

**IMH FINANCIAL CORPORATION**  
**AUDIT COMMITTEE CHARTER**  
*Adopted by the Board of Directors on July 22, 2014*

**A. PURPOSE**

The purpose of the Audit Committee (the “Committee”) shall be to assist the Board of Directors (the “Board”) of IMH Financial Corporation (the “Company”) in overseeing (1) the integrity of the Company’s financial statements; (2) the Company’s compliance with legal and regulatory requirements; (3) the qualifications and independence of the registered public accounting firm that audits the Company’s financial statements (the “Auditors”); (4) the performance of the Auditors and of the Company’s internal audit function (if applicable); and (5) the Company’s internal accounting and financial reporting controls. The Committee shall appoint, compensate, retain and oversee the work of the Auditors and any other registered public accounting firm engaged for the purpose of performing any audits, reviews or attest services. In addition, the Committee shall review and approve the audit committee report as required by the Securities and Exchange Commission (the “SEC”) to be included in the Company’s annual proxy statement.

While the Committee has the duties and responsibilities set forth in this Charter, it is not the duty of the Committee to plan or conduct audits, to attest to the Company’s internal controls or to determine that the Company’s financial statements are complete, accurate and in accordance with U.S. generally accepted accounting principles (“GAAP”). The responsibility to plan and conduct audits and (to the extent required) to attest to the Company’s internal controls is that of the Auditors. The Company’s management has the responsibility for determining that the Company’s financial statements are complete, accurate and in accordance with GAAP and of implementing effective internal controls and attesting to the effectiveness thereof. It is also not the duty of the Committee to assure the Company’s compliance with laws and regulations. The primary responsibility for these matters rests with the Company’s management.

**B. ORGANIZATION**

1. **Membership.** The Committee will consist of at least three (3) directors appointed by the Board. The Board shall appoint the initial Chair of the Committee and may appoint his or her successor. Each member of the Committee shall serve until his or her successor is duly appointed, or until his or her earlier death, resignation or removal by the Board. Committee members may be removed at any time by the Board, and vacancies will be filled by the Board.

2. **Qualifications.**

(a) **Independence/General.** A person may serve on the Committee only if such person is not an officer or other employee of the Company and the Board determines he or she satisfies the requirements, including independence and experience, of (a) the listing standards of any national

securities exchange on which the Company's securities may become listed, (b) any other laws, rules and regulations applicable to the Company, and (c) the Company's Bylaws and any corporate governance guidelines adopted by the Board. Additionally, so long as no equity securities of the Company are listed on any national securities exchange, a majority of the members of the Committee must satisfy the standards for independence of audit committee members of the New York Stock Exchange applicable to companies with equity securities listed thereon. Each member of the Committee shall promptly notify the Board of any circumstance that might compromise his or her eligibility to serve on the Committee.

- (b) **Knowledge and Experience Requirements.** Each member of the Committee shall be financially literate, as determined in the business judgment of the Board and, if the Company's securities become listed on a national securities exchange, in accordance with the rules of such exchange. At least one member of the Committee shall have accounting or related financial management expertise, as determined in the business judgment of the Board and, if the Company's securities become listed on a national securities exchange, in accordance with the applicable rules of such exchange, and at least one member shall qualify as an "audit committee financial expert" in accordance with the rules and regulations of the SEC.
- (c) **Service to Other Public Companies.** No Committee member may simultaneously serve on the audit committees of more than three (3) public companies, including the Company, unless the Board (i) determines that a Committee member serving on the audit committees of more than three (3) public companies does not impair the ability of such Committee member to effectively serve on the Committee and approves such additional service and (ii) discloses such determination in the Company's annual proxy statement.

### 3. **Meetings.**

- (a) **Frequency.** The Committee shall meet during each fiscal year of the Company as frequently as the circumstances dictate or the Committee otherwise deems appropriate or as requested by the Auditors, the internal auditors (if applicable) or management, but in no event shall the Committee meet less than quarterly.
- (b) **Chair.** The Committee shall elect a Chair from among the Committee members only if the Chair has not already been appointed by the Board, and the Chair of the Committee shall preside, when present, at all meetings of the Committee. The Committee may delegate any of its responsibilities to the Chair or to a subcommittee of the Committee to the extent permitted by applicable law.

- (c) **Agenda and Notice.** The Chair of the Committee shall establish the meeting dates and the meeting agenda and send proper notice of each Committee meeting to each member prior to each meeting. The Chair or a majority of the members of the Committee may call a special meeting of the Committee upon at least one day's prior notice to all Committee members.
- (d) **Holding and Recording Meetings.** Committee meetings may be held in person or telephonically, or action may be taken by written consent in accordance with Delaware corporate law and the Company's Certificate of Incorporation and Bylaws. The Company's chief executive officer (or other principal executive officer of the Company in the absence of a chief executive officer) and chief financial officer and representatives of the Auditors shall be invited to meetings of the Committee; provided, however, that the Committee may meet at its discretion in executive session without members of management and/or representatives of the Auditors present. Other members of management, other directors, the internal auditors (if applicable), the Company's legal counsel and/or other persons may attend Committee meetings at the invitation of the Committee and shall provide pertinent information as necessary. The Committee shall meet periodically with the Auditors, the internal auditors (if applicable) and management (including the Company's chief financial officer and, if other than the chief financial officer, the Company's principal accounting officer) in separate executive sessions as needed to discuss any matters that the Committee or those groups believe should be discussed privately with the Committee.
- (e) **Quorum and Voting.** A majority of the members of the Committee shall constitute a quorum. A majority of the Committee members present at any meeting in which a quorum is present may act on behalf of the Committee.
- (f) **Reports and Minutes.** The Committee shall report to the Board no less than quarterly, and in any event at each regularly scheduled Board meeting that follows a Committee meeting (other than a regularly scheduled Board meeting occurring in conjunction with such Committee meeting), with respect to (1) meetings of the Committee, (2) such other matters as are relevant to the Committee's discharge of its responsibilities, and (3) such recommendations as the Committee may deem appropriate. The Committee shall review with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the performance and independence of the Auditors or the performance of the internal audit function (if applicable). The Committee shall maintain minutes and other records of meetings and activities of the Committee, as appropriate under Delaware law.

## C. RESPONSIBILITIES

The primary recurring duties and responsibilities of the Committee in carrying out the purposes outlined in Article A shall be the following:

### 1. Independent Auditors.

- (a) **Selection, Engagement and Disengagement of Auditors.** The Committee has the sole authority and direct responsibility for the appointment, replacement or termination, compensation and oversight of the work of the Auditors (including the resolution of disagreements between management of the Company and the Auditors regarding financial reporting), as well as any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or review or attest services for the Company, and each such registered public accounting firm shall report directly to the Committee. The Committee shall review the performance of the Auditors and discharge the Auditors if and when the Committee determines that circumstances warrant. The Committee shall periodically review the experience and qualifications of the senior members of the Auditors' team, and shall require the rotation of the lead audit partner of the Auditors as required by the Securities Exchange Act of 1934, as amended (the "Exchange Act").
  
- (b) **Performance and Independence of Auditors.** The Committee shall annually obtain and review a report from the Auditors describing (1) the Auditors' internal quality-control procedures and any deficiencies thereto known to the Auditors related to the Auditors' audit of the Company, and (2) any material issues disclosed in the Auditors' most recent peer review report or Part 1 of the Public Company Accounting Oversight Board's (the "PCAOB") most recent annual inspection report of the firm, or raised by any inquiry or investigation by governmental or professional authorities with respect to any audits of the Company carried out by the firm, and any steps taken to deal with any such issues. The Committee shall also obtain and review annual written disclosures and a formal written statement from the Auditors delineating all relationships between the Company and the Auditors and confirming the Auditors' independence, consistent with Independence Standards Board Standard No. 1. The Committee shall review with the Auditors any disclosed relationships or services that may affect the objectivity and/or independence of the Auditors and shall otherwise oversee the independence of the Auditors. In considering the independence of the Auditors, the Committee shall consider the opinions of the Company's management and internal auditors (if applicable), review the nature of the services provided by the Auditor's firm and the fees charged and consider such other matters as the Committee deems appropriate.

- (c) **Approval of Auditor Services.** The Committee shall review and, in its sole discretion, approve engagement letters between the Company and the Auditors. All audit services and permitted non-audit services provided to the Company by the Auditors shall be pre-approved by the Committee, as required by Section 10A of the Exchange Act and the rules and regulations promulgated by the SEC thereunder. Pre-approval of audit services and permissible non-audit services may be pursuant to policies and procedures established by the Committee for the pre-approval for such services, and the Committee may delegate the authority to grant such pre-approvals for services with fees anticipated to be less than \$25,000 to one or more designated Committee members, subject to any rules or limitations it deems appropriate, provided that any such pre-approved services are reported to the full Committee at its next scheduled meeting. The Committee shall periodically review and discuss with the Auditors all fees paid to the Auditors for audit and non-audit services provided to the Company.
- (d) **Audit Plan and Conduct.** The Committee shall review with the Auditors and management (including the Company's chief financial officer and principal accounting officer) the audit plan of the Auditors, including the scope of their audit and general audit approach. The Committee shall discuss with the Auditors the matters required to be discussed by Statement on Auditing Standards No. 114 relating to the conduct of the audit, and Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU Section 380), as adopted by the PCAOB in Rule 3200T, which matters include the Auditors' responsibilities under generally accepted auditing standards, significant accounting policies, the process used by management in formulating accounting estimates and the basis for the Auditors' conclusions regarding the reasonableness of these estimates, significant audit adjustments, the Auditors' responsibilities for other information in documents containing audited financial statements, any procedures performed and the results thereof, disagreements with management, significant matters that were the subject of management's consultation with other accountants, major issues that were discussed with management in connection with the initial or recurring retention of the Auditors, and difficulties encountered by the Auditors in dealing with management related to the performance of its audit.
- (e) **Establishment of Internal Audit Function.** If not already established, the Committee shall periodically evaluate whether the Company should establish an internal audit function (with Company personnel and/or on an outsourced basis), and if the Committee determines that an internal audit function should be established, the Committee shall oversee that the Company takes such steps with respect to the establishment of such function as deemed appropriate by the Committee. The Committee may decide to outsource all or part of such internal audit function. The director

of the internal audit function (if any) shall report directly to the Committee, and shall also report to the Company's chief financial officer for administrative purposes. If an internal audit function is established, the Committee shall periodically (1) review with the Company's management, as well as the persons performing the Company's internal audit function, the plans, activities, staff, organizational structure and effectiveness of the internal audit function, and (2) review findings and recommendations from completed internal audits.

- (f) **Review of Auditor Report.** The Committee shall obtain and review a report from the Auditors at least annually as to (1) all critical accounting policies and practices to be used, (2) all alternative treatments of financial information within GAAP that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the Auditors, and (3) any other material written communications between the Auditors and management, including management letters and schedules of unadjusted audit differences.
- (g) **Confirmation Regarding Illegal Acts.** Promptly after the completion of each audit of the Company conducted by the Auditors, the Committee shall obtain from the Auditors confirmation that the Auditors have not detected or otherwise become aware of information indicating that an illegal act has or may have occurred, pursuant to Section 10A(b) of the Exchange Act.
- (h) **Committee Meetings with Auditors.** The Committee shall conduct meetings with the Auditors, without management present, to discuss candidly any audit problems or difficulties and management's responses to the Auditors' efforts to resolve such problems.
- (i) **Company Hires of Auditor Employees.** The Committee shall establish procedures for the hiring of employees and former employees of the Auditors, subject to auditor independence requirements established by the SEC and the PCAOB, with the goal of preventing the prospect of future employment with the Company from influencing the current performance of the independent auditor function. Management shall be responsible for providing advance notice to the Committee of any proposed hiring by the Company of any such employees or former employees of the Auditors.

## 2. **Internal Controls and Compliance Oversight.**

- (a) **Review of Internal Controls and Accounting/Financial Resources.** The Committee shall review and discuss with the Auditors, financial and accounting personnel and the internal auditors (if applicable) (i) the quality and depth of staffing in, and resources of, the Company's accounting, information services and financial departments, as needed, and (ii) the adequacy of the Company's internal control over financial

reporting and disclosure controls and procedures, including controls and security procedures with respect to the Company's information systems and the Company's process for assessing risk of fraudulent financial reporting and detecting major control weaknesses, and any related significant findings and recommendations of the Auditors and the internal auditors (if applicable) (e.g., regarding deficiencies, significant deficiencies or material weaknesses), together with management's responses thereto, and the adequacy of disclosures about changes in internal control over financial reporting. The Committee shall also review with the Auditors, the internal auditors (if applicable) and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented.

- (b) **Management's Internal Controls Report.** The Committee shall review and discuss with the Auditors and management the report of management on the Company's internal control over financial reporting to be included when required in the Company's Annual Report on Form 10-K prior to filing such Annual Report on Form 10-K with the SEC.
- (c) **Submission of Complaints.** The Committee shall establish procedures for (1) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, (2) the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters, and (3) the dissemination of the procedures developed pursuant to clause (2) above in a manner reasonably calculated to make them known to all Company employees. The Committee shall monitor and promote the Company's adherence to these procedures.
- (d) **Financial Risk Exposure and General Compliance.** The Committee shall discuss and review with management the Company's major financial risk exposure and the steps management takes to implement plans to monitor and mitigate such risks, including risk assessment and management policies. Such risks and exposures include, but are not limited to, threatened and pending litigation, claims against the Company, any published reports that raise material issues regarding the Company's financial statements or accounting policies, tax matters, legal and regulatory compliance and correspondence between the Company and any regulatory or governmental authorities, and matters that could materially impact the Company's internal control over financial reporting, disclosure controls and procedures and financial reporting. The Committee shall review the Company's procedures for monitoring compliance with laws and regulations; as well as the Company's code of conduct and other policies relating to compliance with laws and regulations, throughout the Company.

- (e) **Debt Instruments.** The Committee shall review and discuss with the Auditors and management the Company's compliance with financial covenants in its credit facility and other material outstanding debt instruments, as well as any material debt instruments issued by any of the Company's subsidiaries.

3. **Financial Reporting.**

- (a) **Financial Statement Review.** The Committee shall review and discuss with management and the Auditors the Company's annual audited and quarterly unaudited financial statements, including the Auditors' audit reports and the results of the Auditors' review of the quarterly financial statements (as applicable), as well as the related "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case prior to filing the financial statements with the SEC. The Committee shall recommend to the Board whether the annual financial statements should be included in the Company's Annual Report on Form 10-K filed with the SEC. The Committee shall also authorize the filing by the Company of each Annual Report on Form 10-K and each Quarterly Report on Form 10-Q containing the Company's financial statements.
- (b) **Earnings Release Review.** Prior to their release, the Committee shall review all of the Company's earnings releases.
- (c) **Disclosure Principles and Practices.** The Committee shall discuss with the Auditors their judgments about the quality, not just the acceptability, of the Company's accounting principles and financial disclosure practices used or proposed and the appropriateness of significant management judgments. The Committee shall discuss with the Auditors and management the effect of regulatory and accounting initiatives, as well as any off-balance sheet structures, on the Company's financial statements.
- (d) **Fraud Certification Disclosures.** The Committee shall review and discuss disclosures made to the Committee by the Company's chief executive officer (or other principal executive officer in the absence of a chief executive officer) and chief financial officer during the certification process for the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q about the effectiveness of the Company's disclosure controls and procedures, any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting and any fraud involving management or other employees having a significant role in the Company's internal control over financial reporting.
- (e) **Audit Committee Report.** Based upon discussions with, and reliance upon, the Auditors and management, the Committee shall annually review

and approve the report required by SEC rules to be included in the Company's annual proxy statement. In addition, the Committee will review any other audit committee-related disclosure in the Company's filings with the SEC or otherwise as required by applicable securities laws, rules and regulations or, if the Company's securities have become listed on a national securities exchange, by the rules of such exchange.

**4. Funding.**

- (a) **Audit Committee Funding.** The Company shall provide for appropriate funding, as determined by the Committee, for payment of (1) compensation to the Auditors or any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (2) compensation to any other advisers engaged by the Committee, including but not limited to outside legal counsel, accounting and other advisors, whose employ is deemed necessary or appropriate by the Committee to carry out its duties (which advisors the Committee is empowered to engage without further action by the Board), and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee is empowered, without further action by the Board, to cause the Company to pay any such compensation and administrative expenses.

**5. Other.**

- (a) **Committee Authority.** The Committee shall discharge its responsibilities, and shall assess the information provided to the Committee, in accordance with its business judgment. The Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate.
- (b) **Access to Records.** The Committee will have the full authority to investigate any matter brought to its attention with full access to the books, records, facilities and personnel of the Company.
- (c) **Related Party Transactions.** The Committee will review and approve all related party transactions as contemplated by Item 404 of Regulation S-K promulgated under the Securities Act of 1933, as amended, as well as any stock exchange rules to which the Company is, or may become, and any Company policy with respect to related party transactions.
- (d) **Annual Self Evaluation.** On an annual basis, the Committee shall evaluate its performance and report its results to the Board.
- (e) **Charter Review and Publication.** The Committee shall periodically review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval. If the Company's securities

have become listed on a national securities exchange, the Committee shall also cause the then-current Charter to be published on the Company's website, if required by the listing standards of such exchange.

- (f) **Other Responsibilities.** The Committee shall take such other action with respect to auditing or other financial matters as may be delegated from time to time by the Board and that are related to the purposes of the Committee set forth in Article A.