | Billing | Cancellation Notice |
|--|-------------------------------------|--|---------------|-----------------------------|---------|----------------------|
| Signage | CARIBEE SIGN COMPANY | 335 LEMAY FERRY ROAD, ST. LOUIS, MO 63125 | (314)638-4015 | Feb 26, 2015 - Apr 10, 2015 | | new signage contract |
| Electrical | CURRENT, INC. | 5420 WINDMILL RD, IMPERIAL, MO 63052 | (636)461-1334 | | | |
| Parking lot repairs | DIVERSIFIED CONTRACTORS, INC. | 301 E. MARCEAU, ST. LOUIS, MO 63111 | (314)638-2500 | | | |
| Telephone services | HARRISONVILLE TELEPHONE CO. | 213 S. MAIN STREET, P.O. BOX 149, WATERLOO, IL 62298-0149 | (618)939-6112 | | | |
| snow removal | HUEBNER CONCRETE CONTRACTING, INC | 6057 STATE ROUTE 3, WATERLOO, IL 62298 | (618)939-6067 | Oct 2014 - April 30, 2015 | | |
| mat services | HUGHES CUSTOMAT INC. | 170 BOULDER INDUSTRIAL DRIVE, BRIDGETON, MO 63044 | (314)291-1800 | Jan 31, 2012 - MTM | | |
| window cleaning (interior & exterior) | ICON WINDOW CLEANING | 8220 BRENTWOOD INDUSTRIAL DRIVE, ST. LOUIS, MO 63144 | (314)645-1675 | Oct 2014 - Dec 31, 2015 | | |
| Janitorial | JANITRON MAINTENANCE | 738 NAPTON AVE., VALLEY PARK, MO 63088-1961 | (314)645-0505 | Jan 31, 2012 - MTM | | |
| HVAC monitoring & PM | JARRELL MECHANICAL CONTRACTORS | 4208 RIDER TRAIL NORTH, EARTH CITY, MO 63045 | (314)291-0100 | Jan 1, 2015 - Dec 31, 2015 | | |
| elevator monitoring | KINGS III OF AMERICA, INC. | 751 CANYON DRIVE, SUITE 100, COPPELL, TX 75019 | | Mar 1, 2014 - Mar 1, 2015 | MTM | |
| landscaping & irrigation | LOYET LANDSCAPE MAINT INC. | 261 HUGHES LANE, ST. CHARLES, MO 63301 | (314)894-9593 | Jan 1, 2015 - Dec 31, 2015 | | |
| Elevator PM | MIDWEST ELEVATOR CO. INC. | 1824 KNOX AVE., ST. LOUIS, MO 63139 | | Mar 1, 2014 - Mar 1, 2015 | MTM | |
| trash removal | RELIABLE SANITATION SERVICE | P.O. BOX 210, WATERLOO, IL 62298 | (618)939-3333 | | | |
| advertising | REPUBLIC-TIMES LLC | P.O. BOX 147, 114 N. MAIN ST, WATERLOO, IL 62298 | (618)939-6814 | | | MTM |
| janitorial supplies | ROYAL PAPERS, INC | 2701 HEREFORD ST, P.O. BOX 39922, ST. LOUIS, MO 63139-1021 | | | | |
| building maintenance | GERSHMAN COMMERCIAL REAL ESTATE | 7801 FORSYTH, 3RD FLOOR, ST LOUIS, MO 63105 | | | | As needed |
| pest control | V. SMITH PEST CONTROL, INC. | P.O. BOX 404, WATERLOO, IL 62298 | (618)939-2844 | Jan 31, 2012 - MTM | | |
| elevator inspection | SUPERIOR ELEVATOR INSPECTIONS | & CONSULTING, 1730 GILSINN LANE, FENTON, MO 63026 | (636)225-4149 | Jan 1 2015 - Dec 31 2015 | | |
| fire panel monitoring and sprinkler inspection | TECH ELECTRONICS, INC | P.O. BOX 790379, ST. LOUIS, MO 63179 | (314)645-6200 | | | |
| | WATERLOO SELF STORAGE | 136 WILLIAMSBURG LANE, WATERLOO, IL 62298 | (618)939-8224 | | | |
| fire extinguisher inspection | WEBER FIRE & SAFETY EQUIP. CO. | P.O. BOX 29109, ST. LOUIS, MO 63126 | (314)351-5055 | | | |
| common area carpet cleaning | WOODARD CLEANING & RESTORATION, INC | 2647 ROCK HILL INDUSTRIAL CT, ST. LOUIS, MO 63144 | (314)961-9102 | Aug 1, 2014 - Dec 31, 2015 | | |

Exhibit "C"

List of Contracts

(continued)

Irrigation repair contract dated March 30, 2015, with Linnemann Lawn Care & Landscaping, Inc. in the amount of \$4,868.

Exhibit "D"

Form of Estoppel Certificate

TENANT ESTOPPEL CERTIFICATE

From: _____

(Tenant)

To: _____

(Buyer)

(Landlord)

(Buyer's Lender)

Lease: Lease dated _____, _____, between
_____, a
_____,
and _____, a
_____,
as amended, modified or supplemented by _____
_____ [list all amendments,
addenda, letter agreements and the like] (as so amended,
modified and supplemented, the "Lease").

Premises: Suite(s) _____, consisting of a total of _____ rentable square feet,
(the "Premises") located in the building known as _____
_____, having an address of _____ (the
"Building").

Tenant hereby certifies to Landlord and Buyer as follows:

1. Tenant is the current Tenant under the Lease. The Lease is in full force and effect and is the only lease, agreement or understanding between Landlord and Tenant affecting the Premises and any rights to parking. The Lease has not been modified, altered or amended, except as follows: [commencement agreements, modifications, assignments or amendments to the Lease and all letter agreements or, if none, state "None".]

2. The initial term of the Lease commenced on _____, 20__, and the current term will expire on _____, _____. The Tenant has an outstanding option to renew the Lease (which has not been waived or lapsed) for _____ (_____) additional _____ following the expiration date of the current term. Tenant has accepted and is presently occupying the Premises.

3. The base rent under the Lease is currently \$_____ per month. [Tenant's current estimated operating expense rent is \$_____ per month.] Tenant's pro rata share of operating expenses for the Building is ____%. Tenant has fully paid all rent and other sums payable under the Lease on or before the date of this Certificate and Tenant has not paid any rent more than one month in advance.

4. Tenant is not in default under any of the provisions of the Lease, and no event has occurred and no circumstance exists which, with the passage of time or the giving of notice by Landlord, or both, would constitute such a default.

5. To Tenant's knowledge, Landlord is not in default under any of the provisions of the Lease, and no event has occurred and no circumstance exists which, with the passage of time or the giving of notice by Tenant, or both, would constitute such a default.

6. All construction to be performed and the improvements to be installed by Landlord on the Premises as a condition to Tenant's acceptance of the Premises, if any, have been completed and fully accepted by Tenant. All amounts to be paid by Landlord to Tenant for work performed by Tenant pursuant to any tenant improvement allowance have been paid in full. Any and all other leasing incentives, amounts which the Lease expressly requires to be paid by Landlord to Tenant or amounts to be credited against Tenant rent due under the Lease for any reason (exclusive of operating expense adjustments as may be applicable under the Lease) have been fully paid or credited as applicable, and no such amounts remain outstanding or remain to be credited.

7. As of the date of this Certificate, Tenant has no defenses, offsets or credits against the payment of rent and other sums due or to become due under the Lease or against the performance of any other of Tenant's obligations under the Lease.

8. Tenant has paid to Landlord a security deposit in the amount of \$ _____ [alternatively: Landlord is holding a letter of credit to secure Tenant's obligation under the Lease is the amount of \$_____]. [The obligations of Tenant are guaranteed by _____, in accordance with the terms of the guaranty dated _____.]

9. Tenant has not subleased, assigned, pledged, hypothecated, or otherwise encumbered all or any portion of its interest in the Lease.

10. Tenant has no existing right of refusal, right of offer, or expansion rights, except _____ (all other rights, if any, having been waived or deemed waived). Tenant has no purchase option or other right to purchase the Premises or the Building.

11. There are no actions, voluntary or involuntary, pending against the Tenant under the bankruptcy laws of the United States or any state thereof.

12. Tenant understands that this Certificate is required in connection with Buyer's acquisition of the Building, and Tenant agrees that Landlord, Buyer, Buyer's Lender and their respective assigns (including any parties providing financing for the Building) will, and shall be entitled to, rely on the truth of this Certificate. Tenant agrees that such parties will, and shall be entitled to, rely on the representations in this Certificate as being true and correct and continuing to be made, unless Tenant notifies Landlord and Buyer of a change in this Certificate prior to the closing.

13. The party executing this document on behalf of Tenant represents that he/she has been authorized to do so on behalf of Tenant.

EXECUTED on this _____ day of _____, 2015.

TENANT

_____,
a _____

By: _____
Name: _____
Title: _____

Exhibit "E"

Description of Excluded Property

All other land owned by Sellers, other than Lots 1, 2 and 3 as shown on the Final Plat Southern Illinois Center for Health Phase 1 recorded in the Recorder's Office for Monroe County, Illinois, on March 25, 2015, as document number 376157. For avoidance of doubt, Lot 4 of said plat, as well as Lots 5, 6, 7, 8, 9 and 10 as shown on the preliminary plat, are Excluded Property.

Exhibit "F"

Form Deed

PREPARED BY:

AFTER RECORDING RETURN TO:

Cox Castle Nicholson
2029 Century Park East, 21st Floor
Los Angeles, California 90067
Attention: David P. Lari, Esq.

SPACE ABOVE THIS LINE FOR RECORDER'S USE

SPECIAL WARRANTY DEED

This conveyance by Special Warranty Deed, is made as of _____, 2015, from _____ ("Grantor") to _____, LLC, a Delaware limited liability company ("Grantee").

Witnesseth, that Grantor, for and in consideration of Ten Dollars and no cents (\$10.00) and other good and valuable consideration the receipt of which is hereby acknowledged, does hereby Convey unto Grantee, and its successors and assigns forever, all of that certain real estate situated in the County of Monroe, State of Illinois known as _____ with Parcel Identification Numbers of _____ and described in Exhibit A attached and incorporated hereto (the "Property"), and all of the estate, right, title, interest, claim or demand whatsoever in and to the Property, with the hereditament and appurtenances thereto.

To have and to hold the Property unto Grantee, and to its successors and assigns in fee simple forever. And Grantor, for itself, its successors and assigns, does hereby covenant, promise and agree to and with Grantee, and its successors and assigns that it has not done or caused to be done, anything whereby the Property hereby granted is, or may be, in any manner encumbered or charged, except as herein provided; and that it will warrant and defend, the title and quiet possession of the Property against all persons lawfully claiming, to claim the same, by, through or under Grantor, subject only to all general real property taxes, not yet due and payable, building and zoning laws, ordinances, regulations, and all covenants, restrictions, easements, reservations, and other exceptions of record.

[Signature appears on following page]

IN WITNESS WHEREOF, said Grantor has caused this Special Warranty Deed to be executed this ____ day of December, 2014.

Grantor:

By: _____
Name: _____
Its: _____

[Appropriate Notary Block to Be Inserted]

SEND TAX BILLS TO:

GAHC3 _____, LLC
18191 Von Karman Ave., Suite 300,
Irvine, California 92612

Exhibit "A" to Form Deed

Legal Description

Exhibit "G"

Form of Bill of Sale

MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company ("MDCA"), SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation ("SIMDC") (MDCA and SIMDC collectively referred to herein as "Sellers"), for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby grants, bargains, sells, transfers and delivers to _____, a _____ ("Buyer"), all of the fixtures, equipment, furniture, furnishings, appliances, supplies and other personal property of every nature and description attached or pertaining to, or otherwise used in connection with the real property described on Exhibit A (the "Real Property") attached hereto (collectively, the "Personal Property"), but specifically excluding from the Personal Property any accounting software or related items, all property leased by Sellers or owned by tenants or others, if any, to have and to hold the Personal Property unto Buyer, its successors and assigns, forever.

Sellers grants, bargains, sells, transfers and delivers the Personal Property in its "AS IS" condition, WITH ALL FAULTS, IF ANY, and makes no representations or warranties, direct or indirect, oral or written, express or implied, as to title, encumbrances and liens, merchantability, condition or fitness for a particular purpose or any other warranty of any kind, all of which representations and warranties are expressly hereby disclaimed and denied.

Buyer agrees that the liability of Sellers under this Bill of Sale, the Purchase Agreement, and any other agreement, document, certificate or instrument delivered by Sellers to Buyer, or under any law applicable to the Property or this transaction, shall be limited as provided in Section 12.2 of the Purchase Agreement.

Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Purchase Agreement.

[Signatures appear on following page]

Executed this ____ day of _____ 2015.

SELLERS:

MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company

By: _____
Name: _____
Its: _____

SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation

By: _____
Name: _____
Its: _____

BUYER:

a Delaware limited liability company

By: Griffin-American Healthcare REIT III Holdings, LP,
a Delaware limited partnership,
its Sole Member

By: Griffin-American Healthcare REIT III, Inc.,
a Maryland corporation
its General Partner

By: _____
Name: _____
Title: _____

ATTACH:
Exhibit A – Real Property Description

Exhibit "H"

Form of Assignment and Assumption of Leases, Contracts and Security Deposits

DATE: _____, 20__

ASSIGNORS: MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company ("MDCA"), SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation ("SIMDC")

ASSIGNEE: _____, a _____

RECITALS:

WHEREAS, Assignor and Assignee have entered into that certain Purchase and Sale Agreement dated as of _____, 2015 (the "Purchase Agreement"), wherein Assignor agreed to sell and Assignee agreed to buy certain real property described in Exhibit A attached hereto and the improvements located thereon (the "Property"); and

WHEREAS, Assignee desires to assume and Assignor desires to assign to Assignee all of Assignor's interest (i) as landlord, under the leases (the "Leases") described in Exhibit B attached hereto and incorporated herein pertaining to the Property, including any security deposits, letters of credit, advance rentals, or like payments held by Assignor in connection with the Leases, and (ii) as owner, under the service contracts (the "Contracts") described in Exhibit C attached hereto and incorporated herein pertaining to the Property.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee agree as follows:

1. Assignment. Assignor conveys and assigns to Assignee all of Assignor's right, title and interest in and to the Leases and the Contracts, together with the right to receive any and all sums and proceeds arising out of said Leases and Contracts, from and after the date of conveyance of the Property by Assignor to Assignee (the "Conveyance Date"), but reserving unto Assignor all uncollected rent attributable to the period prior to the Conveyance Date pursuant to the provisions of Section 10.1 of the Purchase Agreement.

2. Assumption. Assignee assumes and agrees to be bound by all of Assignor's liabilities and obligations pursuant to the Leases and the Contracts, if any, and agrees to perform and observe all of the covenants and conditions contained in the Leases and the Contracts, from and after the Conveyance Date.

3. Indemnification. Assignee covenants and agrees to indemnify and hold harmless Assignor for, from and against any actions, suits, proceedings or claims, and all costs and expenses, including, without limitation, reasonable attorneys' fees, incurred in connection therewith, arising out of any breach of any of the Leases or the Contracts by Assignee to the extent occurring from and after the Conveyance Date. Assignor covenants and agrees to

indemnify and hold harmless Assignee for, from and against any actions, suits, proceedings or claims, and all costs and expenses, including, without limitation, reasonable attorneys' fees, incurred in connection therewith, arising out of any breach of any of the Leases or the Contracts by Assignor to the extent occurring prior to the Conveyance Date.

4. Binding Effect. This Assignment shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns.

5. Construction; Definitions. This Assignment shall be construed according to Illinois law. Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Purchase Agreement.

6. Counterparts. This Assignment may be executed in counterparts, which taken together shall constitute one original instrument.

7. Non-Recourse. Assignee agrees that the liability of Assignor under this Assignment, the Purchase Agreement, and any other agreement, document, certificate or instrument delivered by Sellers and Buyer, or under any law applicable to the Property or this transaction, shall be limited as provided in Section 12.2 of the Purchase Agreement.

DATED as of the day and year first above written.

[Signatures Appear on Following Page]

ASSIGNOR:

MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company

By: _____
Name: _____
Its: _____

SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation

By: _____
Name: _____
Its: _____

ASSIGNEE:

a _____

By: _____
Name: _____
Title: _____

ATTACH:

- Exhibit A - Property Description
- Exhibit B - Leases
- Exhibit C - Contracts

Exhibit "I"

Assignment of Intangible Property

DATE: _____, 20__

ASSIGNOR: MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company ("MDCA"), SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation ("SIMDC")

ASSIGNEE: _____, a _____

RECITALS:

A. Assignor presently owns the real property described in Exhibit A to this Assignment and the improvements and personal property located thereon (the "Property").

B. WHEREAS, Assignor and Assignee have entered into that certain Purchase and Sale Agreement dated as of _____, 2015 (the "Purchase Agreement"), wherein Assignor agreed to sell and Assignee agreed to buy the Property;

C. Assignor desires to sell the Property to Assignee, and in connection therewith, Assignor desires to assign to Assignee and Assignee desires to acquire Assignor's interest, if any, in and to the following described rights, interests and property inuring to the benefit of Assignor and relating to the Property.

FOR VALUABLE CONSIDERATION, the receipt and adequacy of which are hereby acknowledged, Assignor agrees as follows:

1. Assignment. Assignor assigns, transfers, sets over, and conveys to Assignee, to the extent the same are assignable, all of Assignor's right, title, and interest, if any, in and to (i) any warranties and/or guaranties, express or implied, from contractors, builders, manufacturers, and/or suppliers inuring to the benefit of Assignor and relating to the Property, (ii) any licenses, permits and approvals relating to the Property, (iii) the trade name for "Southern Illinois Center for Health Medical Office Building", and (iv) all plans and specifications.

2. Binding Effect. This Assignment shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

3. Construction; Definitions. This Assignment shall be construed according to Illinois law. Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Purchase Agreement.

4. Non-Recourse. Assignee agrees that the liability of Assignor under this Assignment, the Purchase Agreement, and any other agreement, document, certificate or

instrument delivered by Sellers to Buyer, or under any law applicable to the Property or this transaction, shall be limited as provided in Section 12.2 of the Purchase Agreement.

DATED as of the day and year first above written.

ASSIGNOR:

MEDICAL DEVELOPMENT COMPANY OF AMERICA, LLC, an Illinois limited liability company

By: _____
Name: _____
Its: _____

SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation

By: _____
Name: _____
Its: _____

ASSIGNEE:

_____,
a _____

By: _____
Name: _____
Title: _____

ATTACH:

Exhibit A - Property Description

Exhibit "K"

Non-Foreign Affidavit

Section 1445 of the Internal Revenue Code provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. To inform the transferee that withholding of tax is not required upon the disposition of a U.S. real property interest by _____, a _____ ("Seller"), the undersigned hereby certifies the following:

1. Seller is not a foreign person, foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);

2. Seller's U.S. taxpayer identification number is _____; and

3. Seller's address is _____.

The undersigned understands that this certification may be disclosed to the Internal Revenue Service by the transferee and that any false statement contained herein could be punished by fine, imprisonment, or both. Under penalties of perjury, the undersigned declares that it has examined this certification and to the best of its knowledge and belief it is true, correct, and complete, and further declares that it has authority to sign this document.

Date: As of _____, 2015

a _____

By: _____
Name: _____
Title: _____

Exhibit "L"

Form of Restrictive Covenant

[TO BE ATTACHED PRIOR TO EXPIRATION OF INSPECTION PERIOD]

Exhibit "M"

Form of Certificate of Representations and Warranties

[Letterhead of Party Giving Certificate (Sellers or Buyer)]

_____, 2015

[Name of Party Receiving Certificate (Sellers or Buyer)]
[Address of Party Receiving Certificate]
[City, State]

Ladies and Gentlemen:

The undersigned hereby certifies that to the actual knowledge of the undersigned, without duty to investigate, all of the representations and warranties made by it in Section ____ of the Purchase and Sale Agreement dated as of _____, 2015 (the "Purchase Agreement") between the undersigned, as [insert Sellers or Buyer], and you, as [insert Sellers or Buyer], are true and correct as of the date hereof in all material respects, except as follows: [insert "none" or exceptions], which shall survive the date hereof for the period and subject to the limitations provided in the Purchase Agreement, and thereafter shall be null and void. The undersigned further ratifies and confirms the continued applicability of, and the understandings and agreements of the undersigned set forth in, such Section ____.

Very truly yours,

a _____

By: _____
Name: _____
Title: _____

Exhibit "N"

Property Information

1. Existing Owner's or Lender's Title Policy
2. Underlying Title Documents and/or existing Title Report Commitment
3. Existing ALTA Survey
4. Rent Roll
5. Operating Statements (Current Year to Date and Previous 2 Years)
6. Current Year Budget
7. General Ledger Report
8. CAM Reconciliation/CAM Budget:
 - a) Current Year to Date & Previous 2 Years
 - b) Current Actual CAM Reconciliation submitted to Tenant(s);
 - c) Current Year CAM Estimates; and
 - d) Back up documentation to support CAM Reconciliation:
 - 1) Operating Expense Recovery Schedule;
 - 2) Gross up calculation/schedule (what variable expense are gross up and what percentage if any);
 - 3) Schedule of Tenant Reimbursements (*i.e.*, electricity sub-metered) previously billed;
 - 4) Tenant ledgers (to show what was actually billed); and
 - 5) Base year calculations.
9. Service Contracts
10. Utility Bills
11. Property Tax Bills (Current year and Previous 2 years)
12. Property Insurance Certificates
13. Personal Property Inventory
14. Aged Receivables Report
15. Environmental Reports including any Phase I, Phase II, Geotechnical or Soils Reports
16. Site/Floor/Building Plans
17. Certificate of Occupancy (shell and all suites) (if applicable)
18. Original property photos
19. Reciprocal Easement Agreements (Declarations/CC&Rs) (if any)
20. Schedule of Existing/Pending Litigation (if any)
21. Warranties (*i.e.*, roof, *etc.*)
22. Zoning Reports/Letters
23. Management Contract
24. Tenant Leases (including all amendments, exhibits and correspondence)
25. Insurance Loss History Information
26. Lender Loan Statements (including all Escrow balances held with Lender)
27. Average Occupancy and Rental Rates for the previous five(5) years for each property
28. Construction, design and related agreements for the Buildings.

SELLERS TO PROVIDE BUYER WITH CURRENT FINANCIALS, ALL ORIGINAL TENANT LEASES (INCLUDING ALL AMENDMENTS, EXHIBITS AND CORRESPONDENCE) WITHIN ONE (1) BUSINESS DAY FOLLOWING THE CLOSE OF ESCROW.

Exhibit "O"

Post-Closing Escrow Agreement

POST-CLOSING ESCROW AGREEMENT

THIS POST-CLOSING ESCROW AGREEMENT (this "Agreement") is entered into the ___ day of _____, 2015 ("Effective Date"), by and among SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation ("Seller"); GAHC3 SOUTHERN ILLINOIS MOB PORTFOLIO, LLC, a Delaware limited liability company ("Buyer"); and CHICAGO TITLE INSURANCE COMPANY ("Escrow Agent").

WHEREAS, Buyer and Seller have entered into that certain Purchase and Sale Agreement dated as of April __, 2015 (the "Purchase Agreement").

WHEREAS Seller sold and Buyer purchased that certain property more particularly described on Exhibit A attached hereto (the "Property") on _____, 2015 (the "Transfer Date");

WHEREAS, pursuant to the terms of the Purchase Agreement, and as additional consideration under the Purchase Agreement, Seller was obligated to use good faith efforts to cause the execution of an amendment to that certain [Lease Agreement] dated _____, 20___, (the "ATI Lease") by and between Buyer, as landlord, and ATI Physical Therapy ("ATI"), as tenant pursuant to the terms of Section 7.2 of the Purchase Agreement prior to the Transfer Date;

WHEREAS, pursuant to Section 7.2 of the Purchase Agreement, in the event Seller was unable to cause the execution of the ATI Lease Amendment prior to the Transfer Date, Five Hundred Thousand and No/100 Dollars (\$500,000.00) of the Purchase Price would remain in escrow subject to the terms of this Agreement;

WHEREAS, Seller was unable to cause the execution of the ATI Lease Amendment prior to the Transfer Date;

WHEREAS, Seller and Buyer desire to have the Escrow Agent hold the Escrow Funds (defined below) pursuant to the terms of this Agreement; and

WHEREAS, Escrow Agent agrees to hold the Escrow Funds and disburse such Escrow Funds to Seller and Buyer in accordance with the terms of this Agreement.

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

- a) Definitions. All capitalized terms used in this Agreement not otherwise expressly defined in this Agreement shall have the same meanings assigned to such terms in the Purchase Agreement.

- b) Leasing. Seller hereby agrees to use commercially reasonable efforts to amend the ATI Lease on Buyer's behalf, in a form reasonably approved by Buyer, prior to the expiration of the ATI Lease, to extend the existing term until October 31, 2020 at a triple-net rate of Twenty-One and No/100 Dollars (\$21.00) per square foot with a three percent (3%) annual rent escalation on a compounding basis (the "**ATI Lease Amendment**"), and Buyer shall cooperate in good faith with Seller to obtain the execution of the ATI Lease amendment, in accordance with this Agreement.
- c) Leasing Broker. Seller has engaged and shall continue to engage Gershman Commercial Real Estate, or other leasing brokerage company licensed in the State of Illinois, to negotiate and use commercially reasonable efforts to cause the execution of the ATI Lease Amendment.
- d) Access to Property. Seller shall not enter any tenant's space within the Property without the consent of such tenant.
- e) No Partnership. Nothing in this Agreement shall be construed to create a partnership between Buyer and Seller.
- f) No Commissions/Reimbursement. Seller acknowledges and agrees that in no event shall Seller be entitled to any leasing commission, compensation or reimbursement from Buyer attributable to Seller's efforts to cause the execution of the ATI Lease Amendment.
- g) Deposit of Escrow Funds. Escrow Agent acknowledges the receipt from Buyer of Five Hundred Thousand and No/100 Dollars (\$500,000.00) (the "**Escrow Funds**"). Escrow Agent shall disburse the Escrow Funds in strict accordance with the terms of this Agreement.
- h) Deposit Information.
- a. The Escrow Funds shall be deposited in a separately segregated interest bearing account or accounts (the "**Escrow Account**") at a financial institution insured by the FDIC. All interest earned by the funds in the Escrow Account shall be accumulated in the Escrow Account, become a part of the Escrow Funds and be disbursed as provided below.
 - b. Seller's Employer Identification Number is _____.
- i) Disbursement of Escrow Funds.
- a. Disbursement to Seller. If on or before October 31, 2015 (the "**Deadline Date**"), Seller causes the execution of the ATI Lease Amendment by ATI and Buyer, then Seller shall be entitled to a disbursement of the Escrow Funds. Escrow Agent shall, within three (3) business days of its receipt of a copy of the fully-executed ATI Lease Amendment or a written notice from Buyer acknowledging the execution of the ATI Lease Amendment, disburse the Escrow Funds (including all earnings and interest on the Escrow Funds) to Seller in the manner directed by Seller.

b. Disbursement to Buyer. If Escrow Agent does not receive a Disbursement Notice from Buyer by the Deadline Date, Escrow Agent shall, within five (5) business days of the expiration of the Deadline Date, disburse the Escrow Funds (including all earnings and interest on the Escrow Funds) to Buyer in the manner directed by Buyer; *provided, however*, in the event Seller disputes that Buyer cooperated in good faith with Seller to obtain the ATI Lease Amendment, or that the ATI Lease Amendment was not executed, and so notifies Buyer and Escrow Agent in writing prior to the fourth (4th) business day following the Deadline Date (which notice shall include a detailed explanation of Seller's dispute) then Escrow Agent shall retain the Escrow Funds in the Escrow Account until such time as there is a final determination by a court of competent jurisdiction as to whether the terms of the Agreement were met. A "final determination" means the sooner to occur of a final decision made by a court of competent jurisdiction, settlement between Seller and Buyer, or a binding decision reached through an alternative dispute resolution procedure approved by Seller and Buyer.

j) Seller Insurance / Indemnity Requirements.

a. Insurance. Seller shall at all times during the term of this Agreement maintain and keep in force Commercial General Liability Insurance providing coverage for bodily injury, personal injury and property damage, all subject to the terms, conditions, definitions, and exclusions in the insurance policy, with limits not less than (i) \$2,000,000 per occurrence, (ii) \$2,000,000 general aggregate and (iii) \$2,000,000 personal and advertising injury. Such insurance shall (i) name Buyer as an additional insured and, to the extent commercially reasonably available, with primary and noncontributory language; and (ii) incorporate (to the extent commercially reasonably available) a provision requiring the giving of notice by insurer to Buyer at least thirty (30) days prior to cancellation. Seller shall deliver certificates of such insurance to Buyer within ten (10) days after Seller executes this Agreement and at least thirty (30) days before the expiration dates thereof. In the event Seller shall fail to procure such insurance Buyer may, at its option, procure such policies for the account of Seller following thirty (30) days' notice to Seller of Buyer's intent to procure such insurance, and the cost thereof shall be paid to Buyer within five (5) days after delivery to Seller of bills therefor.

b. Indemnity. Seller shall protect, defend, indemnify and hold Buyer harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of any Seller's or its agents' acts or omissions in connection with Seller's or its agents' efforts to obtain the executed ATI Lease Amendment or any of Seller's other activities on the

Property; except to the extent caused by the negligence or willful misconduct of Buyer.

k) Liability and Protection of Escrow Agent.

- a. Powers - Generally. Escrow Agent has only the rights, powers, privileges, and duties expressly set forth in this Agreement, together with those rights, powers, and privileges reasonably incident thereto, and is not a party to, and is not bound by, or charged with notice of any agreement other than this Agreement.
- b. Actions on Notice, etc. Escrow Agent may rely upon any written notice, request, waiver, consent, certificate, receipt, authorization, power of attorney or other document that Escrow Agent, in good faith, reasonably believes to be genuine and to be signed by the proper party or parties hereto.
- c. Advice of Counsel. Escrow Agent may rely on the legal opinion of its legal counsel in the event of any dispute or question concerning the construction of any provision of this Agreement or its duties hereunder, and shall incur no liability as a result of reliance on such opinion.
- d. Compensation for Services. Escrow Agent shall be entitled to reasonable fees and expenses for customary services, as Escrow Agent hereunder, according to its standard rate sheet for these services and all such compensation shall be paid and shared one-half by Buyer and one-half by Seller. The fees and expenses may be revised from time to time to reflect current rates for such services.
- e. Resignation. Escrow Agent may resign upon seven (7) days prior written notice to the other parties to this Agreement. Escrow Agent may be removed by the mutual agreement of Seller and Buyer. If Escrow Agent resigns or Seller and Buyer agree to remove the Escrow Agent, then Seller and Buyer must use their best efforts to agree upon a substitute Escrow Agent. If Escrow Agent resigns or is removed and no successor Escrow Agent is agreed upon within forty-five (45) days following the resignation or removal of the existing Escrow Agent, Buyer may designate the successor Escrow Agent provided such Escrow Agent must be a title company with an office in California.
- f. Liability - Negligent Acts. Escrow Agent will not be liable for anything that it may do or refrain from doing in connection with this Agreement, except for acts that constitute gross negligence, willful misconduct, or constitute a breach of its fiduciary duties.

- l) Indemnity of Escrow Agent. Seller and Buyer agree, jointly and severally, to indemnify and hold Escrow Agent harmless from and against all costs, damages, judgments, attorneys' fees,

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expenses, and obligations or liabilities of any kind or nature that Escrow Agent may incur or sustain in connection with or arising out of this Agreement, except to the extent due to Escrow Agent's gross negligence, willful misconduct, or breach of fiduciary duties arising from this Agreement.

- m) Waiver. Neither this Agreement nor any of its provisions may be waived, modified, amended, discharged, or terminated except by an instrument in writing signed by the parties 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.
- n) Books and Records. Escrow Agent will maintain proper books and records for the Escrow Account. All amounts to be disbursed by Escrow Agent under this Agreement shall be paid solely out of the Escrow Funds.
- o) Notices. All notices to be given in connection with this Agreement shall be made by (i) placing the notice in the United States mail, certified or registered, properly stamped, (ii) delivered by fax transmission, (iii) delivered by overnight delivery service, or (iv) by personal delivery, in each case addressed to the location shown below or such other addresses as the respective party may direct in writing to the other, or to such address. Such notice shall be deemed effective (A) on the day actually delivered or (B) upon confirmation of the completion of the fax (electronic or otherwise) when delivered by fax, or (C) upon such personal delivery:

Seller: William J. Rebholz
509 Hamachen Street, Suite 202
Waterloo, IL 62298
E-mail: brebholz@htc.net

With a copy to: Polsinelli, PC
100 S. Fourth Street, Suite 1000
St. Louis, MO 63102
Attention: Joseph Bealmear
Email: jbealmear@polsinelli.com
Telephone: (314) 889-7003

Buyer: American Healthcare Investors, LLC
c/o Griffin-American Healthcare REIT III, Inc.
18191 Von Karman Avenue, Suite 300
Irvine, California 92612
Attention: Danny Prosky
Email: dprosky@ahinvestors.com

With a copy to: Cox, Castle & Nicholson LLP
2029 Century Park East, 21st Floor
Los Angeles, California 90067
Attention: David Lari
Email: dlari@coxcastle.com
Telephone: (310) 284-2292

Escrow Agent:

Chicago Title Insurance Company
2828 Routh Street, Suite 800
Dallas, Texas 75201
Attention: Shannon Bright
Email: brights@ctt.com

- p) Invalidity. If any provision of this Agreement is held to be invalid, illegal, or unenforceable in any respect, then such invalidity, illegality, or unenforceability will not affect any other provision of this Agreement and this Agreement as so amended shall be construed as if the offending provision had never been part of the Agreement.
- q) Time. Time is of the essence in the performance of each provision of this Agreement.
- r) Counterparts and Facsimile Signatures. This Agreement may be executed in counterparts, each of which shall be deemed an original and that together will constitute one and the same agreement. Signatures sent by one party to the other via facsimile transmission shall be deemed original signatures, binding upon the party so sending such signature, and shall be and hereby are deemed original signatures.
- s) Successors and Assigns. The terms and provisions of this Agreement are binding upon and inure to the benefit of each of the parties and their successors and assigns.
- t) Governing Law. This Agreement is being executed and delivered, and is intended to be performed, and shall be governed, interpreted, construed, and enforced under the laws of the State of Illinois without regard to its conflict of laws.
- u) WAIVER OF JURY TRIAL. EACH PARTY TO IRREVOCABLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO DEMAND THAT ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT BE TRIED BY JURY. THIS WAIVER EXTENDS TO ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY ARISING FROM ANY SOURCE, INCLUDING BUT NOT LIMITED TO THE CONSTITUTION OF THE UNITED STATES, THE CONSTITUTION OF ANY STATE, COMMON LAW OR ANY APPLICABLE STATUTE OR REGULATION. EACH PARTY HEREBY ACKNOWLEDGES THAT SUCH PARTY IS KNOWINGLY AND VOLUNTARILY WAIVING THE RIGHT TO DEMAND TRIAL BY JURY.

*[Remainder of page intentionally left blank;
Signatures begin on following page]*

**SIGNATURE PAGE TO
POST-CLOSING ESCROW AGREEMENT**

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

SELLERS: **SOUTHERN ILLINOIS MEDICAL DEVELOPMENT CORPORATION, an Illinois corporation**

By: _____
Name: _____
Its: _____

BUYER: **GAHC3 SOUTHERN ILLINOIS MOB PORTFOLIO, LLC, a Delaware limited liability company**

By: Griffin-American Healthcare REIT III Holdings, LP,
a Delaware limited partnership,
its Sole Member

By: Griffin-American Healthcare REIT III, Inc.,
a Maryland corporation
its General Partner

By: _____
Name: _____
Title: _____

ESCROW AGENT: **CHICAGO TITLE INSURANCE COMPANY**

By: _____
Name: _____
Title: _____

Exhibit "P"

Representation Letter

[Seller's Letterhead]

Date

KMJ Corbin & Company, LLP
555 Anton Boulevard
Suite 1000
Costa Mesa, California 92626

We are providing this letter in connection with your audit of the statement of revenues and certain expenses (the "Statement") of *Property Name* (the "Property") for the purpose of expressing an opinion as to whether the Statement presents fairly, in all material respects, the revenues and certain expenses for the year ended December 31, 20XX [*and your review of the interim statement of revenues and certain expenses for the _____ months ended _____, 20XX*] of the Property in conformity with accounting principles generally accepted in the United States of America and Rules and Regulations of the U.S. Securities and Exchange Commission.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatements of accounting information that in light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The Statement referred to above is fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. The Property has made available to you all:
 - a. Financial records and related data.
 - b. The general ledger details provided were generated from our general ledger system are complete.
3. We have no knowledge of any fraud or suspected fraud affecting the Property involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the Statement.

4. We have no knowledge of any allegations of fraud or suspected fraud affecting the Property received in communications from employees, former employees, analysts, regulators, short sellers, or others.
5. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
6. There are no unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with FASB ASC 450 (formerly Statement of Financial Accounting Standards No.5, *Accounting for Contingencies*.)
7. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the Statement:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
8. There are no transactions that have not been properly recorded in the accounting records underlying the Statement.
9. To the best of our knowledge, there are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statement of revenues and certain expenses as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by the accounting pronouncement related to "accounting for contingencies."
 - c. Pending or threatened litigation or lawsuits with which the Company is involved in directly or indirectly.
10. The Property has complied with all aspects of contractual agreements that would have an effect on the Statement in the event of noncompliance.
11. No events have occurred subsequent to _____ [date of issuance] that require consideration as adjustments to or disclosures in the Statement.

12. The responses set forth on the SAS 99 Questionnaire attached hereto as Exhibit A and made a part hereof have been provided by the management of [enter name of seller] (the "Company").

Very truly yours,

Name

Title

Exhibit A To Representation Letter

Statement On Auditing Standards (Sas) No.99 Questionnaire

In order for the auditor to obtain information that is used to identify the risks of material misstatement due to fraud, the management of the Company (as defined in the representation letter to which this Exhibit A is attached and made a part) is required to respond to the below referenced inquiries about the risks of fraud and how such risks are addressed:

1. Does management have knowledge of any actual fraud or suspicions of fraud affecting the Property?

2. Does management have awareness of any allegations of fraud or suspected fraud affecting the Property?

3. Does management have an understanding of the risks of fraud affecting the Property, including any specific fraud risks that the Company has identified or account balances or classes of transactions that may be susceptible to fraud?

4. How does the Company communicate to employees the importance of ethical behavior and appropriate business practices?

5. What programs and controls has the Company implemented to address identified fraud

risks or otherwise help prevent, deter, and detect fraud, and how are those programs and controls monitored?

6. For entities with multiple properties, (a) what is the nature and extent of monitoring multiple locations and (b) do any of the multiple locations have a higher level of fraud risk?

7. Has management reported to the audit committee (or its equivalent) how the Company's internal control serves to prevent, deter, and detect material misstatements due to fraud?

8. With respect to the Company (a) is the Company in compliance with laws and regulations, (b) what are the Company's policies relative to the prevention of illegal acts, and (c) does the Company use of directives (for example, a code of ethics) and periodic representations obtained from management-level employees related to compliance with laws and regulations?

Exhibit "Q"

Audit Inquiry Letter

[Seller's Letterhead]

[Date]

[Name of Seller's Attorney]
[Address of Seller's Attorney]

Dear [Name of Seller's Attorney]:

You have been engaged by [enter name of seller] (the "Company") to represent the Company in connection with the closing of the sale of certain property owned by the Company and located at _____ (the "Property"). In connection with the above-described engagement, the Company has requested that you conduct the following litigation searches (collectively, the "Searches"):

- Litigation searches with respect to the Company in the Illinois state courts.
- Litigation searches with respect to the Company in the federal courts having jurisdiction in the State of Illinois, including bankruptcy courts.

For purposes of verification in connection with an audit of the statements of revenues and expenses (collectively, "Financial Statements") that relate to the Property, we hereby request that you furnish the auditors of our Financial Statements the following information:

Pending and Threatened Litigation

Please furnish our auditors with the results of the Searches, including copies of any complaints and responsive pleadings, along with a signed letter from your firm stating (a) whether the Searches disclosed any pending litigation against the Company or the Property in the state or federal courts having jurisdiction in the State of Illinois; and (b) whether, during the course of your representation of the Company (the nature of which is described above), you have obtained actual knowledge of any litigation or lawsuits with which the Company is involved in directly or indirectly, and any claims asserted against the Company even though legal proceedings have not started, including the following information, to the extent that you have actual knowledge thereof: (1) the nature of any such pending or threatened litigation, (2) the progress of the matter to date, (3) the response which is being made or which will be made to the matter, and (4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Other Matters

We do not intend that either our request to you to provide information to our auditor or your response to our auditor should be construed in any way to constitute a waiver of the attorney-client privilege or the attorney work-product privilege.

Please furnish our auditors with the amounts due you, if any, for services, whether billed or unbilled as of the date first referenced above.

To facilitate the evaluation of your response by the independent accountants, please respond by [enter a date that is no later than five business days prior to the Closing Date]. They would appreciate receiving your reply by that date with a specific effective date no earlier than [enter a date that is no earlier than 15 business days prior to the Closing Date].

Lastly, please forward your reply directly to our auditors at KMJ Corbin & Company, LLP 555 Anton Boulevard, Suite 1000 Costa Mesa, California 92626 and send a copy of your reply to American Healthcare Investors, 18191 Von Karman Avenue, Suite 300, Irvine, CA 92612, Attention: Trevor Drummond.

We thank you for your cooperation.

Sincerely,

[Authorized Officer Name]

Exhibit "R"

Audit Response Letter Form

[DATE]

[ADDRESSEE]

Re: [NAME OF COMPANY] (the "Company")

Dear []:

Reference is made to the letter dated [] from [] of the Company to this firm requesting that we supply you with certain information with respect to various matters pertaining to the Company in connection with your examination of the accounts of the Company as of [].

We call your attention to the fact that our engagement by the Company has been and is limited to specific matters as to which we were consulted or which were referred to us by the Company. Accordingly, there may exist matters of a legal nature which could have a bearing on the Company's financial condition with respect to which we have not been consulted or retained.

Although the letter from [] to us referred to above requests us to furnish certain information with respect to various matters including (a) pending or threatened litigation, claims and assessments (excluding unasserted claims and assessments) against the Company and (b) certain unasserted claims or assessments, please be advised that, in accordance with the ABA Statement of Policy Regarding Lawyers' Response to Auditors' Requests for Information (December 1975), it is our policy to respond to such requests only with respect to (a) pending or overtly threatened litigation, claims and assessments (excluding unasserted claims and assessments and other contingencies) against the Company with respect to which we have been specifically retained to represent the Company and with respect to which we have devoted substantive attention in the form of legal consultation and advice and (b) any unasserted claims or assessments which are specifically identified by the Company in the aforesaid letter (or a supplement thereto) and with respect to which we have been specifically requested to comment.

This response is limited by the ABA Statement of Policy Regarding Lawyers' Response to Auditors' Requests for Information (December 1975); without limiting the generality of the foregoing, the limitations set forth in such Statement on the scope and use of this response (Paragraphs 2 and 7 of the Statement) are specifically incorporated herein by reference and any description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of the Statement and the accompanying Commentary (which is an integral part of the Statement). Without limiting the foregoing, we do not comment upon pending governmental or regulatory investigations unless the applicable agency has manifested an intention to bring an action or proceeding against the Company.

Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy and pursuant to the Company's request, this will confirm as correct the Company's understanding as set forth in its audit inquiry letter to us that whenever, in the course of performing legal services for the Company with respect to a matter recognized by us to involve an unasserted possible claim or assessment that may call for financial statement disclosure, we have formed a professional conclusion that the Company must disclose or consider disclosure concerning such possible claim or assessment, we, as a matter of professional responsibility to the Company, will so advise the Company and will consult with the Company concerning the question of such disclosure and of the applicable requirements of FASB Accounting Standards Codification Subtopic 450-20, Contingencies – Loss Contingencies (a codification of Statement of Financial Accounting Standards No. 5).

Please be advised that we define an "unasserted claim or assessment" to mean a potential claim or assessment where

(a) the event or set of circumstances upon which a claim or assessment would be premised involves a catastrophe, accident or other similar physical occurrence where the Company's involvement is open and notorious, such as an airplane crash, or

(b) required public disclosure has been made by the Company acknowledging the existence of possible claims or assessments,

where, in each such case, past experience would dictate, in the Company's judgment (i) that the prospects of the assertion of a claim or assessment with respect thereto are reasonably certain (i.e., that extrinsic evidence is strong enough to support a presumption that it will happen) and the prospects of non assertion seem slight and (ii) that there is a reasonable probability that the outcome (assuming such assertion) will be materially adverse to the Company.

We do not include in the definition of "unasserted claim or assessment" any claim or assessment based upon the possibility of losses from wars, strikes, catastrophes not ordinarily insured against or otherwise provided for, currency revaluations, a business recession, tax assessments resulting from challenge in the future of items in tax returns for open years or similar items.

We are not undertaking to comment upon contractually assumed liabilities or obligations or any other contingent liabilities or contingencies which have not been specifically identified by the Company in the aforesaid letter because we understand that you can satisfy yourself with respect thereto through other audit procedures.

In further limitation of the foregoing, our response is directed only to matters where the claim or litigation against the Company would, in the Company's judgment, if adversely determined, have a material adverse effect on the Company's financial condition [in a dollar amount in excess of that set forth in the { } letter from the Company referred to above.]

In the preparation of this response, our procedures have been limited to an endeavor to determine from lawyers and legal assistants presently in our firm who regularly perform services for the Company whether they have performed services at this firm involving substantive

attention in the form of legal representation concerning any matter requiring disclosure in accordance with the provisions of this letter outlined above. Accordingly, it is to be noted that we have made no independent investigation of the Company's affairs or review of any of the Company's transactions or contractual arrangements and no search of any public records for purposes of this response, nor have we attempted to contact any lawyers or legal assistants previously in our firm who are no longer associated with us.

Our response is of necessity based, in part, upon factual information furnished to us by the Company which we have not independently verified; accordingly, since certain of this factual information is, or may be, disputed by the parties opposing the Company in any controversies discussed in this letter, the ultimate outcome of any such matter may depend upon the final determination of the facts by the trier thereof.

Subject to the foregoing, we have not been engaged to represent the Company in connection with any material pending or threatened litigation, claims or assessments which were asserted against the Company and which were pending or in process on [] or on the date hereof. [except as follows:]

Our current records indicate that as of [], outstanding bills for services rendered to, and disbursements incurred on behalf of, the Company by us aggregated \$[] and unbilled fees and disbursements aggregated \$[].

Our bills for services with respect to the Company(ies) are rendered to []. Our current records indicate that as of [], the outstanding bills for services rendered to, and disbursements incurred on behalf of [] by us aggregated \$[] and unbilled fees and disbursements aggregated \$[].

[We are unaware of any partnership agreement amendments from January 1, _____ through the date hereof.]

The information set forth herein is as of the date hereof. It should be recognized that changes in the matters referred to above may occur and new matters may come to our attention after such date. Should you require information concerning any such changes or new matters, please arrange at the appropriate time for us to receive a supplemental written request for such information. In the absence of such a written request, we assume no obligation to advise you of any such information. In making this response to the Company's request, we expressly disclaim any past or future oral communications, whether direct or indirect, with regard to the subject matter hereof, and we advise you that you may rely only upon written communications from this firm in connection with the examination by you of the Company's accounts giving rise to the Company's request to us.

This letter is solely for your information and is not to be quoted in whole or in part or otherwise referred to in any financial statements of the Company or related documents, nor is it to be filed with any governmental agency or other person, without the prior written consent of this firm. Notwithstanding such limitation, the response can properly be furnished to others in compliance with court process or when necessary in order to defend your audit against a challenge by the Company or a regulatory agency, provided that our firm is given written notice

of the circumstances at least twenty days before the response is to be furnished to others, or as long in advance as possible if the situation does not permit such period of notice.

The Company has advised us that by making the request set forth in the Company's letter to us referred to above, the Company does not intend to waive the attorney-client privilege with respect to any information which the Company has furnished to us. Moreover, please be advised that our response to you should not be construed in any way to constitute a waiver of the protection of the attorney work product privilege with respect to any of our files involving the Company.

In giving the response herein, the knowledge of this firm is expressly limited to acts or events of which we presently have actual knowledge; no implied, apparent or constructive knowledge is to be imputed to this firm, as counsel to the Company or otherwise, by you in interpreting or relying upon the information herein discussed.

Very truly yours,

KLEINBERG, KAPLAN, WOLFF & COHEN, P.C.

By: _____
[]

cc: []

Attachment 6

Financial Statements

GAHC3 Waterloo IL Dialysis Center, LLC is a newly-formed subsidiary of Griffin-American Healthcare REIT III, Inc. Please see the attached financial statements for Griffin-American Healthcare REIT III, Inc.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) *Financial Statements:*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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| Report of Independent Registered Public Accounting Firm | 94 |
| Consolidated Balance Sheets as of December 31, 2014 and 2013 | 95 |
| Consolidated Statements of Operations for the Year Ended December 31, 2014 and for the Period from January 11, 2013 (Date of Inception) through December 31, 2013 | 96 |
| Consolidated Statements of Equity for the Year Ended December 31, 2014 and for the Period from January 11, 2013 (Date of Inception) through December 31, 2013 | 97 |
| Consolidated Statements of Cash Flows for the Year Ended December 31, 2014 and for the Period from January 11, 2013 (Date of Inception) through December 31, 2013 | 98 |
| Notes to Consolidated Financial Statements | 100 |

(a)(2) *Financial Statement Schedule:*

The following financial statement schedule for the year ended December 31, 2014 is submitted herewith:

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|---|-------------|
| Real Estate and Accumulated Depreciation (Schedule III) | 129 |

All schedules other than the one listed above have been omitted as the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

(a)(3) *Exhibits:*

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this annual report.

(b) *Exhibits:*

See Item 15(a)(3) above.

(c) *Financial Statement Schedule:*

See Item 15(a)(2) above.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Griffin-American Healthcare REIT III, Inc.
Irvine, CA

We have audited the accompanying consolidated balance sheets of Griffin-American Healthcare REIT III, Inc. (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, equity and cash flows for the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Griffin-American Healthcare REIT III, Inc. as of December 31, 2014 and 2013, and the results of its operations and cash flows for the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Costa Mesa, California
March 19, 2015

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2014 and 2013

| | December 31, | |
|---|-----------------------|-------------------|
| | 2014 | 2013 |
| ASSETS | | |
| Real estate investments, net | \$ 249,029,000 | \$ — |
| Cash and cash equivalents | 504,894,000 | 202,000 |
| Accounts and other receivables | 40,314,000 | — |
| Restricted cash | 245,000 | — |
| Real estate and escrow deposits | 6,250,000 | — |
| Identified intangible assets, net | 29,636,000 | — |
| Other assets, net | 1,316,000 | — |
| Total assets | \$ 831,684,000 | \$ 202,000 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY | | |
| Liabilities: | | |
| Mortgage loans payable, net | \$ 16,959,000 | \$ — |
| Accounts payable and accrued liabilities | 5,924,000 | — |
| Accounts payable due to affiliates | 577,000 | — |
| Identified intangible liabilities, net | 841,000 | — |
| Security deposits, prepaid rent and other liabilities | 1,847,000 | — |
| Total liabilities | 26,148,000 | — |
| Commitments and contingencies (Note 9) | | |
| Redeemable noncontrolling interest (Note 10) | | |
| | 2,000 | — |
| Equity: | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value per share; 200,000,000 shares authorized; none issued and outstanding | — | — |
| Common stock, \$0.01 par value per share; 1,000,000,000 shares authorized; 91,623,241 and 22,222 shares issued and outstanding as of December 31, 2014 and 2013, respectively | 916,000 | — |
| Additional paid-in capital | 821,043,000 | 200,000 |
| Accumulated deficit | (16,425,000) | — |
| Total stockholders' equity | 805,534,000 | 200,000 |
| Noncontrolling interest (Note 11) | — | 2,000 |
| Total equity | 805,534,000 | 202,000 |
| Total liabilities, redeemable noncontrolling interest and equity | \$ 831,684,000 | \$ 202,000 |

The accompanying notes are an integral part of these consolidated financial statements.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2014 and for the Period from
January 11, 2013 (Date of Inception) through December 31, 2013

| | Year Ended December 31, 2014 | Period from January 11, 2013 (Date of Inception) through December 31, 2013 |
|---|---------------------------------|--|
| Revenue: | | |
| Real estate revenue | \$ 3,481,000 | \$ — |
| Expenses: | | |
| Rental expenses | 899,000 | — |
| General and administrative | 1,238,000 | — |
| Acquisition related expenses | 8,199,000 | — |
| Depreciation and amortization | 1,510,000 | — |
| Total expenses | 11,846,000 | — |
| Loss from operations | (8,365,000) | — |
| Other income (expense): | | |
| Interest expense (including amortization of deferred financing costs and debt premium) | (258,000) | — |
| Interest income | 25,000 | — |
| Net loss | (8,598,000) | — |
| Less: net loss (income) attributable to redeemable noncontrolling interest | — | — |
| Net loss attributable to controlling interest | \$ (8,598,000) | \$ — |
| Net loss per common share attributable to controlling interest — basic and diluted | \$ (0.66) | \$ — |
| Weighted average number of common shares outstanding — basic and diluted | 13,052,785 | 22,222 |

The accompanying notes are an integral part of these consolidated financial statements.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
CONSOLIDATED STATEMENTS OF EQUITY
For the Year Ended December 31, 2014 and for the Period from
January 11, 2013 (Date of Inception) through December 31, 2013

| | Stockholders' Equity | | | | | | |
|--|------------------------|------------|-------------------------------|------------------------|----------------------------------|----------------------------|----------------|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
| | Number of Shares | Amount | | | | | |
| BALANCE — December 31, 2013 | 22,222 | \$ — | \$ 200,000 | \$ — | \$ 200,000 | \$ 2,000 | \$ 202,000 |
| Issuance of common stock | 91,298,227 | 913,000 | 909,134,000 | — | 910,047,000 | — | 910,047,000 |
| Offering costs — common stock | — | — | (91,084,000) | — | (91,084,000) | — | (91,084,000) |
| Issuance of vested and nonvested restricted common stock | 15,000 | — | 30,000 | — | 30,000 | — | 30,000 |
| Issuance of common stock under the DRIP | 287,792 | 3,000 | 2,731,000 | — | 2,734,000 | — | 2,734,000 |
| Amortization of nonvested common stock compensation | — | — | 32,000 | — | 32,000 | — | 32,000 |
| Reclassification of noncontrolling interest | — | — | — | — | — | (2,000) | (2,000) |
| Distributions declared (\$0.38 per share) | — | — | — | (7,827,000) | (7,827,000) | — | (7,827,000) |
| Net loss | — | — | — | (8,598,000) | (8,598,000) | — | (8,598,000) |
| BALANCE — December 31, 2014 | 91,623,241 | \$ 916,000 | \$ 821,043,000 | \$ (16,425,000) | \$ 805,534,000 | \$ — | \$ 805,534,000 |

| | Stockholder's Equity | | | | | | |
|--|------------------------|--------|-------------------------------|------------------------|----------------------------------|----------------------------|--------------|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholder's Equity | Noncontrolling Interest | Total Equity |
| | Number of Shares | Amount | | | | | |
| BALANCE — January 11, 2013 (Date of Inception) | — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Issuance of common stock | 22,222 | — | 200,000 | — | 200,000 | — | 200,000 |
| Issuance of limited partnership units | — | — | — | — | — | 2,000 | 2,000 |
| BALANCE — December 31, 2013 | 22,222 | \$ — | \$ 200,000 | \$ — | \$ 200,000 | \$ 2,000 | \$ 202,000 |

The accompanying notes are an integral part of these consolidated financial statements.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2014 and for the Period from
January 11, 2013 (Date of Inception) through December 31, 2013

| | Year Ended December 31, 2014 | Period from January 11, 2013 (Date of Inception) through December 31, 2013 |
|---|---------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (8,598,000) | \$ — |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,510,000 | — |
| Other amortization (including deferred financing costs, above/below market leases, leasehold interests and debt premium) | 195,000 | — |
| Deferred rent | (240,000) | — |
| Stock based compensation | 62,000 | — |
| Acquisition fees paid in stock | 694,000 | — |
| Share discounts | 253,000 | — |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables | (1,753,000) | — |
| Other assets, net | (40,000) | — |
| Accounts payable and accrued liabilities | 2,589,000 | — |
| Accounts payable due to affiliates | 162,000 | — |
| Security deposits, prepaid rent and other liabilities | (1,163,000) | — |
| Net cash used in operating activities | (6,329,000) | — |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of real estate investments | (259,196,000) | — |
| Capital expenditures | (24,000) | — |
| Restricted cash | (245,000) | — |
| Real estate and escrow deposits | (6,250,000) | — |
| Net cash used in investing activities | (265,715,000) | — |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on mortgage loans payable | (60,000) | — |
| Proceeds from issuance of common stock | 866,302,000 | 200,000 |
| Deferred financing costs | (973,000) | — |
| Contribution from noncontrolling interest to operating partnership | — | 2,000 |
| Payment of offering costs | (86,432,000) | — |
| Distributions paid | (2,101,000) | — |
| Net cash provided by financing activities | 776,736,000 | 202,000 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 504,692,000 | 202,000 |
| CASH AND CASH EQUIVALENTS — Beginning of period | 202,000 | — |
| CASH AND CASH EQUIVALENTS — End of period | \$ 504,894,000 | \$ 202,000 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES: | | |
| Cash paid for interest | \$ 116,000 | \$ — |
| Investing Activities: | | |
| The following represents the increase in certain assets and liabilities in connection with our acquisitions of real estate investments: | | |
| Other assets | \$ 137,000 | \$ — |
| Mortgage loans payable, net | \$ 17,026,000 | \$ — |
| Accounts payable and accrued liabilities | \$ 521,000 | \$ — |
| Security deposits, prepaid rent and other liabilities | \$ 3,010,000 | \$ — |

Financing Activities:

| | | | | |
|---|----|-----------|----|---|
| Issuance of common stock under the DRIP | \$ | 2,734,000 | \$ | — |
| Distributions declared but not paid | \$ | 2,992,000 | \$ | — |

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
For the Year Ended December 31, 2014 and for the Period from
January 11, 2013 (Date of Inception) through December 31, 2013

| | Year Ended | Period from |
|---|-------------------|---|
| | December 31, 2014 | January 11, 2013 (Date of Inception) through December 31, 2013 |
| Accrued offering costs due to affiliates | \$ 415,000 | \$ — |
| Reclassification of noncontrolling interest | \$ 2,000 | \$ — |
| Receivable from transfer agent | \$ 38,561,000 | \$ — |
| Accrued deferred financing costs | \$ 13,000 | \$ — |

The accompanying notes are an integral part of these consolidated financial statements.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014 and for the Period from
January 11, 2013 (Date of Inception) through December 31, 2013

The use of the words "we," "us" or "our" refers to Griffin-American Healthcare REIT III, Inc. and its subsidiaries, including Griffin-American Healthcare REIT III Holdings, LP, except where the context otherwise requires.

1. Organization and Description of Business

Griffin-American Healthcare REIT III, Inc., a Maryland corporation, was incorporated on January 11, 2013 and therefore we consider that our date of inception. We were initially capitalized on January 15, 2013. We invest in a diversified portfolio of real estate properties, focusing primarily on medical office buildings, hospitals, skilled nursing facilities, senior housing and other healthcare-related facilities. We may also originate and acquire secured loans and real estate-related investments on an infrequent and opportunistic basis. We generally seek investments that produce current income. We believe we currently qualify, and intend to elect to be treated, as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, for federal income tax purposes beginning with our taxable year ended December 31, 2014, and we intend to continue to be taxed as a REIT.

On February 26, 2014, we commenced a best efforts initial public offering, or our offering, in which we initially offered to the public a minimum of \$2,000,000 in shares of our common stock, or the minimum offering, and a maximum of \$1,750,000,000 in shares of our common stock for \$10.00 per share in our primary offering and up to \$150,000,000 in shares of our common stock pursuant to our distribution reinvestment plan, or the DRIP, for \$9.50 per share, aggregating up to \$1,900,000,000, or the maximum offering. We reserved the right to reallocate the shares of common stock we offered in our offering between the primary offering and the DRIP. As such, during our offering, we reallocated an aggregate of \$115,000,000 in shares from the DRIP to the primary offering. Accordingly, we offered to the public up to \$1,865,000,000 in shares of our common stock in our primary offering and up to \$35,000,000 in shares of our common stock pursuant to the DRIP.

The conditions of our minimum offering were satisfied on May 12, 2014, excluding shares purchased by residents of Washington and Pennsylvania (who were subject to higher minimum offering amounts), and we admitted our initial subscribers as stockholders on that date. Having raised the minimum offering, the offering proceeds were released by the escrow agent to us on May 14, 2014 and were available for the acquisition of properties and other purposes disclosed in our prospectus dated February 26, 2014, or our prospectus, as filed with the United States Securities and Exchange Commission, or the SEC, (provided that subscriptions from residents of Washington and Pennsylvania were to continue to be held in escrow until we had received and accepted subscriptions aggregating at least \$20,000,000 and \$87,500,000, respectively). On June 10, 2014, we satisfied the \$20,000,000 minimum offering required by the state of Washington in connection with our offering and we began accepting subscriptions from Washington investors. On August 5, 2014, we satisfied the \$87,500,000 minimum offering required by the state of Pennsylvania in connection with our offering and we began accepting subscriptions from Pennsylvania investors. As of December 31, 2014, we had received and accepted subscriptions in our offering for 91,298,227 shares of our common stock, or \$909,777,000, excluding shares of our common stock issued pursuant to the DRIP. On March 12, 2015, we had received and accepted subscriptions in our primary offering for 184,941,800 shares, or \$1,842,733,000, and terminated the primary portion of our offering. We continue to offer up to \$35,000,000 in shares of our common stock through our offering pursuant to the DRIP. See Note 21, Subsequent Events — Status of our Offering, for a further discussion.

We conduct substantially all of our operations through Griffin-American Healthcare REIT III Holdings, LP, or our operating partnership. We are externally advised by Griffin-American Healthcare REIT III Advisor, LLC, or Griffin-American Advisor, or our advisor, pursuant to an advisory agreement, or the Advisory Agreement, between us and our advisor. The Advisory Agreement had a one-year term that expired on February 26, 2015, but is subject to successive one-year renewals upon the mutual consent of the parties. The Advisory Agreement was renewed pursuant to the mutual consent of the parties on February 24, 2015 and expires on February 26, 2016. Our advisor uses its best efforts, subject to the oversight, review and approval of our board of directors, to, among other things, research, identify, review and make investments in and dispositions of properties and securities on our behalf consistent with our investment policies and objectives. Our advisor performs its duties and responsibilities under the Advisory Agreement as our fiduciary. Our advisor is 75.0% owned and managed by American Healthcare Investors, LLC, or American Healthcare Investors, and 25.0% owned by a wholly owned subsidiary of Griffin Capital Corporation, or Griffin Capital, or collectively our co-sponsors. Effective December 8, 2014, NorthStar Asset Management Group Inc., or NSAM, through certain of its subsidiaries, and James F. Flaherty, III, one of NSAM's partners, acquired ownership interests in American Healthcare Investors. Effective March 1, 2015, American Healthcare Investors is 47.1% owned by AHI Group Holdings, LLC (formerly known as American Healthcare Investors LLC), or AHI Group Holdings, 45.1% indirectly owned by NSAM and 7.8% owned by Mr. Flaherty. We are not affiliated with Griffin Capital,

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Griffin Capital Securities, Inc., or Griffin Securities, or our dealer manager, NSAM or Mr. Flaherty; however, we are affiliated with Griffin-American Advisor and American Healthcare Investors.

We currently operate through three reportable business segments — medical office buildings, hospitals and senior housing. As of December 31, 2014, we had completed 11 acquisitions comprising 22 properties, or 24 buildings, and approximately 920,000 square feet of gross leasable area, or GLA, for an aggregate contract purchase price of \$277,700,000.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our consolidated financial statements. Such consolidated financial statements and the accompanying notes thereto are the representations of our management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, or GAAP, in all material respects, and have been consistently applied in preparing our accompanying consolidated financial statements.

Basis of Presentation

Our accompanying consolidated financial statements include our accounts and those of our operating partnership, the wholly owned subsidiaries of our operating partnership and all non-wholly owned subsidiaries and any variable interest entities, or VIEs, as defined in Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 810, *Consolidation*, or ASC Topic 810, which we have concluded should be consolidated pursuant to ASC Topic 810.

We operate and intend to continue to operate in an umbrella partnership REIT structure in which our operating partnership, or wholly owned subsidiaries of our operating partnership, will own substantially all of the properties acquired on our behalf. We are the sole general partner of our operating partnership, and as of December 31, 2014 and 2013, we owned greater than a 99.99% and a 99.01%, respectively, general partnership interest therein. Our advisor is a limited partner of our operating partnership, and as of December 31, 2014 and 2013, owned less than a 0.01% and a 0.99%, respectively, noncontrolling limited partnership interest therein.

Because we are the sole general partner of our operating partnership and have unilateral control over its management and major operating decisions (even if additional limited partners are admitted to our operating partnership), the accounts of our operating partnership are consolidated in our consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates, perhaps in material adverse ways, and those estimates could be different under different assumptions or conditions.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with a maturity of three months or less when purchased.

Restricted Cash

Restricted cash is primarily comprised of lender required accounts for property taxes, tenant improvements, capital improvements and insurance which are restricted as to use or withdrawal.

Revenue Recognition, Tenant Receivables and Allowance for Uncollectible Accounts

We recognize revenue in accordance with ASC Topic 605, *Revenue Recognition*, or ASC Topic 605. ASC Topic 605 requires that all four of the following basic criteria be met before revenue is realized or realizable and earned: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed and determinable; and (4) collectability is reasonably assured.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with ASC Topic 840, *Leases*, minimum annual rental revenue is recognized on a straight-line basis over the term of the related lease (including rent holidays). Differences between real estate revenue recognized and cash amounts contractually due from tenants under the lease agreements are recorded to deferred rent receivable or deferred rent liability, as applicable. Tenant reimbursement revenue, which is comprised of additional amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses, is recognized as revenue in the period in which the related expenses are incurred. Tenant reimbursements are recognized and presented in accordance with ASC Subtopic 605-45, *Revenue Recognition — Principal Agent Consideration*, or ASC Subtopic 605-45. ASC Subtopic 605-45 requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have credit risk. We recognize lease termination fees at such time when there is a signed termination letter agreement, all of the conditions of the agreement have been met and the tenant is no longer occupying the property.

Tenant receivables and unbilled deferred rent receivables are carried net of an allowance for uncollectible amounts. An allowance is maintained for estimated losses resulting from the inability of certain tenants to meet the contractual obligations under their lease agreements. We also maintain an allowance for deferred rent receivables arising from the straight line recognition of rents. Such allowances are charged to bad debt expense which is included in general and administrative in our accompanying consolidated statements of operations. Our determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, the tenant's financial condition, security deposits, letters of credit, lease guarantees and current economic conditions and other relevant factors. As of December 31, 2014 and 2013, we did not have any allowances for uncollectible accounts. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not incur any bad debt expense.

Real Estate Investments, Net

We carry our operating properties at historical cost less accumulated depreciation. The cost of operating properties includes the cost of land and completed buildings and related improvements. Expenditures that increase the service life of properties are capitalized and the cost of maintenance and repairs is charged to expense as incurred. The cost of buildings and capital improvements is depreciated on a straight-line basis over the estimated useful lives of the buildings and capital improvements, up to 39 years, and the cost for tenant improvements is depreciated over the shorter of the lease term or useful life, ranging from one month to 20.1 years. Furniture, fixtures and equipment, if any, is depreciated over the estimated useful life, ranging from five years to 10 years. When depreciable property is retired, replaced or disposed of, the related costs and accumulated depreciation is removed from the accounts and any gain or loss is reflected in earnings.

As part of the leasing process, we may provide the lessee with an allowance for the construction of leasehold improvements. These leasehold improvements are capitalized and recorded as tenant improvements and depreciated over the shorter of the useful life of the improvements or the lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event we are not considered the owner of the improvements, the allowance is considered to be a lease inducement and is recognized over the lease term as a reduction of rental revenue on a straight-line basis. Factors considered during this evaluation include, among other things, who holds legal title to the improvements as well as other controlling rights provided by the lease agreement and provisions for substantiation of such costs (e.g. unilateral control of the tenant space during the build-out process). Determination of the appropriate accounting for the payment of a tenant allowance is made on a lease-by-lease basis, considering the facts and circumstances of the individual tenant lease. Recognition of lease revenue commences when the lessee is given possession of the leased space upon completion of tenant improvements when we are the owner of the leasehold improvements. However, when the leasehold improvements are owned by the tenant, the lease inception date (and the date on which recognition of lease revenue commences) is the date the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements.

We assess the impairment of an operating property when events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment losses are recorded on an operating property when indicators of impairment are present and the carrying amount exceeds the sum of the future undiscounted cash flows expected to result from the use and eventual disposition of the property. We would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the property. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, there were no impairment losses recorded.

Property Acquisitions

In accordance with ASC Topic 805, *Business Combinations*, or ASC Topic 805, we, with assistance from independent valuation specialists, measure the fair value of tangible and identified intangible assets and liabilities, as applicable, based on

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

their respective fair values for acquired properties. The determination of the fair value of land is based upon comparable sales data. In cases where a leasehold interest in the land is acquired, the value of the leasehold interest is determined by discounting the difference between the contract ground lease payments and a market ground lease payment back to a present value as of the acquisition date. The market ground lease payment is estimated as a percentage of the land value. The fair value of buildings is based upon our determination of the value as if it were to be replaced and vacant using cost data and discounted cash flow models similar to those used by independent appraisers. We also recognize the fair value of furniture, fixtures and equipment on the premises, if any, as well as the above or below market rent, the value of in-place leases, the value of in-place lease costs, tenant relationships, master leases, above or below market debt and derivative financial instruments assumed. Factors considered by us include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases.

The value of the above or below market component of the acquired in-place leases is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference (if greater than 10.0%) between the level payment equivalent of the contract rent paid pursuant to the lease, and our estimate of market rent payments taking into account rent steps throughout the lease. In the case of leases with options, unless an option rent is more than 5.0% below market rent, it is not assumed to be exercised. The amounts related to above market leases are included in identified intangible assets, net in our accompanying consolidated balance sheets and are amortized against real estate revenue over the remaining non-cancelable lease term of the acquired leases with each property. The amounts related to below market leases are included in identified intangible liabilities, net in our accompanying consolidated balance sheets and are amortized to real estate revenue over the remaining non-cancelable lease term plus any below market renewal options of the acquired leases with each property.

The value of in-place lease costs and the value of tenant relationships, if any, are based on management's evaluation of the specific characteristics of the tenant's lease and our overall relationship with the tenants. Characteristics considered by us in allocating these values include the nature and extent of the credit quality and expectations of lease renewals, among other factors. The amounts related to in-place lease costs are included in identified intangible assets, net in our accompanying consolidated balance sheets and are amortized to depreciation and amortization expense over the average remaining non-cancelable lease term of the acquired leases with each property. The amounts related to the value of tenant relationships, if any, would be included in identified intangible assets, net in our accompanying consolidated balance sheets and would be amortized to depreciation and amortization expense over the average remaining non-cancelable lease term of the acquired leases plus the market renewal lease term. The value of a master lease, in which a previous owner or a tenant is relieved of specific rental obligations as additional space is leased, is determined by discounting the expected real estate revenue associated with the master lease space over the assumed lease-up period.

The value of above or below market debt is determined based upon the present value of the difference between the cash flow stream of the assumed mortgage and the cash flow stream of a market rate mortgage at the time of assumption. The value of above or below market debt is included in mortgage loans payable, net in our accompanying consolidated balance sheets and is amortized against or to interest expense, as applicable, over the remaining term of the assumed mortgage.

The value of derivative financial instruments, if any, would be determined in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC Topic 820, and would be included in derivative financial instruments in our accompanying consolidated balance sheets.

The values of contingent consideration assets and liabilities are analyzed at the time of acquisition. For contingent purchase options, the fair market value of the acquired asset is compared to the specified option price at the exercise date. If the option price is below market, it is assumed to be exercised and the difference between the fair market value and the option price is discounted to the present value at the time of acquisition.

The fair values are subject to change based on information received within one year of the purchase related to one or more events identified at the time of purchase which confirm the value of an asset or liability received in an acquisition of property.

Fair Value Measurements

We follow ASC Topic 820 to account for the fair value of certain assets and liabilities. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. An active market is defined as a market in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

See Note 13, Fair Value Measurements , for a further discussion.

Real Estate and Escrow Deposits

Real estate and escrow deposits include funds held by escrow agents and others to be applied towards the purchase of real estate.

Other Assets, Net

Other assets consist of deferred financing costs, deferred rent receivables and prepaid expenses and deposits. Deferred financing costs include amounts paid to lenders and others to obtain financing. Such costs are amortized using the straight-line method over the term of the related loan, which approximates the effective interest rate method. Amortization of deferred financing costs is included in interest expense in our accompanying consolidated statements of operations.

See Note 5, Other Assets, Net , for a further discussion.

Accounts Payable and Accrued Liabilities

As of December 31, 2014 , accounts payable and accrued liabilities consist primarily of distributions payable of \$2,992,000 and accrued property taxes of \$1,914,000 . We did not have any accounts payable and accrued liabilities as of December 31, 2013 .

Contingent Consideration

As of December 31, 2014 , included in security deposits, prepaid rent and other liabilities in our accompanying consolidated balance sheets was \$1,393,000 of contingent consideration obligations in connection with the acquisitions of DeKalb Professional Center and Acworth Medical Complex. Such amounts are due upon certain criteria being met within specified time frames. We did not have any contingent consideration obligations as of December 31, 2013 . See Note 13, Fair Value Measurements — Assets and Liabilities Reported at Fair Value — Contingent Consideration, for a further discussion.

Stock Compensation

We follow ASC Topic 718, *Compensation – Stock Compensation* , or ASC Topic 718, to account for our stock compensation pursuant to the 2013 Incentive Plan, or our incentive plan. See Note 11, Equity — 2013 Incentive Plan, for a further discussion of grants under our incentive plan.

Income Taxes

We have not yet elected to be taxed as a REIT under the Code. We believe we currently qualify, and intend to make an election to be taxed, as a REIT, under Sections 856 through 860 of the Code, beginning with our taxable year ended December

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

31, 2014, and we intend to continue to be taxed as a REIT. To qualify and maintain our qualification as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90.0% of our annual ordinary taxable income, excluding net capital gains, to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders.

If we fail to qualify and maintain our qualification as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could have a material adverse affect on our net income and net cash available for distribution to stockholders.

We follow ASC Topic 740, *Income Taxes*, to recognize, measure, present and disclose in our accompanying consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of December 31, 2014 and 2013, we did not have any tax benefits or liabilities for uncertain tax positions that we believe should be recognized in our accompanying consolidated financial statements.

Segment Disclosure

ASC Topic 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about a public entity's reportable segments. As of December 31, 2014, we operated through three reportable business segments — medical office buildings, hospitals and senior housing. Prior to December 2014, we operated through two reportable business segments; however, with the addition of our first hospital in December 2014, we segregated our operations into three reporting segments to assess the performance of our business in the same way that management reviews our performance and makes operating decisions. Prior to September 2014, we operated through one reportable business segment; however, with the addition of our first senior housing facility in September 2014, we segregated our operations into two reporting segments to assess the performance of our business in the same way that management reviews our performance and makes operating decisions.

See Note 17, *Segment Reporting*, for a further discussion.

GLA and Other Measures

GLA and other measures used to describe real estate investments included in our accompanying consolidated financial statements are presented on an unaudited basis.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update, or ASU, 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, or ASU 2014-08, which amends the definition of a discontinued operation to raise the threshold for disposals to qualify as discontinued operations and requires additional disclosures about disposal transactions. Under ASU 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components either (i) has been disposed of or (ii) is classified as held for sale. In addition, ASU 2014-08 requires additional disclosures about both (i) a disposal transaction that meets the definition of a discontinued operation and (ii) an individually significant component of an entity that is disposed of or held for sale that does not qualify for discontinued operations presentation in the financial statements. We anticipate that the majority of our future property dispositions, if any, will not be classified as discontinued operations. ASU 2014-08 is effective prospectively for interim and annual reporting periods beginning after December 15, 2014 with early adoption permitted. We early adopted ASU 2014-08 on January 1, 2014, which did not have an impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes most existing revenue recognition guidance, including industry-specific revenue recognition guidance, and is effective for public entities for interim and annual reporting periods beginning after December 15, 2016. Further, the application of ASU 2014-09 permits the use of either the full retrospective or cumulative effect transition approach. Early application is not permitted. We are continuing to evaluate this guidance; however, we do not expect its adoption to have a significant impact on our consolidated financial statements, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU 2014-09.

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In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, or ASU 2015-02, which amends the consolidation analysis required under ASC Topic 810. Specifically, ASU 2015-02 (i) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs, (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) amends the effect of fee arrangements in the primary beneficiary determination. Further, the application of ASU 2014-02 permits the use of either the full retrospective or modified retrospective adoption approach. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015 with early adoption permitted. We have not yet selected a transition method nor have we determined the impact the adoption of ASU 2014-02 on January 1, 2016 will have on our consolidated financial statements, if any.

3. Real Estate Investments, Net

Our real estate investments, net consisted of the following as of December 31, 2014 and 2013 :

| | December 31, | |
|--------------------------------|-----------------------|-------------|
| | 2014 | 2013 |
| Building and improvements | \$ 237,165,000 | \$ — |
| Land | 12,988,000 | — |
| | 250,153,000 | — |
| Less: accumulated depreciation | (1,124,000) | — |
| | <u>\$ 249,029,000</u> | <u>\$ —</u> |

Depreciation expense for the year ended December 31, 2014 was \$1,124,000 . We did not incur any depreciation expense for the period from January 11, 2013 (Date of Inception) through December 31, 2013 . In addition to the acquisitions discussed below, for the year ended December 31, 2014 , we incurred capital expenditures of \$24,000 on our medical office buildings. We did not incur any capital expenditures on our senior housing facilities or our hospital.

We reimburse our advisor or its affiliates for acquisition expenses related to selecting, evaluating and acquiring assets. The reimbursement of acquisition expenses, acquisition fees and real estate commissions and other fees paid to unaffiliated parties will not exceed, in the aggregate, 6.0% of the contract purchase price or total development costs, unless fees in excess of such limits are approved by a majority of our directors, including a majority of our independent directors. For the year ended December 31, 2014 , such fees and expenses noted above did not exceed 6.0% of the contract purchase price of our acquisitions. We did not incur such fees and expenses for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Acquisitions in 2014

For the year ended December 31, 2014, we completed 11 property acquisitions comprising 24 buildings from unaffiliated parties. The aggregate contract purchase price of these properties was \$277,700,000 and we incurred \$6,248,000 to our advisor and its affiliates in acquisition fees in connection with these property acquisitions. The following is a summary of our property acquisitions for the year ended December 31, 2014:

| Acquisition(1) | Location | Type | Date Acquired | Contract Purchase Price | Mortgage Loans Payable(2) | Acquisition Fee (3) |
|-----------------------------|--|-------------------|---------------|-------------------------|---------------------------|---------------------|
| DeKalb Professional Center | Lithonia, GA | Medical Office | 06/06/14 | \$ 2,830,000 | \$ — | \$ 64,000 |
| Country Club MOB | Stockbridge, GA | Medical Office | 06/26/14 | 2,775,000 | — | 62,000 |
| Acworth Medical Complex | Acworth, GA | Medical Office | 07/02/14 | 6,525,000 | — | 147,000 |
| Wichita KS MOB | Wichita, KS | Medical Office | 09/04/14 | 8,800,000 | — | 198,000 |
| Delta Valley ALF Portfolio | Batesville and Cleveland, MS | Senior Housing | 09/11/14 | 13,345,000 | — | 300,000 |
| Lee's Summit MO MOB | Lee's Summit, MO | Medical Office | 09/18/14 | 6,750,000 | — | 152,000 |
| Carolina Commons MOB | Indian Land, SC | Medical Office | 10/15/14 | 12,000,000 | 8,474,000 | 270,000 |
| Mount Olympia MOB Portfolio | Mount Dora, FL, Olympia Fields, IL; and Columbus, OH | Medical Office | 12/04/14 | 16,150,000 | — | 363,000 |
| Southlake TX Hospital | Southlake, TX | Hospital | 12/04/14 | 128,000,000 | — | 2,880,000 |
| East Texas MOB Portfolio | Longview and Marshall, TX | Medical Office | 12/12/14 | 68,500,000 | — | 1,541,000 |
| Premier MOB | Novi, MI | Medical Office | 12/19/14 | 12,025,000 | 7,950,000 | 271,000 |
| Total | | | | \$ 277,700,000 | \$ 16,424,000 | \$ 6,248,000 |

(1) We own 100% of our properties acquired in 2014.

(2) Represents the principal balance of the mortgage loans payable assumed by us at the time of acquisition.

(3) Our advisor and its affiliates were paid, as compensation for services rendered in connection with the investigation, selection and acquisition of our properties, an acquisition fee of 2.25% of the contract purchase price which was paid as follows: (i) in cash equal to 2.00% of the contract purchase price and (ii) the remainder in shares of our common stock in an amount equal to 0.25% of the contract purchase price, at \$9.00 per share, the established offering price as of the date of closing, net of selling commissions and dealer manager fees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Identified Intangible Assets, Net

Identified intangible assets, net consisted of the following as of December 31, 2014 and 2013 :

| | December 31, | |
|---|----------------------|-------------|
| | 2014 | 2013 |
| In-place leases, net of accumulated amortization of \$339,000 as of December 31, 2014 (with a weighted average remaining life of 15.9 years as of December 31, 2014) | \$ 24,987,000 | \$ — |
| Above market leases, net of accumulated amortization of \$145,000 as of December 31, 2014 (with a weighted average remaining life of 7.0 years as of December 31, 2014) | 3,157,000 | — |
| Leasehold interests, net of accumulated amortization of \$1,000 as of December 31, 2014 (with a weighted average remaining life of 75.0 years as of December 31, 2014) | 1,492,000 | — |
| | <u>\$ 29,636,000</u> | <u>\$ —</u> |

Amortization expense for the year ended December 31, 2014 was \$536,000 , which included \$149,000 of amortization recorded against real estate revenue for above market leases and \$1,000 of amortization recorded to rental expenses for leasehold interests in our accompanying consolidated statements of operations. We did not incur any amortization expense on identified intangible assets for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

The aggregate weighted average remaining life of the identified intangible assets was 17.9 years as of December 31, 2014 . As of December 31, 2014 , estimated amortization expense on the identified intangible assets for each of the next five years ending December 31 and thereafter was as follows:

| Year | Amount |
|------------|----------------------|
| 2015 | \$ 2,776,000 |
| 2016 | 2,650,000 |
| 2017 | 2,408,000 |
| 2018 | 2,291,000 |
| 2019 | 1,936,000 |
| Thereafter | 17,575,000 |
| | <u>\$ 29,636,000</u> |

5. Other Assets, Net

Other assets, net consisted of the following as of December 31, 2014 and 2013 :

| | December 31, | |
|---|---------------------|-------------|
| | 2014 | 2013 |
| Deferred financing costs, net of accumulated amortization of \$87,000 as of December 31, 2014 | \$ 899,000 | \$ — |
| Deferred rent receivables | 240,000 | — |
| Prepaid expenses and deposits | 177,000 | — |
| | <u>\$ 1,316,000</u> | <u>\$ —</u> |

Amortization expense on deferred financing costs for the year ended December 31, 2014 was \$87,000 . Amortization expense on deferred financing costs is recorded to interest expense in our accompanying consolidated statements of operations. We did not incur any amortization expense on deferred financing costs for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2014, estimated amortization expense on deferred financing costs for each of the next five years ending December 31 and thereafter was as follows:

| Year | Amount |
|------------|-------------------|
| 2015 | \$ 321,000 |
| 2016 | 321,000 |
| 2017 | 185,000 |
| 2018 | 15,000 |
| 2019 | 15,000 |
| Thereafter | 42,000 |
| | <u>\$ 899,000</u> |

6. Identified Intangible Liabilities, Net

As of December 31, 2014, identified intangible liabilities consisted of below market leases of \$841,000, net of accumulated amortization of \$35,000. We did not have any identified intangible liabilities as of December 31, 2013. Amortization expense on below market leases for the year ended December 31, 2014 was \$35,000. We did not incur any amortization expense on below market leases for the period from January 11, 2013 (Date of Inception) through December 31, 2013. Amortization expense on below market leases is recorded to real estate revenue in our accompanying consolidated statements of operations.

The weighted average remaining life of below market leases was 4.9 years as of December 31, 2014. As of December 31, 2014, estimated amortization expense on below market leases for each of the next five years ending December 31 and thereafter was as follows:

| Year | Amount |
|------------|-------------------|
| 2015 | \$ 240,000 |
| 2016 | 219,000 |
| 2017 | 130,000 |
| 2018 | 81,000 |
| 2019 | 60,000 |
| Thereafter | 111,000 |
| | <u>\$ 841,000</u> |

7. Mortgage Loans Payable, Net

Mortgage loans payable were \$16,364,000 (\$16,959,000, net of premium) as of December 31, 2014. We did not have any mortgage loans payable as of December 31, 2013. As of December 31, 2014, we had two fixed rate mortgage loans with effective interest rates ranging from 5.00% to 6.29% per annum and a weighted average effective interest rate of 5.63%. We are required by the terms of certain loan documents to meet certain reporting requirements. As of December 31, 2014, we were in compliance with all such requirements.

Mortgage loans payable, net consisted of the following as of December 31, 2014:

| | Contractual Interest Rate(1) | Maturity Date | December 31, 2014 |
|-----------------------------|---------------------------------|---------------|----------------------|
| Fixed Rate Debt: | | | |
| Carolina Commons MOB | 5.00% | 01/01/23 | \$ 8,426,000 |
| Premier MOB | 6.29% | 01/05/17 | 7,938,000 |
| Total fixed rate debt | | | 16,364,000 |
| Add: premium | | | 595,000 |
| Mortgage loans payable, net | | | <u>\$ 16,959,000</u> |

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) Represents the per annum interest rate in effect as of December 31, 2014 .

The following shows the change in mortgage loans payable, net for the year ended December 31, 2014 :

| | Amount |
|--|---------------|
| Mortgage loans payable, net — December 31, 2013 | \$ — |
| Additions: | |
| Assumption of mortgage loans payable, net | 17,026,000 |
| Deductions: | |
| Scheduled principal payments on mortgage loans payable | (60,000) |
| Amortization of premium on mortgage loans payable | (7,000) |
| Mortgage loans payable, net — December 31, 2014 | \$ 16,959,000 |

As of December 31, 2014 , the principal payments due on our mortgage loans payable for each of the next five years ending December 31 and thereafter were as follows:

| Year | Amount |
|------------|---------------|
| 2015 | \$ 440,000 |
| 2016 | 476,000 |
| 2017 | 7,950,000 |
| 2018 | 342,000 |
| 2019 | 359,000 |
| Thereafter | 6,797,000 |
| | \$ 16,364,000 |

8. Line of Credit

On August 18, 2014, we, through Griffin-American Healthcare REIT III Holdings, LP, our operating partnership, and certain of our subsidiaries, or the subsidiary guarantors, entered into a credit agreement, or the Credit Agreement, with Bank of America, N.A., or Bank of America, as lender, administrative agent, swing line lender and issuer of letters of credit; Merrill Lynch, Pierce, Fenner & Smith Incorporated and KeyBanc Capital Markets as joint lead arrangers and joint bookrunners; and KeyBank, National Association, or KeyBank, as lender and syndication agent, to obtain a revolving line of credit with an aggregate maximum principal amount of \$60,000,000 , or our line of credit.

On August 18, 2014, we also entered into separate revolving notes, or the Revolving Notes, with each of Bank of America and KeyBank, whereby we promised to pay the principal amount of each revolving loan and accrued interest to the respective lender or its registered assigns, in accordance with the terms and conditions of the Credit Agreement. The proceeds of loans made under our line of credit may be used for working capital, capital expenditures and other general corporate purposes (including, without limitation, property acquisitions and repayment of debt). Our operating partnership may obtain up to \$20,000,000 in the form of standby letters of credit and up to the greater of \$25,000,000 or 10.0% of the maximum principal amount in the form of swingline loans. Our line of credit matures on August 18, 2017, and may be extended for two one-year periods subject to satisfaction of certain conditions, including payment of an extension fee.

The maximum principal amount of the Credit Agreement, as amended, may be increased up to a total principal amount of \$350,000,000 , subject to (a) the terms of the Credit Agreement, as amended, and (b) such additional financing being offered and provided by existing lenders or new lenders under the Credit Agreement, as amended.

At our option, loans under the Credit Agreement, as amended, bear interest at per annum rates equal to (a) (i) the Eurodollar Rate plus (ii) a margin ranging from 1.95% to 2.45% based on our consolidated leverage ratio, or (b) (i) the greater of: (x) the prime rate publicly announced by Bank of America, (y) the Federal Funds Rate (as defined in the Credit Agreement, as amended) plus 0.50% and (z) the one-month Eurodollar Rate (as defined in the Credit Agreement, as amended) plus 1.00% ,

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plus (ii) a margin ranging from 0.75% to 1.25% based on our consolidated leverage ratio. Accrued interest under the Credit Agreement, as amended, is payable monthly.

We are required to pay a fee on the unused portion of the lenders' commitments under the Credit Agreement, as amended, at a per annum rate equal to 0.20% if the average daily used amount is greater than 50.0% of the commitments and 0.25% if the average daily used amount is less than or equal to 50.0% of the commitments.

The Credit Agreement, as amended, contains various affirmative and negative covenants that are customary for credit facilities and transactions of this type, including limitations on the incurrence of debt by our operating partnership and its subsidiaries and limitations on secured recourse indebtedness. The Credit Agreement, as amended, imposes the following financial covenants, which are specifically defined in the Credit Agreement, as amended: (a) a maximum consolidated leverage ratio; (b) a maximum consolidated secured leverage ratio; (c) a minimum consolidated tangible net worth covenant; (d) a minimum consolidated fixed charge coverage ratio; (e) a minimum unencumbered indebtedness yield; (f) a maximum consolidated unencumbered leverage ratio; (g) a minimum consolidated unencumbered interest coverage ratio; (h) limitations on secured recourse indebtedness; and (i) limitations on consolidated unsecured indebtedness. As of December 31, 2014, we were in compliance with all such covenants and requirements.

The Credit Agreement, as amended, requires us to add additional subsidiaries as guarantors in the event the value of the assets owned by the subsidiary guarantors falls below a certain threshold as set forth in the Credit Agreement, as amended. In the event of default, the lenders have the right to terminate their obligations under the Credit Agreement, as amended, including the funding of future loans, and to accelerate the payment on any unpaid principal amount of all outstanding loans and interest thereon. Additionally, until we achieved a consolidated total asset value of \$750,000,000, we were required to enter into pledge agreements, pursuant to which we pledged the capital stock of our subsidiaries which owned the real property to be included in the Unencumbered Property Pool, as such term is defined in the Credit Agreement, as amended. The pledged collateral was released in February 2015.

Our aggregate borrowing capacity under our line of credit was \$60,000,000 as of December 31, 2014. As of December 31, 2014, there were no borrowings outstanding and \$60,000,000 remained available under our line of credit.

9. Commitments and Contingencies

Litigation

We are not presently subject to any material litigation nor, to our knowledge, is any material litigation threatened against us, which if determined unfavorably to us, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Environmental Matters

We follow a policy of monitoring our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist at our properties, we are not currently aware of any environmental liability with respect to our properties that would have a material effect on our consolidated financial position, results of operations or cash flows. Further, we are not aware of any material 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.

Other Organizational and Offering Expenses

Our other organizational and offering expenses in connection with our offering (other than selling commissions and the dealer manager fee which generally represent 7.0% and 3.0%, respectively, of our gross offering proceeds) are being paid by our advisor or its affiliates on our behalf. These other organizational and offering expenses include all expenses to be paid by us in connection with our offering. As of December 31, 2013, our advisor and its affiliates had incurred offering expenses of \$1,077,000 on our behalf, which expenses were not recorded in our consolidated balance sheets because such costs did not become our liability until we reached the minimum offering on May 12, 2014, and then only to the extent that other organizational and offering expenses did not exceed 2.0% of the gross offering proceeds from our offering. As of December 31, 2014, our advisor and its affiliates had not incurred other organizational and offering expenses on our behalf in excess of 2.0% of the gross offering proceeds from our offering. When recorded by us, other organizational expenses will be expensed as incurred, as applicable, and offering expenses are charged to stockholders' equity as such amounts are reimbursed to our advisor.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

or its affiliates from the gross proceeds of our offering. See Note 12, Related Party Transactions — Offering Stage, for a further discussion of other organization and offering expenses.

Other

Our other commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business, which include calls/puts to sell/acquire properties. In our view, these matters are not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

10. Redeemable Noncontrolling Interest

As of December 31, 2014, we owned greater than a 99.99% general partnership interest in our operating partnership and our advisor owned less than a 0.01% limited partnership interest in our operating partnership. The noncontrolling interest of our advisor in our operating partnership that has redemption features outside of our control is accounted for as redeemable noncontrolling interest and is presented in the mezzanine section of our accompanying consolidated balance sheets. See Note 11, Equity — Noncontrolling Interest of Limited Partner in Operating Partnership, for a further discussion. In addition, see Note 12, Related Party Transactions — Liquidity Stage — Subordinated Participation Interest — Subordinated Distribution Upon Listing and Note 12, Related Party Transactions — Subordinated Distribution Upon Termination, for a further discussion of the redemption features of the limited partnership units.

We record the carrying amount of redeemable noncontrolling interest at the greater of (i) the initial carrying amount, increased or decreased for the noncontrolling interest's share of net income or loss and distributions or (ii) the redemption value. The changes in the carrying amount of redeemable noncontrolling interest consisted of the following for the year ended December 31, 2014:

| | Amount |
|--|-----------------|
| Balance — December 31, 2013 | \$ |
| Reclassification from equity | 2,000 |
| Net (loss) income attributable to redeemable noncontrolling interest | |
| Balance — December 31, 2014 | <u>\$ 2,000</u> |

11. Equity

Preferred Stock

Our charter authorizes us to issue 200,000,000 shares of our preferred stock, par value \$0.01 per share. As of December 31, 2014 and 2013, no shares of preferred stock were issued and outstanding.

Common Stock

Our charter authorizes us to issue 1,000,000,000 shares of our common stock, par value \$0.01 per share. On January 15, 2013, our advisor acquired 22,222 shares of our common stock for total cash consideration of \$200,000 and was admitted as our initial stockholder. We used the proceeds from the sale of shares of our common stock to our advisor to make an initial capital contribution to our operating partnership. On each of May 14, 2014 and December 10, 2014, we granted 10,000 and 5,000 shares, respectively, of our restricted common stock to our independent directors. Through December 31, 2014, we had issued 91,298,227 shares of our common stock in connection with our offering and 287,792 shares of our common stock pursuant to the DRIP. As of December 31, 2014 and 2013, we had 91,623,241 and 22,222 shares of our common stock issued and outstanding, respectively.

As of December 31, 2014, we had a receivable of \$38,561,000 for offering proceeds, net of selling commissions and dealer manager fees, from our transfer agent, which was received in January 2015 and is included in accounts and other receivables in our accompanying consolidated balance sheets.

Offering Costs

Selling Commissions

Our dealer manager received selling commissions of up to 7.0% of the gross offering proceeds from the sale of shares of our common stock in our offering other than shares of our common stock sold pursuant to the DRIP. Our dealer manager could

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

have re-allowed all or a portion of these fees to participating broker-dealers. For the year ended December 31, 2014, we incurred \$60,784,000 in selling commissions to our dealer manager, which are charged to stockholders' equity as such amounts are reimbursed to our dealer manager from the gross proceeds of our offering. Our dealer manager did not receive any selling commissions for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

Dealer Manager Fee

Our dealer manager received a dealer manager fee of up to 3.0% of the gross offering proceeds from the sale of shares of our common stock in our offering other than shares of our common stock sold pursuant to the DRIP. For the year ended December 31, 2014, we incurred \$27,308,000 in dealer manager fees to our dealer manager, which are charged to stockholders' equity as such amounts are reimbursed to our dealer manager or its affiliates from the gross proceeds of our offering. Our dealer manager did not receive any dealer manager fees for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

Noncontrolling Interest of Limited Partner in Operating Partnership

On January 15, 2013, our advisor made an initial capital contribution of \$2,000 to our operating partnership in exchange for 222 limited partnership units. Upon the effectiveness of the Advisory Agreement on February 26, 2014, Griffin-American Advisor became our advisor. As our advisor, Griffin-American Advisor is entitled to special redemption rights of its limited partnership units. Therefore, on February 26, 2014, such limited partnership units no longer meet the criteria for classification within the equity section of our accompanying consolidated balance sheets and as such were reclassified to the mezzanine section of our accompanying consolidated balance sheets. See Note 10, Redeemable Noncontrolling Interest, for a further discussion.

Distribution Reinvestment Plan

We adopted the DRIP that allows stockholders to purchase additional shares of our common stock through the reinvestment of distributions at an offering price equal to 95.0% of the primary offering price of our offering, subject to certain conditions. We have registered and reserved \$35,000,000 in shares of our common stock for sale pursuant to the DRIP in our offering at an offering price of \$9.50 per share.

For the year ended December 31, 2014, \$2,734,000 in distributions were reinvested and 287,792 shares of our common stock, respectively, were issued pursuant to the DRIP. No reinvestment of distributions were made for the period from January 11, 2013 (Date of Inception) through December 31, 2013. As of December 31, 2014 and 2013, a total of \$2,734,000 and \$0, respectively, in distributions were reinvested and 287,792 and 0 shares of our common stock, respectively, were issued pursuant to the DRIP.

Share Repurchase Plan

Our board of directors has approved a share repurchase plan. Our share repurchase plan allows for repurchases of shares of our common stock by us when certain criteria are met. Share repurchases will be made at the sole discretion of our board of directors. Subject to the availability of the funds for share repurchases, we will limit the number of shares of our common stock repurchased during any calendar year to 5.0% of the weighted average number of shares of our common stock outstanding during the prior calendar year; provided, however, that shares subject to a repurchase requested upon the death of a stockholder will not be subject to this cap. Funds for the repurchase of shares of our common stock will come exclusively from the cumulative proceeds we receive from the sale of shares of our common stock pursuant to the DRIP.

All repurchases will be subject to a one-year holding period, except for repurchases made in connection with a stockholder's death or "qualifying disability," as defined in our share repurchase plan. Further, all share repurchases will be repurchased following a one-year holding period at 92.5% to 100% of each stockholder's purchase amount depending on the period of time their shares have been held. At any time we are engaged in an offering of shares of our common stock, the repurchase amount for shares repurchased under our share repurchase plan will always be equal to or lower than the applicable per share offering price. However, if shares of our common stock are repurchased in connection with a stockholder's death or qualifying disability, the repurchase price will be no less than 100% of the price paid to acquire the shares of our common stock from us. Furthermore, our share repurchase plan provides that if there is insufficient funds to honor all repurchase requests, pending requests will be honored among all requests for repurchase in any given repurchase period, as follows: first, pro rata as to repurchases sought upon a stockholder's death; next, pro rata as to repurchases sought by stockholders with a qualifying disability; and, finally, pro rata as to other repurchase requests. No share repurchases were requested or made for the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2013 Incentive Plan

We adopted our incentive plan, pursuant to which our board of directors or a committee of our independent directors may make grants of options, restricted shares of common stock, stock purchase rights, stock appreciation rights or other awards to our independent directors, employees and consultants. The maximum number of shares of our common stock that may be issued pursuant to our incentive plan is 2,000,000 shares.

Upon the election of two of our independent directors to our board of directors on February 25, 2014, or the service inception date, the independent directors each became entitled to 5,000 shares of our restricted common stock, as defined in our incentive plan, upon the initial release from escrow of the minimum offering. Having raised the minimum offering and upon the initial release from escrow on May 14, 2014, or the grant date, we granted an aggregate of 10,000 shares of our restricted common stock, as defined in our incentive plan, to our independent directors in connection with their initial election to our board of directors, of which 20.0% vested on the grant date and 20.0% will vest on each of the first four anniversaries of the grant date. Upon the election of an additional independent director to our board of directors on December 10, 2014, we granted 5,000 shares of our restricted common stock, as defined in our incentive plan, to our independent director, which will vest over the same period described above. Shares of our restricted common stock may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumbered. Such restrictions expire upon vesting. Shares of our restricted common stock have full voting rights and rights to distributions.

From the service inception date to the grant date, we recognized compensation expense related to the shares of our restricted common stock based on the reporting date fair value, which was estimated at \$10.00 per share, the price paid to acquire a share of common stock in our offering. Beginning on the grant date, compensation cost related to the shares of our restricted common stock is measured based on the grant date fair value, which we estimated at \$10.00 per share, the price paid to acquire a share of common stock in our offering. Stock compensation expense is recognized from the service inception date to the vesting date for each vesting tranche (i.e., on a tranche by tranche basis) using the accelerated attribution method. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For the year ended December 31, 2014, we did not assume any forfeitures. For the year ended December 31, 2014, we recognized stock compensation expense of \$62,000, which is included in general and administrative in our accompanying consolidated statements of operations. We did not incur any stock compensation expense for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

As of December 31, 2014 and 2013, there was \$88,000 and \$0, respectively, of total unrecognized compensation expense, net of estimated forfeitures, related to nonvested shares of our restricted common stock. This expense is expected to be recognized over a remaining weighted average period of 2.06 years.

As of December 31, 2014 and 2013, the weighted average grant date fair value of the nonvested shares of our restricted common stock was \$120,000 and \$0, respectively. A summary of the status of the nonvested shares of our restricted common stock as of December 31, 2014 and 2013 and the changes for the year ended December 31, 2014, is presented below:

| | Number of Nonvested Shares of our Restricted Common Stock | Weighted Average Grant Date Fair Value |
|--------------------------------------|---|--|
| Balance — December 31, 2013 | — | \$ — |
| Granted | 15,000 | \$ 10.00 |
| Vested | (3,000) | \$ 10.00 |
| Forfeited | — | \$ — |
| Balance — December 31, 2014 | 12,000 | \$ 10.00 |
| Expected to vest — December 31, 2014 | 12,000 | \$ 10.00 |

12. Related Party Transactions**Fees and Expenses Paid to Affiliates**

All of our executive officers and our non-independent director are also executive officers and employees and/or holders of a direct or indirect interest in our advisor, one of our co-sponsors or other affiliated entities. We are affiliated with our advisor and American Healthcare Investors; however, we are not affiliated with Griffin Capital or Griffin Securities. We entered into the Advisory Agreement, which entitles our advisor and its affiliates to specified compensation for certain services, as well as reimbursement of certain expenses. In the aggregate, for the year ended December 31, 2014, we incurred \$9,641,000 in fees

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and expenses to our affiliates as detailed below. We did not incur fees and expenses to our affiliates for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

Offering Stage

Other Organizational and Offering Expenses

Our other organizational and offering expenses were paid by our advisor or its affiliates on our behalf. Our advisor or its affiliates were reimbursed for actual expenses incurred up to 2.0% of the gross offering proceeds from the sale of shares of our common stock in our offering other than shares of our common stock sold pursuant to the DRIP. For the year ended December 31, 2014 , we incurred \$2,974,000 in other organizational and offering expenses to our advisor. Other organizational expenses were expensed as incurred and offering expenses are charged to stockholders' equity as such amounts were reimbursed to our advisor or its affiliates from the gross proceeds of our offering. We did not incur other organizational and offering expenses to our advisor for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

Acquisition and Development Stage

Acquisition Fee

Our advisor or its affiliates receive an acquisition fee of up to 2.25% of the contract purchase price, including any contingent or earn-out payments that may be paid, for each property we acquire or 2.0% of the origination or acquisition price, including any contingent or earn-out payments that may be paid, for any real estate-related investment we originate or acquire. The acquisition fee for property acquisitions was paid as follows: (i) in cash equal to 2.00% of the contract purchase price and (ii) the remainder in shares of our common stock in an amount equal to 0.25% of the contract purchase price, at the established offering price as of the date of closing, net of selling commissions and dealer manager fees, which was \$9.00 per share for the year ended December 31, 2014 . Notwithstanding the foregoing, if we are no longer in our offering stage, the 2.25% acquisition fee for property acquisitions shall be paid in cash. Our advisor or its affiliates are entitled to receive these acquisition fees for properties and real estate-related investments we acquire with funds raised in our offering including acquisitions completed after the termination of the Advisory Agreement, or funded with net proceeds from the sale of a property or real estate-related investment, subject to certain conditions.

Acquisition fees in connection with the acquisition of properties are expensed as incurred in accordance with ASC Topic 805, and included in acquisition related expenses in our accompanying consolidated statements of operations. Acquisition fees in connection with the acquisition of real estate-related investments are capitalized as part of the associated investment in our accompanying consolidated balance sheets.

For the year ended December 31, 2014 , we incurred \$6,279,000 in acquisition fees to our advisor or its affiliates, which included 77,139 shares of our common stock issued for the year ended December 31, 2014 . We did not incur any acquisition fees to our advisor or its affiliates for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

Development Fee

In the event our advisor or its affiliates provide development-related services, our advisor or its affiliates receive a development fee in an amount that is usual and customary for comparable services rendered for similar projects in the geographic market where the services are provided; however, we will not pay a development fee to our advisor or its affiliates if our advisor or its affiliates elect to receive an acquisition fee based on the cost of such development.

For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013 , we did not incur any development fees to our advisor or its affiliates.

Reimbursement of Acquisition Expenses

Our advisor or its affiliates are reimbursed for acquisition expenses related to selecting, evaluating and acquiring assets, which are reimbursed regardless of whether an asset is acquired. The reimbursement of acquisition expenses, acquisition fees and real estate commissions paid to unaffiliated parties will not exceed, in the aggregate, 6.0% of the contract purchase price or total development costs, unless fees in excess of such limits are approved by a majority of our directors, including a majority of our independent directors, not otherwise interested in the transaction. For the year ended December 31, 2014 , such fees and expenses did not exceed 6.0% of the contract purchase price of our acquisitions. We did not incur such fees and expenses for the period from January 11, 2013 (Date of Inception) through December 31, 2013 .

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reimbursements of acquisition expenses are expensed as incurred in accordance with ASC Topic 805 and included in acquisition related expenses in our accompanying consolidated statements of operations. Reimbursements of acquisition expenses in connection with the acquisition of real estate-related investments are capitalized as part of the associated investment in our accompanying consolidated balance sheets.

For the year ended December 31, 2014, we incurred \$4,000 in acquisition expenses to our advisor or its affiliates. We did not incur any acquisition expenses to our advisor or its affiliates for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

Operational Stage

Asset Management Fee

Our advisor or its affiliates are paid a monthly fee for services rendered in connection with the management of our assets equal to one-twelfth of 0.75% of average invested assets, subject to our stockholders receiving distributions in an amount equal to 5.0% per annum, cumulative, non-compounded, of invested capital. For such purposes, average invested assets means the average of the aggregate book value of our assets invested in real estate properties and real estate-related investments, before deducting depreciation, amortization, bad debt and other similar non-cash reserves, computed by taking the average of such values at the end of each month during the period of calculation; and average invested capital means, for a specified period, the aggregate issue price of shares of our common stock purchased by our stockholders, reduced by distributions of net sales proceeds by us to our stockholders and by any amounts paid by us to repurchase shares of our common stock pursuant to our share repurchase plan.

Our advisor agreed to waive a combination of certain acquisition fees and/or asset management fees, or collectively, the Advisory Fees, that may otherwise have been due to our advisor pursuant to our Advisory Agreement, in order to provide us with additional funds to pay distributions to our stockholders prior to our first property acquisition. As such, asset management fees of \$37,000 that would have been incurred during the year ended December 31, 2014 were waived by our advisor. Our advisor did not receive any additional securities, shares of our stock, or any other form of consideration or any repayment as a result of the waiver of such asset management fees. For the year ended December 31, 2014, we incurred \$160,000 in asset management fees to our advisor or its affiliates. We did not incur any asset management fees to our advisor or its affiliates for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

Asset management fees are included in general and administrative in our accompanying consolidated statements of operations.

Property Management Fee

Our advisor or its affiliates may directly serve as property manager of our properties or may sub-contract its property management duties to any third-party and provide oversight of such third party property manager. Our advisor or its affiliates are paid a monthly management fee equal to a percentage of the gross monthly cash receipts of such property as follows: (i) a 1.0% property management oversight fee for any stand-alone, single-tenant net leased property, (ii) a 1.5% property management oversight fee for any property that is not a stand-alone, single-tenant net leased property and for which our advisor or its affiliates will provide oversight of a third party that performs the duties of a property manager with respect to such property, or (iii) a fair and reasonable property management fee that is approved by a majority of our directors, including a majority of our independent directors, that is not less favorable to us than terms available from unaffiliated third parties for any property that is not a stand-alone, single-tenant net leased property and for which our advisor or its affiliates will directly serve as the property manager without sub-contracting such duties to a third party.

For the year ended December 31, 2014, we incurred \$44,000 in property management fees to our advisor or its affiliates. For the period from January 11, 2013 (Date of Inception) through December 31, 2013 we did not incur any property management fees to our advisor or its affiliates. Property management fees are included in rental expenses in our accompanying consolidated statements of operations.

Lease Fees

We pay our advisor or its affiliates a separate fee for any leasing activities in an amount not to exceed the fee customarily charged in arm's-length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area. Such fee is generally expected to range from 3.0% to 6.0% of the gross revenues generated during the initial term of the lease.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not incur any lease fees to our advisor or its affiliates. When incurred by us, lease fees will be capitalized as lease commissions and included in other assets, net in our accompanying consolidated balance sheets.

Construction Management Fee

In the event that our advisor or its affiliates assist with planning and coordinating the construction of any capital or tenant improvements, our advisor or its affiliates are paid a construction management fee of up to 5.0% of the cost of such improvements. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not incur any construction management fees to our advisor or its affiliates.

Construction management fees are capitalized as part of the associated asset and included in real estate investments, net in our accompanying consolidated balance sheets or will be expensed and included in our accompanying consolidated statements of operations, as applicable.

Operating Expenses

We reimburse our advisor or its affiliates for operating expenses incurred in rendering services to us, subject to certain limitations. However, we cannot reimburse our advisor or its affiliates at the end of any fiscal quarter for total operating expenses that, in the four consecutive fiscal quarters then ended, exceed the greater of: (i) 2.0% of our average invested assets, as defined in the Advisory Agreement, or (ii) 25.0% of our net income, as defined in the Advisory Agreement, unless our independent directors determined that such excess expenses were justified based on unusual and nonrecurring factors which they deem sufficient.

From the commencement of our offering through December 31, 2014, our operating expenses exceeded this limitation by \$199,000. Our operating expenses as a percentage of average invested assets and as a percentage of net income were 2.5% and (13.9)%, respectively, from the commencement of our offering through December 31, 2014. We satisfied the conditions of the minimum offering and had funds held in escrow released to us to commence real estate operations in May 2014. We purchased our first property in June 2014. At this early stage of our operations, our general and administrative expenses are relatively high compared with our net income and our average invested assets. Our board of directors determined that the relationship of our general and administrative expenses to our net income and our average invested assets was justified from the commencement of our offering through December 31, 2014 given the unusual costs of operating a public company in the early stage of operations.

For the year ended December 31, 2014, our advisor or its affiliates incurred operating expenses on our behalf of \$180,000. Our advisor or its affiliates did not incur any operating expenses on our behalf for the period from January 11, 2013 (Date of Inception) through December 31, 2013. Operating expenses are generally included in general and administrative in our accompanying consolidated statements of operations.

Compensation for Additional Services

Our advisor and its affiliates are paid for services performed for us other than those required to be rendered by our advisor or its affiliates under the Advisory Agreement. The rate of compensation for these services has to be approved by a majority of our board of directors, including a majority of our independent directors, and cannot exceed an amount that would be paid to unaffiliated parties for similar services. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, our advisor and its affiliates were not compensated for any additional services.

*Liquidity Stage**Disposition Fees*

For services relating to the sale of one or more properties, our advisor or its affiliates are paid a disposition fee up to the lesser of 2.0% of the contract sales price or 50.0% of a customary competitive real estate commission given the circumstances surrounding the sale, in each case as determined by our board of directors, including a majority of our independent directors, upon the provision of a substantial amount of the services in the sales effort. The amount of disposition fees paid, when added to the real estate commissions paid to unaffiliated parties, will not exceed the lesser of the customary competitive real estate commission or an amount equal to 6.0% of the contract sales price. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not incur any disposition fees to our advisor or its affiliates.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Subordinated Participation Interest

Subordinated Distribution of Net Sales Proceeds

In the event of liquidation, our advisor will be paid a subordinated distribution of net sales proceeds. The distribution will be equal to 15.0% of the remaining net proceeds from the sales of properties, after distributions to our stockholders, in the aggregate, of (i) a full return of capital raised from stockholders (less amounts paid to repurchase shares of our common stock pursuant to our share repurchase plan) plus (ii) an annual 7.0% cumulative, non-compounded return on the gross proceeds from the sale of shares of our common stock, as adjusted for distributions of net sales proceeds. Actual amounts to be received depend on the sale prices of properties upon liquidation. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not incur any such distributions to our advisor.

Subordinated Distribution Upon Listing

Upon the listing of shares of our common stock on a national securities exchange, in redemption of our advisor's limited partnership units, our advisor will be paid a distribution equal to 15.0% of the amount by which (i) the market value of our outstanding common stock at listing plus distributions paid prior to listing exceeds (ii) the sum of the total amount of capital raised from stockholders (less amounts paid to repurchase shares of our common stock pursuant to our share repurchase plan) and the amount of cash that, if distributed to stockholders as of the date of listing, would have provided them an annual 7.0% cumulative, non-compounded return on the gross proceeds from the sale of shares of our common stock through the date of listing. Actual amounts to be received depend upon the market value of our outstanding stock at the time of listing, among other factors. For the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not incur any such distributions to our advisor.

Subordinated Distribution Upon Termination

Pursuant to our Agreement of Limited Partnership, as amended, upon termination or non-renewal of the Advisory Agreement, our advisor will also be entitled to a subordinated distribution in redemption of its limited partnership units from our operating partnership equal to 15.0% of the amount, if any, by which (i) the appraised value of our assets on the termination date, less any indebtedness secured by such assets, plus total distributions paid through the termination date, exceeds (ii) the sum of the total amount of capital raised from stockholders (less amounts paid to repurchase shares of our common stock pursuant to our share repurchase plan) and the total amount of cash equal to an annual 7.0% cumulative, non-compounded return on the gross proceeds from the sale of shares of our common stock through the termination date. In addition, our advisor may elect to defer its right to receive a subordinated distribution upon termination until either a listing or other liquidity event, including a liquidation, sale of substantially all of our assets or merger in which our stockholders receive in exchange for their shares of our common stock, shares of a company that are traded on a national securities exchange.

As of December 31, 2014, we had not recorded any charges to earnings related to the subordinated distribution upon termination.

Stock Purchase Plans

On March 5, 2014, our Chairman of the Board of Directors and Chief Executive Officer, Jeffrey T. Hanson, our President and Chief Operating Officer, Danny Prosky, and our Executive Vice President, General Counsel, Mathieu B. Streiff, each executed stock purchase plans, or the Stock Purchase Plans, whereby they each irrevocably agreed to invest 100% of their net after-tax base salary and cash bonus compensation earned as employees of American Healthcare Investors directly into our company by purchasing shares of our common stock. In addition, on March 5, 2014, our Chief Financial Officer, Shannon K S Johnson, our Senior Vice President — Acquisitions, Stefan K.L. Oh, our Secretary, Cora Lo, and our Vice President — Asset Management, Chris Rooney, each executed similar Stock Purchase Plans whereby they each irrevocably agreed to invest 15.0%, 15.0%, 10.0%, and 15.0%, respectively, of their net after-tax base salaries that were earned as employees of American Healthcare Investors directly into our company by purchasing shares of our common stock. Such arrangements terminated on December 31, 2014. Effective January 1, 2015, Messrs. Hanson, Prosky, Streiff, Oh and Rooney, and Mes. Johnson and Lo, each adopted a stock purchase plan on terms similar to each of the Stock Purchase Plans above. See Note 21, Subsequent Events — Stock Purchase Plans, for a further discussion.

Purchases of shares of our common stock pursuant to the Stock Purchase Plans commenced after the initial release from escrow of the minimum offering amount, beginning with the officers' regularly scheduled payroll payment on May 20, 2014. The shares of common stock were purchased at a price of \$9.00 per share, reflecting the purchase price of the shares in our offering, exclusive of selling commissions and the dealer manager fee.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the year ended December 31, 2014, our officers invested the following amounts and we issued the following shares of our common stock pursuant to the applicable stock purchase plan:

| Officer's Name | Title | Year Ended | |
|---------------------|--|-------------------|---------------|
| | | December 31, 2014 | |
| | | Amount | Shares |
| Jeffrey T. Hanson | Chairman of the Board of Directors and Chief Executive Officer | \$ 59,000 | 6,574 |
| Danny Prosky | President, Chief Operating Officer and Director | 81,000 | 9,053 |
| Mathieu B. Streiff | Executive Vice President, General Counsel | 74,000 | 8,188 |
| Shannon K S Johnson | Chief Financial Officer | 13,000 | 1,475 |
| Stefan K.L. Oh | Senior Vice President — Acquisitions | 14,000 | 1,556 |
| Cora Lo | Secretary | 8,000 | 900 |
| Chris Rooney | Vice President — Asset Management | 12,000 | 1,366 |
| | | <u>\$ 261,000</u> | <u>29,112</u> |

Accounts Payable Due to Affiliates

The following amounts were outstanding to our affiliates as of December 31, 2014 and 2013:

| Fee | December 31, | |
|------------------------------------|-------------------|-------------|
| | 2014 | 2013 |
| Offering costs | \$ 415,000 | \$ — |
| Asset and property management fees | 131,000 | — |
| Acquisition fees | 31,000 | — |
| | <u>\$ 577,000</u> | <u>\$ —</u> |

13. Fair Value Measurements

Assets and Liabilities Reported at Fair Value

The table below presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall.

| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--------------------------------------|--|---|--|---------------------|
| Liabilities: | | | | |
| Contingent consideration obligations | \$ — | \$ — | \$ 1,393,000 | \$ 1,393,000 |
| Total liabilities at fair value | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,393,000</u> | <u>\$ 1,393,000</u> |

There were no transfers into and out of fair value measurement levels during the year ended December 31, 2014. We did not have any assets and liabilities measured at fair value on a recurring basis as of December 31, 2013.

Contingent Consideration

Obligations

In connection with our acquisitions of DeKalb Professional Center and Acworth Medical Complex, we have accrued \$1,393,000 as contingent consideration obligations as of December 31, 2014. With regards to DeKalb Professional Center, we have accrued \$598,000 and such consideration will be paid within one year of the acquisition date based on the seller's leasing of up to 3,525 square feet of unoccupied space and achieving certain lease criteria. The payment of such consideration will occur at the later of a qualified tenant taking occupancy or the commencement of the rent under the new lease. There is no minimum or maximum required payment and we have assumed that the seller will lease all of the unoccupied square footage

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

within the specified time frame. With regards to Acworth Medical Complex, we have accrued \$795,000 and such consideration will be paid within 18 months of the acquisition date based on the seller's leasing of up to 6,767 square feet of unoccupied space and achieving certain lease criteria. The payment of such consideration will occur after a qualified tenant delivers an estoppel, has taken occupancy and has begun paying rent under the new lease. There is no minimum or maximum required payment and we have assumed that the seller will lease 4,891 square feet of the 6,767 unoccupied square feet within the specified time frame.

Unobservable Inputs and Reconciliation

The fair value of the contingent consideration is determined based on the facts and circumstances existing at each reporting date and the likelihood of the counterparty achieving the necessary conditions based on a probability weighted discounted cash flow analysis based, in part, on significant inputs which are not observable in the market. As a result, we have determined that our contingent consideration valuations are classified in Level 3 of the fair value hierarchy. Our contingent consideration obligations are included in security deposits, prepaid rent and other liabilities in our accompanying consolidated balance sheets and any changes in their fair value subsequent to their acquisition date valuations are charged to earnings. Gains and losses recognized on the contingent consideration obligations are included in acquisition related expenses in our accompanying consolidated statements of operations.

The following table shows quantitative information about unobservable inputs related to Level 3 fair value measurements used as of December 31, 2014 for the contingent consideration obligations:

| Acquisition | Fair Value as of December 31, 2014 | Unobservable Inputs(1) | Range of Inputs/Inputs |
|-------------------------------|---------------------------------------|---|------------------------|
| DeKalb Professional Center(2) | \$ 598,000 | Percentage of Total Unoccupied Square Footage Leased Up | 100% |
| | | Rental Rate per Square Foot | \$15.50 |
| | | Tenant Improvement Allowance per Square Foot | \$30.00 |
| Acworth Medical Complex(2) | \$ 795,000 | Percentage of Total Unoccupied Square Footage Leased Up | 72.3% |
| | | Rental Rate per Square Foot | \$16.00 |
| | | Tenant Improvement Allowance per Square Foot | \$30.00 |

- (1) The most significant input to the valuation is the percentage of total unoccupied square footage leased up and the rental rate per square foot. An increase (decrease) in the percentage of total unoccupied square feet leased up and rental rate per square foot would increase (decrease) the fair value. An increase (decrease) in the tenant improvement allowance per square foot would decrease (increase) the fair value.
- (2) Significant increases or decreases in any of the unobservable inputs in isolation or in the aggregate would result in a significantly higher or lower fair value measurement to the contingent consideration obligation as of December 31, 2014 .

We did not have any contingent consideration assets and obligations for the period from January 11, 2013 (Date of Inception) through December 31, 2013 . The following is a reconciliation of the beginning and ending balances of our contingent consideration assets and obligations for the year ended December 31, 2014 :

| | Year Ended December 31, 2014 |
|---|---------------------------------|
| Contingent Consideration Obligations: | |
| Beginning balance | \$ — |
| Additions to contingent consideration obligations | 1,393,000 |
| Realized/unrealized (gains) losses recognized in earnings | — |
| Ending balance | \$ 1,393,000 |
| Amount of total (gains) losses included in earnings attributable to the change in unrealized (gains) losses related to obligations still held | \$ — |

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial Instruments Disclosed at Fair Value

ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial instruments, whether or not recognized on the face of the balance sheet. Fair value is defined under ASC Topic 820.

Our accompanying consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts and other receivables, restricted cash, real estate and escrow deposits, accounts payable and accrued liabilities, accounts payable due to affiliates and mortgage loans payable, net.

We consider the carrying values of cash and cash equivalents, accounts and other receivables, restricted cash, real estate and escrow deposits, accounts payable and accrued liabilities to approximate the fair value for these financial instruments based upon an evaluation of the underlying characteristics, market data and because of the short period of time between origination of the instruments and their expected realization. The fair value of cash and cash equivalents is classified in Level 1 of the fair value hierarchy. The fair value of the other financial instruments is classified in Level 2 of the fair value hierarchy. The fair value of accounts payable due to affiliates is not determinable due to the related party nature of the accounts payable.

The fair value of the mortgage loans payable is estimated using a discounted cash flow analysis using borrowing rates available to us for debt instruments with similar terms and maturities. As of December 31, 2014, the fair value of the mortgage loans payable was \$17,058,000 compared to the carrying value of \$16,959,000. We did not have any mortgage loans payable as of December 31, 2013. We have determined that the mortgage loans payable valuations are classified as Level 2 within the fair value hierarchy.

14. Tax Treatment of Distributions (Unaudited)

For federal income tax purposes, distributions to stockholders are characterized as ordinary income, capital gain distributions or nontaxable distributions. Nontaxable distributions will reduce U.S. stockholders' basis (but not below zero) in their shares. The income tax treatment for distributions reportable for the year ended December 31, 2014 was as follows:

| | Year Ended December 31, 2014 | |
|-------------------|---------------------------------|-------------|
| Ordinary income | \$ 649,000 | 13.4% |
| Capital gain | — | — |
| Return of capital | 4,183,000 | 86.6 |
| | <u>\$ 4,832,000</u> | <u>100%</u> |

Amounts listed above do not include distributions paid on nonvested shares of our restricted common stock which have been separately reported.

15. Future Minimum Rent

Rental Income

We have operating leases with tenants that expire at various dates through 2034 and in some cases are subject to scheduled fixed increases or adjustments based on a consumer price index. Generally, our leases grant tenants renewal options. Our leases also generally provide for additional rents based on certain operating expenses. Future minimum base rent contractually due under operating leases, excluding tenant reimbursements of certain costs, as of December 31, 2014 for each of the next five years ending December 31 and thereafter was as follows:

| Year | Amount |
|------------|-----------------------|
| 2015 | \$ 24,574,000 |
| 2016 | 24,250,000 |
| 2017 | 23,520,000 |
| 2018 | 23,279,000 |
| 2019 | 22,071,000 |
| Thereafter | 229,627,000 |
| | <u>\$ 347,321,000</u> |

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rental Expense

We have ground and other lease obligations that generally require fixed annual rental payments and may also include escalation clauses and renewal options. These leases expire at various dates through 2112, excluding extension options. Future minimum lease obligations under non-cancelable ground and other lease obligations as of December 31, 2014 for each of the next five years ending December 31 and thereafter was as follows:

| Year | Amount |
|------------|---------------------|
| 2015 | \$ 89,000 |
| 2016 | 87,000 |
| 2017 | 87,000 |
| 2018 | 86,000 |
| 2019 | 86,000 |
| Thereafter | 6,081,000 |
| | <u>\$ 6,516,000</u> |

16. Business Combinations

For the year ended December 31, 2014, using net proceeds from our offering and the assumption of mortgage loans payable, we completed 11 property acquisitions comprising 24 buildings, which have been accounted for as business combinations. The aggregate contract purchase price was \$277,700,000, plus closing costs and acquisition fees of \$7,345,000, which are included in acquisition related expenses in our accompanying consolidated statements of operations. See Note 3, Real Estate Investments, Net for a listing of the properties acquired, acquisition dates and mortgage loans payable assumed. We did not complete any property acquisitions for the year ended December 31, 2013.

Results of operations for the property acquisitions during the year ended December 31, 2014 are reflected in our accompanying consolidated statements of operations for the period from the date of acquisition of each property through December 31, 2014. For the period from the acquisition date through December 31, 2014, we recognized the following amounts of revenue and net income (loss) for the property acquisitions:

| Acquisition | Revenue | Net Income (Loss) |
|-----------------------------|------------|-------------------|
| DeKalb Professional Center | \$ 187,000 | \$ 23,000 |
| Country Club MOB | \$ 145,000 | \$ (51,000) |
| Acworth Medical Complex | \$ 309,000 | \$ 126,000 |
| Wichita KS MOB | \$ 349,000 | \$ 110,000 |
| Delta Valley ALF Portfolio | \$ 443,000 | \$ 200,000 |
| Lee's Summit MO MOB | \$ 267,000 | \$ 40,000 |
| Carolina Commons MOB | \$ 259,000 | \$ (68,000) |
| Mount Olympia MOB Portfolio | \$ 140,000 | \$ 43,000 |
| Southlake TX Hospital | \$ 922,000 | \$ 510,000 |
| East Texas MOB Portfolio | \$ 412,000 | \$ 25,000 |
| Premier MOB | \$ 48,000 | \$ 18,000 |

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of our 11 acquisitions at the time of each acquisition is shown below:

| | DeKalb Professional Center | Country Club MOB | Acworth Medical Complex | Wichita KS MOB | Delta Valley ALF Portfolio | Lee's Summit MO MOB |
|---------------------------|----------------------------------|---------------------|-------------------------------|-------------------|-------------------------------|------------------------|
| Building and improvements | \$ 2,871,000 | \$ 2,306,000 | \$ 6,123,000 | \$ 6,288,000 | \$ 11,472,000 | \$ 5,068,000 |
| Land | 479,000 | 240,000 | 570,000 | 943,000 | 679,000 | 1,045,000 |
| In-place leases | 172,000 | 190,000 | 407,000 | 590,000 | 1,194,000 | 442,000 |
| Above market leases | — | 21,000 | 251,000 | 958,000 | — | 195,000 |
| Total assets acquired | 3,522,000 | 2,757,000 | 7,351,000 | 8,779,000 | 13,345,000 | 6,750,000 |
| Below market leases | (112,000) | — | (113,000) | (24,000) | — | — |
| Other liabilities | (598,000) (1) | — | (795,000) (1) | — | — | — |
| Total liabilities assumed | (710,000) | — | (908,000) | (24,000) | — | — |
| Net assets acquired | \$ 2,812,000 | \$ 2,757,000 | \$ 6,443,000 | \$ 8,755,000 | \$ 13,345,000 | \$ 6,750,000 |

| | Carolina Commons MOB | Mount Olympia MOB Portfolio | Southlake TX Hospital | East Texas MOB Portfolio | Premier MOB |
|-----------------------------|----------------------------|-----------------------------------|--------------------------|-----------------------------|---------------|
| Building and improvements | \$ 9,430,000 | \$ 14,008,000 | \$ 108,517,000 | \$ 60,638,000 | \$ 10,420,000 |
| Land | 1,028,000 | 916,000 | 5,089,000 | 1,355,000 | 644,000 |
| In-place leases | 653,000 | 1,226,000 | 14,394,000 | 5,513,000 | 592,000 |
| Above market leases | 1,136,000 | — | — | — | 745,000 |
| Leasehold interest | — | — | — | 1,493,000 | — |
| Total assets acquired | 12,247,000 | 16,150,000 | 128,000,000 | 68,999,000 | 12,401,000 |
| Mortgage loans payable, net | (8,720,000) | — | — | — | (8,306,000) |
| Below market leases | — | — | — | (608,000) | (19,000) |
| Total liabilities assumed | (8,720,000) | — | — | (608,000) | (8,325,000) |
| Net assets acquired | \$ 3,527,000 | \$ 16,150,000 | \$ 128,000,000 | \$ 68,391,000 | \$ 4,076,000 |

- (1) Included in other liabilities is \$598,000 and \$795,000 accrued for as contingent consideration obligations in connection with the purchase of DeKalb Professional Center and Acworth Medical Complex, respectively. For a further discussion, see Note 13, Fair Value Measurements — Assets and Liabilities Reported at Fair Value — Contingent Consideration.

Assuming the property acquisitions in 2014 discussed above had occurred on January 11, 2013 (Date of Inception), for the year ended December 31, 2014 and for the period from January 11, 2013 (Date of Inception) through December 31, 2013, unaudited pro forma revenue, net income, net income attributable to controlling interest and net income per common share attributable to controlling interest — basic and diluted would have been as follows:

| | Year Ended December 31, 2014 | Period from January 11, 2013 (Date of Inception) through December 31, 2013 |
|--|---------------------------------|--|
| Revenue | \$ 28,398,000 | \$ 27,609,000 |
| Net income | \$ 6,720,000 | \$ 712,000 |
| Net income attributable to controlling interest | \$ 6,720,000 | \$ 712,000 |
| Net income per common share attributable to controlling interest — basic and diluted | \$ 0.16 | \$ 0.02 |

The unaudited pro forma adjustments assume that the offering proceeds, at a price of \$10.00 per share, net of offering costs were raised as of January 11, 2013 (Date of Inception). In addition, acquisition related expenses associated with the acquisitions have been excluded from the pro forma results in 2014 and added to the 2013 pro forma results. The pro forma

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

results are not necessarily indicative of the operating results that would have been obtained had the acquisitions occurred at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

17. Segment Reporting

ASC Topic 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about a public entity's reportable segments. As of December 31, 2014, we evaluated our business and made resource allocations based on three reportable business segments—medical office buildings, hospitals and senior housing. Our medical office buildings are typically leased to multiple tenants under separate leases in each building, thus requiring active management and responsibility for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants). Our hospital investments are primarily single tenant properties which lease the facilities to unaffiliated tenants under "triple-net" and generally "master" leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. Our senior housing facilities are primarily single-tenant properties for which we lease the facilities to unaffiliated tenants under "triple-net" and generally "master" leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant.

We evaluate performance based upon segment net operating income. We define segment net operating income as total revenues, less rental expenses, which excludes depreciation and amortization, general and administrative expenses, acquisition related expenses, interest expense and interest income for each segment. We believe that net income (loss), as defined by GAAP, is the most appropriate earnings measurement. However, we believe that segment net operating income serves as a useful supplement to net income (loss) because it allows investors and our management to measure unlevered property-level operating results and to compare our operating results to the operating results of other real estate companies and between periods on a consistent basis.

Interest expense, depreciation and amortization and other expenses not attributable to individual properties are not allocated to individual segments for purposes of assessing segment performance.

Non-segment assets primarily consist of corporate assets including cash and cash equivalents, other receivables, real estate and escrow deposits and other assets not attributable to individual properties.

We had no operations during the period from January 11, 2013 (Date of Inception) through December 31, 2013. Summary information for the reportable segments during the year ended December 31, 2014 was as follows:

| | Medical Office Buildings | Hospitals | Senior Housing | Year Ended December 31, 2014 |
|--|-----------------------------|------------|----------------|---------------------------------|
| Revenue: | | | | |
| Real estate revenue | \$ 2,117,000 | \$ 921,000 | \$ 443,000 | \$ 3,481,000 |
| Expenses: | | | | |
| Rental expenses | 700,000 | 120,000 | 79,000 | 899,000 |
| Segment net operating income | \$ 1,417,000 | \$ 801,000 | \$ 364,000 | \$ 2,582,000 |
| Expenses: | | | | |
| General and administrative | | | | \$ 1,238,000 |
| Acquisition related expenses | | | | 8,199,000 |
| Depreciation and amortization | | | | 1,510,000 |
| Loss from operations | | | | (8,365,000) |
| Other income (expense): | | | | |
| Interest expense (including amortization of deferred financing costs and debt premium) | | | | (258,000) |
| Interest income | | | | 25,000 |
| Net loss | | | | \$ (8,598,000) |

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assets by reportable segment as of December 31, 2014 and 2013 were as follows:

| | December 31, | |
|--------------------------|-----------------------|-------------------|
| | 2014 | 2013 |
| Medical office buildings | \$ 139,425,000 | \$ — |
| Hospitals | 129,075,000 | — |
| Senior housing | 13,580,000 | — |
| Other | 549,604,000 | 202,000 |
| Total assets | \$ 831,684,000 | \$ 202,000 |

18. Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash and cash equivalents, accounts and other receivables, restricted cash and escrow deposits. Cash and cash equivalents are generally invested in investment-grade, short-term instruments with a maturity of three months or less when purchased. We have cash and cash equivalents in financial institutions that are insured by the Federal Deposit Insurance Corporation, or FDIC. As of December 31, 2014, we had cash and cash equivalents in excess of FDIC insured limits. We believe this risk is not significant. Concentration of credit risk with respect to accounts receivable from tenants is limited. We perform credit evaluations of prospective tenants, and security deposits are obtained at the time of property acquisition and upon lease execution.

Based on leases in effect as of December 31, 2014, we owned properties in one state (Texas) which accounted for 10.0% or more of our annualized base rent. Properties located in Texas accounted for 71.1% of our annualized base rent. Accordingly, there is a geographic concentration of risk subject to fluctuations in Texas' economy.

Based on leases in effect as of December 31, 2014, our three reportable business segments, medical office buildings, hospitals and senior housing, accounted for 49.1%, 46.1% and 4.8%, respectively, of our annualized base rent. As of December 31, 2014, two of our tenants at our properties accounted for 10.0% or more of our annualized base rent, as follows:

| Tenant | Annualized Base Rent(1) | Percentage of Annualized Base Rent | Acquisition | Reportable Segment | GLA (Sq Ft) | Lease Expiration Date |
|---------------------------------|-------------------------|------------------------------------|--------------------------|--------------------------|-------------|-----------------------|
| Forest Park Medical Center | \$ 10,844,000 | 44.0% | Southlake TX Hospital | Hospitals | 142,000 | 12/31/34 |
| Good Shepherd Health System (2) | \$ 2,582,000 | 10.5% | East Texas MOB Portfolio | Medical Office Buildings | 162,000 | Various |

- (1) Annualized base rent is based on contractual base rent from leases in effect as of December 31, 2014. The loss of any of these tenants or their inability to pay rent could have a material adverse effect on our business and results of operations.
- (2) Good Shepherd Health System has multiple leases in the East Texas MOB Portfolio with lease expiration dates of December 11, 2024 and December 11, 2029.

For the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not own any properties.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. Per Share Data

We report earnings (loss) per share pursuant to ASC Topic 260, *Earnings per Share*. Basic earnings (loss) per share for all periods presented are computed by dividing net income (loss) allocated to controlling interest by the weighted average number of shares of our common stock outstanding during the period. Net income (loss) allocated to controlling interest is calculated as net income (loss) attributable to controlling interest less distributions allocated to participating securities of \$2,000 for the year ended December 31, 2014. For the period from January 11, 2013 (Date of Inception) through December 31, 2013, we did not allocate any distributions to participating securities. Diluted earnings (loss) per share are computed based on the weighted average number of shares of our common stock and all potentially dilutive securities, if any. Nonvested shares of our restricted common stock and redeemable limited partnership units of our operating partnership are participating securities and give rise to potentially dilutive shares of our common stock. As of December 31, 2014 and 2013, there were 12,000 and 0 nonvested shares, respectively, of our restricted common stock outstanding, but such shares were excluded from the computation of diluted earnings per share because such shares were anti-dilutive during these periods. As of December 31, 2014 and 2013, there were 222 units of redeemable limited partnership units of our operating partnership outstanding, but such units were also excluded from the computation of diluted earnings per share because such units were anti-dilutive during these periods.

20. Selected Quarterly Financial Data (Unaudited)

Set forth below is the unaudited selected quarterly financial data. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly, and in accordance with GAAP, the unaudited selected quarterly financial data when read in conjunction with our consolidated financial statements.

| | Quarters Ended | | | |
|--|-------------------|--------------------|---------------|----------------|
| | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
| Revenues | \$ 2,961,000 | \$ 496,000 | \$ 24,000 | \$ — |
| Expenses | (9,172,000) | (2,064,000) | (564,000) | (46,000) |
| Loss from operations | (6,211,000) | (1,568,000) | (540,000) | (46,000) |
| Other expense | (208,000) | (25,000) | — | — |
| Net loss | (6,419,000) | (1,593,000) | (540,000) | (46,000) |
| Less: net (income) loss attributable to noncontrolling interests | — | — | (1,000) | 1,000 |
| Net loss attributable to controlling interest | \$ (6,419,000) | \$ (1,593,000) | \$ (541,000) | \$ (45,000) |
| Net loss per common share attributable to controlling interest — basic and diluted | \$ (0.17) | \$ (0.13) | \$ (0.47) | \$ (2.03) |
| Weighted average number of common shares outstanding — basic and diluted | 38,687,859 | 11,935,505 | 1,152,933 | 22,222 |

We had no results of operations for the period from January 11, 2013 (Date of Inception) through December 31, 2013.

21. Subsequent Events***Status of our Offering***

On March 12, 2015, we had received and accepted subscriptions in our primary offering for 184,941,800 shares, or \$1,842,733,000, excluding shares of our common stock issued pursuant to the DRIP, and terminated the primary portion of our offering.

We intend to continue to sell up to \$35,000,000 in shares of our common stock in our offering pursuant to our DRIP. As of March 12, 2015, we had received and accepted subscriptions in our offering for 1,371,583 shares of our common stock, or \$13,031,000, pursuant to our DRIP.

Share Repurchases

In January 2015, we repurchased 3,750 shares of our common stock, for an aggregate amount of \$38,000, under our share repurchase plan.

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2015 Stock Purchase Plans

Effective as of January 1, 2015, Messrs. Hanson, Prosky and Streiff, each executed stock purchase plans, or the 2015 Stock Purchase Plans, whereby they each irrevocably agreed to invest 100% of their net base salary and cash bonus compensation, after taxes and other withholdings, paid on or after January 1, 2015, earned as employees of American Healthcare Investors directly into our company by purchasing shares of our common stock. Additionally, effective as of January 1, 2015, Mses. Johnson and Lo, and Messrs. Oh and Rooney, each executed similar 2015 Stock Purchase Plans whereby they each irrevocably agreed to invest 15.0%, 10.0%, 15.0% and 15.0%, respectively, of their net base salaries, after taxes and other withholdings, paid on or after January 1, 2015, earned as employees of American Healthcare Investors directly into our company by purchasing shares of our common stock.

Purchases of shares of our common stock pursuant to the 2015 Stock Purchase Plans were purchased at a price of \$9.00 per share, reflecting the purchase price of the shares offered to the public in our offering, reduced by selling commissions and the dealer manager fee in connection with such transactions. The 2015 Stock Purchase Plans terminated in connection with the termination of the primary portion of our offering.

Property Acquisitions

Subsequent to December 31, 2014, we completed the acquisitions of 17 buildings from unaffiliated parties. The aggregate contract purchase price of these properties was \$286,060,000 and we paid \$6,436,000 in acquisition fees to our advisor and its affiliates in connection with these acquisitions. We have not yet measured the fair value of the tangible and identified intangible assets and liabilities of the acquisition. The following is a summary of our property acquisitions subsequent to December 31, 2014:

| Acquisition(1) | Location | Type | Date Acquired | Contract Purchase Price | Mortgage Loans Payable (2) | Acquisition Fee |
|-------------------------------|---|-----------------------------|-----------------------|-------------------------|----------------------------|---------------------|
| Delta Valley ALF Portfolio(3) | Springdale, AR | Senior Housing | 01/08/15 | \$ 8,105,000 | \$ — | \$ 182,000 (4) |
| Independence MOB Portfolio | Southgate, KY; Somerville, MA, Verona and Morristown, NJ; and Bronx, NY | Medical Office | 01/13/15 and 01/26/15 | 135,000,000 | — | 3,038,000 (4) |
| King of Prussia PA MOB | King of Prussia, PA | Medical Office | 01/21/15 | 18,500,000 | 9,960,000 | 416,000 (4) |
| North Carolina ALF Portfolio | Mooreville and Raleigh, NC | Senior Housing | 01/28/15 | 38,856,000 | — | 874,000 (4) |
| Orange Star Medical Portfolio | Durango, CO, Keller, Wharton and Friendswood, TX | Medical Office and Hospital | 02/26/15 | 57,650,000 | — | 1,297,000 (5) |
| Kingwood MOB Portfolio | Kingwood, TX | Medical Office | 03/11/15 | 14,949,000 | — | 336,000 (5) |
| Mt. Juliet TN MOB | Mount Juliet, TN | Medical Office | 03/17/15 | 13,000,000 | — | 293,000 (5) |
| | | | | <u>\$ 286,060,000</u> | <u>\$ 9,960,000</u> | <u>\$ 6,436,000</u> |

- (1) We own 100% of our properties acquired subsequent to December 31, 2014.
- (2) Represents the principal balance of the mortgage loans payable assumed by us at the time of acquisition.
- (3) On January 8, 2015, we added one additional building to our existing Delta Valley ALF Portfolio. The other two buildings were purchased in September 2014.
- (4) Our advisor and its affiliates were paid, as compensation for services rendered in connection with the investigation, selection and acquisition of our property, an acquisition fee of 2.25% of the contract purchase price which was paid as follows: (i) in cash equal to 2.00% of the contract purchase price and (ii) the remainder in shares of our common stock in

GRIFFIN-AMERICAN HEALTHCARE REIT III, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

an amount equal to 0.25% of the contract purchase price, at \$9.00 per share, the established offering price as of the date of closing, net of selling commissions and dealer manager fees.

- (5) Our advisor and its affiliates were paid in cash, as compensation for services rendered in connection with the investigation, selection and acquisition of our property, an acquisition fee of 2.25% of the contract purchase price.

Notes Receivable

On February 4, 2015, we acquired eight promissory notes at par in the aggregate outstanding principal amount of \$60,217,000, or the Notes, comprised of four fixed rate notes in the aggregate outstanding principal amount of \$28,650,000, or the Fixed Rate Notes, and four floating rate notes in the aggregate outstanding principal amount of \$31,567,000, or the Floating Rate Notes. The Notes evidence interests in a portion of the Mezzanine A loan that consists in total of 40 promissory notes in the aggregate outstanding principal amount of \$389,852,000. The Mezzanine A loan is secured by pledges of equity interests in the owners of a portfolio of domestic healthcare properties, which such owners are themselves owned indirectly by a non-wholly owned subsidiary of NorthStar Realty Finance Corp. The interest rate on the Fixed Rate Notes is 6.75% per annum. The interest rate on the Floating Rate Notes is equal to 6.00% per annum above the 30-day LIBOR (increasing to 6.25% per annum above the 30-day LIBOR during the second extension period, if any). The Notes require monthly interest only payments. The Fixed Rate Notes are scheduled to mature on December 9, 2019, at which time all unpaid principal, plus accrued and unpaid interest on the Fixed Rate Notes shall be due in full. The Floating Rate Notes are scheduled to mature on December 9, 2016, at which time all unpaid principal, plus accrued and unpaid interest on the Floating Rate Notes shall be due in full. The maturity of the Floating Rate Notes may be extended by three successive one-year extension periods at the borrower's option, subject to satisfaction of certain conditions. Our advisor and its affiliates were paid, as compensation for services rendered in connection with the acquisition of the Notes, an acquisition fee of \$1,204,000, or 2.00% of the aggregate principal amount.