

GLOBAL HEALTHCARE REIT, INC.

Form 10-K

April 24, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 0-15415**

**GLOBAL HEALTHCARE REIT, INC.**

(Exact name of Registrant as specified in its Charter)

**Utah**

(State or other jurisdiction

**87-0340206**

I.R.S. Employer

of incorporation or organization) Identification number

**8480 E. Orchard Road, Suite 3600,**  
**80111**  
**Greenwood Village, CO**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (303) 449-2100

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.05 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act  
 Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

*Note* - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting

filer                      filer                      filer                      company

                                                                

Emerging Growth  
Company

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

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

The aggregate market value of the 20,202,930 shares of voting and non-voting common equity held by non-affiliates as of June 30, 2017 was \$10,101,465 computed by reference to the price at which the common equity was last sold at June 30, 2017.

The number of shares outstanding of the registrant’s common stock, as of April 1, 2018 is 26,837,816.

**DOCUMENTS INCORPORATED BY REFERENCE**

Exhibits, See Part IV



## GLOBAL HEALTHCARE REIT, INC.

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Signatures

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## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report contains statements that plan for or anticipate the future. In this Annual Report, forward-looking statements are generally identified by the words “anticipate,” “plan,” “believe,” “expect,” “estimate,” and the like. These forward-looking statements include, but are not limited to, statements regarding the following:

- \* strategic business relationships;
- \* statements about our future business plans and strategies;
- \* anticipated operating results and sources of future revenue;
- \* our organization’s growth;
- \* adequacy of our financial resources;
- \* development of markets;
- \* competitive pressures;
- \* changing economic conditions; and,
- \* expectations regarding competition from other companies.

Although we believe that any forward-looking statements we make in this Annual Report are reasonable, because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements, besides the specific factors identified above in the Risk Factors section of this Annual Report, include:

- \* changes in general economic and business conditions affecting the healthcare industry;
- \* developments that make our facilities less competitive;
- \* changes in our business strategies;
- \* the level of demand for our facilities; and
- \* regulatory changes affecting the healthcare industry and third party payor practices.

In light of the significant uncertainties inherent in the forward-looking statements made in this Annual Report, particularly in view of our early stage of operations, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

## **PART I**

### **ITEM 1. BUSINESS**

#### **Background**

Global Healthcare REIT, Inc. (“Global” or “we” or the “Company”) was organized for the purpose of investing in real estate related to the long-term care industry. Prior to the Company changing its name to Global Healthcare REIT, Inc. on September 30, 2013, the Company was known as Global Casinos, Inc. Global Casinos, Inc. operated two gaming casinos which were split-off and sold on September 30, 2013. Simultaneous with the split-off and sale of the gaming operations, the Company acquired West Paces Ferry Healthcare REIT, Inc. (WPF). We plan to elect to be treated as a real estate investment trust (REIT) in the future; however, we do not intend to make that election for the 2017 fiscal year.

We acquire, develop, lease, manage and dispose of healthcare real estate, and provide financing to healthcare providers. Our portfolio will be comprised of investments in the following five healthcare segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) post-acute/skilled nursing and (v) hospital. We will make investments within our healthcare segments using the following five investment products: (i) properties under lease, (ii) debt investments, (iii) developments and redevelopments, (iv) investment management and (v) the Housing and Economic Recovery Act of 2008 (“RIDEA”), which represents investments in senior housing operations utilizing the structure permitted by RIDEA.

The delivery of healthcare services requires real estate and, as a result, tenants and operators depend on real estate, in part, to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the following:

- Compelling demographics driving the demand for healthcare services;
- Specialized nature of healthcare real estate investing; and
- Ongoing consolidation of a fragmented healthcare real estate sector.

#### **Our Properties**

#### **Acquisition of West Paces Ferry Healthcare REIT, Inc. (WPF)**



On September 30, 2013, Global acquired all of the outstanding common stock of WPF in consideration of \$100. WPF owned a 65% membership interest in Dodge NH, LLC, which owns a skilled nursing facility located in Eastman, Georgia.

In 2014, we formed and organized Southern Tulsa, LLC as part of our purchase of the Southern Hills Retirement Center in Tulsa, Oklahoma. Southern Tulsa, LLC was formed as a wholly-owned subsidiary of WPF.

### **Acquisition of Middle Georgia Nursing Home**

Effective July 1, 2012, Georgia Healthcare REIT, Inc., (“Georgia REIT”) a private company owned and controlled by a former affiliate, consummated its first acquisition: the Middle Georgia Nursing Home. Middle Georgia Nursing Home is located at 556 Chester Highway in Eastman, Georgia (“Middle Georgia” or the “Facility”). The Facility was acquired through Dodge NH, LLC, a limited liability company formed for the purpose of acquiring Middle Georgia that was initially wholly-owned by Georgia REIT. Dodge Investors, LLC was formed and organized as a financing entity to raise \$1.1 million in funding to complete the financing required to complete the acquisition, as more fully described below.

The terms of the acquisition of Middle Georgia were as follows: The purchase price was \$5.0 million, of which \$4.2 million was paid with the proceeds of a commercial mortgage with Colony Bank, as senior lender, which accrued interest at 6.25% per annum; and the balance of \$1.0 million was provided by Dodge Investors, LLC. Dodge Investors LLC funded Dodge NH, LLC with \$1.1 million in consideration of 13% unsecured notes and a carried 35% membership interest in Dodge NH, LLC. Of the \$1.1 million raised by Dodge Investors, LLC, \$125,000 was invested by Georgia REIT from loan proceeds from the Company, representing a 4% membership interest of the total 35% membership interest held by Dodge Investors, LLC. The Dodge NH, LLC notes purchased by Dodge Investors, LLC accrued interest at the rate of 13% per annum, interest payable monthly, with the outstanding balance of principal and accrued and unpaid interest due July 1, 2014.

Effective March 15, 2013, Georgia REIT conveyed its entire 65% membership interest in Dodge NH to WPF. During 2014 and 2015, the Company acquired the remaining membership interests in Dodge Investors, LLC and holds a 100% membership interest as of December 31, 2017. The Company has also repaid the entire \$1.1 million note to Dodge Investors, LLC.

Dodge NH, LLC had an operating lease agreement with Eastman Healthcare and Rehab, LLC, owned by a professional skilled nursing facility operator, having an initial term of five years expiring in June 2017, with an option to renew for an additional five-year period. On January 22, 2016, the lease operator that operates the facility filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In 2018, the lease operator emerged from bankruptcy with a new five year lease.

### **Acquisition of Warrenton Nursing Home**

Effective December 31, 2013, the Company consummated the purchase of the 110 bed Warrenton Nursing Home (“Warrenton”) located in Warrenton, Georgia. Warrenton was purchased by ATL/WARR, LLC, a single purpose Georgia limited liability company (“Warr LLC”) previously owned 95% by a former affiliate and 5% by an unaffiliated investor. Concurrently, the former affiliate conveyed his 95% membership interest in Warr LLC to the Company for nominal consideration.

Warr LLC entered into a Purchase and Sale Agreement dated April 3, 2013 (the “PSA”) with Providence Health Care, Inc., as seller, covering the Warrenton facility. The purchase price of Warrenton was \$3.5 million, of which \$2.72 million was provided by a commercial senior bank loan, and approximately \$984,500 was provided by the Company.

The facility is covered by a five year operating lease that began July 2016.

### **Acquisition of Southern Hills Retirement Center**

Effective February 7, 2014, the Company acquired the real property and improvements comprising a 100% interest in the Southern Hills Retirement Center located in Tulsa, Oklahoma (“Southern Hills”). To complete the acquisition, the Company formed and organized Southern Tulsa, LLC, a Georgia limited liability company, a new wholly-owned subsidiary of WPF.

The Southern Hills facility is comprised of a senior living campus of three buildings totaling 104,192 square feet sitting on a 4.36-acre parcel. The Center consists of a Assisted Living facility (“ALF”), an Independent Living facility (“ILF”) and a Skilled Nursing facility (“SNF”). The Center offers 116 nursing beds, 86 independent living units, and 32 assisted living beds. The ALF and ILF were split off to a new wholly-owned subsidiary, Southern Tulsa TLC, LLC, in 2014, to accommodate a new financing through an industrial revenue bond.

The purchase price for Southern Hills was \$2.0 million, of which \$1.5 million was provided by a senior mortgage with First Commercial Bank, with the balance of \$500,000 provided by Global. Global also provided a guaranty of the loan from First Commercial Bank.

On March 1, 2014, the Tulsa County Industrial Authority issued \$5.7 million of its First Mortgage Revenue Bonds and lent the net proceeds to the Company. The Company used the proceeds to pay off the \$1.5 million bridge loan, to pay certain costs of the bond issuance, to renovate the 86 independent living units and 32-bed assisted living facility, and to establish a debt service reserve fund and other initial deposits as required by the bond indenture. The debt is secured by a first mortgage lien on the independent living units and assisted living facility (facilities), an assignment of the facilities leases, a first lien on all personal property located in the facilities, and a guaranty by the Company. The debt bears interest at rates ranging from 7.0% to 8.5% with principal and interest due monthly beginning in May 2014 through maturity on March 1, 2044. The loan agreement also contains financial covenants required to be maintained by the Company.

The SNF was refinanced with a commercial bank for \$1,750,000. The SNF was under a five-year lease to Healthcare Management of Oklahoma for an initial rent of \$35,000 per month commencing February 1, 2015. On May 10, 2016, the Company obtained a Court Order appointing a Receiver to control and operate the SNF. The former lease operator represented that it was unable to meet the financial commitments of the facility, including the payment of rent, payroll, and other operating requirements. The transition to the Receiver resulted in our engaging in a turnaround effort to restore viable operations at the SNF. Under the oversight of the Receiver, we have undertaken substantial renovations at the SNF at a cost of over \$1,500,000. In 2017, we and the Receiver entered into a Management Agreement with a new operator.

The ALF renovations are substantially complete. To date we have expended in excess of \$2.0 million in upgrades at the ALF, and hope to begin operations in the second quarter of 2018.

The ILF requires renovation and is not subject to an operating lease. When the renovation is complete the Company plans to lease it as well.

In November 2017 we obtained a new line of credit for Southern Hills in the principal amount of \$7.3 million. The line of credit matures April 30, 2018; and we expect it to be renewed. The line of credit was used to refinance the \$1.75 million loan on the SNF and to repurchase some of the IRB's on the ALF and ILF.

### **Acquisition of Goodwill Nursing Home**

Effective May 19, 2014, the Company entered into a Membership Interest Purchase Agreement pursuant to which it acquired from Christopher and Connie Brogdon (i) units representing an undivided 45% Membership Interest in Goodwill Hunting, LLC, a Georgia limited liability company, and (ii) units representing an undivided 36.7% Membership Interest in GWH Investors, LLC, a Delaware limited liability company (collectively, the "Units"). GWH Investors, LLC owns a 40% membership interest in Goodwill Hunting, LLC. Together, the Company acquired, directly and indirectly, a 59.7% interest in Goodwill Hunting, LLC. The purchase price for the Units was \$800,000. The facility is subject to an aggregate of \$4,601,009 in senior debt and \$1,344,000 in non-affiliated subordinated debt.

Goodwill Hunting, LLC owns the Goodwill Nursing Home, a 172 bed skilled nursing facility located in Macon, Georgia. It was leased to Goodwill Healthcare and Rehabilitation, LLC under an operating lease that expires in 2017. In January 2016, concurrently with the Chapter 11 Bankruptcy filing by the lease operator, the Goodwill Nursing Home was closed by Georgia regulators and all residents were removed. The Company has entered into a new ten year operating lease covering the facility which became effective in February, 2017 with the new operator having obtained all licenses, permits and other regulatory approval necessary to recertify and reopen the facility. After receiving regulatory approvals, the lease operator invested approximately \$2.0 million in capital improvements in the property.

The facility has been relicensed and began taking patients in December 2016 and is currently building census.

Effective December 3, 2014, the Company acquired a 96.56% membership interest in GWH Investors, LLC, which holds a 40% membership interest in Goodwill Hunting, LLC. The purchase price for the 96.56% interest in GWH Investors, LLC was 164,491 shares of common stock of the Company.

The subordinated debt in the amount of \$1,280,000 matured on July 1, 2015. With accrued and unpaid interest, the outstanding balance of the subordinated debt at December 31, 2017 was \$1,344,000. Investors in the subordinated debt were entitled to an additional 5% equity in Goodwill Hunting, LLC every six months if the debt is not paid by the Company when due. Effective December 31, 2015, the investors holding all of the outstanding interests in the subordinated debt executed an Agreement Among Lenders pursuant to which they agreed to exchange their undivided interests in the note held by GWH Investors, LLC for separate, individual notes, and (i) waived any and all equity ratchets and (ii) agreed to extend the maturity date of the subordinated debt to June 30, 2017, in consideration for which Goodwill Hunting, LLC agreed to pay each investor a one-time premium equal to 5% of the principal amount of the notes at such time as the notes are repaid.

In April 2017, the former GWH Investors, LLC executed an Allonge and Modification Agreement pursuant to which they agreed to (i) waive all accrued and unpaid interest (ii) waive further interest payments until January 2018 (iii) fix interest at 13% beginning January 2018, (iv) extend the maturity date to December 31, 2019 and (v) agreed to accept an additional 15% premium payment upon repayment of the notes. Giving effect to the foregoing, these investors are now entitled to a one-time 20% premium payment upon repayment of the notes.

As of December 31, 2017, the Company owns an 85% interest in Goodwill Hunting, LLC. That interest was 83.62% at December 31, 2015. The former investors in GWH Investors, LLC still hold subordinated debt in the net amount of \$1,280,000 plus accrued interest.

### **Acquisition of Edwards Redeemer Health & Rehab**

Effective September 16, 2014, the Company acquired from a former affiliate a 62.5% membership interest in Edwards Redeemer Property Holding, LLC, which owns the real property and improvements known as the Edwards Redeemer Health & Rehab, a 106 bed nursing home located on 3.05 acres in Oklahoma City, Oklahoma.

Edwards Redeemer Health & Rehab is operated under a triple-net operating lease to a regional professional skilled nursing home operator, which expired in December 2017. On January 22, 2016, the lease operator that operates the facility filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. The lease operator emerged from bankruptcy in 2017 and executed a new five year lease.

The purchase price for the 62.5% interest in the facility was \$491,487, which was subject to an aggregate of \$2,381,500 in debt. The purchase price was offset in its entirety as a credit against an advance receivable owed by a former affiliate to the Company.

Effective December 3, 2014, the Company acquired a 100% membership interest in Redeemer Investors, LLC which owned the remaining 37.5% membership interest in Edwards Redeemer Property Holdings, LLC. The purchase price for the 100% interest in Redeemer Investors, LLC was 269,245 shares of common stock of the Company. As a result of these transactions, the Company now holds a 100% interest in Edwards Redeemer Property Holdings, LLC.

The investors in Redeemer Investors, LLC were repaid in full on January 23, 2015.

**Acquisition of Grand Prairie (formerly Golden Years Manor) Nursing Home**

Effective September 16, 2014, the Company acquired from a former affiliate a 44.5% membership interest in GL Nursing, LLC, which owns the real property and improvements known as the Golden Years Manor Nursing Home located at 1010 Barnes Street in Lonoke, Arkansas. The facility has 141 licensed beds and comprises 40,737 square feet on 3.17 acres.

Golden Years Manor Nursing Home is operated under a triple-net operating lease to a regional professional skilled nursing home operator, which will expire in May 2017. The lease currently generates \$763,000 in gross annual rent.

The purchase price for the 44.5% interest in the facility was 192,767 shares of common stock in Global Healthcare REIT, Inc. The facility is subject to an aggregate of \$4,671,537 in senior debt and \$1,650,000 in subordinated debt.

Effective December 3, 2014, The Company acquired a 26.25% membership interest in GLN Investors, LLC, which owned a 30% interest in GL Nursing, LLC. The purchase price for the 26.25% interest in GLN Investors, LLC was 31,015 shares of common stock in Global Healthcare REIT, Inc.

During 2015, the Company acquired an additional 73.48% in GLN Investors, LLC, bringing its interest to 100%. The purchase price for the additional shares was 107,113 shares of common stock in Global Healthcare REIT, Inc.

In January 2016, the Company acquired an additional 24.5% interest in GLN Investors, LLC, bringing its interest in GLN Investors to 100%. The purchase price for the 24.5% interest was 54,000 shares of common stock of Global.

In August 2016, the Company completed an exchange offering in which it purchased from the former members of GLN Investors, LLC all of their interest in the \$1,650,000 subordinated debt owed to GLN Investors, LLC by GL Nursing, LLC in consideration of 1.35 million shares of Global.

As a result of these transactions, at December 31, 2017, the Company held a 100% interest in GL Nursing, LLC. That interest was 75.5% at December 31, 2015.

In January 2016, affiliated entities of our lease operator filed a voluntary petition under Chapter 11 of the US Bankruptcy Code. At the same time, our lease operator agreed to terminate its lease to allow a new operator to take possession of the facility. At that time, operations at the facility had deteriorated and the operator was delinquent in the payment of bed taxes as well a rent. The successor operator was unable to restore profitable operations and in August 2016 informed us that it was going to terminate its lease, which would have resulted in a loss of the Certificate of Need (“CON”) required to operate as a skilled nursing facility. Effective August 29, 2016, we executed a new operating lease with another operator. The initial lease term is ten years with two five year renewal options. The lease term does not begin until the end of the straddle period described below. The lease operator has also been granted an option to purchase the property any time after five years for a purchase price of \$6.4 million.

Under the terms of the new lease, we agreed to cover all operating losses incurred by the new operator during a “straddle period” during which the operator is not obligated to pay rent and has agreed to undertake substantial renovations and build the census which had been significantly depleted during the prior two operator regimes. We have been honoring our commitment to cover these losses, which to date have been approximately \$350,000.

In 2017, we executed an amendment to the operating lease to clarify that the straddle period would end February 28, 2018. On or about that date, the operator informed us that it would not continue as a lease operator. In March 2018, a new lease operator assumed operations of the facility under an Operations Transfer Agreement.

### **Acquisition of Providence of Sparta Nursing Home**

Effective September 16, 2014, the Company acquired from a former affiliate a 65% membership interest in Providence HR, LLC, which owns the real property and improvements known as the Providence of Sparta Nursing Home. The facility has 71 licensed beds and is located on approximately 8 acres in Sparta, Georgia.

Providence of Sparta is operated under a triple-net operating lease to a regional professional skilled nursing home operator, which expired in June 2016. A new lease with a new operator currently generates \$510,223 in gross annual



straight line rent for fiscal year 2017.

The purchase price for the 65% interest in the facility was 61,930 shares of common stock of Global Healthcare REIT, Inc. The facility is subject to an aggregate of \$1,655,123 in senior debt and \$1,050,000 in subordinated debt.

Effective December 3, 2014, the Company acquired a 44.4% membership interest in Providence HR Investors, LLC, which owns a 30% membership interest in Providence HR, LLC. The purchase price for the 44.4% interest in Providence HR Investors, LLC was 45,145 shares of common stock of the Company.

During 2015, the Company acquired an additional 48.09% of Providence HR Investors, LLC bringing its interest to 92.46%. The purchase price for the additional shares was 17,333 shares of common stock in Global Healthcare REIT, Inc. In October 2016, we purchased the remaining 7.54% in outstanding interests in Providence HR Investors, LLC in consideration of 5,365 shares of common stock of Global and \$10.00.

The subordinated debt in the amount of \$1,050,000 matured on August 1, 2015. Providence HR Investors, LLC were entitled to an additional 5% equity in Providence HR, LLC every six months if the debt is not paid when due.

As a result of these transactions, the Company now holds a 100% interest in Providence HR, LLC. The investors in Providence HR Investors, LLC still retain \$1,050,000 in subordinated debt.

In March 2017, the former members of Providence HR Investors, LLC which hold the interest in the \$1.05 million subordinated debt all agreed to execute a Forbearance Agreement in which they agreed to (i) extend the maturity date of the note to December 31, 2017, (ii) waive accrued default interest and (iii) waive the equity ratchet that was triggered by the note not being repaid on the original maturity date.

Effective October 30, 2017, we completed a HUD refinance of this facility which included the repayment in full of the Providence Investor HR notes.

### **Acquisition of Greene Point Health Care Center**

Effective September 16, 2014, the Company acquired from a former affiliate a 62.145% membership interest in Wash/Greene, LLC, which owns the real property and improvements known as the Greene Point Healthcare Center, located at 1321 Washington Highway in Union Point, Georgia. The facility has 71 licensed beds and is located on approximately 9 acres.

The purchase price for the 62.145% interest in the facility was 73,253 shares of common stock of Global Healthcare REIT, Inc. The facility was subject to an aggregate of \$1,692,000 in senior debt and \$1,125,000 in subordinated debt.

Effective December 3, 2014, the Company acquired 100% of the outstanding membership interests in 1321 Investors, LLC, which owned a 30% membership interest in Wash/Greene, LLC. The purchase price for the 30% membership interest in 1321 Investors, LLC was 115,000 shares of common stock of the Company.

The subordinated debt in the amount of \$1,125,000 matured on October 1, 2015. Investors in the subordinated debt are entitled to an additional 5% equity in Providence HR, LLC every six months if the debt is not paid when due. Effective December 31, 2015, the investors holding all of the outstanding interests in the subordinated debt executed an Agreement Among Lenders pursuant to which they (i) waived any and all equity ratchets and (ii) agreed to extend the maturity date of the subordinated debt to June 30, 2017.

### **Disposition of Greene Point Health Care Center**

Effective June 30, 2016, the Company sold Greene Point Health Care Center for cash proceeds for \$3,800,000 million. Cash proceeds from the sale were used to pay off the existing mortgage loan in the amount of \$1,683,200.

The Company received \$2,112,970 in cash from the sale the facility, net of the senior loan, and used some of the proceeds to retire the subordinated debt owed to the former members of 1321 Investors, LLC.

### **Meadowview Healthcare Center**

Effective September 30, 2014, the Company purchased the Meadowview Healthcare Center located in Seville, Ohio (“Meadowview”) and owns 100% of this facility. The facility is licensed for 100 skilled nursing beds, is 27,500 square feet and located on five acres of land. Seville, Ohio is located approximately 25 miles west of Akron, Ohio and 40 miles south of Cleveland, Ohio in an area with attractive population growth in the 65 to 74-year age bracket. The total purchase price for Meadowview was \$3.2 million, which was paid in cash using the proceeds of the Note Offering described below. Meadowview was acquired through High Street Nursing, LLC, a wholly-owned subsidiary of the Company formed for the sole purpose of completing the purchase.

Effective October 31, 2017, we completed a refinance of the mortgage notes with a \$3.0 million term loan from ServisFirst Bank. We used the proceeds of the loan to repay the mortgage notes issued in 2014.

Meadowview is operated under a triple-net operating lease to a regional professional skilled nursing home operator, which expires in October 2024. The lease was generating \$361,000 in gross annual rent; however, the operator has experienced adverse results in late 2017 and early 2018 and we are exploring solution including potentially changing operators. We have not identified a new operator for this facility.

## **Abbeville Health & Rehab**

On April 4, 2017, we successfully bid at foreclosure sale to purchase a 101-bed skilled nursing facility located in Abbeville, Georgia. We formed a new wholly-owned subsidiary, Global Abbeville Property, LLC (“GAP”) for the purpose of bidding on the facility. Colony Bank, the senior lender on the facility, was the party undertaking the foreclosure in light of the default of the prior owner. The purchase transaction was consummated in May 2017.

The purchase price for the Abbeville facility was \$2.1 million which was entirely financed by Colony Bank through a newly approved closed-end revolving credit facility in the maximum amount of \$2.6 million. The additional \$500,000 under the credit line was used for renovations on a dollar-for-dollar matching basis. The loan agreement was executed in May 2017, and the maturity date is April 25, 2021. It carries an interest rate of prime plus 0.5%, 4.75% minimum, 5.50% maximum, is cross collateralized with the Eastman note with the same lender, and backed by a corporate guarantee from the Company. The transaction has been treated as an asset acquisition financed by debt, with \$20,000 land, \$1,827,000 building, and \$253,000 fixed assets allocated in relative fair value. The Company recognized \$38,421 in loan costs, which was amortized over the life of the loan.

The facility was closed in March 2016 due to uncured deficiencies. On March 17, 2017, in anticipation of our purchase of the facility, the State of Georgia approved initially a 45 day extension and then a six-month conditional Certificate of Need (“CON”) to allow us to complete renovations and reopen the property. The Company assessed that the acquisition of the Abbeville facility did not qualify as a business combination in accordance with the provisions of ASC 805. The Company accounted for the acquisition as an acquisition of asset.

We have completed approximately \$1.0 million in renovations at this facility and got regulatory clearance to admit a small number of residents in the first quarter of 2018. We still need further clearances to begin full scale operations.

We have entered into a five year operating lease with a straddle period during which we have agreed to make working capital advances to the operator to cover further improvements (“Advances”) which will be repaid with 12% interest. During the straddle period, the operator will make nominal monthly rent payments of \$15,000, which increase to \$50,000 per year, with census adjustments, after the end of the straddle period.

## **Recent Financings**

### *2014 Note Offering*

The Company completed a \$3.2 million private offering of its 6.5% Senior Secured Convertible Promissory Notes (the “Notes”) on September 26, 2014 (the “Note Offering”). The Notes accrue interest at the rate of 6.5% per annum, payable quarterly, and mature on the third anniversary of the date of issue. The Notes can be called for redemption at the option of the Company at any time (i) after September 15, 2015 but prior to September 15, 2016 at an early redemption price equal to 103% of the face amount of the Notes, plus accrued and unpaid interest, or (ii) any time after September 15, 2016 but prior to September 15, 2017 at an early redemption price equal to 102% of the face amount of the Notes, plus accrued and unpaid interest. Each Note is convertible at the option of the holder into shares of common stock of the Company at a conversion price of \$1.37 per share. The Notes will automatically convert into common stock at the conversion price in the event (i) there exists a public market for the Company’s common stock, (ii) the closing price of the common stock in the principal trading market has been \$2.00 per share or higher for the preceding ten (10) trading days, and (iii) either (A) there is an effective registration statement registering for resale under the Securities Act of 1933, as amended, the conversion shares or (B) the conversion shares are eligible to be resold by non-affiliates of the Company without restriction under Rule 144 under the Securities Act.

The Notes were secured by a senior mortgage on the Meadowview Healthcare Center located in Seville, Ohio. In October 2017, the notes were repaid as part of a \$3.0 million senior note refinance with ServisFirst Bank.

#### *2016 – 2017 Senior Secured Note Offering*

In November 2016, the Company commenced a private offering of its 10% Senior Secured Promissory Notes in the aggregate amount up to \$1,500,000, on a best efforts basis. As of December 31, 2017, \$1,200,000 of the notes have been issued. The notes bear interest at a rate of 10% payable monthly with principal and unpaid interest due at maturity on December 31, 2018. For every \$1.00 in principal amount of note, each investor received one warrant exercisable for 12 months to purchase one share of common stock at an exercise price of \$0.75 per share. The warrants contain a cashless exercise provision. The notes are secured by a senior UCC security interest in the tangible and intangible assets of the Company.

### *2017 Senior Note Offering*

In December 2017, the Company completed a private offering of 10% Senior Notes in the aggregate amount of \$300,000. The notes bear interest at the rate of 10% per annum payable monthly and mature on October 31, 2020. For every \$1.00 in principal amount of note, each investor received one warrant exercisable for 12 months to purchase one share of common stock at an exercise price of \$0.75 per share. The warrants contain a cashless exercise provision.

## **Our Business**

### **Healthcare Industry**

Healthcare is the single largest industry in the U.S. based on Gross Domestic Product (“GDP”). According to the National Health Expenditures report by the Centers for Medicare and Medicaid Services (“CMS”): (i) national health expenditures are expected to grow 1.2 percentage points faster than GDP per year over the 2016 – 2025 period; (ii) the average compounded annual growth rate for national health expenditures, over the projection period of 2016 through 2027, is anticipated to be 5.6%; and (iii) health spending is projected to represent 19.9% of US GDP by 2025, up from 17.8% in 2015.

Senior citizens are the largest consumers of healthcare services. According to CMS, on a per capita basis, the 85-year and older segment of the population spends 92% more on healthcare than the 65 to 84-year-old segment and over 329% more than the population average.

### **Business Strategy**

Our primary goal is to increase shareholder value through profitable growth. Our investment strategy to achieve this goal is based on three principles: (i) opportunistic investing, (ii) portfolio diversification and (iii) conservative financing.

#### *Opportunistic Investing*

We will make investment decisions that are expected to drive profitable growth and create shareholder value. We will attempt to position ourselves to create and take advantage of situations to meet our goals and investment criteria.

### *Portfolio Diversification*

We believe in maintaining a portfolio of healthcare investments diversified by segment, geography, operator, tenant and investment product. Diversification reduces the likelihood that a single event would materially harm our business and allows us to take advantage of opportunities in different markets based on individual market dynamics. While pursuing our strategy of diversification, we will monitor, but will not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment product, geographic location, the number of properties which we may lease to a single operator or tenant, or mortgage loans we may make to a single borrower. With investments in multiple segments and investment products, we can focus on opportunities with the most attractive risk/reward profile for the portfolio as a whole. We may structure transactions as master leases, require operator or tenant insurance and indemnifications, obtain credit enhancements in the form of guarantees, letters of credit or security deposits, and take other measures to mitigate risk.

### *Financing*

We will strive to manage our debt-to-equity levels and maintain multiple sources of liquidity, access to capital markets and secured debt lenders, relationships with current and prospective institutional joint venture partners, and our ability to divest of assets. Our debt obligations will be primarily fixed rate with staggered maturities, which reduces the impact of rising interest rates on our operations.

We plan to finance our investments based on our evaluation of available sources of funding. For short-term purposes, we may arrange for short-term borrowings from banks or other sources. We may also arrange for longer-term financing through offerings of equity and debt securities, placement of mortgage debt and capital from other institutional lenders and equity investors.

## **Competition**

Investing in real estate serving the healthcare industry is highly competitive. We will face competition from REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete may also be impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

Income from our facilities is dependent on the ability of our operators and tenants to compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of our tenants and operators. Private, federal and state payment programs as well as the effect of laws and regulations may also have a significant influence on the profitability of our tenants and operators.

## **Healthcare Segments**

*Senior housing.* Senior housing facilities include assisted living facilities (“ALFs”), independent living facilities (“ILFs”) and continuing care retirement communities (“CCRCs”), which cater to different segments of the elderly population based upon their needs. Services provided by our operators or tenants in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicaid and Medicare. Senior housing property types are further described below.

*Assisted Living Facilities.* ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with activities of daily living (“ADL”) yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may offer higher levels of personal assistance for residents with Alzheimer’s disease or



other forms of dementia. Levels of personal assistance are based in part on local regulations.

*Independent Living Facilities.* ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded by their peers with services such as housekeeping, meals and activities. These residents generally do not need assistance with ADL, such as bathing, eating and dressing. However, residents have the option to contract for these services.

*Continuing Care Retirement Communities.* CCRCs provide housing and health-related services under long-term contracts. This alternative is appealing to residents as it eliminates the need for relocating when health and medical needs change, thus allowing residents to “age in place.” Some CCRCs require a substantial entry or buy-in fee and most also charge monthly maintenance fees in exchange for a living unit, meals and some health services. CCRCs typically require the individual to be in relatively good health and independent upon entry.

*Post-acute/skilled nursing.* Skilled Nursing Facilities (SNF) offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and sophisticated treatment available at hospitals. Ancillary revenues and revenues from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy as well as sales of pharmaceutical products and other services. Certain SNFs provide some of the foregoing services on an out-patient basis.

Post-acute/skilled nursing services provided by our operators and tenants in these facilities will be primarily paid for either by private sources or through the Medicare and Medicaid programs.

*Life science.* These properties contain laboratory and office space primarily for biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties contain similar characteristics to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating, and air conditioning (“HVAC”) systems. The facilities generally have equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical device research initiatives.

*Medical office.* Medical office buildings (“MOBs”) typically contain physicians’ offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain “vaults” or other specialized construction. We expect our MOBs will be typically multi-tenant properties leased to healthcare providers (hospitals and physician practices).

*Hospital.* Services provided by our operators and tenants in these facilities are paid for by private sources, third-party payors (e.g., insurance and Health Maintenance Organizations or “HMOs”), or through the Medicare and Medicaid programs. Hospital property types include acute care, long-term acute care, and specialty and rehabilitation hospitals.

## **Investment Products**

*Properties under lease.* We plan to primarily generate revenue by leasing properties under long-term leases. Most of our rents and other earned income from leases will be received under triple-net leases or leases that provide for a substantial recovery of operating expenses. However, some of our MOBs and life science facility rents will be structured under gross or modified gross leases. Accordingly, for such gross or modified gross leases, we may incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance.

Our ability to grow income from properties under lease depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels, (ii) maximize tenant recoveries and (iii) control non-recoverable operating expenses. Most of our leases will include contractual annual base rent

escalation clauses that are either predetermined fixed increases and/or are a function of an inflation index.

*Debt investments.* Our mezzanine loans will generally be secured by a pledge of ownership interests of an entity or entities, which directly or indirectly own properties, and are subordinate to more senior debt, including mortgages and more senior mezzanine loans. Our interest in mortgages and construction financing will typically be issued by healthcare providers and will generally be secured by healthcare real estate.

*Developments and redevelopments.* We will generally commit to development projects that are at least 50% pre-leased or when we believe that market conditions will support speculative construction. We will work closely with our local real estate service providers, including brokerage, property management, project management and construction management companies to assist us in evaluating development proposals and completing developments. Our development and redevelopment investments will likely be in the life science and medical office segments. Redevelopments are properties that require significant capital expenditures (generally more than 25% of acquisition cost or existing basis) to achieve property stabilization or to change the primary use of the properties.

*Investment management.* We may co-invest in real estate properties with institutional investors through joint ventures structured as partnerships or limited liability companies. We may target institutional investors with long-term investment horizons who seek to benefit from our expertise in healthcare real estate. Predominantly, we plan to retain noncontrolling interests in the joint ventures ranging from 20% to 30% and serve as the managing member. These ventures generally allow us to earn acquisition and asset management fees, and have the potential for promoted interests or incentive distributions based on performance of the joint venture.

*Operating properties (“RIDEA”).* We may enter into contracts with healthcare operators to manage communities that are placed in a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as “RIDEA”). Under the provisions of RIDEA, a REIT may lease “qualified health care properties” on an arm’s length basis to a taxable REIT subsidiary (“TRS”) if the property is operated on behalf of such subsidiary by a person who qualifies as an “eligible independent contractor.” We view RIDEA as a structure primarily to be used on properties that present attractive valuation entry points, where repositioning with a new operator that is aligned with health care providers can bring scale, operating efficiencies, and/or ancillary services to drive growth.

## **Government Regulations, Licensing and Enforcement**

### *Overview*

Our tenants and operators will typically be subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide-ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties will be subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws and regulations and reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us.

We will seek to mitigate the risk to us resulting from the significant healthcare regulatory risks faced by our tenants and operators by diversifying our portfolio among property types and geographical areas, diversifying our tenant and operator base to limit our exposure to any single entity, and seeking tenants and operators who are not largely dependent on Medicaid reimbursement for their revenues. In addition, we ensure in each instance that our operators have obtained all necessary licenses and permits before beginning operations, and require that those operators covenant that they will comply with all applicable laws and regulations in connection with the facility operations.

The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

### **Fraud and Abuse Enforcement**

There are various extremely complex federal and state laws and regulations governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs, (ii) federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, (iii) federal and state physician self-referral laws (commonly referred to as the "Stark Law"), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship, (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996, which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or "whistleblower" actions. Many of our operators and tenants are subject to these laws, and some of them may in the future become the subject of governmental enforcement actions if they fail to comply with applicable laws.

## **Reimbursement**

Sources of revenue for many of our tenants and operators will include, among other sources, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and HMOs. As federal and state governments focus on healthcare reform initiatives, and as many states face significant budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators.

## **Healthcare Licensure and Certificate of Need**

Certain healthcare facilities in our portfolio will be subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion and closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants' and operators' abilities to expand or change their businesses.

## **Americans with Disabilities Act (the "ADA")**

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are "public accommodations" as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. To date, we have not received any notices of noncompliance with the ADA that have caused us to incur substantial capital expenditures to address ADA concerns. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one, and we continue to assess our properties and make modifications as appropriate in this respect.

## **Environmental Matters**

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state

statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner's or secured lender's liability therefore could exceed or impair the value of the property, and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues.

## **Taxation**

### *Federal Income Tax Considerations*

The following summary of the taxation of the Company and the material federal tax consequences to the holders of our debt and equity securities is for general information only and is not tax advice. This summary does not address all aspects of taxation that may be relevant to certain types of holders of stock or securities (including, but not limited to, insurance companies, tax-exempt entities, financial institutions or broker-dealers, persons holding shares of common stock as part of a hedging, integrated conversion, or constructive sale transaction or a straddle, traders in securities that use a mark-to-market method of accounting for their securities, investors in pass-through entities and foreign corporations and persons who are not citizens or residents of the United States).

This summary does not discuss all of the aspects of U.S. federal income taxation that may be relevant to you in light of your particular investment or other circumstances. In addition, this summary does not discuss any state or local income taxation or foreign income taxation or other tax consequences. This summary is based on current U.S. federal income tax law. Subsequent developments in U.S. federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income tax consequences of purchasing, owning and disposing of our securities as set forth in this summary. Before you purchase our securities, you should consult your own tax advisor regarding the particular U.S. federal, state, local, foreign and other tax consequences of acquiring, owning and selling our securities.

### *General*

We will elect to be taxed as a real estate investment trust (a “REIT”) at such time as the Board of Directors, with the consultation of our professional advisors, determines that we qualify as a REIT under applicable provisions of the Internal Revenue Code. We cannot predict for which tax year that election will be made; however, we do not intend to make such an election for 2016. Therefore, applicable taxes have been recorded in the accompanying consolidated financial statements. Once we make the election to be treated as a REIT, we intend to continue to operate in such a manner as to qualify as a REIT, but there is no guarantee that we will qualify or remain qualified as a REIT for subsequent years. Qualification and taxation as a REIT depends upon our ability to meet a variety of qualification tests imposed under federal income tax law with respect to income, assets, distribution level and diversity of share ownership. There can be no assurance that we will be owned and organized and will operate in a manner so as to qualify or remain qualified.

In any year in which we qualify as a REIT, in general, we will not be subject to federal income tax on that portion of our REIT taxable income or capital gain that is distributed to stockholders. We may, however, be subject to tax at normal corporate rates on any taxable income or capital gain not distributed. If we elect to retain and pay income tax on our net long-term capital gain, stockholders are required to include their proportionate share of our undistributed long-term capital gain in income, but they will receive a refundable credit for their share of any taxes paid by us on such gain.

Despite the REIT election, we may be subject to federal income and excise tax as follows:

To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our “REIT taxable income,” as adjusted, we will be subject to tax on the undistributed amount at regular corporate tax rates;

If we have net income from the sale or other disposition of “foreclosure property” that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, such income will be taxed at the highest corporate rate;



Any net income from prohibited transactions (which are, in general, sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than dispositions of foreclosure property and dispositions of property due to an involuntary conversion) will be subject to a 100% tax;

If we fail to satisfy either the 75% or 95% gross income tests, but nonetheless maintain our qualification as a REIT because certain other requirements are met, we will be subject to a 100% tax on an amount equal to (1) the gross income attributable to the greater of (i) 75% of our gross income over the amount of qualifying gross income for purposes of the 75% gross income test or (ii) 95% of our gross income over the amount of qualifying gross income for purposes of the 95% gross income test multiplied by (2) a fraction intended to reflect our profitability;

If we fail to distribute during each year at least the sum of (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain net income for such year (other than capital gain that we elect to retain and pay tax on) and (3) any undistributed taxable income from preceding periods, we will be subject to a 4% excise tax on the excess of such required distribution over amounts actually distributed;

We will be subject to a 100% tax on the amount of any rents from real property, deductions or excess interest paid to us by any of our “taxable REIT subsidiaries” that would be reduced through reallocation under certain federal income tax principles in order to more clearly reflect income of the taxable REIT subsidiary;

We may be subject to the corporate “alternative minimum tax” on any items of tax preference, including any deductions of net operating losses; and

For any investments which may qualify as prohibited transactions or restricted assets, we may elect to form a taxable REIT subsidiary to hold such investments or operations. Income from the taxable REIT subsidiary is subject to taxes at the usual federal and state tax rates.

On March 30, 2010, the President signed into law the Health Care and Education Reconciliation Act of 2010, which requires U.S. stockholders who meet certain requirements and are individuals, estates or certain trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012. U.S. stockholders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of shares of our stock.

## **EMPLOYEES**

As of December 31, 2016, we had one full time salaried employee. For the year ended December 31, 2017, our CEO and CFO each received compensation of equity valued at \$157,558. The CEO and CFO were each compensated with equity valued at \$38,000 per quarter for those periods. The Company also engages the services of consultants from time to time, some of which may be provided by affiliates of the Company at no cost.

## **ITEM 1A. RISK FACTORS**

Not applicable.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.



**ITEM 2. PROPERTIES**

As of December 31, 2017, we owned nine senior living facilities. The following table provides summary information regarding these facilities.

| Property Name                                 | Location          | Effective<br>Percentage<br>Equity<br>Ownership |          | Date<br>Acquired | Gross<br>Square<br>Feet | Purchase<br>Price | Outstanding<br>Debt at<br>December<br>31, 2017 |
|---|-------------------|--|----------|------------------|-------------------------|-------------------|--|
| Middle GA Nursing Home (a/k/a Crescent Ridge) | Eastman, GA       | 100  | %        | 3/15/2013        | 28,808                  | \$5,000,000       | \$3,643,545                                    |
| Warrenton Health and Rehabilitation           | Warrenton, GA     | 100  | %        | 12/31/2013       | 26,894                  | \$3,500,000       | \$2,376,101                                    |
| Southern Hills Retirement Center              | Tulsa, OK         | 100  | %        | 2/7/2014         | 104,192                 | \$2,000,000       | \$6,934,733                                    |
| Goodwill Nursing Home                         | Macon, GA         | 85   | %        | 5/19/2014        | 46,314                  | \$7,185,000       | \$6,026,279                                    |
| Edwards Redeemer Health & Rehab               | Oklahoma City, OK | 100  | %        | 9/16/2014        | 31,939                  | \$3,142,233       | \$2,205,934                                    |
| Providence of Sparta Nursing Home             | Sparta, GA        | 100  | %<br>(2) | 9/16/2014        | 19,441                  | \$2,836,930       | \$3,034,826                                    |
| Meadowview Healthcare Center                  | Seville, OH       | 100  | %        | 9/30/2014        | 27,500                  | \$3,000,000       | \$3,200,000                                    |
| Grand Prairie Nursing Home                    | Lonoke, AR        | 100  | %        | 9/16/2014        | 40,737                  | \$6,742,767       | \$4,618,006                                    |
| Abbeville Health & Rehab                      | Abbeville, GA     | 100  | %        | 5/25/2016        | 29,393                  | \$2,100,000       | \$2,592,366                                    |

| Property Name  | 2017<br>Base<br>Revenue<br>Per Lease | Operating Lease<br>Expiration |
|--|--------------------------------------|-------------------------------|
| Middle Georgia Nursing Home (a/k/a Crescent Ridge) (3) | \$610,000                            | October 31, 2022              |
| Warrenton Health and Rehabilitation                    | \$612,000                            | June 30, 2026                 |
| Southern Hills Retirement Center                       | \$452,000                            | May 31, 2019                  |
| Goodwill Nursing Home (1) (3) (4)                      | \$221,337                            | February 1, 2027              |
| Edwards Redeemer Health & Rehab (3)                    | \$561,816                            | October 31, 2022              |
| Providence of Sparta Nursing Home (2)                  | \$450,000                            | June 30, 2026                 |
| Meadowview Healthcare Center                           | \$384,000                            | October 31, 2024              |

|                                   |     |   |
|-----------------------------------|-----|---|
| Grand Prairie Nursing Home (3)(5) | \$- | - |
| Abbeville Health & Rehab          | \$- | - |

The subordinated note on Goodwill matured on July 1, 2015. Investors in the Goodwill note were entitled to an additional 5% equity in Goodwill Hunting, LLC every six months if the note is not paid when due. Effective December 31, 2015, the investors holding the subordinated debt executed an Agreement Among Lenders pursuant to which they (i) agreed to waive any and all equity ratchets and (ii) agreed to extend the maturity date of the subordinated debt to June 30, 2017. In exchange, Goodwill Hunting agreed to pay the investors an additional (1) one-time premium equal to 5% of the principal amount of the individual note at such time as the note is repaid. Effective May 3, 2017, we entered into an Allonge and Modification Agreement with the Goodwill investors pursuant to which they agreed to (i) waive all accrued interest through December 31, 2017, (ii) reduce interest rate to 13% beginning January 1, 2018 and (iii) extend the maturity date of the notes to December 31, 2019. In exchange, the Company agreed that upon repayment of the notes, the investors would be entitled to a one-time premium payment in the amount of 15% of the principal balance of the notes

The subordinated note on Sparta matured on August 1, 2016. Investors in the Sparta note were entitled to an additional 5% equity in Providence HR, LLC every six months if the note is not paid when due. In March 2017, (2) all of the former members of Providence HR Investors, LLC executed a Forbearance Agreement in which each agreed to (i) waive default interest, (ii) waive any equity ratchet adjustment and (iii) extend the maturity date of the note to December 31, 2017. As of December 31, 2017, the notes were repaid.

On January 22, 2016, the lease operator that operates Middle Georgia, Edwards Redeemer, Golden Years (until (3) January 1, 2016) and Goodwill filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In 2017 the lease operator emerged from bankruptcy and executed a new five year lease.

Goodwill was closed by regulators in January 2016 and did not generate any revenue in 2016. In a transaction related to the sale of the Greene Point facility, an affiliate of the buyer of Greene Point has executed a ten year operating lease covering Goodwill. The operator expended approximately \$2.0 million on renovations and in (4) December 2016 took its first patients. In the first quarter of 2017, the operator completed all relicensing and Medicare/Medicaid reimbursement approvals, at which time the lease became effective. First residents were admitted in December 2016. Rent for the first year which began February 1, 2017 is \$16,667 per month plus an occupancy rent based on census, payable at the rate of \$2,000 per month for every ten residents, with an annual cap of \$312,000.

We executed a new lease in August 2016 with a new operator, which renamed the facility Grand Prairie Nursing Home. Under the new lease, the operator agreed to undertake significant renovations and we agreed to cover its operating losses during what was characterized as a “straddle period”. The lease does not formally commence unit (5) the end of the straddle period. During the straddle period the operator does not have an obligation to pay rent, and any operating profits must be paid to us as reimbursement for our advances to cover the tenant’s operating losses. The straddle period ended February 2018 and the lease operator informed us that it would no longer operate the facility. In March 2018, a new operator assumed operations of the facility under an OTA.

### ITEM 3. LEGAL PROCEEDINGS

From time to time in the ordinary course of business, we may become subject to legal proceedings, claims, or disputes. We are or were a party to the following pending legal proceedings.

*Southern Tulsa, LLC v. Healthcare Management of Oklahoma, LLC*, District Court of Tulsa County, State of Oklahoma, Case No. CJ – 2016- 01781.

This matter was brought by us to have the appointment of a Receiver for the Southern Tulsa SNF and to recover damages from our former operator at that facility. The Court has ordered the appointment of a Receiver effective May 10, 2016. Other claims and matters are pending.

*Gregory D. Hughes, Esq. v. Janis M Tilford, et. al.*, Superior Court of Cobb County, Georgia, Civil Action File No. 16-1-2391-49.

This civil action arises from the termination of the Stock Purchase Agreement entered into by the Company's subsidiary TNH Acquisition, LLC to acquire the skilled nursing facility in Ridgeway, South Carolina. The dispute is over the disposition of our \$100,000 earnest money deposit which the escrow agent has interpleaded into the Court. This matter was settled in 2016.

*Thomas v. Edwards Redeemer Property Holdings, LLC, et.al.*, District Court for Oklahoma County, Oklahoma, Case No. CJ 2016-2160.

This action arises from a personal injury claim brought by heirs of a former resident of our Edwards Redeemer facility. We are entitled to indemnification from the lease operator and should be covered under the lease operator's general liability policy. As we are not the operators of the facility and believe we have indemnity coverage, we believe we have no exposure. The lease operator's insurance carrier is providing a defense and indemnity; and as a result we believe the likelihood of a material adverse result is remote.

*Verizon Construction, Inc., v. Southern Tulsa, LLC, et. al.*, District Court of Tulsa County, Oklahoma, Case No. CJ-2015-04326.

This is a mechanic's lien foreclosure action on the Southern Hills facility in Tulsa arising from work performed. The Plaintiff was a subcontractor to our general contractor; and while we paid the general contractor for that work, the general contractor apparently did not pay the subcontractor. Plaintiff is seeking \$441,939 previously invoiced to the general contractor, plus attorney's fees and costs. The general contractor, also a named defendant, is liable for this amount but may not have the resources to pay the plaintiff, therefore the Company may be liable for some unknown amount less than or equal to Plaintiff's claim. This case was settled in 2017 for payment of \$20,000.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



**PART II****ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS  
5. AND ISSUER PURCHASES OF EQUITY SECURITIES**

The outstanding shares of Common Stock are traded over-the-counter and quoted on the OTC Bulletin Board ("OTCBB") under the symbol "GBCS". On April 25, 2011, the quotation was moved from the OTCBB to the OTCQB due to the lack of a market maker. The reported high and low bid and ask prices for the common stock are shown below for the period from January 2016 through December 31, 2017.

|                  | High   | Low    |
|------------------|--------|--------|
| Jan – Mar 2016   | \$0.80 | \$0.33 |
| Apr – June 2016  | \$0.67 | \$0.29 |
| July – Sept 2016 | \$0.45 | \$0.33 |
| Oct – Dec 2016   | \$0.57 | \$0.26 |
| Jan – Mar 2017   | \$0.57 | \$0.35 |
| Apr – June 2017  | \$0.52 | \$0.40 |
| July – Sept 2017 | \$0.52 | \$0.35 |
| Oct – Dec 2017   | \$0.54 | \$0.33 |

The closing price of the Company's common stock as of April 13, 2017 was \$0.46, as reported on the OTCQB. The OTCBB and OTCQB prices are bid and ask prices which represent prices between broker-dealers and do not include retail mark-ups and mark-downs or any commissions to the broker-dealer. The prices do not reflect prices in actual transactions. As of April 13, 2017, there were approximately 850 record owners of the Company's common stock.

The OTC Bulletin Board is a registered quotation service that displays real-time quotes, last sale prices and volume information in over-the-counter (OTC) securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. The OTCBB is not an issuer listing service, market or exchange. Although the OTCBB does not have any listing requirements, per se, to be eligible for quotation on the OTCBB, issuers must remain current in their filings with the SEC or applicable regulatory authority.

The Company's Board of Directors may declare and pay dividends on outstanding shares of common stock out of funds legally available therefore in its sole discretion. For the years ended December 31, 2017 and 2016, the Company paid dividends on common stock of \$0, or \$0.00 per share in addition to the 8% dividends on our outstanding shares of Series D Preferred Stock. Future dividends on our common stock will be authorized at the discretion of our board of directors and will depend on our actual cash flow, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code if and when we elect to be treated as a REIT, and other factors as our board of directors may deem relevant.

**Recent Sales of Unregistered Securities**

None, except as previously reported on Forms 8-K.

**Securities Authorized for Issuance under Equity Compensation Plans**

Our CEO and CFO serve on an at-will basis and are compensated through the issuance of shares of common stock valued at \$38,000 per quarter for each officer. The arrangement is approved by the Board on a quarterly basis and has not been the subject of shareholder approval.

**ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **GOING CONCERN**

The accompanying consolidated financial statements and notes have been prepared assuming the Company will continue as a going concern.

For the year ended December 31, 2017, the Company incurred a net loss of \$3,001,618, reported net cash provided by operations of \$218,252 and has an accumulated deficit of \$9,048,443. These circumstances raise substantial doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company's ability to generate sufficient revenues and cash flows to operate profitably and meet contractual obligations, or raise additional capital through debt financing or through sales of common stock.

The failure to achieve the necessary levels of profitability and cash flows or obtain additional funding would be detrimental to the Company. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

### **RESULTS OF OPERATIONS**

Rental revenue for the year ended December 31, 2017 totaled \$3,129,928, compared to \$2,859,842 for the year ended December 31, 2016, an increase of \$270,086. Factors that contributed to the increase in rental revenue included bringing Goodwill back online after nearly a year of no operations, improved performance at the Southern Hills SNF and our lease operator in Dodge and Edwards Redeemer emerging from bankruptcy in 2017. These factors were offset by our sale of Providence of Greene Point Healthcare Center for \$3.8 million in June 2016 and the resultant loss of revenues from that facility, which recognized rental revenues of \$143,616 for 2016 compared to \$287,052 for 2015.

Looking forward, we expect to bring Abbeville and the Southern Hills ALF online in the second quarter of 2018 and expect those facilities to contribute significantly in 2018. We also plan to begin the substantial investment in the Southern Hills ILF in the second quarter of 2018 and have it online by the end of the year. Lonoke and Meadowview continue to challenge and we are exploring solutions including the possible sale of Lonoke and a change of operator at Meadowview.

General and administrative expenses were \$1,001,202 for the year ended December 31, 2017 compared to \$1,791,421 for the year ended December 31, 2016, an decrease of \$790,219. The decrease was due to decreases in expenses, such as 173,565 in Legal expenses, 155,575 in Director's Compensation, 145,000 in Lease Termination expenses, 137,078 in salaries and management fees, and 137,918 in accounting fees, along with miscellaneous other cost savings. For the years ended December 31, 2017 and 2016, general administrative expenses included \$488,321 and \$536,886, respectively, of share based compensation related to restricted stock and common stock awards granted. We recognized \$150,000 of bad debt expense during 2016 related to a note receivable which we determined to be uncollectible. This classification also includes legal, accounting, and other professional fees incurred in complying with regulatory reporting requirements.

Property taxes, insurance, and other operating expenses totaled \$424,348 and \$584,374 for the years ended December 31, 2017 and 2016, respectively. Lessees are responsible for the payment of insurance, taxes and other charges while under the lease. Should the lessee not pay all such charges, as required under the leases, we may be liable for such operating expenses. We were required to cover these expenses at our Goodwill and Lonoke facilities due to defaults by our operator lessees. We are also responsible for property taxes and insurance related to the ALF and ILF at our Southern Hills Retirement Center.

Acquisition expenses in excess of capitalized cost were \$0 and \$52,325 for the years ended December 31, 2017 and 2016, respectively. During 2016, we incurred acquisition costs in the form of a partial forfeiture of an earnest money deposit related to the potential purchase of a skilled nursing facility. The acquisition failed to close.

We periodically review for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be realizable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. In 2017, we determined that the carrying value of High Street Nursing's property and equipment was greater than their estimated fair value. In accordance with the guidance for the impairment of long-lived assets, we recorded an impairment loss of \$1,560,000 in 2017 to adjust the carrying value of the asset to our estimate of its fair value. No impairment loss were recorded in 2016. We estimated that fair value using the comparable sales method.

Depreciation expense totaled \$1,239,865 for the year ended December 31, 2017 compared to \$1,470,238 for the year ended December 31, 2016, a decrease of \$230,373. We have not recorded depreciation expense on our independent living and assisted living facilities located at our Southern Hills Retirement Center which will commence once renovations have been completed and the property is placed in service.

Warrants to purchase our common stock with nonstandard anti-dilution provisions, regardless of the probability or likelihood that may conditionally obligate the issuer to ultimately transfer assets, are classified as liabilities and are recorded at their estimated fair value at each reporting period. For the years ended December 31, 2017 and 2016, we recognized a change in fair value of the warrant liability of \$151,080 and \$58,085, respectively.

For the year ended December 31, 2017 we recognized a gain of \$175,129 on the extinguishment of debt as a result of tender offer repurchases and retirements of \$519,000 in IRB bonds payable as a discount. For the year ended December 31, 2016, we recognized a \$1,163,458 gain on extinguishment of debt as a result of an exchange of common stock for an unsecured note payable with a principal balance of \$1,550,000 and unpaid interest of \$99,458.

A gain of \$32,073 was recognized for the year ended December 31, 2017 was recognized on the settlement of accounts payable and other liabilities, compared to \$96,542 during 2016.

Interest income of \$8,079 and \$31,978 was recognized for the years ended December 31, 2017 and 2016, respectively, from outstanding notes receivable.

Interest expense totaled \$2,277,492 for the year ended December 31, 2017 compared to \$2,584,860 for the year ended December 31, 2016, a decrease of \$307,368. The decrease in interest expense is attributable to the retirement of mezzanine debt outstanding during 2017 compared to the 2016, and interest payable forgiven related to the Goodwill Hunting subordinated notes. Capitalized interest on construction in progress was \$243,544 in 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

Throughout its history, the Company has experienced shortages in working capital and has relied, from time to time, upon sales of debt and equity securities to meet cash demands generated by our acquisition activities.

At December 31, 2017, the Company had cash and cash equivalents of \$154,566 on hand. In June 2016, we sold our Greene Point facility for gross cash proceeds of \$3.8 million. A portion of the proceeds were used to pay off an existing mortgage related to the facility in the amount of \$1.7 million and related subordinated debt of \$1,181,250. Our liquidity is expected to increase from potential equity and debt offerings and decrease as net offering proceeds are expended in connection with the acquisition of properties. Our continuing short-term liquidity requirements consisting primarily of operating expenses and debt service requirements, excluding balloon payments at maturity, are expected to be achieved from rental revenues received and existing cash on hand. We plan to renew secured obligations that mature during 2018, as our projected cash flow from operations will be insufficient to retire the debt. Our restricted cash totaled \$817,582 as of December 31, 2017 which is reserved for debt service associated with our Southern Hills Industrial Revenue Bonds and our HUD loan on the Providence of Sparta Nursing Home.

Cash provided by operating activities was \$218,252 for the year ended December 31, 2017 compared to cash used in operating activities of \$506,953 for the year ended December 31, 2016. Cash flows provided by operations in 2016 were negatively impacted by the decrease in rental revenues as a result of the bankruptcy filing of a lease operator and the closure of one facility. Cash flows provided by operations in 2017 recovered some rental revenues and realized major reductions in general and administrative costs.

Cash used in investing activities was \$1,243,104 and cash provided by investing activities was \$2,222,738 for the years ended December 31, 2017 and 2016. During 2017, we purchased \$299,277 in debt securities and spent \$860,368 in capital expenditures. During 2016, we issued a \$150,000 note receivable, received collections of \$573,428 from notes receivable – related parties, received proceeds from the sale of property and equipment in the amount of \$2,112,970, and spent \$313,660 on capital expenditures.

Cash provided by financing activities was \$601,176 for the year ended December 31, 2017 compared to cash used in financing activities of \$1,208,598 for the year ended December 31, 2016. During 2017, we made payments on debt approximating \$0.7 million and received proceeds from issuance of debt of \$1.4 million. During 2016, we made payments on debt approximating \$1.7 million and received proceeds from issuance of debt of \$600,000.

As of December 31, 2017 and 2016, our debt balances consisted of the following:

|   | December<br>31, 2017 | December<br>31, 2016 |
|---|----------------------|----------------------|
| Convertible Notes Payable                             | \$-                  | \$3,200,000          |
| Senior Secured Promissory Notes                       | 625,000              | 150,000              |
| Senior Secured Promissory Notes - Related Parties     | 875,000              | 450,000              |
| Fixed-Rate Mortgage Loans                             | 18,750,685           | 14,666,206           |
| Variable-Rate Mortgage Loans                          | 7,210,372            | 6,273,129            |
| Bonds Payable   | 5,061,000            | 5,640,000            |
| Line of Credit  | 1,873,733            |                      |
| Other Debt  | 1,536,000            | 2,394,000            |
|   | 35,931,790           | 32,773,335           |
| Premium, Unamortized Discount and Debt Issuance Costs | (809,699 )           | (735,904 )           |
|   | \$35,122,091         | \$32,037,431         |
| As presented in the Consolidated Balance Sheets:      |                      |                      |
| Debt, Net   | \$34,282,407         | \$31,662,724         |
| Debt - Related Parties, Net                           | \$839,684            | \$374,707            |
|   | \$35,122,091         | \$32,037,431         |

The weighted average interest rate and term of our fixed rate debt are 6.35% and 8.5 years, respectively, as of December 31, 2017. The weighted average interest rate and term of our variable rate debt are 5.39% and 13.8 years, respectively, as of December 31, 2017.

#### **Mortgage Loans and Debts Secured by Real Estate**

Mortgage loans are collateralized by all assets of each nursing home property and an assignment of its rents. Collateral for certain mortgage loans includes the personal guarantee of Christopher Brogdon. Mortgage loans for the periods presented consisted of the following:



| Property  | Face<br>Amount | Principal Outstanding on<br>December 31, |              | Stated Interest<br>Rate  | Maturity<br>Date                |
|---|----------------|--|--------------|--|---------------------------------|
|   |                | 2017                                     | 2016         |  |                                 |
| Middle Georgia Nursing Home <sup>(1)</sup>            | \$4,200,000    | \$3,643,545                              | \$3,742,706  | 5.50% Fixed  | October 4, 2018                 |
| Goodwill Nursing Home <sup>(1)</sup>                  | 4,976,316      | 4,466,375                                | 4,520,816    | 5.50% Fixed  | March 19, 2020                  |
| Goodwill Nursing Home <sup>(3)</sup>                  | 80,193         | 23,904                                   | 80,193       | 5.50% Fixed  | June 12, 2018                   |
| Warrenton Nursing Home                                | 2,720,000      | 2,376,101                                | 2,476,109    | 5.00% Fixed  | December 20, 2018               |
| Edward Redeemer Health & Rehab                        | 2,303,815      | 2,205,934                                | 2,268,096    | 5.50% Fixed  | January 16, 2020                |
| Southern Hills Retirement Center                      | 1,750,000      | -  | 1,578,286    | 4.75% Fixed  | November 10, 2017               |
| Southern Hills Retirement Center Line of Credit       | 7,229,051      | 1,873,733                                | -            | 5.25% Fixed  | April 30, 2018                  |
| Southern Hills Retirement Center Bonds <sup>(4)</sup> | 5,700,000      | 5,061,000                                | 5,640,000    | Average 7.71% Fixed  | March 01, 2023 to March 1, 2044 |
| Providence of Sparta Nursing Home                     | 3,039,300      | 3,034,826                                | 1,655,123    | 3.88% Fixed  | November 1, 2047                |
| Meadowview Healthcare Center                          | 3,000,000      | 3,000,000                                | -            | 6.00% Fixed  | October 30, 2022                |
| Grand Prairie Nursing Home <sup>(2)</sup>             | 5,000,000      | 4,618,006                                | 4,618,006    | Prime Plus 1.50%/<br>5.75% Floor<br>Prime Plus 0.50%/<br>4.75% Floor/ 5.50%<br>Ceiling | August 3, 2037                  |
| Abbeville Health & Rehab                              | 2,660,000      | 2,592,366                                | -            | 4.75% Floor/ 5.50%<br>Ceiling  | April 25, 2021                  |
|   |                | \$32,895,790                             | \$26,579,335 |  |                                 |

<sup>(1)</sup> Mortgage loans are non-recourse to the Company except for the Southern Hills line of credit owed to First Commercial Bank.

Effective September 19, 2016, we executed a Modification to the mortgage note pursuant to which some accrued payments were deferred and the lender agreed to permit interest only payments through March 2017. The mortgage loan collateralized by the Grand Prairie Nursing Home (formerly Golden Years Manor Nursing Home) is 80% guaranteed by the USDA and requires an annual renewal fee payable in the amount of 0.25% of the USDA guaranteed portion of the outstanding principal balance as of December 31 of each year. The Company is subject to financial covenants and customary affirmative and negative covenants. As of December 31, 2017, the Company was not in compliance with certain of these financial and non-financial covenants which is considered to be a <sup>(2)</sup>technical Event of Default as defined in the note agreement. In addition, at December 31, 2017 that Company had not made all of the required installment monthly payments. Remedies available to the lender in the event of a continuing Event of Default, at its option, include, but are necessarily limited to the following (1) lender may declare the principal and all accrued interest on the note due and payable; and (2) lender may exercise additional rights and remedies under the note agreement to include taking possession of the collateral or seeking satisfaction from the guarantors. The Company has been notified by the lender regarding the existence of events of default and has demanded payment. Guarantors under the mortgage loan are Christopher Brogdon and GLN Investors, LLC, in which the Company owns a 100% membership inter

(3) The \$80,193 debt at Goodwill Nursing Home was incurred to pay off accrued interest on the original primary note.

(4) The Bonds include 3 different series, each at a different interest rate, the weighted average of which is 7.71%

Other mortgage loans contain financial and non-financial covenants, including reporting obligations, with which the Company has not complied in some instances in an untimely manner.

## Subordinated and Corporate Debt

Our subordinated debt at December 31, 2017 and 2016 includes unsecured notes payable issued to controlled entities used to facilitate the acquisition of the nursing home properties.

| Property                          | Face Amount | Principal Outstanding at |                   | Stated Interest Rate              | Maturity Date                       |
|-----------------------------------|-------------|--------------------------|-------------------|-----------------------------------|-------------------------------------|
|                                   |             | December 31, 2017        | December 31, 2016 |                                   |                                     |
| Goodwill Nursing Home             | \$2,180,000 | \$1,536,000              | \$1,344,000       | 13.0 % <sup>(1)(2)</sup><br>Fixed | December 31, 2019 <sup>(2)</sup>    |
| Providence of Sparta Nursing Home | 1,050,000   | -                        | 1,050,000         | 10.0% Fixed                       | December 31, 2017 <sup>(3)(4)</sup> |
|                                   |             | \$1,536,000              | \$2,394,000       |                                   |                                     |

- (1) As of December 31, 2016, the income from the Goodwill facility was insufficient to cover debt service for the subordinated debt for the facility. The debt is accruing interest at the default rate but not currently being paid. We are in discussions with the lenders to restructure the accrued interest into a new note to be amortized through future payments. The Company has entered into a new ten year operating lease covering the facility which became effective in February, 2017 with the new operator having obtained all licenses, permits and other regulatory approval necessary to recertify and reopen the facility. After receiving regulatory approvals, the lease operator invested approximately \$2.0 million in capital improvements in the property. The facility has been relicensed and began taking patients in December 2016 and is currently building census.

- (2) The subordinated note on Goodwill matured on July 1, 2015. Investors in the Goodwill note were entitled to an additional 5% equity in Goodwill Hunting, LLC every six months if the note is not paid when due. Effective December 31, 2015, all of the holders of the Goodwill subordinated note executed an Agreement Among Lenders pursuant to which they (i) waived all equity ratchets and (ii) extended the maturity date of their notes to June 30, 2017. In exchange, Goodwill Hunting LLC agreed to pay the investors a one-time premium equal to 5% of the principal amount of each individual note (approximately \$64,000) as such time as the note is repaid. For the year ended December 31, 2016, a premium of \$64,000 has been recognized into earnings. Effective May 3, 2017, we entered into an Allonge and Modification Agreement with the Goodwill investors pursuant to which they agreed to (i) waive all accrued interest through December 31, 2017, (ii) reduce interest rate to 13% beginning January 1, 2018 and (iii) extend the maturity date of the notes to December 31, 2019. In exchange, the Company agreed that upon repayment of the notes, the investors would be entitled to a one-time premium payment in the amount of 15% of the principal balance of the notes.

- (3) The subordinated note on Sparta matured on August 1, 2016. Investors in the Sparta note were entitled to an additional 5% equity in Providence HR, LLC every six months if the note is not paid when due.

- (4) We applied to refinance the senior and subordinated debt at Sparta with a new HUD loan. To accommodate that application, in March 2017 the investors in Providence HR Investors, LLC, the holder of the subordinated debt, entered into a Forbearance Agreement pursuant to which they agreed to (i) waive the equity ratchet they were

entitled to due to our failure to repay the debt on or before the maturity date (ii) waive the accrual of default interest and (iii) extend the maturity date of the subordinated debt to December 31, 2017. Subsequent to September 30, 2017, the senior and subordinated debt was repaid from the proceeds of a new HUD loan.

Our corporate debt at December 31, 2017 and 2016 includes unsecured notes and notes secured by all assets of the Company not serving as collateral for other notes.

| Series                             | Face        | Principal Outstanding   |           | Stated Interest | Maturity          |
|------------------------------------|-------------|-------------------------|-----------|-----------------|-------------------|
|                                    | Amount      | on December 31,<br>2017 | 2016      |                 |                   |
| 10% Senior Secured Promissory Note | \$1,200,000 | \$1,200,000             | \$600,000 | 10.0% Fixed     | December 31, 2018 |
| 10% Senior Promissory Note         | 300,000     | 300,000                 | -         | 10.0% Fixed     | October 31, 2020  |
|                                    |             | \$1,500,000             | \$600,000 |                 |                   |

Other mortgage loans contain financial and non-financial covenants, including reporting obligations, with which the Company has complied in some instances in an untimely manner.

### Contractual Obligations

As of December 31, 2017, we had the following contractual debt obligations:

|                                      | Total               | Less Than 1<br>Year | 1 – 3 Years         | 3 – 5 Years        | More Than<br>5 Years |
|--------------------------------------|---------------------|---------------------|---------------------|--------------------|----------------------|
| Notes and Bonds Payable - Principal  | \$35,931,790        | \$19,124,734        | \$8,766,821         | \$5,302,058        | \$2,738,177          |
| Notes and Bonds Payable - Interest   | 3,943,506           | 1,521,464           | 1,450,207           | 764,331            | 207,504              |
| <b>Total Contractual Obligations</b> | <b>\$39,875,296</b> | <b>\$20,646,198</b> | <b>\$10,217,028</b> | <b>\$6,066,389</b> | <b>\$2,945,681</b>   |

We have \$9.1 million of debt maturing and expect principal reduction payments of approximately \$350,000 in the year ended December 31, 2018. There is also \$9.7 million in debt in technical default maturing after December 31, 2018 but shown due immediately. This compares to \$22.5 million of debt that matured or was in default in the year ending December 31, 2017. While we anticipate being able to refinance all the loans at reasonable market terms upon maturity, our inability to do so may impact our financial position and results of operations. We expect to refinance \$7.9 million in mortgage loans maturing in 2018 as the associated properties meet loan to value requirements currently being employed in commercial lending markets. We have \$1.2 in senior notes maturing in 2018. See the consolidated financial statements included elsewhere in the Form 10-K for additional debt details. The following is a summary of our subordinated debt at December 31, 2017 and 2016:

Revenues from operations are sufficient to meet the working capital needs of the Company for the foreseeable future. Cash on hand, combined proceeds from the issuance of our 10% Senior Secured Promissory Notes in the aggregate amount of \$900,000 and \$600,000 during 2017 and 2016 and revenues generated from operations, are in excess of operating expenses and debt service requirements. Debt maturities are expected to be refinanced at reasonable terms upon maturity. The Company anticipates a combination of conventional mortgage loans, at market rates, issuance of

revenue bonds and possibly additional equity injections to fund the acquisition cost of any additional properties. Except for renovations at Grand Prairie and Southern Hills Retirement Center, there are no material capital improvement or recurring capital expenditure commitments at the properties.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that we consider material.

### **SUMMARY OF CRITICAL ACCOUNTING POLICIES**

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. Certain of these accounting policies are particularly important for an understanding of the financial position and results of operations presented in the consolidated financial statements set forth elsewhere in this report. These policies require application of judgment and assumptions by management and, as a result, are subject to a degree of uncertainty. Actual results could differ as a result of such judgment and assumptions.

### *Property Acquisitions*

We allocate the purchase price of acquired properties to net tangible and identified intangible assets based on relative fair values. Fair value estimates are based on information obtained from independent appraisals, other market data, information obtained during due diligence and information related to the marketing and leasing at the specific property. Acquisition-related costs such as due diligence, legal and accounting fees are expensed as incurred. Initial valuations are subject to change during the measurement period, but the period ends as soon as the information is available. The measurement period shall not exceed one year from the date of acquisition.

### *Impairment of Long Lived Assets*

When circumstances indicate the carrying value of a property may not be recoverable, the Company reviews the asset for impairment. This review is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. This estimate considers factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists, due to the inability to recover the carrying amount of the property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. Estimated fair value is determined with the assistance from independent valuation specialists using recent sales of similar assets, market conditions or projected cash flows of properties using standard industry valuation techniques.

### *Notes Receivable and Notes Receivable – Related Parties*

The Company evaluates its notes receivable for impairment when it is probable the payment of interest and principal will not be made in accordance with the contractual terms of the note receivable agreements. Once a note has been determined to be impaired, it is measured to establish the amount of the impairment, if any, based on the fair value, as determined by the present value of expected future cash flows discounted at the note's effective interest rate. If the fair value of the impaired note receivable is less than the recorded investment in the note, a valuation allowance is recognized.

### **Subsequent Events**

In January 2018 certain Senior Secured Promissory Notes worth \$225,000 with a maturity date of January 13, 2018 were exchanged for notes with a maturity date of December 31, 2018. The corresponding 225,000 warrants issued

with the original notes were extended to an expiration date of December 31, 2018.

On January 23, 2018, the Company issued 93,750 shares of common stock to each of the six Directors, for a total of 562,500 shares issued under the Directors' Compensation Plan for 2018.

On April 5, 2018, the Company entered into a definitive Purchase and Sale Agreement to acquire the Woodlands Health and Rehab Center in Midway, Georgia. The transaction is subject to numerous conditions and is pending as of the date of this Report.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See the index included at Item 15. Exhibits, Financial Statement Schedules.



**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of the end of the period covered by this Report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be included in our Securities and Exchange Commission reports is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, relating to the Company, including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

Our management, including our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were not effective as of such date to provide assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management as appropriate, to allow timely decisions regarding disclosures.

## **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. GAAP.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2017. Our CEO and CFO concluded we have a material weakness due to lack of segregation of duties and a limited corporate governance structure. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our system of internal control. Therefore, while there are some compensating controls in place, it is difficult to ensure effective segregation of accounting and financial reporting duties. Management reported a material weakness resulting from the combination of the following significant deficiencies:

Lack of segregation of duties in certain accounting and financial reporting processes including the initiation, processing, recording and approval of disbursements;

Lack of a formal review process that includes multiple levels of review.

While we strive to segregate duties as much as practicable, there is an insufficient volume of transactions at this point in time to justify additional full time staff. We believe that this is typical in many new ventures. We may not be able to fully remediate the material weakness until we hire more staff. We will continue to monitor and assess the costs and benefits of additional staffing.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to the SEC rules that permit us to provide only management’s report in this Annual Report.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the year ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.****Directors and Executive Officers**

The name, position with the Company, age of each Director and executive officer of the Company is as follows:

| Name               | Age | Position                             | Director/Officer Since |
|--------------------|-----|--------------------------------------|------------------------|
| Lance Baller       | 44  | Director, CEO                        | 2015                   |
| Clifford L. Neuman | 69  | Director                             | 2014                   |
| Andrew L. Sink     | 51  | Director, Interim COO <sup>(1)</sup> | 2015                   |
| Zvi Rhine          | 38  | Director, President, CFO             | 2015                   |
| Adam Desmond       | 47  | Director                             | 2017                   |
| Josh Mandel        | 43  | Director                             | 2017                   |

(1) Mr. Sink resigned as Interim COO in March 2017.

*Lance Baller* serves as a director and sole or principal shareholder of several privately owned businesses, including Baller Enterprises, Inc. from 1993 to the present (personal holding company), High Speed Mines, LLC and High Speed Aggregate, LLC (gold, sand, rock and gravel mining), RM Investments, LLC (fast food real estate), HSA Bedrock, LLC (landscape material supply) and Baller Family Foundation, Inc. (personal family foundation). He is also the co-founder, former CEO and President of Iofina plc, a technology leader in the production of iodine and iodine derivatives, where he continues to serve as Chairman. He is the former managing partner of Shortline Equity Partners, Inc. (2004 to 2010), a mid-market merger and acquisitions consulting and investment company. Mr. Baller is also the former Managing Partner of Elevation Capital Management, LLC (2005 to 2010) and is the former alternative investment hedge fund manager of the Elevation Fund. He is also a former Vice-President of Corporate Development and Communications (2003 to 2004) of Integrated Biopharma, Inc. and prior to that a vice-president of the investment banking firms UBS and Morgan Stanley. He was also a director of Equal Earth, Inc. (2013 to 2014). He has served on numerous boards of directors of both private and public companies, including Index Asset Management, Inc., where he has served on the Board of Trustees since 2014.

*Clifford L. Neuman* has been engaged as a principal in his own law firms for over 43 years, emphasizing corporate and securities law in the representation of companies in matters of corporate finance, mergers, acquisitions, reorganizations and public and private offerings. Mr. Neuman has served on the boards of directors of numerous public, private and non-profit companies and has been actively involved in the process of capital formation on behalf of his clients for many years. He is also the President of Gemini Gaming, Inc., which owns and operates a gaming

casino in Blackhawk, Colorado. He currently serves on the Board of Directors of Medicine Horse Program, a non-profit equine assisted psychotherapy facility in Boulder, a Director and CEO of Mindfulness Peace Project, f/k/a Ratna Foundation, a non-profit charitable foundation, and a member of the Governing Council of Shambhala Mountain Center, a non-profit retreat center in Red Feather Lakes, Colorado. Mr. Neuman received his Juris Doctorate degree from the University of Pennsylvania (1973) and his Bachelor of Arts degree, *magna cum laude* from Trinity College, Hartford, Connecticut (1970), where he was elected to Phi Beta Kappa.

*Andrew L. Sink* is currently the Managing Director of the Investment Advisory division and Principal for Colliers International | Alabama. His team provides investment property advisory, investment property brokerage, investment fund structuring and real estate investment management to high net worth families and individuals. His team also provides advisory services to privately held operating companies seeking to enhance enterprise value via various real estate strategies including sale leaseback and private fund structuring. Mr. Sink has more than 20 years' experience in the real estate industry with a broad range of expertise in real estate brokerage and investments. Prior to his role at Colliers International, Mr. Sink was Managing Director of Founders Investment Properties (FIP) which spun out of Founders Investment Banking in December 2011. Prior to the formation of FIP, Mr. Sink was a partner at Founders Investment Banking, LLC where he served as Managing Director of the firm's real estate advisory practice from 2004-2011. During this same time period he and his partners formed Foundation Fund Management Company (FFMC). FFMC has created multiple niche private equity funds, which included Foundation Sale Leaseback Fund, Foundation Cypress Development Fund, Foundation Retail Development Fund, Foundation Residential Acquisition Fund and Foundation New Media Fund. Prior to joining Founders, he was a partner in the commercial real estate firm Eason, Graham & Sandner, Inc. (EGS) from 1993-2004 and was responsible for the Industrial Services Division. Mr. Sink earned a Bachelor of Science degree in finance with a concentration in real estate from the University of Alabama, graduating in 1990. He holds a state of Alabama real estate broker's license.

*Zvi Rhine* has over 15 years of experience in the securities industry. He is the principal and managing member of Sabra Capital Partners which he founded in 2012, a multi-strategy hedge fund that focuses on event-driven, value and special situations investments primarily in North America. Prior to founding Sabra Capital Partners, he worked at Hilco Trading concentrating on asset-backed investments and sale-leaseback transactions. From 2005 to 2008, he was a Director of Boone Capital, an event-driven hedge fund concentrating on small to mid-cap companies. Mr. Rhine has also worked in various investment capacities for Banc of America Securities and US Bancorp Piper Jaffray. He is a graduate of the University of Illinois.

*Adam Desmond* is the founder and CEO of Needle Rock Capital, an investment banking firm located in Carbondale, Colorado. Prior to founding Needle Rock Capital, Mr. Desmond founded ASG Securities in 1998 that focused exclusively on small/mid-cap banks and thrift markets. In 2004 ASG Securities became FIG Partners LLC which expanded the business from a sales and trading platform to a full-service investment banking firm. Mr. Desmond assembled a team of principals at Fig Partners that raised over \$2.5 billion in equity since 2007 and completed more than 95 whole bank transactions throughout the United States, with offices in Chicago, Los Angeles, San Francisco, Dallas, New Jersey and Charlotte, employing over 60 people. Mr. Desmond began his career at the Chicago Mercantile Exchange in the financial quadrant and went on to Raymond James and Associates where he helped develop a high yield fixed income department. Mr. Desmond enjoys supporting and servicing many charitable organizations, including helping fund the building of a school in the Philippines through St. Mary's Catholic Church in Aspen, Colorado. Mr. Desmond is a graduate of the University of Wisconsin – Madison with a Bachelor of Arts in International Economics and Political Science.

*Josh Mandell* is currently Chief Operating Officer of the Gateway Companies, an investor, developer and manager of multifamily housing properties across the Southeastern USA. From 2014-2017, he served as the Director of Investments for StoneRiver Company, a full-service private real estate firm focused on the investment, development and management of commercial real estate across the Southeastern US. Prior to that Mr. Mandell served as General Counsel and later, Chief Development Officer for BSR Trust (formerly Summit Housing Partners), an owner/operator of approximately 20,000 affordable and conventional multifamily housing units across 10 states in the Southeast.

Mr. Mandell is a graduate of the University of Alabama (B.A. History, 1996) and Loyola University (New Orleans) School of Law (JD, International Law Certificate, 2000), and he is a member of the Louisiana and Alabama State Bar Associations. He also serves on the Boards of Directors of The Alabama Wildlife Federation, The Eyesight Foundation of Alabama, Birmingham Jewish Federation and Mountain Brook Athletics.

#### Family Relationships

None.

## Board Meeting and Compensation

During the fiscal year ended December 31, 2017, meetings of the Board of Directors were held both in person and telephonically, and business of the board was also conducted by written unanimous consent. There were four (4) meetings of the Board during 2017. All Board members attended 100% of the Board meetings. Directors are entitled to reimbursement of their expenses associated with attendance at such meeting or otherwise incurred in connection with the discharge of their duties as a Director.

During fiscal 2017, the entire Board of Directors assumed all responsibilities of the Audit, Compensation and Nominating Committees. The board had no formal standing committees, but plans to create those committees when it determines that those committees would be beneficial. No member of the Audit, Compensation or Nominating Committees will receive any additional compensation for his service as a member of that Committee.



During fiscal 2014, the Board adopted the Director Compensation Plan (the “Plan”), which was amended in 2017, pursuant to which each Director of the Company, whether or not independent, and whether or not such Director holds any other position with the Company, including any position as an executive officer, shall be entitled to an annual grant of restricted common stock in compensation for services during the year of grant, determined as follows:

- The grant to each Director shall consist of restricted shares of common stock of the Company having a Market Value equal to \$30,000. For the purposes of the Plan, “Market Value” shall mean the closing price of the Company’s common stock on its principal trading market on a date determined by the Board of Directors.
1. Value equal to \$30,000. For the purposes of the Plan, “Market Value” shall mean the closing price of the Company’s common stock on its principal trading market on a date determined by the Board of Directors.
  2. All shares granted to Directors under the Plan shall vest ratably at the rate of 1/12<sup>th</sup> per month for each month of service during the year.

- Should the Company determine that it is obligated to withhold payroll taxes from the Award, the undersigned Director will consent to the Company reducing the Award to the extent necessary to satisfy such obligation. Should the Company not withhold payroll taxes, each Director receiving a grant under the Plan shall be responsible for any and all federal, state or local taxes assessed as a result of such grant and shall indemnify, defend and hold harmless the Company for any liability therefore.
3. the Company not withhold payroll taxes, each Director receiving a grant under the Plan shall be responsible for any and all federal, state or local taxes assessed as a result of such grant and shall indemnify, defend and hold harmless the Company for any liability therefore.

The first grant under the Plan was effective January 1, 2015, and consisted of 33,333 shares of restricted common stock issued to each Director of the five directors on that date, for a total of 166,665 shares. Two additional directors joined the Board during the year and received 17,442 shares each, for a total 34,884 shares. For the year, a total of 201,549 shares were issued under the Plan. The second grant date was effective January 1, 2016, and consisted of 45,455 shares of restricted common stock issued to each of the five Directors on that date, for a total of 227,275 shares issued to date under the Plan for 2016. The third grant date was January 1, 2017, and consisted of 52,632 shares of common stock issued to each of the five Directors, for a total of 263,160 shares issued under the Plan for 2017. The fourth grant date was January 23, 2018, and consisted of 93,750 shares of common stock to each of the six Directors, for a total of 562,500 shares issued under the Plan for 2018.

#### Director Independence

Our common stock is listed on the OTCQB inter-dealer quotation systems, which does not have director independence requirements. Nevertheless, for purposes of determining director independence, we have applied the definition set forth in NASDAQ Rule 4200(a)(15). Mr. Andy Sink, Mr. Adam Desmond and Mr. Josh Mandel would be considered “independent” under the NASDAQ rule.

#### Audit Committee

The Board as a whole serves as the audit committee.

For this purpose, an audit committee member is deemed to be independent if he does not possess any vested interests related to those of management and does not have any financial, family or other material personal ties to management.

The committee is responsible for accounting and internal control matters. The audit committee:

- reviews with management and the independent auditors policies and procedures with respect to internal controls;
- reviews significant accounting matters;
- approves any significant changes in accounting principles of financial reporting practices;
- reviews independent auditor services; and
- recommends to the board of directors the independent registered public accounting firm to audit our consolidated financial statements.

In addition to its regular activities, the committee is available to meet with the independent registered public accounting firm or controller whenever a special situation arises.

The Audit Committee of the Board of Directors will adopt a written charter, which, when adopted, will be filed with the Commission.

#### Compensation Advisory Committee

The composition of the compensation advisory committee has not been determined.

The compensation advisory committee did not meet during fiscal 2016. The compensation advisory committee will, when appointed:

- recommend to the board of directors the compensation and cash bonus opportunities based on the achievement of objectives set by the compensation advisory committee with respect to our chairman of the board and president, our chief executive officer and the other executive officers;
- administer our compensation plans for the same executives;
- determine equity compensation for all employees;
- review and approve the cash compensation and bonus objectives for the executive officers; and
- review various matters relating to employee compensation and benefits.

#### Nomination Process

The Board of Directors has not appointed a standing nomination committee and does not intend to do so during the upcoming year. The process of determining director nominees has been addressed by the board as a whole, which consists of five members. The board has not adopted a charter to govern the director nomination process.

The board of directors has not adopted a policy with regard to the consideration of any director candidates recommended by security holders, since to date the board has not received from any security holder a director

nominee recommendation. The board of directors will consider candidates recommended by security holders in the future. Security holders wishing to recommend a director nominee for consideration should contact Mr. Lance Baller, Interim President, at the Company's principal executive offices located in Greenwood Village, Colorado and provide to Mr. Baller, in writing, the recommended director nominee's professional resume covering all activities during the past five years, the information required by Item 401 of Regulation S-K, and a statement of the reasons why the security holder is making the recommendation. Such recommendation must be received by the Company before December 31, 2018.

The board of directors believes that any director nominee must possess significant experience in business and/or financial matters as well as a particular interest in the Company's activities.

#### *Shareholder Communications*

Any shareholder of the Company wishing to communicate to the board of directors may do so by sending written communication to the board of directors to the attention of Mr. Lance Baller, Interim President, at the principal executive offices of the Company. The board of directors will consider any such written communication at its next regularly scheduled meeting.

Any transactions between the Company and its officers, directors, principal shareholders, or other affiliates have been and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties on an arms-length basis and will be approved by a majority of the Company's independent, outside disinterested directors.

*Code of Ethics*

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees during the fiscal year ended June 30, 2004. We will provide to any person without charge, upon request, a copy of our Code of Business Conduct and Ethics. Such request should be made in writing and addressed to Investor Relations, Global Healthcare REIT, Inc., at the Company's principal executive offices located in Greenwood Village, Colorado. Further, our Code of Business Conduct and Ethics was filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004 and can be reviewed on the website maintained by the SEC at [www.SEC.gov](http://www.SEC.gov).

There are no material proceedings to which any director, officer or affiliate of the Company, any owner of record or beneficially of more than five percent (5%) of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the Company, or security holder is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

During the last ten (10) years no director or officer of the Company has:

(1) had any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2) been convicted in a criminal proceeding or subject to a pending criminal proceeding;

(3) been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

(4) been found by a court of competent jurisdiction in a civil action, the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been

reversed, suspended, or vacated.

Any transactions between the Company and its officers, directors, principal shareholders, or other affiliates have been and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties on an arms-length basis and will be approved by a majority of the Company's independent, outside disinterested directors.

### **Indemnification and Limitation on Liability of Directors**

The Company's Articles of Incorporation provide that the Company shall indemnify, to the fullest extent permitted by Utah law, any director, officer, employee or agent of the corporation made or threatened to be made a party to a proceeding, by reason of the former or present official of the person, against judgments, penalties, fines, settlements and reasonable expenses incurred by the person in connection with the proceeding if certain standards are met. At present, there is no pending litigation or proceeding involving any director, officer, employee or agent of the Company where indemnification will be required or permitted. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

The Company's Articles of Incorporation limit the liability of its directors to the fullest extent permitted by the Utah Business Corporation Act. Specifically, directors of the Company will not be personally liable for monetary damages for breach of fiduciary duty as directors, except for (i) any breach of the duty of loyalty to the Company or its stockholders, (ii) acts or omissions not in good faith or that involved intentional misconduct or a knowing violation of law, (iii) dividends or other distributions of corporate assets that are in contravention of certain statutory or contractual restrictions, (iv) violations of certain laws, or (v) any transaction from which the director derives an improper personal benefit. Liability under federal securities law is not limited by the Articles. The officers of the Company will dedicate sufficient time to fulfill their fiduciary obligations to the Company's affairs. The Company has no retirement, pension or profit sharing plans for its officers and Directors.

## Compliance with Section 16(a) of the Exchange Act

Under the securities laws of the United States, the Company's Directors, its Executive (and certain other) Officers, and any persons holding more than ten percent (10%) of the Company's common stock are required to report their ownership of the Company's common stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and the Company is required to report in this Report any failure to file by these dates. All of these filing requirements were satisfied by our Officers, Directors, and ten-percent holders except for Messrs. Rhine, Sink and Mandell each failed to file one (1) report covering one (1) transaction in a timely fashion; Mr. Baller failed to file three (3) reports covering five (5) transactions in a timely fashion; Mr. Neuman failed to file three (3) reports covering four (4) transactions in a timely fashion. In making these statements, the Company has relied on the written representation of its Directors and Officers or copies of the reports that they have filed with the Commission.

**ITEM 11. EXECUTIVE COMPENSATION**

## Components of Compensation.

The CEO and CFO receive exclusively stock based compensation. Each is granted restricted shares of common stock valued at \$38,000 at the conclusion of each calendar quarter. We did not provide additional compensation in the form of annual incentive bonus, long term incentives, retirement benefits, or perquisites.

The following table and discussion set forth information with respect to all plan and non-plan compensation awarded to, earned by or paid to the Chief Executive Officer ("CEO"), and the Company's four (4) most highly compensated executive officers other than the CEO, for all services rendered in all capacities to the Company and its subsidiaries for each of the Company's last three (3) completed fiscal years; provided, however, that no disclosure has been made for any executive officer, other than the CEO, whose total annual salary and bonus does not exceed \$100,000.

**SUMMARY COMPENSATION TABLE**

| Name and<br>Principal<br>Position | Year | Salary<br>(\$) | Bonus | Stock<br>Awards | Options<br>Awards | Non equity<br>Incentive<br>Plan<br>Compensation | Nonqualified<br>Deferred<br>Compensation<br>Earnings | All Other<br>Compensation | Total |
|-----------------------------------|------|----------------|-------|-----------------|-------------------|---|--|---------------------------|-------|
|-----------------------------------|------|----------------|-------|-----------------|-------------------|---|--|---------------------------|-------|

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|                      |      |     |     |            |     |     |     |     |            |
|----------------------|------|-----|-----|------------|-----|-----|-----|-----|------------|
| Lance Baller,<br>CEO | 2017 | -0- |     | \$ 157,558 | -0- | -0- | -0- | -0- | \$ 157,558 |
|                      | 2016 | -0- | -0- | \$ 172,000 | -0- | -0- | -0- | -0- | \$ 172,000 |
| Zvi Rhine, CFO       | 2017 | -0- | -0- | \$ 157,558 | -0- | -0- | -0- | -0- | \$ 157,558 |
|                      | 2016 | -0- | -0- | \$ 172,000 | -0- | -0- | -0- | -0- | \$ 172,000 |
| Andrew Sink,<br>COO  | 2017 | -0- | -0- | -0-        | -0- | -0- | -0- | -0- | -0-        |
|                      | 2016 | -0- | -0- | \$ 100,000 | -0- | -0- | -0- | -0- | \$ 100,000 |

(1) Does not include stock based compensation for services as Directors.



## Director Compensation

During fiscal 2014, the Board adopted the Director Compensation Plan (the “Plan”), which was amended in 2017, pursuant to which each Director of the Company, whether or not independent, and whether or not such Director holds any other position with the Company, including any position as an executive officer, shall be entitled to an annual grant of restricted common stock in compensation for services during the year of grant, determined as follows:

- The grant to each Director shall consist of restricted shares of common stock of the Company having a Market Value equal to \$30,000. For the purposes of the Plan, “Market Value” shall mean the closing price of the Company’s common stock on its principal trading market on a date determined by the Board of Directors.
2. All shares granted to Directors under the Plan shall vest ratably at the rate of 1/12<sup>th</sup> per month for each month of service during the year.

- Should the Company determine that it is obligated to withhold payroll taxes from the Award, the undersigned Director will consent to the Company reducing the Award to the extent necessary to satisfy such obligation. Should the Company not withhold payroll taxes, each Director receiving a grant under the Plan shall be responsible for any and all federal, state or local taxes assessed as a result of such grant and shall indemnify, defend and hold harmless the Company for any liability therefore.
- 3.

The first grant under the Plan was effective January 1, 2015, and consisted of 33,333 shares of restricted common stock issued to each Director of the five directors on that date, for a total of 166,665 shares. Two additional directors joined the Board during the year and received 17,442 shares each, for a total 34,884 shares. For the year, a total of 201,549 shares were issued under the Plan. The second grant date was effective January 1, 2016, and consisted of 45,455 shares of restricted common stock issued to each of the five Directors on that date, for a total of 227,275 shares issued to date under the Plan for 2016. The third grant date was January 1, 2017, and consisted of 52,632 shares of common stock issued to each of the five Directors, for a total of 263,160 shares issued under the Plan for 2017. The fourth grant date was January 23, 2018, and consisted of 93,750 shares of common stock to each of the six Directors, for a total of 562,500 shares issued under the Plan for 2018.

The following table summarizes director compensation paid for the year ended December 31, 2017:

### DIRECTOR COMPENSATION TABLE

| Name | Fees Earned or Paid | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation | All Other Compensation | Total |
|------|---------------------|--------------|---------------|--|------------------------------------|------------------------|-------|
|------|---------------------|--------------|---------------|--|------------------------------------|------------------------|-------|

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|                 | in Cash |          |   |   | Earnings |   |          |
|-----------------|---------|----------|---|---|----------|---|----------|
| Lance Baller    | -       | \$30,000 | - | - | -        | - | \$30,000 |
| Zvi Rhine       | -       | \$30,000 | - | - | -        | - | \$30,000 |
| Clifford Neuman | -       | \$30,000 | - | - | -        | - | \$30,000 |
| Adam Desmond    | -       | \$30,000 | - | - | -        | - | \$30,000 |
| Andrew Sink     | -       | \$30,000 |   |   |          |   | \$30,000 |
| Josh Mandel     |         | \$6,250  |   |   |          |   | \$6,250  |

## Company Stock Incentive Plans

In 1993, the Board of Directors and the Shareholders of the Company adopted the Global Casinos, Inc., Stock Incentive Plan (the "Incentive Plan"). An aggregate of 100,000 shares of the Company's Common Stock is reserved for issuance under the Incentive Plan. As of December 31, 2017, no options were outstanding under the Plan and all options to purchase shares of Common Stock have expired. The Plan has terminated in accordance with its terms, and as a result no shares are available for future option grants.

## Equity Awards at Year End

There were no unexercised options, unvested stock awards or equity incentive plan awards for any named executive officer outstanding as of the end of the most recently completed fiscal year.

## Stock Based Compensation

For the six months ended June 30, 2016, Messrs. Baller, Rhine and Sink were each granted 250,000 shares of restricted common stock valued at \$0.40 per share as stock based compensation for services rendered in their capacities of CEO, CFO and COO, respectively.

Effective June 30, 2016, Mr. Neuman received 250,000 shares of common stock in satisfaction of \$100,000 in accounts receivable for legal services rendered.

For the third and fourth quarter of 2016, Messrs. Baller and Rhine were each granted 87,000 shares of restricted common stock valued at \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively.

For the quarter ended March 31, 2017, Messrs. Baller and Rhine were each granted 86,364 shares of restricted common stock valued at \$0.44 per shares, or \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively. For the quarter ended June 30, 2017, Messrs. Baller and Rhine were each granted 84,444 shares of restricted common stock valued at \$0.4211 per shares, or \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively. For the six months ended December 31, 2017, Messrs. Baller and Rhine were each granted 168,889 shares of restricted common stock valued at \$0.4211 per shares, or \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively. In addition, Messrs. Baller and Rhine were each granted an

additional bonus stock award consisting of 29,268 shares each, valued at \$0.44 per share.

ITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS

The following table sets forth, as of April 1, 2018 the stock ownership of (i) each person known by the Company to be the beneficial owner of five (5%) percent or more of the Company's Common Stock, (ii) all Directors individually, (iii) all Officers individually, and (iv) all Directors and Officers as a group. Each person has sole voting and investment power with respect to the shares shown, except as noted. In presenting the information contained in this Item 12, the Company has relied upon publicly available reports of beneficial ownership filed by persons required to do so pursuant to Section 13 of the Exchange Act.

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| Title<br>Of Class | Name & Address<br>of Beneficial Owner  | Shares Beneficially<br>Owned<br>Number | Percent<br>(1)(6) |   |
|-------------------|--|--|-------------------|---|
| Common Stock      |  |  |                   |   |
|                   | Clifford L. Neuman (2)<br>6800 N. 79 <sup>th</sup> St., Ste. 200 Niwot, CO 80503 | 1,164,811                              | 4.34              | % |
|                   | Lance Baller(3)<br>8480 E. Orchard Rd., Ste. 3600 Greenwood Village, CO 80111    | 2,775,736                              | 10.34             | % |
|                   | Andrew Sink(5)<br>3412 Sherwood Rd.<br>Birmingham, AL 35233                      | 599,278                                | 2.23              | % |
|                   | Zvi Rhine(4)<br>401 E. Ontario St., #2301<br>Chicago, Ill. 60611                 | 1,773,832                              | 6.61              | % |
|                   | Adam Desmond<br>PO Box 2036<br>Carbondale, CO 81623                              | 211,914                                | 0.79              | % |
|                   | Josh Mandel<br>c/o 6800 N. 79 <sup>th</sup> St., Ste. 200<br>Niwot, CO 80503     | 109,315                                | 0.41              |   |
|                   | All Officers and Directors as a Group (6 persons)                                | 6,634,886                              | 24.72             | % |

Shares not outstanding but beneficially owned by virtue of the individuals' right to acquire them as of the date of (1) this annual report or within sixty days of such date, are treated as outstanding when determining the percent of the class owned by such individual.

Includes 1,036,023 shares owned individually; and 128,788 shares owned of record Mindfulness Peace Project (2) (formerly Ratna Foundation), of which Mr. Neuman is a Director, as to which Mr. Neuman disclaims beneficial ownership for purposes of Section 16 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(3) Includes 1,273,745 shares owned individually, 266,156 shares owned by High Speed Aggregate, Inc. of which Mr. Baller is an owner and control person, but disclaims beneficial ownership for purposes of Section 16 under the Exchange Act, 629,335 shares owned by Ultimate Investments Corp., Inc. of which Mr. Baller is an owner and control person, but disclaims beneficial ownership for purposes of Section 16 under the Exchange Act. Also includes warrants exercisable to purchase 106,500 shares at \$0.75 per share owned of record by High Speed Aggregate, Inc., but disclaims beneficial ownership for purposes of Section 16 under the Exchange Act. Also includes warrants exercisable to purchase 300,000 shares at \$0.75 per share owned of record by Ultimate Investments Corp., Inc., as to which Mr. Baller disclaims beneficial ownership for purposes of Section 16 under the

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Exchange Act. Also includes warrants exercisable to purchase 200,000 shares at \$0.75 per share owned of record by Baller Family Foundation, Inc. of which Mr. Baller is a control person, but as to which he disclaims beneficial ownership for purposes of Section 16 under the Exchange Act.

(4) Includes 555,000 shares owned by Sabra Investments, LP, of which Mr. Rhine is a control person.

(5) Includes 541,278 shares owned individually and 58,000 shares owned by Andrew L. Sink IRA

(6) Based on 26,837,816 shares issued and outstanding on April 1, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Throughout its history, the Company has experienced shortages in working capital and has relied, from time to time, upon loans from affiliates to meet immediate cash demands. There can be no assurance that these affiliates or other related parties will continue to provide funds to the Company in the future, as there is no legal obligation to provide such loans.

Equity Compensation: Executive Officers

For the six months ended June 30, 2016, Messrs. Baller, Rhine and Sink were each granted 250,000 shares of restricted common stock valued at \$0.40 per share as stock based compensation for services rendered in their capacities of CEO, CFO and COO, respectively.

Effective August, 2016, Mr. Neuman received 250,000 shares of common stock in satisfaction of \$100,000 in accounts receivable for legal services rendered.

For the third and fourth quarter of 2016, Messrs. Baller and Rhine were each granted 87,000 shares of restricted common stock valued at \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively.

For the quarter ended March 31, 2017, Messrs. Baller and Rhine were each granted 86,364 shares of restricted common stock valued at \$0.44 per shares, or \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively. For the quarter ended June 30, 2017, Messrs. Baller and Rhine were each granted 84,444 shares of restricted common stock valued at \$0.4211 per shares, or \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively. For the six months ended December 31, 2017, Messrs. Baller and Rhine were each granted 168,889 shares of restricted common stock valued at \$0.4211 per shares, or \$38,000 per quarter for services rendered in their capacities of CEO and CFO, respectively. In addition, Messrs. Baller and Rhine were each granted an additional bonus stock award consisting of 29,268 shares each, valued at \$0.44 per share.

Equity Compensation: Directors

During fiscal 2014, the Board adopted the Director Compensation Plan (the "Plan"), which was amended in 2017, pursuant to which each Director of the Company, whether or not independent, and whether or not such Director holds any other position with the Company, including any position as an executive officer, shall be entitled to an annual

grant of restricted common stock in compensation for services during the year of grant, determined as follows:

The grant to each Director shall consist of restricted shares of common stock of the Company having a Market

1. Value equal to \$30,000. For the purposes of the Plan, "Market Value" shall mean the closing price of the Company's common stock on its principal trading market on a date determined by the Board of Directors.
2. All shares granted to Directors under the Plan shall vest ratably at the rate of 1/12<sup>th</sup> per month for each month of service during the year.

Should the Company determine that it is obligated to withhold payroll taxes from the Award, the undersigned Director will consent to the Company reducing the Award to the extent necessary to satisfy such obligation. Should

3. the Company not withhold payroll taxes, each Director receiving a grant under the Plan shall be responsible for any and all federal, state or local taxes assessed as a result of such grant and shall indemnify, defend and hold harmless the Company for any liability therefore.

The first grant under the Plan was effective January 1, 2015, and consisted of 33,333 shares of restricted common stock issued to each Director of the five directors on that date, for a total of 166,665 shares. Two additional directors joined the Board during the year and received 17,442 shares each, for a total 34,884 shares. For the year, a total of 201,549 shares were issued under the Plan. The second grant date was effective January 1, 2016, and consisted of 45,455 shares of restricted common stock issued to each of the five Directors on that date, for a total of 227,275 shares issued to date under the Plan for 2016. The third grant date was January 1, 2017, and consisted of 52,632 shares of common stock issued to each of the five Directors, for a total of 263,160 shares issued under the Plan for 2017. The fourth grant date was January 23, 2018, and consisted of 93,750 shares of common stock to each of the six Directors, for a total of 562,500 shares issued under the Plan for 2018.



## Related Party Transactions

Cliff Neuman is a manager and member of Gemini Gaming, LLC. As of December 31, 2015 and 2014, the Company had a note receivable with Gemini Gaming, LLC with an outstanding amount, net of discount, of \$573,428 and \$590,500, respectively. During the quarter ended March 31, 2016, the Company collected an aggregate of \$573,428 in repayment of the note from Gemini Gaming, LLC which the Company accepted in full satisfaction of the total outstanding liability under the note. The transaction resulted in the Company recognizing a nominal bad debt expense in the amount of \$9,044 for the year ended December 31, 2015.

In the fourth quarter of 2016 and the first quarter of 2017, the Company undertook a private offering (“Offering”) of Units, each Unit consisting of a 10% Senior Secured Note and one warrant for every dollar in principal amount of Note purchased. In the Offering, Ultimate Investments, Ltd and the Baller Family Foundation, Inc., each entity controlled by Mr. Baller, each invested \$200,000. Zvi Rhine invested \$50,000, while his brother David Rhine invested \$50,000 and his father Gary Rhine invested \$25,000. In addition, Adam Desmond invested \$100,000 in the Offering and his father Robert Desmond invested \$150,000.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table details the aggregate fees billed to the Company by MaloneBailey, LLP, its current registered independent public accounting firm, since their appointment in 2015:

|                | 2017       | 2016      |
|----------------|------------|-----------|
| Audit Fees     | \$ 100,500 | \$ 95,500 |
| Tax Fees       | -          | -         |
| All Other Fees | -          | -0-       |
| Total          | \$ 100,500 | \$ 95,500 |

The caption “Audit Fees” includes professional services rendered for the audit of the annual consolidated financial statements and the review of the quarterly interim consolidated financial statements.

It is the policy of the Board of Directors, acting as the audit committee, to pre-approve all services to be performed by the independent registered public accounting firm.



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report:

#### (a) Financial Statement Schedules

See the Index to Consolidated Financial Statements at page F-1 of this report.

The following financial statement schedule is included herein at page F-39 of this report:

Schedule III – Real Estate Assets and Accumulated Depreciation

#### (b) Exhibits

| Exhibit No. | Title   |
|-------------|---|
| (1) 1.0     | Articles of Amendment to the Articles of Incorporation dated June 22, 1994                          |
| (1) 3.1     | Amended and Restated Articles of Incorporation  |
| (35) 3.1    | <u>Amended and Restated Articles of Incorporation</u>   |
| (1) 3.2     | Bylaws  |
| (1) 3.3     | Certificate of Designations, Preferences, and Rights of Series A Convertible Preferred Stock        |
| (5) 3.4     | Certificate of Designations, Preferences, and Rights of Series B Convertible Preferred Stock        |
| (5) 3.5     | Certificate of Designations, Preferences, and Rights of Series C Convertible Preferred Stock        |
| (5) 3.6     | Agreement Respecting Rights of Holders of Series C Convertible Preferred Stock                      |
| (17) 3.7    | <u>Certificate of Designations, Preferences, and Rights of Series E Convertible Preferred Stock</u> |
| (18) 3.8    | <u>Form of Registration Rights Agreement</u>  |
| (1) 4.1     | Specimen Certificate of Common Stock  |
| (1) 4.2     | Specimen Class A Common Stock Purchase Warrant  |
| (1) 4.3     | Specimen Class B Common Stock Purchase Warrant  |
| (1) 4.4     | Specimen Class C Common Stock Purchase Warrant  |
| (1) 4.5     | Warrant Agreement   |
| (19) 4.6    | <u>Form of Series 2010 5% Convertible Debenture</u>   |

- (20)4.7 Form of Common Stock and Warrant Purchase Agreement
- (1) 5.0 Opinion of Neuman & Drennen, LLC regarding the legality of the securities being registered
- (1) 10.1 Selling Agent Agreement
- (1) 10.2 The Casino-Global Venture I Joint Venture Agreement
- (1) 10.3 Assignment of Casino-Global Joint Venture Agreement dated January 31, 1994
- (1) 10.4 Nonresidential Lease Agreement between Russian-Turkish Joint Venture Partnership with Hotel Lazurnaya and Global Casino Group, Inc. dated September 22, 1993
  
- Contract by and between Aztec-Talas-Four Star, Inc. and Global Casinos Group, Inc. dated April 12, 1993,
- (1)10.5 and Addendum to Agreement by and between Aztec-Talas-Four Star, Inc., Global Casinos Group, Inc. and Restaurant "Naryn" dated June 29, 1993.
- Agreement and Plan of Reorganization among Silver State Casinos, Inc., Colorado Gaming Properties, Inc.
- (1)10.6 and Morgro Chemical Company, dated September 8, 1993, incorporated by reference from the Company's Current Report on Form 8-K, dated September 20, 1993
- Agreement and Plan of Reorganization among Casinos USA., Lincoln Corporation, Woodbine Corporation
- (1)10.7 and Morgro Chemical Company, dated October 15, 1993, incorporated by reference from the Company's Current Report on Form 8-K, dated November 19, 1993
- (1)10.8 Stock Pooling and Voting Agreement, incorporated by reference from the Company's Current Report on Form 8-K, dated November 19, 1993
- (1)10.9 Employment Agreement, dated September 28, 1993, between Morgro Chemical Company and Nathan Katz, incorporated by reference from the Company's Current Report on Form 8-K, dated November 19, 1993

- Employment Agreement, dated October 15, 1993, between Morgro Chemical Company and William P. Martindale, incorporated by reference from the Company's Current Report on Form 8-K, dated November 19, 1993
- (1) 10.10 Asset Acquisition Agreement by and among Global Casinos, Inc., Morgro, Inc. and MDO, L.L.C., dated as of February 18, 1994, incorporated by reference from the Company's Current Report on Form 8-K, dated February 18, 1994
- (1) 10.11 Stock Purchase Agreement, dated March 25, 1994, incorporated by reference from the Company's Current Report on Form 8-K, dated April 29, 1994
- (1) 10.12 Articles of Incorporation of BPJ Holding N.V., incorporated by reference from the Company's Current Report on Form 8-K, dated April 29, 1994
- (1) 10.13 Aruba Caribbean Resort and Casino Lease Agreement, dated January 18, 1993, incorporated by reference from the Company's Current Report on Form 8-K, dated April 29, 1994
- (1) 10.14 Aruba Gaming Permit issued to Dutch Hotel and Casino Development Corporation, incorporated by reference from the Company's Current Report on Form 8-K, dated April 29, 1994
- (1) 10.15 Letter Agreement between Astraea Investment Management, L.P. and Global Casinos, Inc. dated May 11, 1994
- (1) 10.16 Guaranty from Global Casinos, Inc. to Astraea Investment Management, L.P. dated May 19, 1994
- (1) 10.17 Secured Convertible Promissory Note in favor of Global Casinos, Inc. from Astraea Investment Management, L.P. dated May 19, 1994
- (1) 10.18 Registration Rights Agreement between Global Casinos, Inc. and Astraea Investment Management, L.P. dated May 11, 1994
- (1) 10.19 Employment Agreement, dated July 1, 1994, between Global Casinos, Inc. and Peter Bloomquist
- (2) 10.21 Letter of Agreement, dated September 16, 1994 between Astraea Management Services, L.P., Casinos USA, Inc. and Global Casinos, Inc.
- (3) 10.23 Letter of Agreement dated June 27, 1995, between Global Casinos, Inc., Global Casinos International, Inc., Global Casinos Group, Inc., Broho Holding, N.V., and Kenneth D. Brown individually.
- (1) 10.24 Second Amended Plan of Reorganization of Casinos USA, Inc., and Order Confirming Plan
- (1) 10.25 Warrant Agreement
- (4) 10.26 Stock Purchase and Sale Agreement between Alaska Bingo Supply, Inc., Global Alaska Industries, Inc. and Mark Griffin
- (5) 10.27 Convertible Promissory Note in the amount of \$450,000 dated March 31, 1998 in favor of Mark Griffin
- (4) 10.28 General Security Agreement from Global Alaska Industries, Inc. to Mark Griffin
- (4) 10.29 Stock Pledge Agreement from Global Alaska Industries, Inc. to Mark Griffin
- (5) 10.30 Agreement to Convert Debt dated March 31, 1998 with Mark Griffin
- (5) 10.31 Tollgate Casino Lease and Option Agreement
- (5) 10.32 Equipment Lease with Plato Foufas & Co., Inc.
- (5) 10.33 Employment Agreement of Eric Hartsough
- (6) 10.34 Stock Purchase Agreement dated December 30, 1999 between Arufinance, N.V. and Global Casinos, Inc.
- (7) 10.35 Term Sheet dated July 24, 2002 between Global Casinos, Inc., Astraea Investment Management L.P. and others.
- (7) 10.36 Agreement dated September 17, 2002 among Global Casinos, Inc., Casinos, USA, Inc. and Astraea Investment Management L.P.
- (7) 10.37 Agreement and Amendment to Promissory Note dated September 17, 2002 between Casinos USA, Inc. and Astraea Investment Management L.P. for promissory note in the original principal amount of \$249,418.48.

- (7) 10.38 Agreement and Amendment to Promissory Note dated September 17, 2002 between Casinos USA., Inc. and Astraea Investment Management L.P. for promissory note in the original principal amount of \$750,000.
- (7) 10.39 Agreement and Amendment to Promissory Note dated September 17, 2002 between Casinos USA., Inc. and Astraea Investment Management L.P. for promissory note in the original principal amount of \$783,103.56.
- (7) 10.40 Assumption Agreement dated September 17, 2002 among, Global Casinos, Inc., Casinos USA., Inc. and Astraea Investment Management L.P.
- (7) 10.41 Bill of Sale, Assignment and Assumption dated October 30, 2002 between Global Casinos, Inc. and Casinos, USA., Inc.
- (7) 10.42 Option Agreement dated September 17, 2002 by and between Astraea Investment Management L.P. and Global Casinos, Inc.
- (7) 10.43 Security Agreement dated September 17, 2002 by Casinos USA., Inc. in favor of Astraea Investment Management L.P.
- (7) 10.44 Service Agreement dated as of September 17, 2002 between Casinos USA., Inc. and Global Casinos, Inc.
- (7) 10.45 Stock Pledge Agreement dated as of September 17, 2002 between Global Casinos, Inc. and Astraea Investment Management L.P.
- (7) 10.46 Voting Agreement dated as of September 17, 2002 between Casinos USA., Inc. and Global Casinos, Inc.
- (9) 10.47 Asset Purchase and Sale Agreement dated June 14, 2007.
- (9) 10.48 Escrow Agreement dated June 20, 2007
- (10) 10.49 Amendment No. 1 to Asset Purchase and Sale Agreement dated June 14, 2007
- (8) 14. Code of Ethics
- (11) 10.50 Amendment No. 2 to Asset Purchase and Sale Agreement dated June 14, 2007.
- (12) 10.51 Amendment No. 3 to Asset Purchase and Sale Agreement dated June 14, 2007.
- (13) 10.52 Amendment No. 4 to Asset Purchase and Sale Agreement dated June 14, 2007.
- (15) 10.53 Amendment No. 5 to Asset Purchase and Sale Agreement dated June 14, 2007.
- (15) 10.54 Articles of Organization of Doc Holliday Casino II, LLC
- (15) 10.55 Operating Agreement of Doc Holliday Casino II, LLC
- (15) 10.56 Certificate of Series D for Global Casinos Inc
- (15) 10.57 Consent to Assignment of Lease to Global Casinos
- (15) 10.58 Consent to Assignment of Lease to Doc Holliday Casino II
- (15) 10.59 Assignment & Assumption of Lease by Doc Holliday II
- (15) 10.60 Promissory Note \$550,000
- (15) 10.61 Promissory Note \$400,000
- (15) 10.62 Promissory Note \$155,000
- (15) 10.63 Bill of Sale
- (15) 10.64 Noncompetition and Confidentiality Agreement
- (15) 10.65 Consultation Agreement
- (16) 10.66 Lease Agreement
- (16) 10.67 Addendum to Lease Agreement
- (16) 10.68 Addendum No. 2 to Lease Agreement
- (16) 10.69 Loan Agreement with Astraea Investment Management
- (16) 10.70 Assignment of Note
- (16) 10.71 Assignment and Assumption Agreement
- (16) 10.72 Second Amendment to Promissory Note
- (21) 10.73 Astraea Loan Document Purchase and Assignment Agreement
- (22) 10.74 Martindale Allonge and Loan Participation Agreement
- (23) 10.75 Montrose Allonge and Modification Agreement
- (24) 10.76 Bloomquist Allonge and Loan Participation Agreement



- (25) 10.77 Shupp Allonge and Modification Agreement
- (26) 10.78 Amendment to Lease Agreement dated December 28, 2010
- (27) 10.79 Class A Stock Purchase Warrant
- (27) 10.79 Series 2011 8% unsecured convertible note
- (28) 10.80 Split-Off Agreement
- (28) 10.81 Stock Purchase Agreement
- (29) 10.82 Promissory Note
- (29) 10.83 Stock Pledge Agreement
- (30) 10.84 Amended and Restated Allonge and Loan Participation Agreement
- (30) 10.85 Form of Warrant
- (31) 10.86 Second Allonge and Modification Agreement
- (31) 10.87 Modification to Second Deed of Trust
- (32) 10.88 Amendment No. 2 to Loan Participation Agreement
- (33) 10.89 Termination and Mutual Release
- (33) 10.90 Amendment No. 1 to Split-Off Agreement
- (33) 10.91 Stock Purchase Agreement
- (34) 10.92 Amended and Restated Split-Off Agreement
- (35) 10.93 Loan Purchase Agreement
- (35) 10.94 Assignment of Deed of Trust
- (35) 10.95 Assignment of Note
- (35) 10.96 Assignment, Assumption and Indemnity Agreement
- (35) 10.97 Security and Hypothecation Agreement
  
- (35) 10.98 Intercompany Agreement
- (35) 10.99 Promissory Note
- (36) 10.100 Scottsburg Membership Purchase Agreement
- (37) 10.101 Purchase Agreement dated October 8, 2008
- (37) 10.102 Amendment No. 1 to Purchase Agreement dated October 8, 2008
- (37) 10.103 Amendment No. 2 to Purchase Agreement dated October 8, 2008
- (37) 10.104 Amendment No. 3 to Purchase Agreement dated October 8, 2008
- (37) 10.105 Amendment No. 4 to Purchase Agreement dated October 8, 2008
- (37) 10.106 Amendment No. 5 to Purchase Agreement dated October 8, 2008
- (38) 10.107 Membership Interest Purchase Agreement - Goodwill
- (39) 10.108 Purchase and Sale Agreement – Meadowview
- (40) 10.109 Purchase and Sale Agreements – Longview, Mountainview, Corpus Christi and Grand Prairie
- (41) 10.110 Amendments to Purchase and Sale Agreements – Longview, Corpus Christi and Grand Prairie
- (41) 10.111 Assignment of Purchase and Sale Agreements – Longview, Mountainview, Corpus Christi and Grand Prairie
- (42) 10.112 Letters Terminating Purchase Agreements - Longview, Mountainview, Corpus Christi and Grand Prairie
- (43) 10.113 Stock Purchase Agreement between Tilford, Inc. and TNH Acquisition, LLC
- (44) 10.114 First Amendment to Stock Purchase Agreement
- (45) 10.115 Purchase and Sale Agreement – Greene Point Health Center
- (46) 10.116 Promissory Note Purchase Agreement
- (47) 10.117 Form of Security Agreement
- (47) 10.118 Form of Agreement Among Lenders
- (47) 10.119 Form of Promissory Note
- (48) 10.120 2017 Investor Presentation
- (49) 10.121 Allonge and Modification Agreement



(50) 10.122 Revised 2017 Investor Presentation

- \* 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \* 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- \* 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \* 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- \*\* 101.INS XBRL Instance
- \*\* 101.SCHXBRL Taxonomy Extension Schema
- \*\* 101.CALXBRL Taxonomy Extension Calculation
- \*\* 101.DEF XBRL Taxonomy Extension Definition
- \*\* 101.LABXBRL Taxonomy Extension Labels
- \*\* 101.PRE XBRL Taxonomy Extension Presentation

- (1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2, Registration No. 33-76204, on file with the Commission on August 11, 1994.
- (2) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for year ended June 30, 1994.
- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 15, 1995.
- (4) Incorporated by reference to the Registrant's Current Report on Form 8-K dated August 1, 1997, as filed with the Commission on August 14, 1997.
  
- (5) Incorporated by reference to the Registrant's Annual Report on Form 10KSB for the year ended June 30, 1999.
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 30, 1999, as filed with the Commission on January 14, 2000.
- (7) Incorporated by reference to the Registrant's Annual Report on Form 10KSB for the year ended June 30, 2002.
- (8) Incorporated by reference to the Registrant's Annual Report on Form 10KSB for the year ended June 30, 2004.
- (9) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 14, 2007 as filed with the Commission on June 19, 2007
- (10) Incorporated by reference to the Registrant's Current Report on Form 8-K/A dated September 28, 2007 as filed with the Commission on October 2, 2007.
- (11) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 30, 2007 as filed with the Commission on December 3, 2007.
- (12) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 5, 2007 as filed with the Commission on December 6, 2007.
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 30, 2008 as filed with the Commission on February 4, 2008.
- (14) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 6, 2008 as filed with the Commission on March 6, 2008.
- (15) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 18, 2008 as filed with the Commission on March 24, 2008.
- (16) Incorporated by reference to the Registrant's Current Report on Form 8-K/A dated March 18, 2008 as filed with the Commission on May 29, 2008.
- (17) Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 12, 2010 as filed with the Commission on July 14, 2010.
- (18) Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 19, 2010 as filed with the Commission on July 20, 2010.
- (19) Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 16, 2010 as filed with the Commission on July 20, 2010.



- (20) Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 16, 2010 as filed with the Commission on July 20, 2010.
- (21) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 30, 2009 as filed with the Commission on December 3, 2009.
- (22) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 30, 2009 as filed with the Commission on December 3, 2009.
- (23) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 30, 2009 as filed with the Commission on December 31, 2009.
- (24) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 30, 2009 as filed with the Commission on January 5, 2010.
- (25) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 25, 2010 as filed with the Commission on March 25, 2010.
- (26) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 28, 2010 as filed with the Commission on December 29, 2010 as amended by Form 8-K/A filed with the Commission on February 10, 2011.
- (27) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 20, 2011 as filed with the Commission on December 20, 2011.
- (28) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 1, 2012 as filed with the Commission on June 6, 2012.
- (29) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 25, 2012 as filed with the Commission on June 28, 2012.
- (30) Incorporated by reference to the Registrant's Current Report on Form 8-K dated October 11, 2012 as filed with the Commission on October 16, 2012.
- (31) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 9, 2012 as filed with the Commission on November 13, 2012.
- (32) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 20, 2012 as filed with the Commission on December 20, 2012.
- (33) Incorporated by reference to the Registrant's Current Report on Form 8-K dated April 8, 2013 as filed with the Commission on April 12, 2013.
- (34) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 4, 2013 as filed with the Commission on May 6, 2013.
- (35) Incorporated by reference to the Registrant's Current Report on Form 8-K dated September 30, 2013 as filed with the Commission on October 4, 2013.
- (36) Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 27, 2014 as filed with the Commission on January 30, 2014.
- (37) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 10, 2014 as filed with the Commission on March 14, 2014.
- (38) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 23, 2014 as filed with the Commission on May 19, 2014.
- (38) Incorporated by reference to the Registrant's Current Report on Form 8-K/A dated May 23, 2014 as filed with the Commission on May 19, 2014.
- (39) Incorporated by reference to the Registrant's Current Report on Form 8-K dated September 26, 2014 as filed with the Commission on October 2, 2014.
- (40) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 16, 2014 as filed with the Commission on December 17, 2014.
- (41) Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 22, 2015 as filed with the Commission on January 27, 2015.
- (42)

Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 28, 2015 as filed with the Commission on February 4, 2015.

- (43) Incorporated by reference to the Registrant's Current Report on Form 8-K dated August 14, 2015 as filed with the Commission on August 20, 2015.
- (44) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 9, 2015 as filed with the Commission on November 12, 2015.
- (45) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 30, 2016 as filed with the Commission on July 5, 2016.
- (46) Incorporated by reference to the Registrant's Current Report on Form 8-K dated August 29, 2016 as filed with the Commission on August 30, 2016.
- (47) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 25, 2016 as filed with the Commission on November 29, 2016.
- (48) Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 25, 2017 as filed with the Commission on January 26, 2017.
- (49) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 3, 2017 as filed with the Commission on May 8, 2017.
- (50) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 16, 2017s filed with the Commission on May 16, 2017.

\* Filed herewith

\*\*furnished, not filed.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and board of directors of

Global Healthcare REIT, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Global Healthcare REIT, Inc. and its subsidiaries (collectively, the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders’ equity , and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.



We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

/s/ MaloneBailey, LLP

[www.malonebailey.com](http://www.malonebailey.com)

We have served as the Company's auditor since 2016

Houston, Texas

April 23, 2018

**GLOBAL HEALTHCARE REIT, INC.****CONSOLIDATED BALANCE SHEETS**

|   | December<br>31, 2017 | December<br>31, 2016 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Property and Equipment, Net   | \$36,380,232         | \$36,162,881         |
| Cash and Cash Equivalents   | 154,566              | 578,242              |
| Restricted Cash   | 817,582              | 580,747              |
| Accounts Receivable, Net  | 88,476               | -                    |
| Investments in Debt Securities  | 243,469              | -                    |
| Prepaid Expenses and Other  | 546,098              | 221,962              |
| Total Assets  | \$38,230,423         | \$37,543,832         |
| <b>LIABILITIES AND EQUITY</b>   |                      |                      |
| <b>Liabilities</b>  |                      |                      |
| Debt, Net of discount of \$774,383 and \$660,611, respectively  | \$34,282,407         | \$31,662,724         |
| Debt – Related Parties, Net of discount of \$35,316 and \$75,293, respectively  | 839,684              | 374,707              |
| Accounts Payable and Accrued Liabilities  | 350,189              | 591,446              |
| Accounts Payable – Related Parties  | 93,114               | 96,689               |
| Dividends Payable   | 7,500                | 7,500                |
| Derivative Liability  | 95,371               | 246,451              |
| Lease Security Deposit  | 280,000              | 30,000               |
| Total Liabilities   | 35,948,265           | 33,009,517           |
| <b>Commitments and Contingencies</b>  |                      |                      |
| <b>Equity</b>   |                      |                      |
| <b>Stockholders' Equity</b>   |                      |                      |
| <b>Preferred Stock:</b>   |                      |                      |
| Series A - No Dividends, \$2.00 Stated Value, Non-Voting; 2,000,000 Shares Authorized, 200,500 Shares Issued and Outstanding  | 401,000              | 401,000              |
| Series D - 8% Cumulative, Convertible, \$1.00 Stated Value, Non-Voting; 1,000,000 Shares Authorized, 375,000 Shares Issued and Outstanding                                      | 375,000              | 375,000              |
| Common Stock - \$0.05 Par Value; 50,000,000 Shares Authorized, 26,300,317 and 25,027,260 Shares Issued and Outstanding at December 31, 2017 and December 31, 2016, Respectively | 1,315,016            | 1,251,363            |
| Additional Paid-In Capital  | 9,422,924            | 8,707,116            |
| Accumulated Deficit   | (9,048,443 )         | (6,021,903 )         |
| Total Global Healthcare REIT, Inc.  |                      |                      |
| Stockholders' Equity  | 2,465,497            | 4,712,576            |
| Noncontrolling Interests  | (183,339 )           | (178,261 )           |
| Total Equity  | 2,282,158            | 4,534,315            |
| Total Liabilities and Equity  | \$38,230,423         | \$37,543,832         |

*See accompanying notes to these consolidated financial statements.*

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**GLOBAL HEALTHCARE REIT, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | December<br>31, 2017 | December<br>31, 2016 |
|--|----------------------|----------------------|
| Revenue  |                      |                      |
| Rental Revenue   | \$3,129,928          | \$2,859,842          |
| Expenses   |                      |                      |
| General and Administrative                                       | 1,001,202            | 1,791,421            |
| Property Taxes, Insurance and Other Operating                    | 424,348              | 584,374              |
| Acquisition Costs  | -                    | 52,325               |
| Gain on Disposal of Property and Equipment                       | -                    | (980,839 )           |
| Depreciation   | 1,239,865            | 1,470,238            |
| Total Expenses   | 2,665,415            | 2,917,519            |
| Income (Loss) from Operations                                    | 464,513              | (57,677 )            |
| Other (Income) Expense   |                      |                      |
| (Gain) Loss on Warrant Liability                                 | (151,080 )           | (58,085 )            |
| Gain on Extinguishment of Debt                                   | (175,129 )           | (1,163,458 )         |
| Gain on Settlement of Other Liabilities                          | (32,073 )            | (96,542 )            |
| Impairment Loss of Long Term Assets                              | 1,560,000            | -                    |
| Interest Income  | (13,079 )            | (31,978 )            |
| Loss on modification of warrant                                  | 62,696               |                      |
| Interest Expense   | 2,214,796            | 2,584,860            |
| Total Other (Income) Expense                                     | 3,466,131            | 1,234,797            |
| Equity in Income from Unconsolidated Partnership                 | -                    | -                    |
| Net Income (Loss)  | (3,001,618 )         | (1,292,474 )         |
| Net Loss Attributable to Noncontrolling Interests                | 5,078                | 140,860              |
| Net Income (Loss) Attributable to Global Healthcare REIT, Inc.   | (2,996,540 )         | (1,151,614 )         |
| Series D Preferred Dividends                                     | (30,000 )            | (30,000 )            |
| Net Income (Loss) Attributable to Common Stockholders            | \$(3,026,540 )       | \$(1,181,614 )       |
| Per Share Data:  |                      |                      |
| Net Income (Loss) per Share Attributable to Common Stockholders: |                      |                      |
| Basic  | \$(0.12 )            | \$(0.05 )            |
| Diluted  | \$(0.12 )            | \$(0.05 )            |
| Weighted Average Common Shares Outstanding:                      |                      |                      |
| Basic  | 25,849,025           | 23,353,387           |
| Diluted  | 25,849,025           | 23,353,387           |

*See accompanying notes to these consolidated financial statements.*

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## GLOBAL HEALTHCARE REIT, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

|  | Series A Preferred Stock |         | Series D Preferred Stock |         | Common Stock     |           | Additional Paid-In Capital | Accumulated Deficit | Global Healthcare REIT, Inc. Stockholder Equity |
|--|--------------------------|---------|--------------------------|---------|------------------|-----------|----------------------------|---------------------|---|
|  | Number of Shares         | Amount  | Number of Shares         | Amount  | Number of Shares | Amount    |                            |                     |   |
| Balance, December 31, 2015                                     | 200,500                  | 401,000 | 375,000                  | 375,000 | 22,246,453       | 1,112,323 | 8,978,914                  | (4,840,289)         | 6,026,948                                       |
| Share Based Compensation – Restricted Stock Awards             |                          |         |                          |         | 1,072,275        | 53,613    | 483,273                    | -                   | 536,886   |
| Common Stock Issued for Debt                                   |                          |         |                          |         | 1,350,000        | 67,500    | 418,500                    |                     | 486,000   |
| Common Stock Issued for Accounts Payable                       |                          |         |                          |         | 250,000          | 12,500    | 100,000                    |                     | 112,500   |
| Common Stock Issued for Services                               |                          |         |                          |         | 35,000           | 1,750     | 22,050                     | -                   | 23,800  |
| Fair Value of Warrants Issued with Notes Payable               |                          |         |                          |         |                  |           | 102,280                    |                     | 102,280   |
| Series D Preferred Dividends                                   |                          |         |                          |         |                  |           |                            | (30,000)            | (30,000)  |
| Exchange of Common Stock and Cash for Noncontrolling Interests |                          |         |                          |         | 73,532           | 3,677     | (1,397,901)                | -                   | (1,394,224)                                     |
| Net Loss   |                          |         |                          |         |                  |           |                            | (1,151,614)         | (1,151,614)                                     |
| Balance, December 31, 2016                                     | 200,500                  | 401,000 | 375,000                  | 375,000 | 25,027,260       | 1,251,363 | 8,707,116                  | (6,021,903)         | 4,712,576                                       |

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|   | Series A Preferred Stock |           | Series D Preferred Stock |           | Common Stock     |             | Additional Paid-In Capital | Accumulated Deficit | Global Healthcare REIT, Inc. Stockholders' Equity |
|---|--------------------------|-----------|--------------------------|-----------|------------------|-------------|----------------------------|---------------------|---|
|   | Number of Shares         | Amount    | Number of Shares         | Amount    | Number of Shares | Amount      |                            |                     |   |
| Balance, December 31, 2016  | 200,500                  | \$401,000 | 375,000                  | \$375,000 | 25,027,260       | \$1,251,363 | \$8,707,116                | \$(6,021,903)       | \$4,712,576                                       |
| Share Based Compensation and settlement of accrued salary – Restricted Stock Awards - Related Parties | -                        | -         | -                        | -         | 1,273,057        | 63,653      | 531,677                    | -                   | 595,330   |
| Series D Preferred Dividends  | -                        | -         | -                        | -         | -                | -           | -                          | (30,000)            | (30,000)  |
| Relative Fair Value of Warrants Issued with Notes Payable   | -                        | -         | -                        | -         | -                | -           | 121,435                    | -                   | 121,435   |
| Loss on Modification of Warrants  | -                        | -         | -                        | -         | -                | -           | 62,696                     | -                   | 62,696  |
| Net Loss  | -                        | -         | -                        | -         | -                | -           | -                          | (2,996,540)         | (2,996,540)                                       |
| Balance, December 31, 2017  | 200,500                  | \$401,000 | 375,000                  | \$375,000 | 26,300,317       | \$1,315,016 | \$9,422,924                | \$(9,048,443)       | \$2,465,497                                       |

See accompanying notes to these consolidated financial statements.

## GLOBAL HEALTHCARE REIT, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | December<br>31, 2017 | December<br>31, 2016 |
|---|----------------------|----------------------|
| Cash Flows From Operating Activities:   |                      |                      |
| Net loss  | \$(3,001,618)        | \$(1,292,474)        |
| Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities: |                      |                      |
| Depreciation  | 1,239,865            | 1,470,238            |
| Amortization and Accretion  | 283,601              | 129,139              |
| Impairment Loss on Long Term Assets   | 1,560,000            | -                    |
| Provision for Bad Debt  | -                    | 150,000              |
| Increase in Deferred Rent Receivable  | (325,137 )           | (109,481 )           |
| Stock Based Compensation  | 488,320              | 536,886              |
| Gain on Settlement of Accounts Payable  | (32,073 )            | (84,042 )            |
| Gain on Extinguishment of Debt  | (175,129 )           | (1,163,458)          |
| Loss on Modification of Warrants  | 62,696               | -                    |
| Forgiveness of Debt   | -                    | (100,000 )           |
| Gain on Derivative Liability  | (151,080 )           | (58,085 )            |
| Premium on Debt, net  | (64,107 )            | 120,250              |
| Gain on Sale of Property and Equipment  | -                    | (980,839 )           |
| Changes in Operating Assets and Liabilities, Net of Assets and Liabilities Acquired:      |                      |                      |
| Rents Receivable  | (4,476 )             | -                    |
| Other Assets  | 1,001                | 109,550              |
| Accounts Payable and Accrued Liabilities  | 86,389               | 765,363              |
| Lease Security Deposits   | 250,000              | -                    |
| Cash Provided by (Used in) Operating Activities   | 218,252              | (506,953 )           |
| Cash Flows From Investing Activities:   |                      |                      |
| Issuance of Note Receivable   | (84,000 )            | (150,000 )           |
| Collections on Notes Receivable - Related Parties   | -                    | 573,428              |
| Purchase of Investments in Debt Securities  | (298,736 )           | -                    |
| Proceeds from Sale of Property and Equipment  | -                    | 2,112,970            |
| Capital Expenditures for Property and Equipment   | (860,368 )           | (313,660 )           |
| Cash Provided by (Used in) Investing Activities   | (1,243,104)          | 2,222,738            |
| Cash Flows From Financing Activities:   |                      |                      |
| Proceeds from Debt, Related Parties   | 425,000              | 450,000              |
| Proceeds from Debt, Outside Parties   | 961,336              | 150,000              |
| Payments on Debt, Outside Parties   | (720,044 )           | (1,701,416)          |
| Change in Restricted Cash   | (18,216 )            | (38,912 )            |
| Deferred Loan Costs Paid  | (16,900 )            | (38,270 )            |
| Dividends Paid on Preferred Stock   | (30,000 )            | (30,000 )            |



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|   |              |              |
|---|--------------|--------------|
| Cash Provided by (Used in) Financing Activities                             | 601,176      | (1,208,598)  |
| Net Increase (Decrease) in cash   | (423,676 )   | 507,187      |
| Cash at Beginning of the Year   | 578,242      | 71,055       |
| Cash at End of the Year   | \$ 154,566   | \$ 578,242   |
| <b>Supplemental Disclosure of Cash Flow Information</b>                     |              |              |
| Cash Paid for Interest  | \$ 2,015,055 | \$ 2,040,458 |
| Cash Paid for Income Taxes  | \$ -         | \$ -         |
| <b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b> |              |              |
| Dividends declared on Series D Preferred Stock                              | \$ 7,500     | \$ 30,000    |
| Additions to fixed assets financed with debt                                | \$ 2,156,847 | \$ 396,915   |
| Loan Cost of Colony Bank Loan   | \$ -         | \$ -         |
| Common Stock issued for Settlement of Accrued Compensation                  | \$ 107,010   | \$ 112,500   |
| Relative Fair Value of Warrants issued with Senior Secured Promissory Notes | \$ 121,435   | \$ 102,280   |
| Extinguishment of Bonds through Investments in Debt Securities              | \$ 519,000   | \$ -         |
| Acquisition of Membership Interests in exchange of Common Stock and Cash    | \$ -         | \$ 1,394,224 |
| Common Stock issued for Debt Cost   | \$ -         | \$ 23,800    |
| Common Stock issued for Debt and Accrued Interest                           | \$ -         | \$ 486,000   |
| Payment of accrued interest through entrance of debt                        | \$ -         | \$ 80,193    |
| Refinancing of Mortgage Loans   | \$ 7,884,437 | \$           |
| Loan costs incurred for refinancing   | \$ 219,005   | \$           |

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

**GLOBAL HEALTHCARE REIT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Description of the Business**

Global Healthcare REIT, Inc. (the Company or Global) was organized with the intent of operating as a real estate investment trust (REIT) for the purpose of investing in real estate and other assets related to the healthcare industry. Prior to the Company changing its name to Global Healthcare REIT, Inc. on September 30, 2013, the Company was known as Global Casinos, Inc. Global Casinos, Inc. operated two gaming casinos which were split-off and sold on September 30, 2013. Simultaneous with the split-off and sale of the gaming operations, the Company acquired West Paces Ferry Healthcare REIT, Inc. (WPF) in a transaction accounted for as a reverse acquisition whereby WPF was deemed to be the accounting acquirer.

The Company intends to make a REIT election under sections 856 through 859 of the Internal Revenue Code of 1986, as amended. Such election will be made by the Board of Directors at such time as the Board determines that we qualify as a REIT under applicable provisions of the Internal Revenue Code.

The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. As of December 31, 2017, the Company owned nine healthcare properties which are leased to third-party operators under triple-net operating terms.

**Basis of Presentation**

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities (VIE's) for which the Company has determined itself to be the primary beneficiary. Third party equity interests in subsidiaries and VIE's are recognized as noncontrolling interests in the consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

The Company is the primary beneficiary of a VIE if the Company has the power to direct the activities of the VIE that most significantly impact its economic performance and the obligation to absorb losses or receive benefits from the VIE that could be significant to the Company. If the interest in the entity is determined not to be a VIE, then the entity is evaluated for consolidation based on legal form, economic substance, and the extent to which the Company has control and/or substantive participating rights under the respective ownership agreement.

There are judgments and estimates involved in determining if an entity in which the Company has an investment is a VIE. The entity is evaluated to determine if it is a VIE by, among other things, determining if the equity investors as a group have a controlling financial interest in the entity and if the entity has sufficient equity at risk to finance its activities without additional subordinated financial support.

### **Reclassifications**

Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation.

### **Use of Estimates and Assumptions**

The preparation of consolidated financial statements in conformity with U.S. 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 the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates included herein relate to the recoverability of assets, the purchase price allocation for properties acquired, and the fair value of certain assets and liabilities. Actual results may differ from estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Restricted Cash**

Restricted cash consisted of the following as of December 31:

|   | 2017      | 2016      |
|---|-----------|-----------|
| Funds held in escrow under the terms of notes or bonds payable for purposes of paying future debt service costs | \$817,582 | \$580,747 |
|   | \$817,582 | \$580,747 |

**Concentration of Credit Risk**

The Company maintains deposits in financial institutions that at times exceed the insured amount of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The excess amounts at December 31, 2017 and 2016 were \$315,955 and \$689,459, respectively. The Company believes the financial institutions it uses are credit worthy and stable. The Company does not believe that it is exposed to any significant credit risk in cash and cash equivalents or restricted cash.

**Property and Equipment**

In accordance with purchase accounting guidance established for entities under common control, the property and equipment acquired from entities under common control are stated at their carrying value on the date of acquisition. Property and equipment not acquired from entities under common control is recorded at its estimated fair value. Estimated fair value is determined with the assistance from independent valuation specialists using recent sales of similar assets, market conditions or projected cash flows of properties using standard industry valuation techniques.

Upon acquisition of real estate properties, the Company determines the total purchase price of each property and allocates this price based on the fair value of tangible assets and intangible assets, if any, acquired and any liabilities assumed. Information used to determine fair value includes comparable sales values, discount rates, capitalization rates, and lease-up assumptions from a third party appraisal or other market sources.

Acquisition-related costs such as due diligence, legal and accounting fees are expensed as incurred.

Any subsequent betterments and improvements are stated at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and tenant improvements are depreciated over the remaining term of the lease. Useful lives of the assets are summarized as follows:

|                                   |          |
|-----------------------------------|----------|
| Land Improvements                 | 15 years |
| Buildings and Improvements        | 30 years |
| Furniture, Fixtures and Equipment | 10 years |

### **Impairment of Long Lived Assets**

When circumstances indicate the carrying value of property and equipment may not be recoverable, the Company reviews the property for impairment. This review is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. This estimate considers factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists, due to the inability to recover the carrying amount of the property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property and equipment. Estimated fair value is determined with the assistance from independent valuation specialists using recent sales of similar assets, market conditions or projected cash flows of the property using standard industry valuation techniques. In 2017, the Company determined that the carrying value of the High Street Nursing's property and equipment was greater than their estimated fair value. In accordance with the guidance for the impairment of long-lived assets, the Company recorded an impairment loss of \$1,560,000 in 2017 to adjust the carrying value of the asset to our estimate of its fair value. We estimated that fair value using the comparable sales method.

### **Notes Receivable**

The Company evaluates its notes receivable for impairment when it is probable the payment of interest and principal will not be made in accordance with the contractual terms of the note agreements. Once a note has been determined to be impaired, it is measured to establish the amount of the impairment, if any, based on the fair value of the note using present value of expected future cash flows discounted at the note's effective interest rate. If the fair value of the impaired note receivable is less than the recorded investment in the note, a valuation allowance is recognized.

### **Deferred Loan Costs**

Deferred loan costs are amortized over the life of the related loan using the straight-line method, which approximates the effective interest method. For the years ended December 31, 2017 and 2016, deferred loan costs paid in cash totaled \$16,900 and \$38,270, respectively; deferred loan costs paid using proceeds from loans totaled \$219,005 and \$0, respectively. Amortization expense for the years ended December 31, 2017 and 2016 totaled \$283,601 and \$118,483, respectively. Deferred loan cost amortization is included as a component of interest expense in the consolidated statements of operations.

### **Warrant Liability**

Warrants to purchase the Company's common stock with nonstandard antidilution provisions, regardless of the probability or likelihood that may conditionally obligate the issuer to ultimately transfer assets, are classified as liabilities and are recorded at their estimated fair value at each reporting period in accordance with ASC 815 "Derivatives and Hedging." Any change in fair value of these warrants during the reporting period is recorded as a component of Other (Income) Expense on the Company's Consolidated Statements of Operations.

### **Revenue Recognition**

The Company's leases may be subject to annual escalations of the minimum monthly rent required under each lease. The accompanying consolidated financial statements reflect rental income on a straight-line basis over the term of each lease. Cumulative adjustments associated with the straight-line rent requirement are reflected in Prepaid Expenses and Other in the consolidated balance sheets and totaled \$541,649 and \$216,511 as of December 31, 2017 and 2016, respectively. Adjustments to reflect rental income on a straight-line basis totaled \$321,612 and \$109,481 for the years ended December 31, 2017 and 2016, respectively.

Rent 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. The Company also maintains an allowance for deferred rent receivables arising from the straight line recognition of rents. Such allowances are charged to bad debt expense in the accompanying consolidated statements of operations. Our determination of the adequacy of these allowances is based primarily upon evaluations of the tenant's financial condition, security deposits, lease guarantees and current economic conditions and other relevant factors.

When the lessee is the owner of any improvements, any lessee improvement allowance that is funded by the Company is treated as a lease incentive and amortized as a reduction of revenue over the lease term. As of December 31, 2017 and 2016, there were no deferred lease incentives recorded.

### **Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification (“ASC”) ASC 718, “Compensation-Stock Compensation”. ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period.

The Company accounts for stock-based compensation in accordance with the provision of ASC 505, “Equity Based Payments to Non-Employees” (“ASC 505”), which requires that such equity instruments are recorded at their fair value on the measurement date. The Company estimates the fair value of stock-based payments using the Black-Scholes option-pricing model for common stock options and warrants and the closing price of the Company’s common stock for common share issuances.

### **Fair Value Measurements**

The Company utilizes the methods of fair value measurement as described in ASC 820 to value its financial assets and liabilities. As defined in ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.



Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

## **Income Taxes**

The Company will elect to be taxed as a REIT at such a time as the Board of Directors, with the consultation of professional advisors, determines the Company qualifies as a REIT under applicable provisions of the Internal Revenue Code. The Company cannot predict for which tax year that election will be made. Therefore, applicable taxes have been recorded in the accompanying consolidated financial statements.

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates resulting from new legislation is recognized in income in the period of enactment. A valuation allowance is established against deferred tax assets when management concludes that the “more likely than not” realization criteria has not been met. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained.

**Income (Loss) Per Common Share**

Basic income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed based on the weighted average number of common shares and potentially dilutive common shares outstanding. The calculation of diluted net income (loss) per share excludes potential common shares if the effect would be anti-dilutive. Potential common shares consist of incremental common shares issuable upon the exercise of warrants and shares issuable upon the conversion of preferred stock. As of December 31, 2017, the Company has 2,269,596 common stock warrants outstanding, which could be converted into 2,269,596 shares of common stock; 200,500 shares of Series A Preferred Stock outstanding, which could be converted into 200,500 shares of common stock; 375,000 shares of Series D Preferred Stock outstanding, which could be converted into 375,000 shares of common stock.

The following table details the calculation of the weighted average number of common shares and dilutive common shares used in diluted loss per share as of December 31:

|  | 2017       | 2016       |
|--|------------|------------|
| Weighted Average Number of Common Shares Used in Basic Loss Per Share  | 25,849,025 | 23,353,387 |
| Effect of Dilutive Securities:   |            |            |
| Common Stock Warrants  | -          | -          |
| Convertible Preferred Stock  | -          | -          |
| Weighted Average Number of Common Shares and Dilutive Potential Common Shares Used in Diluted Loss Per Share | 25,849,025 | 23,353,387 |

**Comprehensive Income**

For the periods presented, there were no differences between reported net income (loss) and comprehensive income (loss).

**Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (ASC 606)," which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services.

We have evaluated our various revenue streams to identify whether they would be subject to the provisions of ASC 606 and any differences in timing, measurement, or presentation of revenue recognition. A significant source of our revenue is generated through leasing arrangements, which are specifically excluded from ASU 2014-09. ASU 2014-09 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, and allows for either full retrospective or modified retrospective adoption. Under the full retrospective method, the standard would be applied retrospectively to all reporting periods represented on the financial statements. The modified retrospective approach applies the standard in the year of initial application and presents the cumulative effect of prior periods with an adjustment to beginning retained earnings, with no restatement of comparative periods. The Company intends to implement the standard using the modified retrospective approach. As leasing arrangements, which are excluded from ASU 2014-09, represent the primary source of revenue for the Company, the impact of adopting this standard will be limited to the Company's recognition and presentation of non-lease revenues. Accordingly, the Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Before this new standard, there was minimal guidance in U.S. GAAP specific to going concern. Under the new standard, disclosures are required when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The Company adopted this standard effective December 31, 2016 and has included going concern disclosures in Note 2.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, “Leases: Topic 842 (ASU 2016-02)”, to supersede nearly all existing lease guidance under GAAP. The guidance would require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. ASU 2016-02 is effective for the Company in the first quarter of our fiscal year ending December 31, 2019 using a modified retrospective approach with the option to elect certain practical expedients. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Company beginning on January 1, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

The Financial Accounting Standards Board and other entities issued new or modifications to, or interpretations of, existing accounting guidance during 2017. Management has carefully considered the new pronouncements that altered generally accepted accounting principles and does not believe that any other new or modified principles will have a material impact on the Company’s reported financial position or operations in the near term.

## 2. GOING CONCERN

The accompanying consolidated financial statements and notes have been prepared assuming the Company will continue as a going concern.

For the year ended December 31, 2017, the Company incurred a net loss of \$43,001,618 and has an accumulated deficit of \$9,048,443. These circumstances raise substantial doubt as to the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon the Company’s ability to generate sufficient revenues and cash flows to operate profitably and meet contractual obligations or raise additional capital through debt financing or through sales of common stock.

The failure to achieve the necessary levels of profitability and cash flows or obtain additional funding would be detrimental to the Company. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

3. INVESTMENTS IN DEBT SECURITIES

At December 31, 2017 and 2016, the Company held investments in marketable securities that were classified as held-to-maturity and carried at amortized costs. Held-to-maturity securities consisted of the following:

|                           | December<br>31, 2017 | December<br>31, 2016 |
|---------------------------|----------------------|----------------------|
| States and Municipalities | \$243,469            | \$ -                 |

Contractual maturities of held-to-maturity securities at December 31, 2017 are as follows:

|                         | Net<br>Carrying<br>Amount |
|-------------------------|---------------------------|
| Due in One Year or Less | \$413,000                 |

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties

## 4. PROPERTY AND EQUIPMENT

The gross carrying amount and accumulated depreciation of the Company's property and equipment as of December 31, 2017 and 2016 are as follows:

|   | December<br>31, 2017 | December<br>31, 2016 |
|---|----------------------|----------------------|
| Land                                      | \$ 1,597,500         | \$ 1,577,500         |
| Land Improvements                         | 200,000              | 200,000              |
| Buildings and Improvements                | 35,312,194           | 33,461,661           |
| Furniture, Fixtures and Equipment         | 1,430,502            | 1,125,507            |
| Construction in Progress                  | 3,956,841            | 3,115,154            |
|   | 42,497,037           | 39,479,822           |
| Less Accumulated Depreciation             | (4,556,805 )         | (3,316,941 )         |
| Less Impairment                           | (1,560,000 )         | -                    |
|   | \$36,380,232         | \$36,162,881         |
| Depreciation Expense                      | \$ 1,239,865         | \$ 1,470,238         |
| Impairment Expense                        | 1,560,000            | -                    |
| Cash Paid for Capital Expenditures        | \$860,368            | \$313,660            |
| Property and Equipment financed with Debt | \$2,156,847          | \$396,915            |

Effective June 20, 2016, the Company sold its Greene Point Healthcare Center located in Union Point, Georgia for \$3,800,000 which resulted in a gain on sale of \$980,839. Cash proceeds from the sale were used to pay off the existing mortgage loan in the amount of \$1,683,200. The Company received \$2,112,970 in cash from the sale of the facility. The operating lease related to the facility was terminated effective June 30, 2016.

On April 4, 2017, the Company successfully bid at foreclosure sale to purchase a 101-bed skilled nursing facility located in Abbeville, Georgia. The Company formed a new wholly-owned subsidiary, Global Abbeville Property, LLC ("GAP") for the purpose of bidding on the facility. Colony Bank, the senior lender on the facility, was the party undertaking the foreclosure in light of the default of the prior owner. The purchase transaction was consummated in May 2017.

The purchase price for the Abbeville facility was \$2.1 million which was entirely financed by Colony Bank through a newly approved closed-end revolving credit facility in the maximum amount of \$2.6 million. The additional \$500,000 under the credit line was used for renovations on a dollar-for-dollar matching basis. The loan agreement was executed in May 2017, and the maturity date is April 25, 2021. It carries an interest rate of prime plus 0.5%, 4.75% minimum, 5.50% maximum, is cross collateralized with the Eastman note with the same lender, and backed by a corporate guarantee from the Company. The transaction has been treated as an asset acquisition financed by debt, with \$20,000 land, \$1,827,000 building, and \$253,000 fixed assets allocated in relative fair value. The Company recognized \$38,421 in loan costs, which is amortized over the life of the loan.

The facility was closed in March 2016 due to uncured deficiencies. On March 17, 2017, in anticipation of the Company's purchase of the facility, the State of Georgia approved initially a 45 day extension and then a six-month conditional Certificate of Need ("CON") to allow the Company to complete renovations and reopen the property. The Company assessed that the acquisition of the Abbeville facility did not qualify as a business combination in accordance with the provisions of ASC 805. The Company accounted for the acquisition as an acquisition of asset.

## 5. Notes receivable

*Note Receivable – Receiver for Healthcare Management of Oklahoma, LLC*

On May 10, 2016, the Company obtained a Court Order appointing a receiver to control and operate the skilled nursing facility in Southern Hills, Tulsa. The former lease operator represented that it was unable to meet the financial commitments of the facility, including the payment of rent, payroll, and other operating requirements. The transition to the receiver was part of a turnaround effort to restore viable operations at the facility. The Court ordered the Company to provide the receiver a revolving line of credit not to exceed \$250,000 of which the Company advanced \$150,000 during 2016. The receiver is to repay the revolving an unsecured line of credit from the operation or sale of the facility or other sources. The Company has determined the note as no longer being collectible based on the ability to repay and has recorded bad debt expense of \$150,000 in the consolidated statements of operations for the year ended December 31, 2016. During November 2017, the company made a short-term loan in the amount of \$84,000 to the operator with the understanding that it would be repaid immediately; the loan was repaid during 2018.

## 6. NOTES RECEIVABLE – RELATED PARTIES

During the quarter ended March 31, 2016, the Company collected an aggregate of \$573,428 in repayment of the note from Gemini Gaming, LLC which the Company accepted in full satisfaction of the total outstanding liability under the note.

## 7. DEBT AND DEBT – RELATED PARTIES

The following is a summary of the Company's debt and debt – related parties outstanding as of December 31, 2017 and 2016:

|   | 2017       | 2016        |
|---|------------|-------------|
| Convertible Notes Payable                         | \$-        | \$3,200,000 |
| Senior Secured Promissory Notes                   | 625,000    | 150,000     |
| Senior Secured Promissory Notes - Related Parties | 875,000    | 450,000     |
| Fixed-Rate Mortgage Loans                         | 18,750,685 | 14,666,206  |
| Variable-Rate Mortgage Loans                      | 7,210,372  | 6,273,129   |



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|   |              |              |
|---|--------------|--------------|
| Bonds Payable   | 5,061,000    | 5,640,000    |
| Line of Credit  | 1,873,733    | -            |
| Other Debt  | 1,536,000    | 2,394,000    |
|   | 35,931,790   | 32,773,335   |
| Premium, Unamortized Discount and Debt Issuance Costs | (809,699 )   | (735,904 )   |
|   | \$35,122,091 | \$32,037,431 |
| As presented in the Consolidated Balance Sheets:      |              |              |
| Debt, Net   | \$34,282,407 | \$31,662,724 |
| Debt - Related Parties, Net                           | \$839,684    | \$374,707    |
|   | \$35,122,091 | \$32,037,431 |

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## **Convertible Notes Payable**

### **6.5% Notes Due September, 2017**

On September 26, 2014, the Company completed a private offering of its 6.5% Senior Secured Convertible Promissory Notes in the amount of \$3,200,000 which mature on September 25, 2017. The Notes can be called for redemption at the option of the Company at any time (i) after September 15, 2015 but prior to September 15, 2016 at an early redemption price equal to 103% of the face amount of the Notes, plus accrued and unpaid interest, or (ii) any time after September 15, 2016 but prior to September 15, 2017 at an early redemption price equal to 102% of the face amount of the Notes, plus accrued and unpaid interest. Each Note is convertible at the option of the holder into shares of common stock of the Company at a conversion price of \$1.37 per share. The Notes will automatically convert into common stock at the conversion price in the event (i) there exists a public market for the Company's common stock, (ii) the closing price of the common stock in the principal trading market has been \$2.00 per share or higher for the preceding ten (10) trading days, and (iii) either (A) there is an effective registration statement registering for resale under the Securities Act of 1933, as amended, the conversion shares or (B) the conversion shares are eligible to be resold by non-affiliates of the Company without restriction under Rule 144 of the Securities Act. At the time of issuance and based on the Company's common stock trading activity, the Company determined that no beneficial conversion feature was associated with the Notes. As of December 31, 2017, none of the Notes have been converted into common stock. Deferred loan costs incurred of \$180,963 related to the loan are amortized to interest expense over the life of the loan. Amortization expense related to deferred loan costs totaled \$ 45,241 for the year ended December 31, 2017. The Notes are secured by a senior mortgage on the Meadowview Healthcare Center located in Seville, Ohio.

On November 1, 2017, the Company, through its wholly-owned subsidiary High Street Nursing, LLC consummated a refinancing of its senior notes on its skilled nursing facility in Seville, Ohio. with ServisFirst Bank pursuant to term note in the principal amount of \$3,000,000 (the "Meadowview Note").

Proceeds from the Meadowview Note were used to pay off \$3,000,000 of Senior Secured Convertible Promissory Notes and the remaining \$200,000 balance of the Senior Secured Convertible Promissory Notes was paid using cash. The interest rate on Meadowview Note is 6.0%. Monthly payments of interest only begin on November 30, 2017 until January 2018, at which time monthly payments of principal and accrued interest shall be due until the Meadowview Note is paid in full on October 30, 2022 (the "Maturity Date"). The Note is secured by an Open-End Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Mortgage").

## **Corporate Senior and Senior Secured Promissory Notes**

From November through December 2016, the Company undertook a private offering of its 10% Senior Secured Promissory Notes. As of December 31, 2016, \$600,000 of the notes had been issued of which \$450,000 were issued to the directors of the Company or entities or persons affiliated with these directors. The notes bear interest at a rate of 10% payable monthly with principal and unpaid interest due at maturity, originally January 13, 2018. The notes were issued with warrants to purchase 600,000 shares of common stock at an exercise price of \$0.75 per share. The warrants have a cashless exercise provision.

As of December 31, 2017, \$500,000 in notes had their maturity date extended to December 31, 2018, and all notes' maturity dates were extended prior to their original maturity. The notes are secured by all assets of the Company not serving as collateral for other notes. The maturity date of the 600,000 warrants issued along with the notes was extended to December 31, 2018 as well. The transaction was accounted for as a debt extinguishment with a loss on modification of warrant in the amount of \$62,696 recorded in the consolidated statement of operations for the year ended December 31, 2017.

In 2017, an additional \$600,000 in notes were sold and issued, of which \$425,000 were to related parties. At December 31, 2017, there were outstanding an aggregate of \$1.2 million in senior secured notes. The maturity date of all the senior secured notes was extended to December 31, 2018 prior to their original maturity date. For every \$1.00 in principal amount of note, investors got one warrant exercisable for one year to purchase an additional share of common stock at an exercise price of \$.75 per share. The warrants have a cashless exercise provision, and were valued using the Black-Scholes pricing model.

In October 2017, the Company sold an aggregate of \$300,000 in senior unsecured notes. The notes bear interest at the rate of 10% per annum and are due in 2020. For every \$1.00 in principal amount of note, investors got one warrant exercisable for one year to purchase an additional share of common stock at an exercise price of \$.75 per share. The warrants have a cashless exercise provision.

The value of the warrants issued to the note holders was calculated using the Black-Scholes pricing model using the following significant assumptions:

|                            | December 31,<br>2017 | December 31,<br>2016 |
|----------------------------|----------------------|----------------------|
| Volatility                 | 110% - 157 %         | 131.3% - 133.2 %     |
| Risk-free Interest Rate    | 0.82% - 1.6 %        | 0.81% - 0.92 %       |
| Exercise Price             | \$0.75               | \$0.75               |
| Fair Value of Common Stock | \$0.40 - \$0.50      | \$0.39 - \$0.44      |
| Expected Life              | 1 – 1.5 years        | 1.1 years            |

The total value of the 2016 warrants on the issue date was estimated to be \$102,280 and was bifurcated from the value of the note. The corresponding note discount is being amortized over the life of the note using the straight-line method. On December 31, 2016 the unamortized balance of the discount on the notes was \$95,873. During the year ended December 31, 2017, the Company issued 900,000 warrants in connection with its note offerings with a value on the issue date estimated to be \$121,435, bifurcated from the value of the note. As of December 31, 2017, the unamortized balance of discount on notes was \$77,105. Amortization expense was \$140,203 and \$6,407 for the years ended December 31, 2017 and December 31, 2016 respectively.

## Mortgage Loans

Mortgage loans are collateralized by all assets of each nursing home property and an assignment of its rents. Collateral for certain mortgage loans includes the personal guarantee of Christopher Brogdon. Mortgage loans for the periods presented consisted of the following:

| Property   | Face Amount | Principal Outstanding at |                   | Stated Interest Rate                         | Maturity Date     |
|--|-------------|--------------------------|-------------------|--|-------------------|
|  |             | December 31, 2017        | December 31, 2016 |  |                   |
| Middle Georgia Nursing Home <sup>(1)</sup>       | \$4,200,000 | \$3,643,545              | \$3,742,706       | 5.50% Fixed                                  | October 4, 2018   |
| Goodwill Nursing Home <sup>(1)</sup>             | 4,976,316   | 4,466,375                | 4,520,816         | 5.50% Fixed                                  | March 19, 2020    |
| Goodwill Nursing Home <sup>(3)</sup>             | 80,193      | 23,904                   | 80,193            | 5.50% Fixed                                  | June 12, 2018     |
| Warrenton Nursing Home <sup>(4)</sup>            | 2,720,000   | 2,376,101                | 2,476,109         | 5.00% Fixed                                  | December 20, 2018 |
| Edward Redeemer Health & Rehab                   | 2,303,815   | 2,205,934                | 2,268,096         | 5.50% Fixed                                  | January 16, 2020  |
| Southern Hills Retirement Center <sup>(8)</sup>  | 1,750,000   | -                        | 1,578,286         | 4.75% Fixed                                  | November 10, 2017 |
| Abbeville Health & Rehab <sup>(5)</sup>          | 2,660,000   | 2,592,366                | -                 | Prime Plus 0.50%/ 4.75% Floor/ 5.50% Ceiling | April 25, 2021    |
| Providence of Sparta Nursing Home <sup>(6)</sup> | 3,039,300   | 3,034,826                | 1,655,123         | 3.88% Fixed                                  | November 1, 2047  |
| Meadowview Healthcare Center <sup>(7)</sup>      | 3,000,000   | 3,000,000                | -                 | 6.00% Fixed                                  | October 30, 2022  |
| Golden Years Manor Nursing Home <sup>(2)</sup>   | 5,000,000   | 4,618,006                | 4,618,006         | Prime Plus 1.50%/ 5.75% Floor                | August 3, 2037    |
|  |             | \$25,961,057             | \$20,939,335      |  |                   |

(1) Mortgage loans are non-recourse to the Company except for the Southern Hills line of credit owed to First Commercial Bank, discussed under line of credit.

(2) Effective September 19, 2016, we executed a Modification to the mortgage note pursuant to which some accrued payments were deferred and the lender agreed to permit interest only payments through March 2017. The mortgage loan collateralized by the Grand Prairie Nursing Home (formerly Golden Years Manor Nursing Home) is 80% guaranteed by the USDA and requires an annual renewal fee payable in the amount of 0.25% of the USDA guaranteed portion of the outstanding principal balance as of December 31 of each year. The Company is subject to financial covenants and customary affirmative and negative covenants. As of December 31, 2017, the Company was not in compliance with certain of these financial and non-financial covenants which is considered to be a

technical Event of Default as defined in the note agreement. The Company is also delinquent in installment payments due under the mortgage. Remedies available to the lender in the event of a continuing Event of Default, at its option, include, but are necessarily limited to the following (1) lender may declare the principal and all accrued interest on the note due and payable; and (2) lender may exercise additional rights and remedies under the note agreement to include taking possession of the collateral or seeking satisfaction from the guarantors. The Company has been notified by the lender regarding the Events of Default. Guarantors under the mortgage loan are Christopher Brogdon and GLN Investors, LLC, in which the Company owns a 100% membership interest. The Company is in negotiations with Mr. Brogdon to sell him the facility.

- (3) The \$80,193 debt at Goodwill Nursing Home was incurred to pay off accrued interest on the original primary note.
- (4) Amortization expense related to loan costs of this loan totaled \$6,160 for the year ended December 31, 2017. Proceeds of 2,138,126 were disbursed directly to the seller of the property for acquisition and \$454,240 was
- (5) disbursed to the Company as reimbursement for renovation cost. The loan has 67,634 available as a line of credit, and amortization expense related to loan costs of this loan totaled \$5,722, for the year ended December 31, 2017. The Senior debt and subordinated debt owed in relation to Providence of Sparta was refinanced into a single senior note during 2017. The total amount borrowed under the new loan is \$3,039,300 at time of debt issuance, with the Company receiving only \$28,596 in cash. The senior note balance of \$1,655,123 on December 31, 2016
- (6) was paid off using \$29,747 in cash and \$1,625,376 using the proceeds from the new loan. The subordinated note balance of \$1,050,000 was paid off using loan proceeds, \$218,619 went to restricted cash and the rest was used to pay fees. There have been \$4,474 cash principal reduction payments for the new note, and total amortization expense related to loan costs totaled \$9,293 for the year ended December 31, 2017.
- (7) Amortization expense related to loan costs of this loan totaled \$1,551 for the year ended December 31, 2017.
- (8) During 2017 the debt at Southern Hills Retirement Center was increase by \$18,721 for capitalized construction costs, then paid off \$1,546,801 using proceeds from a Line of Credit to the Center and \$50,206 using cash.

Other mortgage loans contain non-financial covenants, including reporting obligations, with which the Company has not complied in some instances in an untimely manner. These mortgage loans are technically in default.

### **Bonds Payable – Tulsa County Industrial Authority**

On March 1, 2014, Southern Tulsa, LLC (Southern Tulsa), a subsidiary of WPF that owns the Southern Hills Retirement Center, entered into a loan agreement with the Tulsa County Industrial Authority (Authority) in the State of Oklahoma pursuant to which the Authority lent to Southern Tulsa the proceeds from the sale of the Authority's Series 2014 Bonds. The Series 2014 Bonds consisted of \$5,075,000 of principal in Series 2014A First Mortgage Revenue Bonds and \$625,000 of principal in Series 2014B Taxable First Mortgage Revenue Bonds. During the year ended December 31, 2017, \$127,000 of Series 2014B Taxable First Mortgage Revenue Bonds were retired with \$60,000 in cash payments and 67,000 in non-cash payments; \$452,000 of Series 2014A First Mortgage Revenue Bonds were retired with non-cash payments. The Series 2014 Bonds were issued pursuant to a March 1, 2014 Indenture of Trust between the Authority and the Bank of Oklahoma. \$4,325,000 of the Series 2014A Bonds mature on March 1, 2044 and accrue interest at a fixed rate of 7.75% per annum. The remaining \$750,000 of the Series 2014A Bonds mature on various dates through final maturity on March 1, 2029 and accrue interest at a fixed rate of 7.0% per annum. The Series 2014B Bonds mature on March 1, 2023 and accrue interest at a fixed rate of 8.5% per annum. The debt is secured by a first mortgage lien on the independent living units and assisted living facility (facilities), an assignment of the facilities' leases, a first lien on all personal property located in the facilities, and a guarantee by the Company. Deferred loan costs incurred of \$478,950 and an original issue discount of \$78,140 related to the loan are amortized to interest expense over the life of the loan. Amortization expense related to deferred loan costs and the original issue discount totaled \$18,817 and \$3,044 for the year ended December 31, 2017 and \$23,558 and \$4,248 for the year ended December 31, 2016, with the variance due to an adjustment to accumulated amortization in March 2016. The loan agreement includes certain financial covenants required to be maintained by the Company, which were not compliance as of December 31, 2017. There is \$519,000 in voluntary non-cash principal reduction payments during the year ended December 31, 2017. As of December 31, 2017 and December 31, 2016, restricted cash of \$817,582 and \$580,747, respectively is related to these bonds.

During the year ended December 31, 2017, the Company invested \$299,277 in debt securities, consisting of the Tulsa County Industrial Authority Series 2014 Bonds secured by the Southern Hills ALF and ILF. We subsequently used \$55,808 of these purchases to settle and retire debt obligations related to these bonds for the face value of \$92,000. This resulted in a gain on extinguishment of debt of \$36,192 based on the difference between investment in debt and the settled debt obligation.

During the year ended December 31, 2017, the Company executed two tender offers to purchase the debt back from the note holders. The Company successfully retired \$427,000 of principal balance from these two tender offers and recorded a gain on extinguishment of debt of \$138,937.

### **Line of Credit – Southern Hills Retirement Center**

On October 31, 2017, the Company, through its wholly-owned subsidiaries Southern Tulsa, LLC and Southern Tulsa TLC, LLC, as Co-Borrowers, consummated a new Line of Credit with First Commercial Bank pursuant to a Promissory Note in the principal amount of \$7,229,052 (the “Line of Credit”). Under the Line of Credit, the Company refinanced the existing mortgage on its skilled nursing facility in Tulsa for \$1,546,801, Oklahoma and funded a reverse Dutch tender offer on the Industrial Revenue Bonds covering the ALF and ILF for \$288,604, and for working capital, including improvements to the ALF and ILF. As of December 31, 2017, a total of \$1,873,733 was drawn under the Line of Credit.

The interest rate on Line of Credit is 5.25%. Monthly payments of interest only begin on November 30, 2017 until the Promissory Note is paid in full on April 30, 2018 (the “Maturity Date”). The Credit Note is secured by a First Mortgage and Assignment of Rents on Real Property for Southern Hills Rehabilitation Center, a Junior Lien and Assignment of Rents on Real Property for its Southern Hills Independent Living Facility location and a Junior Lien on Real Property for its Southern Hills Assisted Living Facility location.



**Other Debt**

Other debt due at December 31, 2017 and 2016 includes unsecured notes payable issued to entities controlled by the Company used to facilitate the acquisition of the nursing home properties.

| Property                                     | Face        | Principal Outstanding at |                   | Stated                         | Maturity                                 |
|--|-------------|--------------------------|-------------------|--------------------------------|--|
|  | Amount      | December 31, 2017        | December 31, 2016 | Interest Rate                  | Date                                     |
| Goodwill Nursing Home                        | \$2,180,000 | \$1,536,000              | \$1,344,000       | 13% <sup>(1)(2)</sup><br>Fixed | December 31, 2019 <sup>(2)</sup>         |
| Providence of Sparta Nursing Home            | 1,050,000   | -                        | 1,050,000         | 10.0% Fixed                    | December 31, 2017 <sup>(3)(4)</sup>      |
| Providence of Greene Point Healthcare Center | 1,150,000   | -                        | -                 | 10.0% Fixed                    | Repaid on October 1, 2016 <sup>(6)</sup> |
| Golden Years Manor Nursing Home              | 1,650,000   | -                        | -                 | 11.0% Fixed                    | April 1, 2016 <sup>(5)</sup>             |
|  |             | \$1,536,000              | \$2,394,000       |                                |  |

As of December 31, 2016, the income from the Goodwill facility was insufficient to cover debt service for the subordinated debt for the facility. The debt is accruing interest at the default rate but not currently being paid. We are in discussions with the lenders to restructure the accrued interest into a new note to be amortized through future payments. The Company has entered into a new ten year operating lease covering the facility which became <sup>(1)</sup>effective in February, 2017 with the new operator having obtained all licenses, permits and other regulatory approval necessary to recertify and reopen the facility. After receiving regulatory approvals, the lease operator invested approximately \$2.0 million in capital improvements in the property. The facility has been relicensed and began taking patients in December 2016 and is currently building census.

Effective May 3, 2017, we entered into an Allonge and Modification Agreement with the Goodwill investors pursuant to which they agreed to (i) waive all accrued interest through December 31, 2017, (ii) reduce interest rate to 13% beginning January 1, 2018 and (iii) extend the maturity date of the notes to December 31, 2019. In <sup>(2)</sup>exchange, the Company agreed that upon repayment of the notes, the investors would be entitled to a one-time premium payment in the amount of 15% of the principal balance of the notes. The total premium on debt recognized was \$192,000, and the accrued interest payable written off was \$256,107, for a net gain on premium of \$64,107.

<sup>(3)</sup> The subordinated note on Sparta matured on August 1, 2016. Investors in the Sparta note were entitled to an additional 5% equity in Providence HR, LLC every six months if the note is not paid when due.

<sup>(4)</sup>

We applied to refinance the senior and subordinated debt at Sparta with a new HUD loan. To accommodate that application, in March 2017 the investors in Providence HR Investors, LLC, the holder of the subordinated debt, entered into a Forbearance Agreement pursuant to which they agreed to (i) waive the equity ratchet they were entitled to due to our failure to repay the debt on or before the maturity date (ii) waive the accrual of default interest and (iii) extend the maturity date of the subordinated debt to December 31, 2017. In October 2017, the Company refinanced this note with a new HUD loan with a term of 35 years and a fixed rate of 3.88%.

Effective September 23, 2016, the Company exchanged 1,350,000 shares of common stock, at \$0.36 per share, for an unsecured note payable with a principal balance of \$1,550,000 and unpaid interest of \$99,458. The transaction was accounted for as a debt extinguishment with a gain on extinguishment of debt in the amount of \$1,163,458 recorded in the consolidated statement of operations for the year ended December 31, 2016. During the year ended (5) December 31, 2016, principal in the amount of \$100,000 was forgiven resulting in a gain on forgiveness of debt which has been recognized in the consolidated statements of operations.

The subordinated note on Greene Point matured on October 1, 2015. Investors in the Greene Point note were entitled to an additional 5% equity in Wash/Greene, LLC, the entity that owns the facility, every six months if the note is not paid when due. Effective December 31, 2015, all of the holders of the Wash/Greene subordinated note (6) executed an Agreement Among Lenders pursuant to which they (i) waived all equity ratchets and (ii) extended the maturity date of their notes to June 30, 2017. In exchange, Wash/Greene LLC agreed to pay the investors a one-time premium equal to 5% of the principal amount of each individual note (approximately \$56,000) as such time as the note is repaid. The note was repaid on October 1, 2016.

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For the years ended December 31, 2017 and 2016, the Company received proceeds from the issuance of debt of \$1,386,336 and \$600,000, respectively. Cash payments on debt totaled \$720,044 and \$1,701,416 for the years ended December 31, 2017 and 2016, respectively

Future maturities and principal payments of all notes and bonds payable listed above for the next five years and thereafter are as follows:

| Years          |              |
|----------------|--------------|
| 2018           | \$19,124,734 |
| 2019           | 1,916,057    |
| 2020           | 6,850,764    |
| 2021           | 2,510,445    |
| 2022           | 2,791,613    |
| 2023 and after | 2,738,177    |
|                | \$35,931,790 |

## 8. STOCKHOLDERS' EQUITY

### **Preferred Stock**

The Company has authorized 10,000,000 shares of preferred stock. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors.

### **Series A Convertible Redeemable Preferred Stock**

The Company's Board of Directors has authorized 2,000,000 shares of \$2.00 stated value, Series A Preferred Stock. The preferred stock has a senior liquidation preference value of \$2.00 per share and does not bear dividends.

As of December 31, 2017 and 2016, the Company has 200,500 shares of Series A Preferred Stock outstanding.

### **Series D Convertible Preferred Stock**

The Company has established a class of preferred stock designated “Series D Convertible Preferred Stock” (Series D preferred stock) and authorized an aggregate of 1,000,000 non-voting shares with a stated value of \$1.00 per share. Holders of the Series D preferred stock are entitled to receive dividends at the annual rate of 8% based on the stated value per share computed on the basis of a 360-day year and 12 30-day months. Dividends are cumulative, shall be declared quarterly, and are calculated from the date of issue and payable on the 15th day of April, July, October and January. The dividends may be paid, at the option of the holder either in cash or by the issuance of shares of the Company’s common stock valued at the market price on the dividend record date. Shares of the Series D preferred stock are redeemable at the Company’s option. At the option of the holder, shares of the Series D preferred stock plus any declared and unpaid dividends are convertible to shares of the Company’s common stock at a conversion rate of \$1.00 per share.

As of December 31, 2017 and 2016, the Company had 375,000 shares of Series D Preferred Stock outstanding.

For years ended December 31, 2017 and 2016, the Company declared \$30,000 in preferred dividends. \$7,500 were accrued as of December 31, 2017 and will be paid in 2018; \$7,500 were accrued as of December 31, 2016 and was paid in 2017.

### **Common Stock**

The Company issued 1,012,060 shares of common stock to two officers for compensation during 2017. The fair value of the common stock issued for compensation was measured at the volume weighted average price of the Company’s common stock for the ten trading days prior to issuance. The fair value of the shares in the amount of \$488,320 was recognized as general and administrative expense in the consolidated statements of operations.

During 2016, the Company issued 35,000 shares of common stock with a fair value of \$23,800 as payment to a placement agent that solicited investors who agreed to restructure their subordinated debt.

For the years ended December 31, 2017 and 2016, the Company did not paid dividends on common stock.

As described in Note 7, on September 23, 2016, the Company issued 1,350,000 shares of common stock, priced at \$0.36 per share, in exchange for an unsecured note payable in the principal amount of \$1,550,000 and unpaid interest of \$99,458.

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**Restricted Stock Awards**

The following table summarizes the restricted stock unit activity during the years ended December 31:

|  | 2017        | 2016        |
|--|-------------|-------------|
| Outstanding Non-Vested Restricted Stock Units, Beginning | -           | -           |
| Granted  | 1,273,057   | 1,072,275   |
| Vested   | (1,273,057) | (1,072,275) |
| Outstanding Non-Vested Restricted Stock Units, Ending    | -           | -           |

In connection with director restricted stock grants, the Company recognized stock-based compensation of \$488,320 and \$536,886 for the years ended December 31, 2017 and 2016, respectively.

**Common Stock Warrants**

As of December 31, 2017 and 2016, the Company had 2,269,596 and 1,821,736, respectively, of outstanding warrants to purchase common stock at a weighted average exercise price of \$0.78 and \$0.79, respectively. Activity for the years ended December 31, 2017 and 2016 related to common stock warrants follows:

|                   | 2017                  |  | 2016                  |  |
|-------------------|-----------------------|--|-----------------------|--|
|                   | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price |
| Beginning Balance | 1,821,736             | \$ 0.79                                  | 2,921,736             | \$ 0.76                                  |
| Issued            | 900,000               | 0.75                                     | 600,000               | 0.75                                     |
| Expired           | (452,140 )            | 0.65                                     | (1,700,000)           | 0.75                                     |
| Ending Balance    | 2,269,596             | \$ 0.80                                  | 1,821,736             | \$ 0.79                                  |

The aggregate intrinsic value of common stock warrants outstanding as of December 31, 2017 and 2016 was \$0 and \$19,125, respectively.

## Noncontrolling Interests

For the year ended December 31, 2016, 73,532 shares of the Company's common stock were issued to acquire noncontrolling interests. Valuation of the common stock was at various prices based upon agreements with the holders of the noncontrolling interests.

## 9. RELATED PARTIES

Clifford Neuman is a manager and member of Gemini Gaming, LLC. As described in Note 6, the Company had a note receivable from Gemini Gaming, LLC at December 31, 2015 which was paid off during 2016. Mr. Neuman provides office space for the Company's Controller at no charge. In 2017, Mr. Neuman was issued 52,632 shares of common stock with a fair value of \$30,000 for directors' fees. During the year ended December 31, 2017, a gain of \$32,073 was recognized from an agreement to reduce the accounts payable due to Mr. Neuman for legal services rendered. As of December 31, 2017 and December 31, 2016, the Company owed Mr. Neuman for legal services rendered \$93,114 and \$96,689, respectively. For the years ended December 31, 2016, Mr. Neuman was issued 250,000 shares of common stock with a fair value of \$112,500 in satisfaction of \$100,000 of accrued and unpaid legal fees. A loss of \$12,500 was recognized from the settlement of accounts payable due to related parties.

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The Company transitioned the bookkeeping and property management for the Company to Colliers International until Feb 1, 2017. Colliers International was paid \$700 per month per property for this service. Andy Sink, director and the interim Chief Operating Officer of the Company through his resignation on March 14, 2017, is a partner of Colliers International.

Creative Cyberweb developed and maintains the Company's website, and is affiliated with CFO Zvi Rhine's family. The initial setup fee was \$5,000 and ongoing upkeep is \$400 per month.

In the fourth quarter of 2016 and the year of 2017, the Company undertook a private offering ("Offering") of Units, each Unit consisting of a 10% Senior Secured Note and one warrant for every dollar in principal amount of Note purchased. In the Offering, Ultimate Investments, Ltd and the Baller Family Foundation, Inc., each entity controlled by Mr. Baller, each invested \$300,000 and 200,000, respectively. Zvi Rhine invested \$50,000, while his brother David Rhine invested \$50,000 and his father Gary Rhine invested \$25,000. In addition, Adam Desmond invested \$100,000 in the Offering and his father Robert Desmond invested \$150,000.

During the year ended December 31, 2017, Zvi Rhine was issued (i) 52,632 shares of common stock for board compensation, (ii) 87,000 shares of common stock for CFO services provided in the quarter ended December 31, 2016, which resulted in \$35,670 of accrued compensation being settled and reclassified to equity, (iii) 29,269 shares of common stock for bonus compensation (iv) 86,364 shares of common stock for CFO services provided in the quarter ended March 31, 2017 (v) 84,444 shares of restricted stock for CFO services provided in the three months ended June 30, 2017 and (vi) 168,889 shares of restricted stock as a retainer for services rendered for the remaining months of calendar year 2017.

During the year ended December 31, 2017, Lance Baller was issued (i) 52,632 shares of common stock for board compensation, (ii) 174,000 shares of common stock for CEO services provided in the quarter ended December 31, 2016, which resulted in \$71,340 of accrued compensation being settled and reclassified to equity, (iii) 29,269 shares of common stock for bonus compensation (iv) 86,364 shares of common stock for CEO services provided in the quarter ended March 31, 2017, (v) 84,444 shares of restricted stock for CEO services provided in the three months ended June 30, 2017 and (vi) 168,889 shares of restricted stock as a retainer for services rendered for the remaining months of calendar year 2017.

During 2016, Zvi Rhine was issued 95,000 shares of common stock for services provided valued at \$38,000.

During the year ended December 31, 2017, the directors of the Company (six persons – including the Company CEO and CFO) were granted a total of 274,125 shares of restricted common stock for services as directors.



During 2016, the directors of the Company were granted a total of 977,275 shares of restricted common stock.

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## 10. FACILITY LEASES

The following table summarizes our leasing arrangements related to the Company's healthcare facilities:

| Facility               | Monthly Lease Income<br>(1) | Lease Expiration | Renewal Option, if any                                  |
|------------------------|-----------------------------|------------------|---|
| Middle Georgia (2)     | \$60,000                    | October 31, 2022 | None  |
| Warrenton              | \$55,724                    | June 30, 2026    | Term may be extended for one additional ten-year term.  |
| Goodwill (2), (3)      | \$40,125                    | February 1, 2027 | Term may be extended for one additional five-year term. |
| Edwards Redeemer (2)   | \$48,728                    | October 31, 2022 | Term may be extended for one additional five-year term. |
| Providence             | \$42,519                    | June 30, 2026    | Term may be extended for one additional ten-year term.  |
| Meadowview             | \$33,695                    | October 31, 2024 | Term may be extended for one additional five-year term. |
| Golden Years (2) (4)   | \$-                         | -                | None  |
| Abbeville H&R (8)      | \$-                         | -                | None  |
| Southern Hills SNF (5) | \$37,000                    | May 31, 2019     | Term may be extended for one additional five-year term. |
| Southern Hills ALF (6) | -                           | -                | None  |
| Southern Hills ILF (7) | -                           | -                | None  |

(1) Monthly lease income reflects rent income on a straight-line basis over, where applicable, the term of each lease.

On January 22, 2016, a lease operator that operates Middle Georgia, Edwards Redeemer, Golden Years (until January 1, 2016) and Goodwill filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. In 2017, the lease operator emerged from bankruptcy and renewed the leases of Middle Georgia and Edwards Redeemer under modified lease terms and has rejected the lease covering Goodwill.

(2) In January 2016, concurrently with the Chapter 11 Bankruptcy filing by the lease operator, the Goodwill facility was closed by Georgia regulators and all residents were removed. The Goodwill facility began generating rental revenue in February 2017. In the first year, base rent is \$16,667 per month, plus \$2,000 per month for every ten occupied beds. In a transaction related to the sale of the Greene Point facility, an affiliate of the buyer of Greene Point has executed a ten year operating lease covering Goodwill. After receiving regulatory approvals, the lease operator invested approximately \$2.0 million in capital improvements in the property. The lease became effective on February 1, 2017 with the lease operator having obtained all regulatory approvals, completed renovations and began admitting patients.

(3) Effective January 1, 2016, the Golden Years facility was leased to another operator for a period of ten years at a monthly base rent of \$30,000 which was subject to increases based on census levels. Under the terms of the lease, the Company agreed to fund certain capital expenditures, which it was unable to fulfill. In July 2016, the new tenant served notice that it was terminating the lease effective August 31, 2016. The Company entered into a Lease Termination Agreement under which it paid the tenant \$145,000 and is obligated to make future payments. Effective August 30, 2016, the Company entered into a new lease agreement with another nursing home operator for its Golden Years facility. The lease term commences at the end of a straddle period. During the straddle period, the Company made working capital advances to enable the operator to cover cash flow deficits resulting from initial operations of the facility. The lease operator has informed the Company that it intends to vacate the facility

effective April 30, 2018. An entity affiliated with Mr. Brogdon, who is a guarantor of the mortgage, assumed operations of the facility in March 2018 under an OTA.

Lease agreement dated May 21, 2014 with lease payments commencing February 1, 2015. On May 10, 2016, the Company obtained a Court Order appointing a Receiver to control and operate the Southern Hills SNF. The former (5) lease operator represented that it was unable to meet the financial commitments of the facility, including the payment of rent, payroll and other operating requirements. The Receiver engaged a new manager for the facility at the request of the Company.

(6) The lease on the ALF has been abandoned. The Company plans to seek a new tenant for this entity to assume operations at the completion of construction.

(7) The Southern Hills ILF requires renovation and is not subject to an operating lease.

(8) The company did not established an operating lease during the year as in obtained the provision Certificate of Need in its own name while conducting extensive renovations.

Lessees are responsible for payment of insurance, taxes and other charges while under the lease. Should the lessees not pay all such charges as required under the leases, or if there is no tenant, the Company may become liable for such operating expenses. We have been required to cover those expenses at Grand Prairie in Lonoke, Abbeville, and Southern Hills ALF and ILF.

Future cash payments for rent to be received during the initial terms of the leases for the next five years and thereafter are as follows (excludes Abbeville, Southern Tulsa ALF and Southern Tulsa ILF (due to property being non-operating) , as well as Southern Tulsa SNF and GL Nursing):

| Years               |              |
|---------------------|--------------|
| 2018                | \$3,223,095  |
| 2019                | 3,304,442    |
| 2020                | 3,372,110    |
| 2021                | 3,429,069    |
| 2022                | 3,257,858    |
| 2023 and Thereafter | 7,470,948    |
|                     | \$24,057,522 |

## 11. INCOME TAXES

The Company and its subsidiaries are subject to income taxes on income arising in, or derived from, the tax jurisdictions in which they operate. The Company is current with all its federal and state tax filings. The Company is open to examination for tax years 1999 through 2017 due to the carry back of net operating losses. On December 22, 2017, H.R. 1, formally known as the Tax Cut and Jobs Act (the “Act”) was enacted into law. The Act provides for significant tax law changes and modifications with varying effective dates. The major change that affects the Company is reducing the corporate income tax rate from 35% to 21%.”

The following is a reconciliation of the federal statutory tax rate and the effective tax rate as a percentage for the years ended December 31:

|                                   | 2017 | 2016 |
|-----------------------------------|------|------|
| Statutory Federal Income Tax Rate | 34 % | 34 % |
| Warrant Liability                 | 34   | 34   |

|  |       |       |
|--|-------|-------|
| Tax Rate Reduction                                   | (13 ) | -     |
| Effect of Valuation Allowance on Deferred Tax Assets | (21 ) | (34 ) |
|  | - %   | - %   |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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The components of deferred tax assets as of December 31 are as follows:

|                                     | 2017        | 2016        |
|-------------------------------------|-------------|-------------|
| Deferred Tax Assets:                |             |             |
| Net Operating Loss Carryforwards    | \$4,026,943 | \$3,704,378 |
| Capital Loss Carryforward           | -           | -           |
| Impairment Loss on Long Term Assets | 327,600     | -           |
| Goodwill Impairment                 | 595,154     | 595,154     |
| Stock Based Compensation            | 285,088     | 182,541     |
| Acquisition Costs                   | 111,099     | 117,044     |
| Other                               | 195,348     | 135,792     |
|                                     | 5,541,232   | 4,734,909   |
| Deferred Tax Liabilities:           |             |             |
| Bargain Purchase Gain               | (1,020,000) | (1,020,000) |
| Property and Equipment              | (375,640 )  | (237,967 )  |
| Other                               | (13,462 )   | (37,223 )   |
|                                     | (1,409,102) | (1,295,190) |
| Valuation Allowance                 | (4,132,130) | (3,439,719) |
| Net Deferred Tax Asset              | \$-         | \$-         |

The valuation allowance at December 31, 2017 and 2016 was primarily related to federal net operating loss carryforwards that, in the judgment of management, are not more-likely-than-not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income of approximately \$12,430,000 prior to the expiration of the net operating loss carryforwards beginning in 2018. Taxable loss for the year ended December 31, 2017 approximated \$1,530,000. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more-likely-than-not that the Company will not realize the benefits of these deductible differences, net of the existing valuation allowance at December 31, 2017.

When more than a 50% change in ownership occurs, over a three-year period, as defined, the Tax Reform Act of 1986 limits the utilization of net operating loss carry forwards in the years following the change in ownership. No determination has been made as of December 31, 2017, as to what implications, if any, there will be in the net operating loss carry forwards of the Company.

## 12. FAIR VALUE MEASUREMENTS

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, advances to related parties, notes receivable, restricted cash, accounts payable, debt and lease security deposit. We consider the carrying values of our short-term financial instruments to approximate fair value because they generally expose the Company to limited credit risk, because of the short period of time between origination of the financial assets and liabilities and their expected settlement, or because of their proximity to acquisition date fair values. The carrying value of debt approximates fair value based on borrowing rates currently available for debt of similar terms and maturities.

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Upon acquisition of real estate properties, the Company determines the total purchase price of each property and allocates this price base on the fair value of the tangible assets and intangible assets, if any, acquired and any liabilities assumed based on Level 3 inputs. These Level 3 inputs can include comparable sales values, discount rates, and capitalization rates from a third party appraisal or other market sources.

Assets and liabilities measured at fair value on a recurring basis as of December 31 are summarized below:

|                                       | Total     | Fair Value Measurement |         |           |
|---------------------------------------|-----------|------------------------|---------|-----------|
|                                       |           | Level 1                | Level 2 | Level 3   |
| Warrant Liability                     | \$95,371  | \$-                    | \$ -    | \$95,371  |
| Investment in Debt Securities         | 243,469   | 243,469                | -       | -         |
| Fair Value at December 31, 2017:      | \$338,840 | \$243,469              | \$ -    | \$95,371  |
| Warrant Liability – December 31, 2016 | \$246,451 | \$-                    | \$ -    | \$246,451 |

Because these warrants have full reset adjustments tied to future issuance of equity securities by the Company, it is subject to derivative liability treatment under ASC 815-40-15.

The warrant liability is marked-to-market each reporting period with the change in fair value recorded as a gain or loss within Other (Income) Expense on the Company's Consolidated Statement of Operations until the warrants are exercised, expire, or other facts and circumstances lead the warrant liability to be reclassified as an equity instrument. The fair value of the warrant liability is determined each reporting period by utilizing the Black-Scholes option pricing model.

The table presented below is a summary of changes in the fair value of the Company's level 3 valuation for the warrant liability for the years ended December 31:

|   | 2017      | 2016      |
|---|-----------|-----------|
| Beginning Balance January 1, 2017         | \$246,451 | \$304,536 |
| Change in Fair Value of Warrant Liability | (151,080) | (58,085)  |



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Ending Balance, December 31, 2017      \$95,371      \$246,451

The significant assumptions used in the Black-Scholes option pricing model as of December 31, 2017 and 2016 include the following:

|                            | December 31,<br>2017 | December 31,<br>2016 |
|----------------------------|----------------------|----------------------|
| Volatility                 | 109.3% - 122.22 %    | 105.3% - 124.9 %     |
| Risk-free Interest Rate    | 1.03% - 1.27 %       | 0.44% - 1.47 %       |
| Exercise Price             | \$0.75 - \$1.37      | \$0.50 - \$1.37      |
| Fair Value of Common Stock | \$0.40               | \$0.57               |
| Expected Life              | 0.97 – 1.99 years    | 0.1 – 2.7 years      |

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## 13. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for the years ended December 31 follows:

| <b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Dividends declared on Series D Preferred Stock                              | \$7,500     | \$30,000    |
| Additions to fixed assets financed with debt                                | \$2,156,847 | \$396,915   |
| Common Stock issued for Settlement of Accrued Compensation                  | \$107,010   | \$112,500   |
| Relative Fair Value of Warrants issued with Senior Secured Promissory Notes | \$121,435   | \$102,280   |
| Extinguishment of Bonds through Investments in Debt Securities              | \$519,000   | \$-         |
| Acquisition of Membership Interests in exchange of Common Stock and Cash    | \$-         | \$1,394,224 |
| Common Stock issued for Debt Cost   | \$-         | \$23,800    |
| Common Stock issued for Debt and Accrued Interest                           | \$-         | \$486,000   |
| Payment of accrued interest through entrance of debt                        | \$-         | \$80,193    |
| Refinancing of Mortgage Loans   | \$7,884,437 | \$-         |
| Loan costs incurred for refinancing   | \$219,005   | \$-         |
| Payment of Mortgage Debt through Sale of Property                           | \$-         | \$1,683,200 |

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

## 14. LEGAL PROCEEDINGS

The Company and/or its affiliated subsidiaries are or were involved in the following litigation:

*Southern Tulsa, LLC v. Healthcare Management of Oklahoma, LLC*, District Court of Tulsa County, State of Oklahoma, Case No. CJ – 2016- 01781.

This matter was brought by us to have the appointment of a Receiver for the Southern Tulsa SNF and to recover damages from our former operator at that facility. The Court has ordered the appointment of a Receiver effective May 10, 2016. Other claims and matters are pending.

*Thomas v. Edwards Redeemer Property Holdings, LLC, et.al.*, District Court for Oklahoma County, Oklahoma, Case No. CJ 2016-2160.

This action arises from a personal injury claim brought by heirs of a former resident of our Edwards Redeemer facility. We are entitled to indemnification from the lease operator and should be covered under the lease operator's general liability policy. As we are not the operators of the facility and believe we have indemnity coverage, we believe we have no exposure. The lease operator's insurance carrier is providing a defense and indemnity; and as a result we believe the likelihood of a material adverse result is remote.

*Verizon Construction, Inc., v. Southern Tulsa, LLC, et. al.*, District Court of Tulsa County, Oklahoma, Case No. CJ-2015-04326.

This is a mechanic's lien foreclosure action on the Southern Hills facility in Tulsa arising from work performed. The Plaintiff was a subcontractor to our general contractor; and while we paid the general contractor for that work, the general contractor apparently did not pay the subcontractor. Plaintiff is seeking \$441,939 previously invoiced to the general contractor, plus attorney's fees and costs. The general contractor, also a named defendant, is liable for this amount but may not have the resources to pay the plaintiff, therefore the Company may be liable for some unknown amount less than or equal to Plaintiff's claim. This case was settled in 2017 for payment of \$20,000.

## 15. SUBSEQUENT EVENTS

In January, 2018 certain Senior Secured Promissory Notes worth \$225,000 with a maturity date of January 13, 2018 were exchanged for notes with a maturity date of December 31, 2018. The corresponding 225,000 warrants issued with the original notes were extended to an expiration date of December 31, 2018.

On January 23, 2018, the Company issued 93,750 shares of common stock to each of the six Directors, for a total of 562,500 shares issued under the Directors' Compensation Plan for 2018.

On April 5, 2018, the Company entered into a definitive Purchase and Sale Agreement to acquire the Woodlands Health and Rehab Center in Midway, Georgia. The transaction is subject to numerous conditions and is pending as of the date of this Report.

**SIGNATURES**

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

**GLOBAL  
HEALTHCARE  
REIT, INC.**

Date: April 23, 2018 By: */s/ Lance Baller*  
Lance Baller  
Interim CEO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b>SIGNATURE</b>                                    | <b>TITLE</b>  | <b>DATE</b>    |
|---|---|----------------|
| <i>/s/ Lane Baller</i><br>Lane Baller               | Interim CEO, Director   | April 23, 2018 |
| <i>/s/ Adam Desmond</i><br>Adam Desmond             | (Principal Executive Officer)<br>Director                         | April 23, 2018 |
| <i>/s/ Zvi Rhine</i><br>Zvi Rhine                   | Director, CFO<br>(Principal Financial and Accounting )<br>Officer | April 23, 2018 |
| <i>/s/ Clifford L. Neuman</i><br>Clifford L. Neuman | Director  | April 23, 2018 |
| <i>/s/ Andrew Sink</i><br>Andrew Sink               | Director  | April 23, 2018 |
| <i>/s/ Josh Mandell</i><br>Josh Mandell             | Director  | April 23, 2018 |



