
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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

For the transition period from _____ to _____

Commission File Number: 001-39995

AFC GAMMA, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

85-1807125

(I.R.S. Employer Identification Number)

525 Okeechobee Blvd., Suite 1650, West Palm Beach, FL 33401

(Address of principal executive offices) (Zip Code)

(561) 510-2390

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	AFCG	The Nasdaq Stock Market LLC

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting 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

Class
Common stock, \$0.01 par value per share

Outstanding at November 7, 2022
20,364,000

AFC GAMMA, INC.
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

AFC GAMMA, INC.
CONSOLIDATED BALANCE SHEETS

	As of	
	September 30, 2022 (unaudited)	December 31, 2021
Assets		
Loans held for investment at fair value (cost of \$93,454,875 and \$74,913,157 at September 30, 2022 and December 31, 2021, respectively, net)	\$ 94,076,146	\$ 77,096,319
Debt securities available for sale held at fair value (cost of \$16,050,000 at December 31, 2021)	—	15,881,250
Loans held for investment at carrying value, net	339,164,030	257,163,496
Loan receivable at carrying value, net	2,220,466	2,530,588
Current expected credit loss reserve	(5,466,194)	(2,431,558)
Loans held for investment at carrying value and loan receivable at carrying value, net of current expected credit loss reserve	335,918,302	257,262,526
Cash and cash equivalents	36,319,623	109,246,048
Interest receivable	4,442,680	4,412,938
Prepaid expenses and other assets	563,984	949,279
Total assets	\$ 471,320,735	\$ 464,848,360
Liabilities		
Interest reserve	\$ 6,126,430	\$ 4,782,271
Accrued interest	2,395,833	991,840
Due to affiliate	17,640	—
Dividends payable	11,403,840	8,221,406
Current expected credit loss reserve	688,676	683,177
Accrued management and incentive fees	3,824,735	2,823,044
Accrued direct administrative expenses	1,351,666	1,324,457
Accounts payable and other liabilities	1,131,406	1,528,980
Senior notes payable, net	96,964,872	96,572,656
Line of credit payable to affiliate, net	—	74,845,355
Total liabilities	123,905,098	191,773,186
Commitments and contingencies (Note 10)		
Shareholders' equity		
Preferred stock, par value \$0.01 per share, 10,000 shares authorized at September 30, 2022 and December 31, 2021 and 125 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	1	1
Common stock, par value \$0.01 per share, 50,000,000 and 25,000,000 shares authorized at September 30, 2022 and December 31, 2021, respectively, and 20,364,000 and 16,442,812 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	203,640	163,866
Additional paid-in-capital	348,700,927	274,172,934
Accumulated other comprehensive income (loss)	—	(168,750)
Accumulated (deficit) earnings	(1,488,931)	(1,092,877)
Total shareholders' equity	347,415,637	273,075,174
Total liabilities and shareholders' equity	\$ 471,320,735	\$ 464,848,360

(See accompanying notes to the consolidated financial statements)

AFC GAMMA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue				
Interest income	\$ 19,785,583	\$ 10,616,538	\$ 60,072,643	\$ 24,050,062
Interest expense	(1,644,088)	—	(5,091,207)	—
Net interest income	18,141,495	10,616,538	54,981,436	24,050,062
Expenses				
Management and incentive fees, net (less rebate of \$432,426, \$256,989, \$1,307,969 and \$677,439, respectively)	3,824,735	2,542,936	11,873,516	5,498,469
General and administrative expenses	1,050,932	858,663	3,372,813	2,028,046
Stock-based compensation	114,062	51,429	1,221,482	1,662,001
Professional fees	324,846	396,147	1,017,525	726,194
Total expenses	5,314,575	3,849,175	17,485,336	9,914,710
Provision for current expected credit losses	(541,958)	(660,612)	(3,040,135)	(1,372,498)
Realized gains (losses) on sales of investments, net	—	400,000	450,000	400,000
Change in unrealized (losses) gains on loans at fair value, net	(637,279)	1,423,929	(1,561,890)	796,368
Net income before income taxes	11,647,683	7,930,680	33,344,075	13,959,222
Income tax expense	167,164	—	349,763	—
Net income	\$ 11,480,519	\$ 7,930,680	\$ 32,994,312	\$ 13,959,222
Earnings per common share:				
Basic earnings per common share (in dollars per share)	\$ 0.57	\$ 0.48	\$ 1.68	\$ 1.13
Diluted earnings per common share (in dollars per share)	\$ 0.57	\$ 0.47	\$ 1.67	\$ 1.10
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding (in shares)	20,019,760	16,402,984	19,687,730	12,368,977
Diluted weighted average shares of common stock outstanding (in shares)	20,112,033	16,776,648	19,780,003	12,742,641

(See accompanying notes to the consolidated financial statements)

AFC GAMMA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income	\$ 11,480,519	\$ 7,930,680	\$ 32,994,312	\$ 13,959,222
Other comprehensive income (loss):				
Reversal of unrealized loss to recognized loss on debt securities available for sale held at fair value	—	—	168,750	—
Total other comprehensive income (loss)	—	—	168,750	—
Total comprehensive income	\$ 11,480,519	\$ 7,930,680	\$ 33,163,062	\$ 13,959,222

(See accompanying notes to the consolidated financial statements)

AFC GAMMA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

Three months ended September 30, 2022

	Preferred Stock	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total Shareholders' Equity
		Shares	Amount				
Balance at June 30, 2022	\$ 1	19,857,872	\$ 197,933	\$339,568,041	\$ —	\$ (1,565,610)	\$ 338,200,365
Issuance of common stock, net of offering costs	—	506,466	5,065	9,018,824	—	—	9,023,889
Stock-based compensation	—	(338)	642	114,062	—	—	114,704
Dividends declared on common shares (\$0.56 per share)	—	—	—	—	—	(11,403,840)	(11,403,840)
Net income	—	—	—	—	—	11,480,519	11,480,519
Balance at September 30, 2022	\$ 1	20,364,000	\$ 203,640	\$348,700,927	\$ —	\$ (1,488,931)	\$ 347,415,637

Three months ended September 30, 2021

	Preferred Stock	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total Shareholders' Equity
		Shares	Amount				
Balance at June 30, 2021	\$ 1	16,116,877	\$ 161,169	\$269,061,069	\$ —	\$ (765,517)	\$ 268,456,722
Issuance of common stock, net of offering cost	—	269,650	2,697	5,035,825	—	—	5,038,522
Stock-based compensation	—	56,285	—	51,429	—	—	51,429
Dividends declared on common shares (\$0.43 per share)	—	—	—	—	—	(7,070,409)	(7,070,409)
Net income	—	—	—	—	—	7,930,680	7,930,680
Balance at September 30, 2021	\$ 1	16,442,812	\$ 163,866	\$274,148,323	\$ —	\$ 94,754	\$ 274,406,944

(See accompanying notes to the consolidated financial statements)

AFC GAMMA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

Nine months ended September 30, 2022

	Preferred Stock	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total Shareholders' Equity
		Shares	Amount				
Balance at December 31, 2021	\$ 1	16,442,812	\$ 163,866	\$274,172,934	\$ (168,750)	\$ (1,092,877)	\$ 273,075,174
Issuance of common stock, net of offering costs	—	3,913,230	39,694	73,306,511	—	—	73,346,205
Stock-based compensation	—	7,958	80	1,221,482	—	—	1,221,562
Dividends declared on common shares (\$1.67 per share)	—	—	—	—	—	(33,382,866)	(33,382,866)
Dividends declared on preferred shares (\$60 per share)	—	—	—	—	—	(7,500)	(7,500)
Other comprehensive income (loss)	—	—	—	—	168,750	—	168,750
Net income	—	—	—	—	—	32,994,312	32,994,312
Balance at September 30, 2022	\$ 1	20,364,000	\$ 203,640	\$348,700,927	\$ —	\$ (1,488,931)	\$ 347,415,637

Nine months ended September 30, 2021

	Preferred Stock	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total Shareholders' Equity
		Shares	Amount				
Balance at December 31, 2020	\$ 1	6,179,392	\$ 61,794	\$ 91,068,197	\$ —	\$ 517,720	\$ 91,647,712
Issuance of common stock, net of offering costs	—	10,263,420	102,072	181,418,125	—	—	181,520,197
Stock-based compensation	—	—	—	1,662,001	—	—	1,662,001
Dividends declared on common shares (\$1.17 per share)	—	—	—	—	—	(14,374,688)	(14,374,688)
Dividends declared on preferred shares (\$60 per share)	—	—	—	—	—	(7,500)	(7,500)
Net income	—	—	—	—	—	13,959,222	13,959,222
Balance at September 30, 2021	\$ 1	16,442,812	\$ 163,866	\$274,148,323	\$ —	\$ 94,754	\$ 274,406,944

(See accompanying notes to the consolidated financial statements)

AFC GAMMA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30,	
	2022	2021
Operating activities:		
Net income	\$ 32,994,312	\$ 13,959,222
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for current expected credit losses	3,040,135	1,372,498
Realized (gains) losses on sale of investments, net	(450,000)	(400,000)
Change in unrealized losses (gains) on loans at fair value, net	1,561,890	(796,368)
Accretion of deferred loan original issue discount and other discounts	(9,710,278)	(4,038,816)
Amortization of deferred financing costs	714,471	—
Stock-based compensation	1,221,482	1,662,001
Payment-in-kind interest	(5,051,007)	(2,787,847)
Changes in operating assets and liabilities		
Interest receivable	(29,742)	(1,507,427)
Prepaid expenses and other assets	217,685	(319,140)
Interest reserve	894,159	(2,521,923)
Accrued interest	1,403,993	—
Accrued management and incentive fees, net	1,001,691	2,320,808
Accrued direct administrative expenses	27,209	296,040
Accounts payable and other liabilities	(379,934)	366,696
Net cash provided by (used in) operating activities	27,456,066	7,605,744
Cash flows from investing activities:		
Issuance of and fundings on loans	(127,248,748)	(156,345,116)
Proceeds from sales of Assigned Rights	—	2,313,130
Proceeds from sales of loans	10,600,000	10,400,000
Sale of available-for-sale debt securities	15,900,000	—
Principal repayment of loans	32,227,904	22,168,395
Net cash provided by (used in) investing activities	(68,520,844)	(121,463,591)
Cash flows from financing activities:		
Proceeds from sale of common stock	75,057,650	185,501,295
Payment of offering costs - equity offering	(1,711,365)	(3,981,098)
Dividends paid to common and preferred shareholders	(30,207,932)	(7,311,779)
Repayment on the line of credit	(75,000,000)	—
Net cash provided by (used in) financing activities	(31,861,647)	174,208,418
Net (decrease) increase in cash and cash equivalents	(72,926,425)	60,350,571
Cash and cash equivalents, beginning of period	109,246,048	9,623,820
Cash and cash equivalents, end of period	\$ 36,319,623	\$ 69,974,391
Supplemental disclosure of non-cash activity:		
Interest reserve withheld from funding of loans	\$ 450,000	\$ 9,450,468
OID withheld from funding of loans	\$ 5,607,675	\$ 12,391,624
Loans funded from amounts due to affiliate	\$ —	\$ 9,549,625
Change in other comprehensive income (loss) during the period	\$ 168,750	\$ —
Dividends declared and not yet paid	\$ 11,403,840	\$ —
Supplemental information:		
Interest paid during the period	\$ 2,972,743	\$ —
Income taxes paid during the period	\$ 41,287	\$ —

(See accompanying notes to the consolidated financial statements)

AFC GAMMA, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2022
(unaudited)

1. ORGANIZATION

AFC Gamma, Inc. (the “Company” or “AFCG”) is an institutional lender primarily to the cannabis industry that was founded in July 2020 by a veteran team of investment professionals. The Company primarily originates, structures, underwrites, and invests in senior secured loans and other types of loans and debt securities for cannabis industry operators in states that have legalized medical and/or adult-use cannabis.

The Company is a Maryland corporation and completed its initial public offering (the “IPO”) in March 2021. The Company is externally managed by AFC Management, LLC, a Delaware limited liability company (the Company’s “Manager”), pursuant to the terms of the Amended and Restated Management Agreement, dated January 14, 2021, between the parties (as amended from time-to-time, the “Management Agreement”). The Company’s wholly owned subsidiary, AFCG TRS1, LLC, a Delaware limited liability company (“TRS1”), operates as a taxable real estate investment trust subsidiary (a “TRS”). TRS1 began operating in July 2021, and the financial statements of TRS1 have been consolidated within the Company’s consolidated financial statements beginning with the quarter ended September 30, 2021.

The Company operates in one operating segment and is primarily focused on financing senior secured loans and other types of loans primarily to cannabis industry operators in states where medical and/or adult-use cannabis is legal. These loans are generally held for investment and are secured, directly or indirectly, by real estate, equipment, the value associated with licenses and/or other assets of borrowers depending on the applicable laws and regulations governing such borrowers.

The Company has elected to be taxed as a real estate investment trust (“REIT”) for United States federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 2020. The Company generally will not be subject to United States federal income taxes on its REIT taxable income as long as it annually distributes all of its REIT taxable income prior to the deduction for dividends paid to shareholders and complies with various other requirements as a REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and results of operations included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC.

Refer to Note 2 to the Company’s Annual Report on Form 10-K for a description of the Company’s significant accounting policies. The Company has included disclosures below regarding basis of presentation and other accounting policies that (i) are required to be disclosed quarterly, (ii) have material changes or (iii) the Company views as critical as of the date of this report.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States (“GAAP”) and in conformity with the rules and regulations of the SEC applicable to interim financial information. These unaudited interim consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair statement of the Company’s results of operations and financial condition as of and for the periods presented.

The current period’s results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2022.

Investment in Marketable Securities

Marketable debt securities in the Company’s portfolio are recorded at fair value and unrealized gains or losses are excluded from net income on the consolidated statement of operations and reported as a component of accumulated other comprehensive income within shareholders’ equity.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates include the valuation of loans held for investment at fair value and current expected credit losses (“CECL”).

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. ASU No. 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU No. 2021-01 is effective immediately for all entities. An entity may elect to apply the amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. If an entity elects to apply any of the amendments for an eligible hedging relationship, any adjustments as a result of those elections must be reflected as of the date the entity applies the election. They do not apply to contract modifications made after December 31, 2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship including periods after December 31, 2022. The Company has evaluated the impact of this ASU and has determined that this ASU does not have a material effect on the Company’s consolidated financial statements.

3. LOANS HELD FOR INVESTMENT AT FAIR VALUE

As of September 30, 2022 and December 31, 2021, the Company’s portfolio included three loans held at fair value. The aggregate originated commitment under these loans was approximately \$97.1 million and \$75.9 million, respectively, and outstanding principal was approximately \$95.6 million and \$77.6 million, as of September 30, 2022 and December 31, 2021, respectively. For the nine months ended September 30, 2022, the Company funded approximately \$18.7 million of additional principal and had approximately \$3.0 million of principal repayments of loans held at fair value. As of September 30, 2022 and December 31, 2021, none of the Company’s loans held at fair value had floating interest rates.

The following tables summarize the Company’s loans held at fair value as of September 30, 2022 and December 31, 2021:

	As of September 30, 2022			Weighted Average Remaining Life (Years) ⁽³⁾
	Fair Value ⁽¹⁾	Carrying Value ⁽²⁾	Outstanding Principal ⁽²⁾	
Senior term loans	\$ 94,076,146	\$ 93,454,875	\$ 95,575,523	1.5
Total loans held at fair value	\$ 94,076,146	\$ 93,454,875	\$ 95,575,523	1.5

As of December 31, 2021

	Fair Value ⁽¹⁾	Carrying Value ⁽²⁾	Outstanding Principal ⁽²⁾	Weighted Average Remaining Life (Years) ⁽³⁾
Senior term loans	\$ 77,096,319	\$ 74,913,157	\$ 77,630,742	2.2
Total loans held at fair value	\$ 77,096,319	\$ 74,913,157	\$ 77,630,742	2.2

(1) Refer to Note 14 to the Company's unaudited consolidated financial statements.

(2) The difference between the Carrying Value and the Outstanding Principal amount of the loans consists of unaccreted original issue discount ("OID") and loan origination costs.

(3) Weighted average remaining life is calculated based on the fair value of the loans as of September 30, 2022 and December 31, 2021.

The following table presents changes in loans held at fair value as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Unrealized Gains (Losses)	Fair Value
Total loans held at fair value at December 31, 2021	\$ 77,630,742	\$ (2,717,584)	\$ 2,183,161	\$ 77,096,319
Change in unrealized (losses) gains on loans at fair value, net	—	—	(1,561,890)	(1,561,890)
New fundings	18,737,988	(479,276)	—	18,258,712
Loan repayments	(1,960,000)	—	—	(1,960,000)
Loan amortization payments	(1,089,776)	—	—	(1,089,776)
Accretion of original issue discount	—	1,076,212	—	1,076,212
PIK interest	2,256,569	—	—	2,256,569
Total loans held at fair value at September 30, 2022	\$ 95,575,523	\$ (2,120,648)	\$ 621,271	\$ 94,076,146

A more detailed listing of the Company's loans held at fair value portfolio based on information available as of September 30, 2022 is as follows:

	Collateral Location	Collateral Type ⁽¹⁾	Fair Value ⁽²⁾	Carrying Value ⁽³⁾	Outstanding Principal ⁽³⁾	Interest Rate	Maturity Date ⁽⁴⁾	Payment Terms ⁽⁵⁾
Private Co. A	AZ, MI, MD, MA	C, D	\$ 78,444,211	\$ 78,055,662	\$ 79,772,976	15.5 % ⁽⁶⁾	5/8/2024	P/I
Public Co. A	NV	C	1,174,066	1,198,639	1,198,639	15.0 % ⁽⁷⁾	9/30/2023	I/O
Private Co. B	MI	C, D	14,457,869	14,200,574	14,603,908	18.7 % ⁽⁸⁾	9/1/2023	P/I
Total loans held at fair value			\$ 94,076,146	\$ 93,454,875	\$ 95,575,523			

(1) C = Cultivation Facilities, D = Dispensary/Retail Facilities.

(2) Refer to Note 14 to the Company's unaudited consolidated financial statements.

(3) The difference between the Carrying Value and the Outstanding Principal amount of the loans consists of OID and loan origination costs.

(4) Certain loans are subject to contractual extension options and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual maturities may differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities and amend other terms of the loans in connection with loan modifications.

(5) I/O = interest-only, P/I = principal and interest. P/I loans may include interest-only periods for a portion of the loan term.

(6) Base weighted interest rate of 12.8% and payment-in-kind ("PIK") interest rate of 2.7%.

(7) Base interest rate of 7.5% and PIK interest rate of 7.5%. As amended, cash interest is deferred from July 1, 2022 until November 1, 2022.

(8) Base weighted interest rate of 14.7% and PIK interest rate of 4.0%.

4. LOANS HELD FOR INVESTMENT AT CARRYING VALUE

As of September 30, 2022 and December 31, 2021, the Company's portfolio included ten and twelve loans, respectively, held at carrying value. The aggregate originated commitment amount under these loans was approximately \$401.1 million and \$324.3 million, respectively, and outstanding principal was approximately \$349.3 million and \$270.8 million, as of September 30, 2022 and December 31, 2021, respectively. For the nine months ended September 30, 2022, the Company funded approximately \$139.6 million of outstanding principal. As of September 30, 2022 and December 31, 2021, approximately 39% and 48%, respectively, of the Company's loans held at carrying value have floating interest rates. As of September 30, 2022, these floating benchmark rates include one-month LIBOR subject to a weighted average floor of 1.0% and quoted at 3.143%, one-month Secured Overnight Financing Rate ("SOFR") subject to a weighted average floor of 1.0% and quoted at 3.042% and U.S. Prime Rate subject to a weighted average floor of 4.4% quoted at 6.250%.

The following tables summarize the Company's loans held at carrying value as of September 30, 2022 and December 31, 2021:

	As of September 30, 2022			
	Outstanding Principal ⁽¹⁾	Original Issue Discount	Carrying Value ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Senior term loans	\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030	2.7
Total loans held at carrying value	\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030	2.7
	As of December 31, 2021			
	Outstanding Principal ⁽¹⁾	Original Issue Discount	Carrying Value ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Senior term loans	\$ 270,841,715	\$ (13,678,219)	\$ 257,163,496	3.4
Total loans held at carrying value	\$ 270,841,715	\$ (13,678,219)	\$ 257,163,496	3.4

(1) The difference between the Carrying Value and the Outstanding Principal amount of the loans consists of unaccreted OID and loan origination costs.

(2) Weighted average remaining life is calculated based on the carrying value of the loans as of September 30, 2022 and December 31, 2021.

The following table presents changes in loans held at carrying value as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Carrying Value
Total loans held at carrying value at December 31, 2021	\$ 270,841,715	\$ (13,678,219)	\$ 257,163,496
New fundings	139,571,920	(5,128,400)	134,443,520
Accretion of original issue discount	—	8,633,259	8,633,259
Loan repayments	(52,014,211)	—	(52,014,211)
Sale of loans	(10,000,000)	—	(10,000,000)
PIK interest	2,768,252	—	2,768,252
Loan amortization payments	(1,830,286)	—	(1,830,286)
Total loans held at carrying value at September 30, 2022	\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030

A more detailed listing of the Company's loans held at carrying value portfolio based on information available as of September 30, 2022 is as follows:

	Collateral Location	Collateral Type ⁽¹⁾	Outstanding Principal ⁽²⁾	Original Issue Discount	Carrying Value ⁽²⁾	Interest Rate	Maturity Date ⁽³⁾	Payment Terms ⁽⁴⁾
Private Co. C	PA	C, D	\$ 24,159,078	\$ (610,238)	\$ 23,548,840	18.5 % ⁽⁵⁾	12/01/2025	P/I
Sub. of Private Co. G	NJ, PA	C, D	67,912,444	(1,953,328)	65,959,116	16.5 % ⁽⁶⁾	05/01/2026	P/I
Public Co. F	AR, AZ, IL, FL, NV, OH, MA, MI, MD, NV	C, D	86,600,000	(854,133)	85,745,867	8.6 % ⁽⁷⁾	05/30/2023	I/O
Sub. of Private Co. H	IL	C	5,781,250	(46,712)	5,734,538	15.0 % ⁽⁸⁾	05/11/2023	I/O
Private Co. K	MA	C, D	10,765,379	(915,708)	9,849,671	15.0 % ⁽⁹⁾	05/03/2027	P/I
Private Co. I	MD	C, D	10,550,781	(177,777)	10,373,004	17.6 % ⁽¹⁰⁾	08/01/2026	P/I
Private Co. J	MO	C, D	23,568,458	(573,986)	22,994,472	19.1 % ⁽¹¹⁾	09/01/2025	P/I
Sub. of Public Co. H	CT, IA, IL, ME, MI, NJ, PA	C, D	60,000,000	(1,910,204)	58,089,796	9.8 % ⁽¹²⁾	01/01/2026	I/O
Private Co. L	MO, NJ, OH	C, D	50,000,000	(2,303,571)	47,696,429	12.0 % ⁽¹³⁾	05/01/2026	P/I
Sub. of Public Co. M	IL, MI, MA, NJ, OH, PA	C, D	10,000,000	(827,703)	9,172,297	9.5 % ⁽¹⁴⁾	08/27/2025	I/O
Total loans held at carrying value			\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030			

(1) C = Cultivation Facilities, D = Dispensary/Retail Facilities.

(2) The difference between the Carrying Value and the Outstanding Principal amount of the loans consists of unaccreted OID and loan origination costs.

(3) Certain loans are subject to contractual extension options and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual maturities may differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities and amend other terms of the loans in connection with loan modifications.

(4) I/O = interest-only, P/I = principal and interest. P/I loans may include interest-only periods for a portion of the loan term.

(5) Base interest rate of 9.0% plus Prime (Prime floor of 4.0%) and PIK interest rate of 4.0%.

(6) Base interest rate of 10.25% plus Prime (Prime floor of 4.5%).

(7) Base weighted average interest rate of 8.6%.

(8) Base interest rate of 15.0%.

(9) Base interest rate of 12.0% plus SOFR (SOFR floor of 1.0%)

(10) Base interest rate of 12.0% plus LIBOR (LIBOR floor of 1.0%) and PIK interest rate of 2.5%.

- (11) Base interest rate of 12.0% plus LIBOR (LIBOR floor of 1.0%) and PIK interest rate of 4.0%.
(12) Base interest rate of 9.8%.
(13) Base interest rate of 12.0%.
(14) Base interest rate of 9.5%.

5. LOAN RECEIVABLE AT CARRYING VALUE

As of September 30, 2022 and December 31, 2021, the Company's portfolio included one loan receivable at carrying value. The originated commitment under this loan was \$4.0 million and outstanding principal was approximately \$2.2 million and \$2.5 million as of September 30, 2022 and December 31, 2021, respectively. During the nine months ended September 30, 2022, the Company received repayments of approximately \$0.3 million of outstanding principal.

The following table presents changes in loans receivable as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Carrying Value
Total loan receivable at carrying value at December 31, 2021	\$ 2,533,266	\$ (2,678)	\$ 2,530,588
Principal repayment of loans	(337,114)	—	(337,114)
Accretion of original issue discount	—	805	805
PIK interest	26,187	—	26,187
Total loan receivable at carrying value at September 30, 2022	\$ 2,222,339	\$ (1,873)	\$ 2,220,466

6. CURRENT EXPECTED CREDIT LOSSES

The Company estimates its current expected credit losses ("CECL") on both the outstanding balances and unfunded commitments on loans held for investment and requires consideration of a broader range of historical experience adjusted for current conditions and reasonable and supportable forecast information to inform credit loss estimates (the "CECL Reserve") using a model that considers multiple datapoints and methodologies that may include the likelihood of default and expected loss given default for each individual loan, discounted cash flows ("DCF"), and other inputs which may include the risk rating of the loan, how recently the loan was originated compared to the measurement date, and expected prepayment if applicable. Calculation of the CECL Reserve requires loan specific data, which may include fixed charge coverage ratio, loan-to-value, property type and geographic location. Estimating the CECL Reserve also requires significant judgment with respect to various factors, including but not limited to (i) the appropriate historical loan loss reference data, (ii) the expected timing of loan repayments, (iii) calibration of the likelihood of default to reflect the risk characteristics of the Company's loan portfolio and (iv) the Company's current and future view of the macroeconomic environment. The Company may consider loan-specific qualitative factors on certain loans to estimate its CECL Reserve, which may include (i) whether cash from the borrower's operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan and (iii) the liquidation value of collateral. For loans where the Company has deemed the borrower/sponsor to be experiencing financial difficulty, the Company may elect to apply a practical expedient in which the fair value of the underlying collateral is compared to the amortized cost of the loan in determining a specific CECL allowance. In order to estimate the future expected loan losses relevant to the Company's portfolio, the Company may consider historical market loan loss data provided by a third-party data service. The third party's loan database includes historical loss data for commercial mortgage-backed securities ("CMBS"), which the Company believes is a reasonably comparable and available data set to its type of loans.

As of September 30, 2022 and December 31, 2021, the Company's CECL Reserve for its loans held at carrying value and loan receivable at carrying value is approximately \$6.2 million and \$3.1 million, respectively, or 1.80% and 1.20%, respectively, of the Company's total loans held at carrying value and loans receivable at carrying value of approximately \$341.4 million and \$259.7 million, respectively, and is bifurcated between the current expected credit loss reserve (contra-asset) related to outstanding balances on loans held at carrying value and loans receivable at carrying value of approximately \$5.5 million and \$2.4 million, respectively, and a liability for unfunded commitments of approximately \$0.7 million and \$0.7 million, respectively. The liability was based on the unfunded portion of the loan commitment over the full contractual period over which the Company is exposed to credit risk through a current obligation to extend credit. Management considered the likelihood that funding will occur, and if funded, the expected credit loss on the funded portion.

Activity related to the CECL Reserve for outstanding balances and unfunded commitments on the Company’s loans held at carrying value and loans receivable at carrying value as of and for the three and nine months ended September 30, 2022 was as follows:

	Outstanding ⁽¹⁾	Unfunded ⁽²⁾	Total
Balance at June 30, 2022	\$ 5,018,072	\$ 594,840	\$ 5,612,912
Provision for current expected credit losses	448,122	93,836	541,958
Write-offs	—	—	—
Recoveries	—	—	—
Balance at September 30, 2022	\$ 5,466,194	\$ 688,676	\$ 6,154,870

	Outstanding ⁽¹⁾	Unfunded ⁽²⁾	Total
Balance at December 31, 2021	\$ 2,431,558	\$ 683,177	\$ 3,114,735
Provision for current expected credit losses	3,034,636	5,499	3,040,135
Write-offs	—	—	—
Recoveries	—	—	—
Balance at September 30, 2022	\$ 5,466,194	\$ 688,676	\$ 6,154,870

- (1) As of September 30, 2022 and December 31, 2021, the CECL Reserve related to outstanding balances on loans at carrying value and loans receivable at carrying value is recorded within current expected credit loss reserve in the Company’s consolidated balance sheets.
- (2) As of September 30, 2022 and December 31, 2021, the CECL Reserve related to unfunded commitments on loans held at carrying value is recorded within current expected credit loss reserve as a liability in the Company’s consolidated balance sheets.

The Company continuously evaluates the credit quality of each loan by assessing the risk factors of each loan and assigning a risk rating based on a variety of factors. Risk factors include property type, geographic and local market dynamics, physical condition, projected cash flow, loan structure and exit plan, loan-to-value ratio, fixed charge coverage ratio, project sponsorship, and other factors deemed necessary. Based on a 5-point scale, the Company’s loans are rated “1” through “5,” from less risk to greater risk, which ratings are defined as follows:

Rating	Definition
1	Very Low Risk — Materially exceeds performance metrics included in original or current credit underwriting and business plan
2	Low Risk — Collateral and business performance exceeds substantially all performance metrics included in original or current credit underwriting and business plan
3	Medium Risk — Collateral and business performance meets, or is on track to meet underwriting expectations; business plan is met or can reasonably be achieved
4	High Risk/ Potential for Loss — Collateral performance falls short of underwriting, material differences from business plans, defaults may exist, or may soon exist absent material improvement. Risk of recovery of interest exists
5	Impaired/ Loss Likely — Performance is significantly worse than underwriting with major variances from business plan observed. Loan covenants or financial milestones have been breached; exit from loan or refinancing is uncertain. Full recovery of principal is unlikely

The risk ratings are primarily based on historical data as well as taking into account future economic conditions.

As of September 30, 2022, the carrying value, excluding the CECL Reserve, of the Company's loans held at carrying value and loans receivable at carrying value within each risk rating by year of origination is as follows:

Risk Rating:	2022	2021	2020	Total
1	\$ —	\$ —	\$ —	\$ —
2	26,209,866	59,536,000	—	85,745,866
3	66,718,397	129,783,451	25,769,306	222,271,154
4	—	33,367,476	—	33,367,476
5	—	—	—	—
Total	\$ 92,928,263	\$ 222,686,927	\$ 25,769,306	\$ 341,384,496

7. INTEREST RECEIVABLE

The following table summarizes the interest receivable by the Company as of September 30, 2022 and December 31, 2021:

	As of September 30, 2022	As of December 31, 2021
Interest receivable	\$ 3,811,696	\$ 3,562,566
PIK receivable	490,284	554,357
Unused fees receivable	140,700	296,015
Total interest receivable	\$ 4,442,680	\$ 4,412,938

8. INTEREST RESERVE

At September 30, 2022 and December 31, 2021, the Company had three and seven loans, respectively, that included a loan-funded interest reserve. For the three and nine months ended September 30, 2022, approximately \$3.0 million and \$8.6 million, respectively, of aggregate interest income was earned and disbursed from the interest reserves. For the three and nine months ended September 30, 2021, approximately \$1.8 million and \$2.5 million, respectively, of aggregate interest income was earned and disbursed from the interest reserves.

The following table presents changes in the interest reserve as of and for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Beginning reserves	\$ 5,186,615	\$ 5,547,863	\$ 4,782,271	\$ 1,325,750
New reserves	3,970,958	4,525,468	9,970,958	9,450,468
Reserves disbursed	(3,031,143)	(1,819,036)	(8,626,799)	(2,521,923)
Ending reserves	\$ 6,126,430	\$ 8,254,295	\$ 6,126,430	\$ 8,254,295

9. DEBT

Revolving Credit Facility

On April 29, 2022, the Company entered into the Loan and Security Agreement (the "Revolving Credit Agreement") by and among the Company, the other loan parties from time to time party thereto, the lenders party thereto, and the lead arranger, bookrunner and administrative agent party thereto, pursuant to which, the Company obtained a \$60.0 million senior secured revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility has a maturity date of April 29, 2025.

The Revolving Credit Facility contains aggregate commitments of \$60.0 million from two FDIC-insured banking institutions (which may be increased to up to \$100.0 million in aggregate, subject to available borrowing base and additional commitments) which may be borrowed, repaid and redrawn, subject to a borrowing base based on eligible loan

obligations held by the Company and subject to the satisfaction of other conditions provided under the Revolving Credit Facility. Interest is payable on the Revolving Credit Facility at the greater of (1) the applicable base rate plus 0.50% and (2) 4.50%, as provided in the Revolving Credit Agreement, payable in cash in arrears. The Company incurred a one-time commitment fee expense of approximately \$0.5 million, which is amortized over the life of the facility. Commencing on the six-month anniversary of the closing date, the Revolving Credit Facility has an unused line fee of 0.25% per annum, to be paid semi-annually in arrears, which will be included within interest expense in the Company's consolidated statements of operations. For the three and nine months ended September 30, 2022, the Company had not drawn on the Revolving Credit Facility or incurred any interest expense related to the Revolving Credit Facility. The Company amortized \$40,130 and \$67,610 of deferred financing costs for the three and nine months ended September 30, 2022, respectively.

The obligations of the Company under the Revolving Credit Facility are secured by certain assets of the Company comprising of or relating to loan obligations designated for inclusion in the borrowing base. In addition, the Company is subject to various financial and other covenants, including: (1) liquidity of at least \$5.0 million, (2) annual debt service coverage of at least 1.5 to 1.0 and (3) secured debt not to exceed 25% of total consolidated assets of the Company and its subsidiaries.

Termination of AFC Finance Revolving Credit Facility

In July 2020, the Company obtained a secured revolving credit line (the "AFCF Revolving Credit Facility") from AFC Finance, LLC and Gamma Lending HoldCo LLC, each affiliates of the Company's management, secured by the assets of the Company. The AFCF Revolving Credit Facility originally had a loan commitment of \$40.0 million at an interest rate of 8% per annum, payable in cash in arrears. The maturity date of the AFCF Revolving Credit Facility was the earlier of (i) July 31, 2021 and (ii) the date of the closing of any credit facility where the proceeds are incurred to refund, refinance or replace the AFCF Revolving Credit Agreement, in accordance with terms of the credit agreement governing the AFCF Revolving Credit Facility (the "AFCF Revolving Credit Agreement").

On May 7, 2021, the Company amended the AFCF Revolving Credit Agreement (the "First Amendment"). The First Amendment (i) increased the loan commitment from \$40.0 million to \$50.0 million, (ii) decreased the interest rate from 8% per annum to 6% per annum, (iii) removed Gamma Lending HoldCo LLC as a lender and (iv) extended the maturity date from July 31, 2021 to the earlier of (A) December 31, 2021 or (B) the date of the closing of any refinancing credit facility.

On November 3, 2021, the Company entered into the Second Amendment to the AFCF Revolving Credit Agreement (the "Second Amendment"). Under the Second Amendment, payments to AFC Finance, LLC for interest, commitment fees and unused fees (net applicable taxes) were required to be paid directly or indirectly through AFC Finance, LLC to charitable organizations designated by AFC Finance, LLC. The Second Amendment also (i) increased the loan commitment from \$50.0 million to \$75.0 million, (ii) decreased the interest rate from 6% per annum to 4.75% per annum, (iii) introduced a one-time commitment fee of 0.25%, to be paid in three equal quarterly installments, and an unused line fee of 0.25% per annum, to be paid quarterly in arrears, (iv) provided an optional buyout provision for the holders of the 2027 Senior Notes upon an event of default under the AFCF Revolving Credit Agreement and (v) extended the fixed element of the maturity date from December 31, 2021 to September 30, 2022. Pursuant to the Second Amendment, the Company incurred a one-time commitment fee expense of \$187,500 in November 2021, payable in three quarterly installments that began in the first quarter of 2022, which is amortized over the life of the loan.

On April 29, 2022, upon the Company's entry into the Revolving Credit Facility, the Company terminated the AFCF Revolving Credit Agreement. In connection with the termination, the Company paid the remaining amount of the commitment fee outstanding of approximately \$0.1 million and accelerated the remaining deferred financing costs of approximately \$0.1 million in the second quarter of 2022. There were no other payments, premiums or penalties required to be paid in connection with the termination.

As of December 31, 2021, the outstanding loan balance under the AFCF Revolving Credit Facility was \$75.0 million. All borrowings that were previously outstanding as of December 31, 2021 were repaid in full on January 3, 2022. For the three and nine months ended September 30, 2022, the Company incurred interest expense on the AFCF Revolving Credit Facility of \$0 and \$19,792, respectively. For the three and nine months ended September 30, 2021, the Company did not incur any interest expense on the AFCF Revolving Credit Facility.

2027 Senior Notes

On November 3, 2021, the Company issued \$100.0 million in aggregate principal amount of senior unsecured notes due in May 2027 (the "2027 Senior Notes"). The 2027 Senior Notes accrue interest at a rate of 5.75% per annum. Interest on the 2027 Senior Notes is due semi-annually on May 1 and November 1 of each year, beginning on May 1, 2022. The net

proceeds from the offering were approximately \$97.0 million, after deducting the initial purchasers' discounts and commissions and estimated offering fees and expenses payable by the Company. The Company intends to use the proceeds from the issuance of the 2027 Senior Notes (i) to fund loans related to unfunded commitments to existing borrowers, (ii) to originate and participate in commercial loans to companies operating in the cannabis industry that are consistent with the Company's investment strategy and (iii) for working capital and other general corporate purposes. The terms of the 2027 Senior Notes are governed by an indenture, dated November 3, 2021, among us, as issuer, and TMI Trust Company, as trustee (the "Indenture").

Under the Indenture, the Company is required to cause all of its existing and future subsidiaries to guarantee the 2027 Senior Notes, other than certain immaterial subsidiaries as set forth in the Indenture. Subsequent to the Company's investment in the senior secured loan to Private Company I being transferred to TRS1 on April 1, 2022, TRS1 was added as a subsidiary guarantor under the Indenture. As of September 30, 2022, the 2027 Senior Notes are guaranteed by TRS1.

Prior to February 1, 2027, the Company may redeem the 2027 Senior Notes in whole or in part at a price equal to the greater of 100% of the principal amount of the 2027 Senior Notes being redeemed or a make-whole premium set forth in the Indenture, plus accrued and unpaid interest thereon to, but excluding, the applicable redemption date. On or after February 1, 2027, we may redeem the 2027 Senior Notes in whole or in part at a price equal to 100% of the principal amount of the 2027 Senior Notes being redeemed, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. The Indenture also requires us to offer to purchase all of the 2027 Senior Notes at a purchase price equal to 101% of the principal amount of the 2027 Senior Notes, plus accrued and unpaid interest if a "change of control triggering event" (as defined in the Indenture) occurs.

The Indenture contains customary terms and restrictions, subject to a number of exceptions and qualifications, including restrictions on the Company's ability to (1) incur additional indebtedness unless the Annual Debt Service Charge (as defined in the Indenture) is no less than 1.5 to 1.0, (2) incur or maintain total debt in an aggregate principal amount greater than 60% of the Company's consolidated Total Assets (as defined in the Indenture), (3) incur or maintain secured debt in an aggregate principal amount greater than 25% of the Company's consolidated Total Assets (as defined in the Indenture), and (4) merge, consolidate or sell substantially all of the Company's assets. In addition, the Indenture also provides for customary events of default. If any event of default occurs, any amount then outstanding under the Indenture may immediately become due and payable. These events of default are subject to a number of important exceptions and qualifications set forth in the Indenture.

The 2027 Senior Notes are due on May 1, 2027. Scheduled principal payments on the 2027 Senior Notes as of September 30, 2022 are as follows:

	<u>2027 Senior Notes</u>
Year	
2022 (remaining)	\$ —
2023	—
2024	—
2025	—
2026	—
Thereafter	100,000,000
Total principal	\$ 100,000,000

The following table reflects a summary of interest expense incurred during the three and nine months ended September 30, 2022. There was no interest expense incurred during the three and nine months ended September 30, 2021.

	Three months ended September 30, 2022			
	2027 Senior Notes	Revolving Credit Facility	AFCF Revolving Credit Facility	Total Borrowings
Interest expense	\$ 1,437,500	\$ —	\$ —	\$ 1,437,500
Unused fee expense	—	—	—	—
Amortization of deferred financing costs	166,458	40,130	—	206,588
Total interest expense	\$ 1,603,958	\$ 40,130	\$ —	\$ 1,644,088

	Nine months ended September 30, 2022			
	2027 Senior Notes	Revolving Credit Facility	AFCF Revolving Credit Facility	Total Borrowings
Interest expense	\$ 4,296,527	\$ —	\$ 19,792	\$ 4,316,319
Unused fee expense	—	—	60,417	60,417
Amortization of deferred financing costs	492,216	67,610	154,645	714,471
Total interest expense	\$ 4,788,743	\$ 67,610	\$ 234,854	\$ 5,091,207

10. COMMITMENTS AND CONTINGENCIES

As of September 30, 2022 and December 31, 2021, the Company had the following commitments to fund various investments:

	As of September 30, 2022	As of December 31, 2021
Total original loan commitments	\$ 502,184,382	\$ 419,198,125
Less: drawn commitments	(446,023,223)	(363,659,505)
Total undrawn commitments	\$ 56,161,159	\$ 55,538,620

The Company from time to time may be a party to litigation in the normal course of business. As of September 30, 2022, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

The Company primarily provides loans to companies operating in the cannabis industry which involves significant risks, including the risk of strict enforcement against the Company's borrowers of the federal illegality of cannabis, the Company's borrowers' inability to renew or otherwise maintain their licenses or other requisite authorizations for their cannabis operations, and such loans lack of liquidity, and the Company could lose all or part of any of the Company's loans.

The Company's ability to grow or maintain its business with respect to the loans it makes to companies operating in the cannabis industry depends on state laws pertaining to the cannabis industry. New laws that are adverse to the Company's borrowers may be enacted, and current favorable state or national laws or enforcement guidelines relating to cultivation, production and distribution of cannabis may be modified or eliminated in the future, which would impede the Company's ability to grow and could materially adversely affect the Company's business.

Management's plan to mitigate risks include monitoring the legal landscape as deemed appropriate. Also, should a loan default or otherwise be seized, the Company may be prohibited from owning cannabis assets and thus could not take possession of collateral, in which case the Company would look to sell the loan, which could result in the Company realizing a loss on the transaction.

11. SHAREHOLDERS' EQUITY

Series A Preferred Stock

As of September 30, 2022 and December 31, 2021, the Company has authorized 10,000 preferred shares and issued 125 of the preferred shares designated as 12.0% Series A Cumulative Non-Voting Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock").

The Series A Preferred Stock entitles the holders thereof to receive cumulative cash dividends at a rate per annum of 12.0% of the liquidation preference of \$1,000 per share plus all accumulated and unpaid dividends thereon. The Company generally may not declare or pay, or set apart for payment, any dividend or other distribution on any shares of the Company's stock ranking junior to the Series A Preferred Stock as to dividends, including the Company's common stock, or redeem, repurchase or otherwise make payments on any such shares, unless full, cumulative dividends on all outstanding shares of Series A Preferred Stock have been declared and paid or set apart for payment for all past dividend periods. The holders of the Series A Preferred Stock generally have no voting rights except in limited circumstances, including certain amendments to the Company's charter and the authorization or issuance of equity securities senior to or on parity with the Series A Preferred Stock. The Series A Preferred Stock is not convertible into shares of any other class or series of our stock. The Series A Preferred Stock is senior to all other classes and series of shares of the Company's stock as to dividend and redemption rights and rights upon the Company's liquidation, dissolution and winding up.

Upon written notice to each record holder of the Series A Preferred Stock as to the effective date of redemption, the Company may redeem the shares of the outstanding Series A Preferred Stock at the Company's option, in whole or in part, at any time for cash at a redemption price equal to \$1,000 per share, for a total of \$125,000 for the 125 shares outstanding, plus all accrued and unpaid dividends thereon up to and including the date fixed for redemption. Shares of the Series A Preferred Stock that are redeemed shall no longer be deemed outstanding shares of the Company and all rights of the holders of such shares will terminate.

Common Stock

The Board of Directors of the Company (the "Board") approved a seven-for-one stock split of the Company's common stock effective on January 25, 2021. All common shares, stock options, and per share information presented in the consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis for all periods presented, including reclassifying an amount equal to the increase in par value of common stock from additional paid-in capital. There was no change in the par value of the Company's common stock. Upon consummation of the Company's IPO, any shareholder that held fractional shares received cash in lieu of such fractional shares based on the public offering price of the shares of the Company's common stock at IPO. This resulted in the reduction of 15 shares issued and outstanding.

On March 23, 2021, the Company completed its IPO of 6,250,000 shares of its common stock at a price of \$19.00 per share, raising approximately \$118.8 million in gross proceeds. The underwriters also exercised their over-allotment option to purchase up to an additional 937,500 shares of the Company's common stock at a price of \$19.00 per share, which was completed on March 26, 2021, raising approximately \$17.8 million in additional gross proceeds. The underwriting commissions of approximately \$8.3 million and \$1.2 million, respectively, are reflected as a reduction of additional paid-in capital on the consolidated statements of shareholders' equity. The Company incurred approximately \$3.1 million of expenses in connection with the IPO, which is reflected as a reduction in additional paid-in capital. The net proceeds to the Company totaled approximately \$123.9 million.

On June 28, 2021, the Company completed an offering of 2,750,000 shares of its common stock at a price of \$20.50 per share, raising approximately \$56.4 million in gross proceeds. The underwriting commissions of approximately \$3.1 million are reflected as a reduction of additional paid-in capital on the consolidated statements of shareholders' equity. The Company incurred approximately \$0.7 million of expenses in connection with the offering, which is reflected as a reduction in additional paid-in capital. The net proceeds to the Company totaled approximately \$52.6 million.

On July 6, 2021, the underwriters partially exercised their over-allotment option to purchase 269,650 shares of the Company's common stock at a price of \$20.50 per share raising approximately \$5.5 million in additional gross proceeds or approximately \$5.2 million in net proceeds after underwriting commissions of approximately \$0.3 million, which is reflected as a reduction of additional paid-in capital on the consolidated statements of shareholders' equity.

On January 10, 2022, the Company completed an underwritten offering of 3,000,000 shares of our common stock, at a price to the public of \$20.50 per share. The gross proceeds to the Company from the offering were \$61.5 million, before

deducting underwriting discounts and commissions, a structuring fee and offering expenses payable by the Company. In connection with the offering, the underwriters were granted an over-allotment option to purchase up to an additional 450,000 shares of the Company's common stock. On January 14, 2022, the underwriters partially exercised the over-allotment option with respect to 291,832 shares of common stock, which was completed on January 19, 2022. The underwriting commissions of approximately \$3.5 million are reflected as a reduction of additional paid-in capital in the first quarter of fiscal year 2022. The Company incurred approximately \$1.0 million of expenses in connection with the offering. After giving effect to the partial exercise of the over-allotment option, the total number of shares sold by the Company in the public offering was 3,291,832 shares and total gross proceeds, before deducting underwriting discounts and commissions, a structuring fee and other offering expenses payable by the Company, were approximately \$67.5 million. The net proceeds to the Company totaled approximately \$63.0 million.

Pursuant to the Articles of Amendment, dated March 10, 2022, the Company increased the number of authorized shares of common stock to 50,000,000 shares at \$0.01 par value per share.

Shelf Registration Statement

On April 5, 2022, the Company filed a shelf registration statement on Form S-3 (File No. 333-264144) (the "Shelf Registration Statement"), which was declared effective on April 18, 2022. Under the Shelf Registration Statement, the Company may, from time to time, issue and sell up to \$1.0 billion of the Company's common stock, preferred stock, debt securities, warrants and rights (including as part of a unit) to purchase shares of the Company's common stock or preferred stock.

At-the-Market Offering Program ("ATM Program")

On April 5, 2022, the Company entered into an Open Market Sales Agreement (the "Sales Agreement") with Jefferies LLC and JMP Securities LLC, as Sales Agents, under which the Company may, from time to time, offer and sell shares of common stock, having an aggregate offering price of up to \$75.0 million. Under the terms of the Sales Agreement, the Company has agreed to pay the Sales Agents a commission of up to 3.0% of the gross proceeds from each sale of common stock sold through the Sales Agents. Sales of common stock, if any, may be made in transactions that are deemed to be "at-the-market" offerings, as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended (the "Securities Act"). During the three and nine months ended September 30, 2022, the Company sold an aggregate of 506,466 and 621,398 shares of the Company's common stock under the Sales Agreement at an average price of \$18.35 and \$18.30 per share, respectively. The sales generated net proceeds of approximately \$9.0 million and \$10.4 million for the three and nine months ended September 30, 2022, respectively.

As of September 30, 2022, the shares of common stock sold under the ATM Program are the only offerings that have been initiated under the Shelf Registration Statement.

Equity Incentive Plan

The Company has established an equity incentive compensation plan (the "2020 Plan"). The 2020 Plan authorizes stock options, stock appreciation rights, restricted stock, stock bonuses, stock units and other forms of awards granted or denominated in the Company's common stock or units of common stock. The 2020 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be structured to be paid or settled in cash. The Company has, and currently intends to continue to grant stock options to participants in the 2020 Plan, but it may also grant any other type of award available under the 2020 Plan in the future. Persons eligible to receive awards under the 2020 Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, employees of the Manager and certain directors and consultants and other service providers to the Company or any of its subsidiaries.

During the first quarter of 2022, the Company's Board of Directors approved grants of restricted stock and stock options to the Company's directors and officers, as well as employees of the Manager. In January 2022, the Company granted an aggregate of 8,296 shares of restricted stock and 742,000 stock options to certain of our officers and other eligible persons. The restricted stock granted in January 2022 under the 2020 Plan vests over a four-year period with approximately 33% vesting on each of the second, third and fourth anniversaries of the vesting commencement date. The stock options granted in January 2022 under the 2020 Plan have a strike price of \$20.18 and contain vesting periods that vary from immediately vested to vesting over a four-year period. As of September 30, 2022, there were 2,350,815 shares of common stock granted under the 2020 Plan, underlying 2,287,472 options and 63,343 shares of restricted stock.

As of September 30, 2022, the maximum number of shares of the Company’s common stock that may be delivered pursuant to awards under the 2020 Plan (the “Share Limit”) equals 2,793,288 shares, which is an increase of 50,647 shares compared to June 30, 2022. This Share Limit increased in the third quarter of 2022 under the evergreen provision in the 2020 Plan in connection with the shares issued under the ATM Program during such time. Shares that are subject to or underlie awards that expire or for any reason are cancelled, terminated, forfeited, fail to vest, or for any other reason are not paid or delivered under the 2020 Plan will not be counted against the Share Limit and will again be available for subsequent awards under the 2020 Plan.

The following table summarizes the (i) non-vested options granted, (ii) vested options granted and (iii) forfeited options granted for the Company’s directors and officers and employees of the Manager as of September 30, 2022 and December 31, 2021:

	As of September 30, 2022	As of December 31, 2021
Non-vested	300,652	183,114
Vested	2,068,469	1,449,518
Forfeited	(82,549)	(28,396)
Balance	2,286,572	1,604,236

The Company uses the Black-Scholes option pricing model to value stock options in determining the stock-based compensation expense. Forfeitures are recognized as they occur. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant. The expected dividend yield was based on the Company’s expected dividend yield at grant date. Expected volatility is based on the estimated average volatility of similar companies due to the lack of historical volatilities of the Company’s common stock. Restricted stock grant expense is based on the Company’s stock price at the time of the grant and amortized over the vesting period. The stock-based compensation expense for the Company was approximately \$0.1 million and \$1.2 million for the three and nine months ended September 30, 2022, respectively, and approximately \$0.1 million and \$1.7 million for the three and nine months ended September 30, 2021, respectively.

The following table presents the assumptions used in the option pricing model of options granted under the 2020 Plan:

Assumptions	Range
Expected volatility	40% - 50%
Expected dividend yield	10% - 20%
Risk-free interest rate	0.5% - 2.0%
Expected forfeiture rate	0%

The following tables summarize stock option activity during the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30, 2022	Weighted-average grant date fair value per option
Balance as of June 30, 2022	2,316,106	\$ 1.21
Granted	—	—
Exercised	(5,511)	0.90
Forfeited	(24,023)	1.20
Balance as of September 30, 2022	2,286,572	\$ 1.21

	Three months ended September 30, 2021	Weighted-average grant date fair value per option
Balance as of June 30, 2021	1,613,098	\$ 1.08
Granted	—	—
Exercised	—	—
Forfeited	(8,862)	0.90
Balance as of September 30, 2021	1,604,236	\$ 1.08

	Nine months ended September 30, 2022	Weighted-average grant date fair value per option
Balance as of December 31, 2021	1,604,236	\$ 1.08
Granted	742,000	1.46
Exercised	(5,511)	0.90
Forfeited	(54,153)	1.12
Balance as of September 30, 2022	2,286,572	\$ 1.21

	Nine months ended September 30, 2021	Weighted-average grant date fair value per option
Balance as of December 31, 2020	926,898	\$ 0.91
Granted	689,200	1.31
Exercised	—	—
Forfeited	(11,862)	1.01
Balance as of September 30, 2021	1,604,236	\$ 1.08

The following table summarizes the (i) non-vested restricted stock granted, (ii) vested restricted stock granted and (iii) forfeited restricted stock granted for the Company's directors and officers and employees of the Manager as of September 30, 2022 and December 31, 2021:

	As of September 30, 2022	As of December 31, 2021
Non-vested	64,581	56,285
Vested	—	—
Forfeited	(1,238)	—
Balance	63,343	56,285

The fair value of the Company's restricted stock awards is based on the Company's stock price on the date of grant. The following tables summarize the restricted stock activity during the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30, 2022
Balance as of June 30, 2022	64,581
Granted	—
Exercised	—
Forfeited	(1,238)
Balance as of September 30, 2022	63,343

	Three months ended September 30, 2021
Balance as of June 30, 2021	—
Granted	56,285
Exercised	—
Forfeited	—
Balance as of September 30, 2021	56,285

	Nine months ended September 30, 2022
Balance as of December 31, 2021	56,285
Granted	8,296
Exercised	—
Forfeited	(1,238)
Balance as of September 30, 2022	63,343

	Nine months ended September 30, 2021
Balance as of December 31, 2020	—
Granted	56,285
Exercised	—
Forfeited	—
Balance as of September 30, 2021	56,285

12. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted weighted average earnings per common share for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income	\$ 11,480,519	\$ 7,930,680	\$ 32,994,312	\$ 13,959,222
Divided by:				
Basic weighted average shares of common stock outstanding	20,019,760	16,402,984	19,687,730	12,368,977
Diluted weighted average shares of common stock outstanding	20,112,033	16,776,648	19,780,003	12,742,641
Basic weighted average earnings per common share	\$ 0.57	\$ 0.48	\$ 1.68	\$ 1.13
Diluted weighted average earnings per common share	\$ 0.57	\$ 0.47	\$ 1.67	\$ 1.10

13. INCOME TAX

A TRS is an entity taxed as a corporation that has not elected to be taxed as a REIT, in which a REIT directly or indirectly holds equity, and that has made a joint election with such REIT to be treated as a TRS. A TRS generally may engage in any business, including investing in assets and engaging in activities that could not be held or conducted directly by the Company without jeopardizing its qualification as a REIT. A TRS is subject to applicable United States federal, state and local income tax on its taxable income. In addition, as a REIT, the Company also may be subject to a 100% excise tax on certain transactions between it and its TRS that are not conducted on an arm's-length basis. The income tax provision is included in the line item income tax expense, including excise tax in the consolidated statements of operations included in these unaudited interim consolidated financial statements.

The income tax provision for the Company was approximately \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2022, respectively. The income tax expense for the three and nine months ended September 30, 2022 primarily relates to activities of the Company's taxable REIT subsidiary. The Company did not incur any tax expense for the three and nine months ended September 30, 2021.

For the three and nine months ended September 30, 2022 and 2021, the Company incurred no expense for United States federal excise tax. Excise tax represents a 4% tax on the sum of a portion of the Company's ordinary income and net capital gains not distributed during the period. If it is determined that an excise tax liability exists for the current period, the Company will accrue excise tax on estimated excess taxable income as such taxable income is earned. The expense is calculated in accordance with applicable tax regulations.

The Company does not have any unrecognized tax benefits and the Company does not expect that to change in the next 12 months.

14. FAIR VALUE

Loans Held for Investment

The Company's loans are typically valued using a yield analysis, which is typically performed for non-credit impaired loans to borrowers where the Company does not own a controlling equity position. To determine fair value using a yield analysis, a current price is imputed for the loan based upon an assessment of the expected market yield for a similarly structured loan with a similar level of risk. In the yield analysis, the Company considers the current contractual interest rate, the maturity and other terms of the loan relative to risk of the company and the specific loan. A key determinant of risk, among other things, is the leverage through the loan relative to the enterprise value of the borrower. As loans held by the Company are substantially illiquid with no active loan market, the Company depends on primary market data, including newly funded loans, as well as secondary market data with respect to high yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable.

The following tables present fair value measurements of loans held at fair value as of September 30, 2022 and December 31, 2021:

Fair Value Measurement as of September 30, 2022				
	Total	Level 1	Level 2	Level 3
Loans held at fair value	\$ 94,076,146	\$ —	\$ —	\$ 94,076,146
Total	\$ 94,076,146	\$ —	\$ —	\$ 94,076,146

Fair Value Measurement as of December 31, 2021				
	Total	Level 1	Level 2	Level 3
Loans held at fair value	\$ 77,096,319	\$ —	\$ —	\$ 77,096,319
Total	\$ 77,096,319	\$ —	\$ —	\$ 77,096,319

The following table presents changes in loans that use Level 3 inputs as of and for the nine months ended September 30, 2022:

	Nine months ended September 30, 2022
Total loans using Level 3 inputs at December 31, 2021	\$ 77,096,319
Change in unrealized (losses) gains on loans at fair value, net	(1,561,890)
Additional fundings	18,737,988
Original issue discount and other discounts, net of costs	(479,276)
Loan repayments	(1,960,000)
Loan amortization payments	(1,089,776)
Accretion of original issue discount	1,076,212
PIK interest	2,256,569
Total loans using Level 3 inputs at September 30, 2022	\$ 94,076,146

The change in unrealized losses included in the unaudited interim consolidated statement of operations attributable to loans held at fair value, categorized as Level 3, held at September 30, 2022 is \$(1,561,890).

The following tables summarize the significant unobservable inputs the Company used to value the loans categorized within Level 3 as of September 30, 2022 and December 31, 2021. The tables are not intended to be all-inclusive, but instead capture the significant unobservable inputs relevant to the Company's determination of fair values.

As of September 30, 2022					
	Fair Value	Primary Valuation Techniques	Unobservable Input		Weighted Average
			Input	Estimated Range	
Senior term loans	\$ 94,076,146	Yield analysis	Market yield	17.92% - 26.48%	19.25 %
Total Investments	\$ 94,076,146				

As of December 31, 2021					
	Fair Value	Primary Valuation Techniques	Unobservable Input		Weighted Average
			Input	Estimated Range	
Senior term loans	\$ 77,096,319	Yield analysis	Market yield	17.71% - 20.96%	18.22 %
Total Investments	\$ 77,096,319				

Changes in market yields may change the fair value of certain of the Company's loans. Generally, an increase in market yields may result in a decrease in the fair value of certain of the Company's loans.

Due to the inherent uncertainty of determining the fair value of loans that do not have a readily available market value, the fair value of the Company's loans may fluctuate from period to period. Additionally, the fair value of the Company's loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that the Company may ultimately realize. Further, such loans are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a loan in a forced or liquidation sale, it could realize significantly less than the value at which the Company has recorded it.

In addition, changes in the market environment and other events that may occur over the life of the loans may cause the gains or losses ultimately realized on these loans to be different than the unrealized gains or losses reflected in the valuations currently assigned.

Investment in Marketable Securities

As of September 30, 2022, the Company's portfolio did not include any debt securities. As of December 31, 2021, the Company's portfolio included one investment in debt securities held at fair value of approximately \$15.9 million. The Company sold the investment in debt securities in March of 2022, which was previously designated as available-for-sale as of December 31, 2021. For the nine months ended September 30, 2022, the realized loss on the sale of debt securities was approximately \$0.2 million.

The following table presents changes in debt securities held at fair value as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Unrealized Gains (Losses)	Fair Value
Total debt securities held at fair value at December 31, 2021	\$ 15,000,000	\$ 1,050,000	\$ (168,750)	\$ 15,881,250
Realized (losses) gains on securities at fair value, net	—	(150,000)	—	(150,000)
Change in accumulated other comprehensive income	—	—	168,750	168,750
Sale of securities	(15,000,000)	(900,000)	—	(15,900,000)
Total debt securities held at fair value at September 30, 2022	\$ —	\$ —	\$ —	\$ —

The following table presents fair value measurements of debt securities held at fair value as of September 30, 2022 and December 31, 2021:

	Fair Value Measurement as of September 30, 2022			
	Total	Level 1	Level 2	Level 3
Debt securities held at fair value	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —	\$ —

	Fair Value Measurement as of December 31, 2021			
	Total	Level 1	Level 2	Level 3
Debt securities held at fair value	\$ 15,881,250	\$ —	\$ 15,881,250	\$ —
Total	\$ 15,881,250	\$ —	\$ 15,881,250	\$ —

Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized at fair value in the balance sheet, for which it is practicable to estimate that value.

The following table details the book value and fair value of the Company's financial instruments not recognized at fair value in the balance sheet:

	As of September 30, 2022	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 36,319,623	\$ 36,319,623
Loans held for investment at carrying value	\$ 339,164,030	\$ 334,334,871
Loan receivable at carrying value	\$ 2,220,466	\$ 2,147,890
Financial liabilities:		
Senior unsecured notes, net	\$ 96,964,872	\$ 85,034,060

Estimates of fair value for cash and cash equivalents are measured using observable, quoted market prices, or Level 1 inputs. The Company's loans held for investment are measured using unobservable inputs, or Level 3 inputs. The Company's investments in debt securities are measured using readily available quoted prices for similar assets, or Level 2 inputs. The fair value of the Company's unsecured senior notes is estimated by discounting expected cash flows using readily available quoted prices for similar debt, or Level 2 inputs.

15. RELATED PARTY TRANSACTIONS

Management Agreement

Pursuant to the Management Agreement, the Manager manages the loans and day-to-day operations of the Company, subject at all times to the further terms and conditions set forth in the Management Agreement and such further limitations or parameters as may be imposed from time to time by the Company's Board.

The Manager receives base management fees (the "Base Management Fee") that are calculated and payable quarterly in arrears, in an amount equal to 0.375% of the Company's Equity (as defined below), subject to certain adjustments, less 50% of the aggregate amount of any other fees ("Outside Fees"), including any agency fees relating to our loans, but excluding the Incentive Compensation (as defined below) and any diligence fees paid to and earned by the Manager and paid by third parties in connection with the Manager's due diligence of potential loans.

Prior to the IPO, the quarterly base management fee was equal to 0.4375% of the Company's Equity, subject to certain adjustments, less 100% of the aggregate amount of any Outside Fees, including any agency fees relating to the Company's loans, but excluding the Incentive Compensation and any diligence fees paid to and earned by the Manager and paid by third parties in connection with the Manager's due diligence of potential loans.

In addition to the Base Management Fee, the Manager is entitled to receive incentive compensation (the "Incentive Compensation" or "Incentive Fees") under the Management Agreement. Under the Management Agreement, the Company pays Incentive Fees to the Manager based upon the Company's achievement of targeted levels of Core Earnings. "Core Earnings" is defined in the Management Agreement as, for a given period means the net income (loss) for such period, computed in accordance with GAAP, excluding (i) non-cash equity compensation expense, (ii) the Incentive Compensation, (iii) depreciation and amortization, (iv) any unrealized gains or losses or other non-cash items that are included in net income for the applicable reporting period, regardless of whether such items are included in other comprehensive income or loss, or in net income and (v) one-time events pursuant to changes in GAAP and certain non-cash charges, in each case after discussions between the Manager and the Company's independent directors and approved by a majority of the independent directors.

The Incentive Compensation for the three and nine months ended September 30, 2022 was approximately \$2.9 million and \$9.3 million, respectively. The Incentive Compensation for the three and nine months ended September 30, 2021 was approximately \$1.8 million and \$3.9 million, respectively.

The Company shall pay all of its costs and expenses and shall reimburse the Manager or its affiliates for expenses of the Manager and its affiliates paid or incurred on behalf of the Company, excepting only those expenses that are specifically the responsibility of the Manager pursuant to the Management Agreement. With respect to certain office expenses incurred by the Manager on behalf of the Company and other funds managed by the Manager or its affiliates, such as rent, the Manager determines each fund's pro rata portion of such expenses based on the fair value of the fund's assets under

management, excluding cash and cash equivalents, as a percentage of the total assets under management by all such related funds.

The following table summarizes the related party costs incurred by the Company for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Affiliate Costs				
Management fees	\$ 1,318,563	\$ 1,030,718	\$ 3,869,023	\$ 2,301,924
Less: outside fees earned	(432,426)	(256,989)	(1,307,969)	(677,439)
Base management fees	886,137	773,729	2,561,054	1,624,485
Incentive fees earned	2,938,598	1,769,207	9,312,462	3,873,984
General and administrative expenses reimbursable to Manager	910,243	625,711	2,790,846	1,415,217
Total	\$ 4,734,978	\$ 3,168,647	\$ 14,664,362	\$ 6,913,686

Amounts payable to the Company's Manager as of September 30, 2022 and December 31, 2021 were approximately \$5.2 million and \$4.1 million, respectively.

Due to Affiliate

Amounts due to an affiliate of the Company as of September 30, 2022 and December 31, 2021 were \$17,640 and \$0, respectively.

Investments in Loans

From time to time, the Company may co-invest with other investment vehicles managed by the Company's Manager or its affiliates and their portfolio companies, including by means of splitting loans, participating in loans or other means of syndicating loans. The Company is not obligated to provide, nor has it provided, any financial support to the other managed investment vehicles. As such, the Company's risk is limited to the carrying value of its investment in any such loan. As of September 30, 2022, there were five co-invested loans held by the Company and an affiliate of the Company.

In March 2022, the Company entered into the fourth amendment of the Amended and Restated Credit Agreement with Public Company F to, among other things, increase the total loan commitments by \$100.0 million, with approximately (i) \$26.6 million of the new loan commitments allocated to us; (ii) \$15.0 million of the new loan commitments allocated to Flower Loan Holdco LLC, an affiliated entity in which Leonard Tannenbaum, our Chief Executive Officer and Chairman, is the majority ultimate beneficial owner; and (iii) the remaining loan commitments allocated to third-party lenders by the third-party agent.

In connection with investments in loans, the Company may receive the option to assign the right (the "Assigned Right") to acquire warrants and/or equity of the borrower. The Company may sell the Assigned Right, and the sale may be to an affiliate of the Company. During the three and nine months ended September 30, 2022, the Company neither received nor sold any Assigned Right. During the three months ended September 30, 2021, the Company neither received nor sold any Assigned Right. During the nine months ended September 30, 2021, the Company sold approximately \$2.3 million of Assigned Rights to an affiliate which are accounted for as additional original issue discount and accreted over the life of the loans.

Secured Revolving Credit Facility From Affiliate

In April 2022, the Company terminated the AFCF Revolving Credit Facility. Refer to Note 9 to the Company's unaudited consolidated financial statements for more information.

16. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes the Company's dividends declared during the nine months ended September 30, 2022 and 2021:

	<u>Record Date</u>	<u>Payment Date</u>	<u>Common Share Distribution Amount</u>	<u>Taxable Ordinary Income</u>	<u>Return of Capital</u>	<u>Section 199A Dividends</u>
Regular cash dividend	3/15/2021	3/31/2021	\$ 0.36	\$ 0.36	\$ —	\$ 0.36
Regular cash dividend	6/15/2021	6/30/2021	\$ 0.38	\$ 0.38	\$ —	\$ 0.38
Regular cash dividend	9/30/2021	10/15/2021	\$ 0.43	\$ 0.43	\$ —	\$ 0.43
2021 Period Subtotal			\$ 1.17	\$ 1.17	\$ —	\$ 1.17
Regular cash dividend	3/31/2022	4/15/2022	\$ 0.55	\$ 0.55	\$ —	\$ 0.55
Regular cash dividend	6/30/2022	7/15/2022	\$ 0.56	\$ 0.56	\$ —	\$ 0.56
Regular cash dividend	9/30/2022	10/14/2022	\$ 0.56	\$ 0.56	\$ —	\$ 0.56
2022 Period Subtotal			\$ 1.67	\$ 1.67	\$ —	\$ 1.67

17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were available to be issued. There were no material subsequent events, other than those described below, that required disclosure in these financial statements.

Subsequent to the end of the third quarter, the Company increased its commitment to one borrower in the amount of \$30.0 million, were repaid \$86.6 million in full by Public Company F, reduced its commitment to one borrower by \$19.5 million, and funded approximately \$9.2 million of principal amount of new and existing commitments.

In October 2022, the Credit Agreement with the Subsidiary of Public Company H was amended to, among other things, increase the total loan commitment by \$50.0 million, of which \$30.0 million of the new loan commitment was allocated to the Company and \$7.8 million was funded by the Company. As part of the expansion, the interest rate increased from a fixed rate of 9.8% to U.S. Prime plus 5.8%, subject to a Prime floor of 5.5%.

In October 2022, Public Company F repaid its loan in full. The loan was comprised of three tranches with original maturity dates of May 30, 2023, April 28, 2023 and August 28, 2023. The aggregate amount of outstanding principal on the date of repayment was \$86.6 million. The Company received a prepayment premium and make-whole premium of approximately \$0.1 million and \$0.6 million, respectively. Following the repayment of Public Company F, six of the Company's loans have repaid prior to maturity since the Company's IPO in March 2021.

In November 2022, the Company and Private Company L agreed to reduce the total loan commitment under the credit facility from \$82.5 million to \$63.0 million.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, filed by AFC Gamma, Inc. (the “Company,” “we,” “us,” and “our”), and the information incorporated by reference in it, or made in other reports, filings with the SEC, press releases contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we intend such statements to be covered by the safe harbor provisions contained therein. The forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results or performance, and may contain the words “believe,” “anticipate,” “expect,” “estimate,” “project,” “could,” “would,” “will,” or words or phrases of similar meaning. Specifically, this Quarterly Report includes forward-looking statements regarding (i) the conditions in the adult-use, and medicinal cannabis markets and their impact on our business; (ii) our portfolio and strategies for the growth thereof; (iii) our working capital, liquidity and capital requirements; (iv) potential state and federal legislative and regulatory matters; (v) our expectations and estimates regarding certain tax, legal and accounting matters, including the impact on our financial statements and/or those of our borrowers; (vi) our expectations regarding our portfolio companies and their businesses, including demand, sales volume, profitability, and future growth; (vii) the amount, collectability and timing of cash flows, if any, from our loans; (viii) our expected ranges of originations and repayments; (ix) estimates relating to our ability to make distributions to our shareholders in the future; and (x) our expanded investment strategy.

These forward-looking statements reflect management’s current views about future events, and are subject to risks, uncertainties and assumptions. Our actual results may differ materially from the future results and events expressed or implied by the forward-looking statements. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following:

- the ability of the Manager to locate suitable investments for us and to monitor and administer our investments, especially with respect to investments as part of our expanded investment strategy;
- changes in, and volatility of the general economy and its impact on the industries in which we invest;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- increased competition;
- fluctuations in interest rates negatively affecting our business and our portfolio companies;
- ability to maintain and enforce our contractual arrangements and relationships with third parties;
- lack of liquidity of investments in our portfolio, particularly those having no liquid trading market;
- actual and potential conflicts of interest with the Manager, and/or their respective affiliates;
- potential inability of our portfolio companies to achieve their objectives;
- our ability to obtain and maintain financing arrangements;
- our ability to maintain our exemption from registration under the Investment Company Act;
- our ability to qualify for treatment as a REIT for U.S. federal income tax purposes and to comply with and conduct our business in accordance with such rules;
- actions and initiatives of the U.S. or state governments and changes to government policies and the execution and impact of these actions, initiatives and policies, including the fact that cannabis remains illegal under federal law;
- the ability of our Manager to attract and/or retain highly talented professionals;
- increase in the rates of default or decreased recovery rates on debt investments in our portfolio;
- changes in interest rates and impacts of such changes on our results of operations, cash flows and the market value of our loans; and
- interest rate mismatches between our debt investments and any leverage used to fund such investments.

Please see the section entitled “*Risk Factors*” located in our Annual Report on Form 10-K, filed with the SEC on March 10, 2022, for a further discussion of these and other risks and uncertainties which could affect our future results. These forward-looking statements apply only as of the date of this report and we undertake no obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence

of anticipated or unanticipated events, except to the extent we are legally required to disclose certain matters in SEC filings or otherwise.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes and other information included in this Quarterly Report on Form 10-Q (the "Form 10-Q"). This discussion and analysis contains forward-looking statements that involve risks and uncertainties which could cause our actual results to differ materially from those anticipated in these forward-looking statements, including, but not limited to, risks and uncertainties discussed under the heading "Cautionary Note Regarding Forward-Looking Statements," in this Form 10-Q.

Business Overview

AFC Gamma, Inc. is primarily an institutional lender to the cannabis industry that was founded in July 2020 by a veteran team of investment professionals. We primarily originate, structure, underwrite, and invest in senior secured loans and other types of loans and debt securities for cannabis industry operators in states that have legalized medical and/or adult-use cannabis. As states continue to legalize cannabis for medical and adult-use, an increasing number of companies operating in the cannabis industry need financing. Due to the currently capital constrained cannabis market, which does not typically have access to traditional bank financing, we believe we are well positioned to continue as a prudent financing source to cannabis industry operators given our stringent underwriting criteria, size and scale of operations and institutional infrastructure. Our objective is to provide attractive risk-adjusted returns over time through cash distributions and capital appreciation by providing loans to state law compliant cannabis companies. The loans we originate are primarily structured as senior loans secured by real estate, equipment, value associated with licenses and/or other assets of the loan parties to the extent permitted by applicable laws and the regulations governing such loan parties. Some of our borrowers have their equity securities listed for public trading on the Canadian Securities Exchange ("CSE") in Canada and/or over-the-counter ("OTC") in the United States. Our loans typically have up to a five-year maturity and contain amortization and/or cash flow sweeps.

We have also recently expanded our investment strategy to include (i) first lien loans secured by mortgages to businesses that are not related to the cannabis industry, (ii) the ownership of non-cannabis related real property assets, and (iii) mortgage-backed securities. We expect our underwriting and investment process for these types of investments to be substantially similar to the process we deploy for our loans to cannabis operators.

We are a Maryland corporation and externally managed by our Manager, AFC Management, LLC, a Delaware limited liability company, pursuant to the terms of the Amended and Restated Management Agreement, dated January 14, 2021, by and between AFC Gamma, Inc. and AFC Management, LLC (as amended from time-to-time, the "Management Agreement"). We commenced operations on July 31, 2020 and completed our initial public offering ("IPO") in March 2021.

We have elected to be taxed as a real estate investment trust (a "REIT"), commencing with our taxable year ended December 31, 2020. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all or substantially all of our taxable income to shareholders and maintain our intended qualification as a REIT. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act.

Our wholly owned subsidiary, AFCG TRS1, LLC ("TRS1"), operates as a taxable REIT subsidiary. TRS1 began operating in July 2021. Our investment in the equipment loan to Public Company A was transferred to TRS1 on July 31, 2021. On April 1, 2022, our investment in the senior secured loan to Private Company I was transferred to TRS1. On July 1, 2022, our investment in the senior secured loan to Private Company J was transferred to TRS1. These three loans constituted substantially all of the assets of TRS1 as of September 30, 2022. The financial statements of TRS1 have been consolidated within our consolidated financial statements.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act ("JOBS Act"), and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take

advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. As a result of the accounting standards election, we will not be subject to the same implementation timing for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult.

We could remain an “emerging growth company” for up to five years from our initial public offering, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.235 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period.

Developments during the Third Quarter of 2022:

Updates to our Loan Portfolio during the Third Quarter of 2022

During the third quarter of 2022, we purchased one investment with new commitments of approximately \$10.0 million, increased commitments to current borrowers of approximately \$9.0 million and funded approximately \$24.8 million of principal amount of new and existing commitments.

In August 2022, we purchased \$10.0 million in outstanding principal amount of 9.5% senior secured notes issued at an 8.75% discount by the Subsidiary of Public Company M, an operator publicly listed in the United States.

In August 2022, we committed an additional \$8.1 million under Credit Facility with the Subsidiary of Private Company G. Following the expansion, we now hold \$73.5 million in commitments, of which we have funded approximately \$66.8 million in total principal amount. As part of the expansion, the interest rate increased from a blended weighted-average rate across three tranches of 13.7% to Prime plus 10.3%, subject to a floor of 4.5%, per annum and the PIK interest decreased from a blended weighted-average rate across three tranches of 1.8% to 0.0% per annum.

At-the-Market Offering Program

In April 2022, we filed our shelf registration statement on Form S-3 with the SEC, registering the offer and sale of up to \$1.0 billion of securities (the “Shelf Registration Statement”). The Shelf Registration Statement enables us to issue shares of common stock, preferred stock, debt securities, warrants, rights, as well as units that include one or more of such securities. The Shelf Registration Statement also included a prospectus for an at-the-market offering program to sell up to an aggregate of \$75.0 million of shares of our common stock (the “ATM Program”) that may be issued and sold from time to time under the Sales Agreement, dated April 5, 2022 (the “Sales Agreement”), with Jefferies LLC and JMP Securities LLC, as Sales Agents. Under the terms of the Sales Agreement, we have agreed to pay the Sales Agents a commission of up to 3.0% of the gross proceeds from each sale of common stock under the Sales Agreement.

During the three and nine months ended September 30, 2022, we sold an aggregate of 506,466 and 621,398 shares of our common stock under the Sales Agreement at an average price of \$18.35 and \$18.30 per share, respectively. The sales generated net proceeds of approximately \$9.0 million and \$10.4 million for the three and nine months ended September 30, 2022, respectively.

Dividends Declared Per Share

In September 2022, we declared a regular cash dividend of \$0.56 per share of our common stock, relating to the quarter ended September 30, 2022, which was paid on October 14, 2022 to shareholders of record as of September 30, 2022. The aggregate amount of the regular cash dividend payment was approximately \$11.4 million.

For the nine months ended September 30, 2022 and 2021, we paid the following cash dividends:

Date Declared	Payable to Shareholders of Record at the Close of Business on	Date Paid	Amount per Share	Aggregate Amount Paid
March 12, 2021	March 15, 2021	March 31, 2021	\$0.36	\$2.2 million
May 7, 2021	June 15, 2021	June 30, 2021	0.38	5.1 million
September 15, 2021	September 30, 2021	October 15, 2021	0.43	7.1 million
2021 Period Subtotal			\$1.17	\$14.4 million
March 10, 2022	March 31, 2022	April 15, 2022	\$0.55	\$10.9 million
June 15, 2022	June 30, 2022	July 15, 2022	0.56	11.1 million
September 15, 2022	September 30, 2022	October 14, 2022	0.56	11.4 million
2022 Period Subtotal			\$1.67	\$33.4 million

Recent Developments

Subsequent to the end of the third quarter, we increased commitments to one borrower in the amount of \$30.0 million, were repaid \$86.6 million in full by Public Company F, reduced its commitment to one borrower by \$19.5 million, and funded approximately \$9.2 million of principal amount of new and existing commitments.

In October 2022, the Credit Agreement with the Subsidiary of Public Company H was amended to, among other things, increase the total loan commitment by \$50.0 million, of which \$30.0 million of the new loan commitment was allocated to us and \$7.8 million was funded by us. As part of the expansion, the interest rate increased from a fixed rate of 9.8% to U.S. Prime plus 5.8%, subject to a Prime floor of 5.5%.

In October 2022, Public Company F repaid its loan in full. The loan was comprised of three tranches with original maturity dates of May 30, 2023, April 28, 2023 and August 28, 2023. The aggregate amount of outstanding principal on the date of repayment was \$86.6 million. We received a prepayment premium and make-whole premium of approximately \$0.1 million and \$0.6 million, respectively. Following the repayment of Public Company F, six of our loans have repaid prior to maturity since the Company's IPO in March 2021.

In November 2022, the Company and Private Company L agreed to reduce the total loan commitment under the credit facility from \$82.5 million to \$63.0 million.

Key Financial Measures and Indicators

As a commercial real estate finance company, we believe the key financial measures and indicators for our business are Distributable Earnings, book value per share and dividends declared per share.

Non-GAAP Metrics

Distributable Earnings

In addition to using certain financial metrics prepared in accordance with GAAP to evaluate our performance, we also use Distributable Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments we believe are not necessarily indicative of our current loan activity and operations. Distributable Earnings is a measure that is not prepared in accordance with GAAP. We use these non-GAAP financial measures both to explain our results to shareholders and the investment community and in the internal evaluation and management of our businesses. Our management believes that these non-GAAP financial measures and the information they provide are useful to investors since these measures permit investors and shareholders to assess the overall performance of our business using the same tools that our management uses to evaluate our past performance and prospects for future performance. The determination of Distributable Earnings is substantially similar to the determination of Core Earnings under our Management Agreement, provided that Core Earnings is a component of the calculation of any Incentive Compensation earned under the Management Agreement for the applicable time period, and thus Core Earnings is calculated without giving effect to Incentive Compensation expense, while the calculation of Distributable Earnings accounts for any Incentive Compensation earned for such time period.

We define Distributable Earnings as, for a specified period, the net income (loss) computed in accordance with GAAP, excluding (i) stock-based compensation expense, (ii) depreciation and amortization, (iii) any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other

comprehensive income or loss, or in net income (loss); provided that Distributable Earnings does not exclude, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash, (iv) provision for current expected credit losses, (v) TRS (income) loss and (vi) one-time events pursuant to changes in GAAP and certain non-cash charges, in each case after discussions between our Manager and our independent directors and after approval by a majority of such independent directors.

We believe providing Distributable Earnings on a supplemental basis to our net income as determined in accordance with GAAP is helpful to shareholders in assessing the overall performance of our business. As a REIT, we are required to distribute at least 90% of our annual REIT taxable income, subject to certain adjustments, and to pay tax at regular corporate rates to the extent that we annually distribute less than 100% of such taxable income. Given these requirements and our belief that dividends are generally one of the principal reasons that shareholders invest in our common stock, we generally intend to attempt to pay dividends to our shareholders in an amount at least equal to such REIT taxable income, if and to the extent authorized by our Board. Distributable Earnings is one of many factors considered by our Board in authorizing dividends and, while not a direct measure of net taxable income, over time, the measure can be considered a useful indicator of our dividends.

Distributable Earnings is a non-GAAP financial measure and should not be considered as a substitute for GAAP net income. We caution readers that our methodology for calculating Distributable Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and as a result, our reported Distributable Earnings may not be comparable to similar measures presented by other REITs.

The following table provides a reconciliation of GAAP net income to Distributable Earnings:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income	\$ 11,480,519	\$ 7,930,680	\$ 32,994,312	\$ 13,959,222
Adjustments to net income:				
Stock-based compensation expense	114,062	51,429	1,221,482	1,662,001
Depreciation and amortization	—	—	—	—
Unrealized losses, (gains) or other non-cash items	637,279	(1,423,929)	1,561,890	(796,368)
Provision for current expected credit losses	541,958	660,612	3,040,135	1,372,498
TRS (income) loss	(1,019,424)	(62,320)	(1,567,970)	(62,320)
One-time events pursuant to changes in GAAP and certain non-cash charges	—	—	—	—
Distributable earnings	\$ 11,754,394	\$ 7,156,472	\$ 37,249,849	\$ 16,135,033
Basic weighted average shares of common stock outstanding (in shares)	20,019,760	16,402,984	19,687,730	12,368,977
Distributable earnings per basic weighted average share	\$ 0.59	\$ 0.44	\$ 1.89	\$ 1.30

Book Value Per Share

We believe that book value per share is helpful to shareholders in evaluating our growth as we scale our equity capital base and continue to invest in our target investments. The book value per share of our common stock as of September 30, 2022 and December 31, 2021 was approximately \$17.06 and \$16.61, respectively.

Factors Impacting our Operating Results

The results of our operations are affected by a number of factors and primarily depend on, among other things, the level of our net interest margin, the market value of our assets and the supply of, and demand for, commercial real estate debt and other financial assets in the marketplace. Our net interest margin, which includes the accretion and amortization of OID, is recognized based on the contractual rate and the outstanding principal balance of the loans we originate. Interest rates will vary according to the type of loan, conditions in the financial markets, creditworthiness of our borrowers, competition and other factors, some of which cannot be predicted with any certainty. Our operating results may also be impacted by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers.

Results of Operations for the three and nine months ended September 30, 2022 and 2021

Our net income allocable to our common shareholders for the three and nine months ended September 30, 2022 was approximately \$11.5 million and \$33.0 million or \$0.57 and \$1.68 per basic weighted average common share, respectively, compared to net income allocable to our common shareholders of approximately \$7.9 million and \$14.0 million or \$0.48 and \$1.13 per basic weighted average common share, respectively, for the prior year periods.

Interest income increased approximately \$9.2 million and \$36.0 million for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021, respectively. This increase was primarily due to an increase in the average principal outstanding of approximately \$231.9 million and \$246.4 million for the three and nine months September 30, 2022 as compared to the three and nine months ended September 30, 2021, respectively.

Interest expense increased approximately \$1.6 million and \$5.1 million for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021. This increase was due to interest expense incurred and amortization of deferred financing costs relating to our 2027 Senior Notes that were issued in November 2021, our AFCF Revolving Credit Facility, which was terminated in April 2022, and our Revolving Credit Facility that began in April 2022. For the three months ended September 30, 2022, total interest expense for the 2027 Senior Notes, Revolving Credit Facility and AFCF Revolving Credit Facility was approximately \$1.6 million, \$0.0 million and \$0.0 million, respectively. For the nine months ended September 30, 2022, total interest expense for the 2027 Senior Notes, Revolving Credit Facility and AFCF Revolving Credit Facility was approximately \$4.8 million, \$0.1 million and \$0.2 million, respectively. No interest expense was incurred for either the three and nine months ended September 30, 2021.

General and administrative expenses increased approximately \$0.2 million and \$1.3 million for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021, respectively. This increase was primarily due to an increase in expenses relating to personnel, overhead, and occupancy costs as the Company continues to expand.

Management fees increased approximately \$0.1 million and \$0.9 million for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021, respectively. This increase was primarily due to an increase in the Company's Equity from approximately \$274.4 million to \$347.4 million. Incentive fees increased by approximately \$1.2 million and \$5.4 million for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021, respectively. This increase was driven by the increase in Core Earnings as defined in the Management Agreement.

Provision for Current Expected Credit Losses

For the three and nine months ended September 30, 2022, the increase to our provision for current expected credit loss was approximately \$0.5 million and \$3.0 million, respectively. The balance as of September 30, 2022 was approximately \$6.2 million, or 1.80%, of our total loans held at carrying value and loans receivable at carrying value balance of approximately \$341.4 million and was bifurcated between (i) the current expected credit loss reserve (contra-asset) related to outstanding balances on loans held at carrying value and loans receivable at carrying value of approximately \$5.5 million and (ii) a liability for unfunded commitments of approximately \$0.7 million. For the nine months ended September 30, 2021, the increase to our provision for current expected credit loss was approximately \$1.4 million and the balance as of September 30, 2021 was approximately \$1.8 million, or 1.18%, of our total loans held at carrying value and loans receivable at carrying value balance of approximately \$155.9 million and was bifurcated between (i) the current expected credit loss reserve (contra-asset) related to outstanding balances on loans held at carrying value and loans receivable at carrying value of approximately \$1.1 million and (ii) a liability for unfunded commitments of approximately \$0.7 million. The liability is based on the unfunded portion of loan commitments over the full contractual period over which we are exposed to credit risk through a current obligation to extend credit. Management considered the likelihood that funding will occur, and if funded, the expected credit loss on the funded portion. We continuously evaluate the credit quality of each loan by assessing the risk factors of each loan. The increase in the provision for current expected credit losses for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 is primarily due to changes in macroeconomic factors, changes to the loan portfolio including new commitments and repayments, and changes in other data points we use in estimating the reserve.

Loan Portfolio

As of September 30, 2022 and December 31, 2021, our portfolio included three loans held at fair value. The aggregate originated commitment under these loans was approximately \$97.1 million and \$75.9 million as of September 30, 2022 and December 31, 2021, respectively, and outstanding principal was approximately \$95.6 million and \$77.6 million as of

September 30, 2022 and December 31, 2021, respectively. For the nine months ended September 30, 2022, we funded approximately \$18.7 million of additional principal of loans held at fair value and we had approximately \$3.0 million of principal repayments of loans held at fair value. As of September 30, 2022 and December 31, 2021, none of our loans held at fair value had floating interest rates.

The following tables summarize our loans held at fair value as of September 30, 2022 and December 31, 2021:

As of September 30, 2022				
	Fair Value ⁽¹⁾	Carrying Value ⁽²⁾	Outstanding Principal ⁽²⁾	Weighted Average Remaining Life (Years) ⁽³⁾
Senior term loans	\$ 94,076,146	\$ 93,454,875	\$ 95,575,523	1.5
Total loans held at fair value	\$ 94,076,146	\$ 93,454,875	\$ 95,575,523	1.5

As of December 31, 2021				
	Fair Value ⁽¹⁾	Carrying Value ⁽²⁾	Outstanding Principal ⁽²⁾	Weighted Average Remaining Life (Years) ⁽³⁾
Senior term loans	\$ 77,096,319	\$ 74,913,157	\$ 77,630,742	2.2
Total loans held at fair value	\$ 77,096,319	\$ 74,913,157	\$ 77,630,742	2.2

(1) Refer to Note 14 to our unaudited interim consolidated financial statements titled "Fair Value".

(2) The difference between the carrying value and the outstanding principal amount of the loans consists of unaccreted OID and loan origination costs.

(3) Weighted average remaining life is calculated based on the fair value of the loans as of September 30, 2022 and December 31, 2021.

The following table presents changes in loans held at fair value as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Unrealized Gains (Losses)	Fair Value
Total loans held at fair value at December 31, 2021	\$ 77,630,742	\$ (2,717,584)	\$ 2,183,161	\$ 77,096,319
Change in unrealized (losses) gains on loans at fair value, net	—	—	(1,561,890)	(1,561,890)
New fundings	18,737,988	(479,276)	—	18,258,712
Loan repayments	(1,960,000)	—	—	(1,960,000)
Loan amortization payments	(1,089,776)	—	—	(1,089,776)
Accretion of original issue discount	—	1,076,212	—	1,076,212
PIK interest	2,256,569	—	—	2,256,569
Total loans held at fair value at September 30, 2022	\$ 95,575,523	\$ (2,120,648)	\$ 621,271	\$ 94,076,146

As of September 30, 2022 and December 31, 2021, our portfolio included zero and one investments in debt securities, respectively, held at fair value. We sold our investment in debt securities in the first quarter of 2022 for approximately \$15.9 million, which was previously designated as available-for-sale as of December 31, 2021, recognizing a loss on the sale of marketable securities of approximately \$0.2 million in the first quarter of 2022.

The following table summarizes our debt securities held at fair value as of December 31, 2021. We did not hold any investments in debt securities as of September 30, 2022.

	As of December 31, 2021			
	Fair Value	Carrying Value ⁽¹⁾	Outstanding Principal ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Debt securities	\$ 15,881,250	\$ 16,050,000	\$ 15,000,000	2.9
Total debt securities held at fair value	\$ 15,881,250	\$ 16,050,000	\$ 15,000,000	2.9

(1) The difference between the carrying value and the outstanding principal amount of the securities consists of unaccreted purchase premium and loan origination costs.

(2) Weighted average remaining life is calculated based on the fair value of the loans as of December 31, 2021.

The following table presents changes in debt securities held at fair value as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Unrealized Gains (Losses)	Fair Value
Total debt securities held at fair value at December 31, 2021	\$ 15,000,000	\$ 1,050,000	\$ (168,750)	\$ 15,881,250
Realized (losses) gains on securities at fair value, net	—	(150,000)	—	(150,000)
Change in accumulated other comprehensive income	—	—	168,750	168,750
Sale of securities	(15,000,000)	(900,000)	—	(15,900,000)
Total debt securities held at fair value at September 30, 2022	\$ —	\$ —	\$ —	\$ —

As of September 30, 2022 and December 31, 2021, our portfolio included ten and twelve loans, respectively, held at carrying value. The aggregate originated commitment under these loans was approximately \$401.1 million and \$324.3 million, respectively, and outstanding principal was approximately \$349.3 million and \$270.8 million, respectively, as of September 30, 2022 and December 31, 2021. During the nine months ended September 30, 2022, we funded approximately \$139.6 million of additional principal. As of September 30, 2022 and December 31, 2021, approximately 39% and 48%, respectively, of our loans held at carrying value have floating interest rates. As of September 30, 2022, these floating benchmark rates include one-month LIBOR subject to a weighted average floor of 1.0% and quoted at 3.143%, one-month Secured Overnight Financing Rate (“SOFR”) subject to a weighted average floor of 1.0% and quoted at 3.042% and U.S. Prime Rate subject to a weighted average floor of 4.4% quoted at 6.250%.

The following tables summarize our loans held at carrying value as of September 30, 2022 and December 31, 2021:

	As of September 30, 2022			
	Outstanding Principal ⁽¹⁾	Original Issue Discount	Carrying Value ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Senior term loans	\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030	2.7
Total loans held at carrying value	\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030	2.7

	As of December 31, 2021			
	Outstanding Principal ⁽¹⁾	Original Issue Discount	Carrying Value ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Senior term loans	\$ 270,841,715	\$ (13,678,219)	\$ 257,163,496	3.4
Total loans held at carrying value	\$ 270,841,715	\$ (13,678,219)	\$ 257,163,496	3.4

(1) The difference between the carrying value and the outstanding principal amount of the loans consists of unaccreted OID and loan origination costs.

(2) Weighted average remaining life is calculated based on the carrying value of the loans as of September 30, 2022 and December 31, 2021.

The following table presents changes in loans held at carrying value as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Carrying Value
Total loans held at carrying value at December 31, 2021	\$ 270,841,715	\$ (13,678,219)	\$ 257,163,496
New fundings	139,571,920	(5,128,400)	134,443,520
Accretion of original issue discount	—	8,633,259	8,633,259
Loan repayments	(52,014,211)	—	(52,014,211)
Sale of loans	(10,000,000)	—	(10,000,000)
PIK interest	2,768,252	—	2,768,252
Loan amortization payments	(1,830,286)	—	(1,830,286)
Total loans held at carrying value at September 30, 2022	\$ 349,337,390	\$ (10,173,360)	\$ 339,164,030

As of September 30, 2022 and December 31, 2021, our portfolio included one loan receivable at carrying value. The originated commitment under this loan was \$4.0 million and outstanding principal was approximately \$2.2 million and \$2.5 million as of September 30, 2022 and December 31, 2021, respectively. During the nine months ended September 30, 2022, we received repayments of approximately \$0.3 million of outstanding principal.

The following table presents changes in loans receivable as of and for the nine months ended September 30, 2022:

	Principal	Original Issue Discount	Carrying Value
Total loan receivable at carrying value at December 31, 2021	\$ 2,533,266	\$ (2,678)	\$ 2,530,588
Principal repayment of loans	(337,114)	—	(337,114)
Accretion of original issue discount	—	805	805
PIK interest	26,187	—	26,187
Total loan receivable at carrying value at September 30, 2022	\$ 2,222,339	\$ (1,873)	\$ 2,220,466

The below table summarizes our total loan portfolio as of September 30, 2022:

Loan Names	Original Funding Date ⁽¹⁾	Loan Maturity	AFCG Loan, net of Syndication	% of Total AFCG	Principal Balance as of 9/30/2022	Cash Interest Rate	PIK	Fixed/Floating	Amortization During Term	YTM ⁽²⁾⁽³⁾
Public Co. A - Real Estate Loan ⁽⁴⁾	7/3/2019	9/30/2023	\$ 2,940,000	0.6 %	\$ 1,198,639	7.5 %	7.5%	Fixed	No	21 %
Public Co. A - Equipment Loans	8/5/2019	3/31/2025	4,000,000	0.8 %	2,222,339	12.0 %	N/A	Fixed	Yes	18 %
Private Co. A ⁽⁵⁾	5/8/2020	5/8/2024	77,785,000	15.5 %	79,772,976	12.8 %	2.7%	Fixed	Yes	21 %
Private Co. B ⁽⁶⁾	9/10/2020	9/1/2023	16,402,988	3.3 %	14,603,908	14.7 %	4.0%	Fixed	Yes	30 %
Private Co. C	11/5/2020	12/1/2025	24,000,000	4.8 %	24,159,078	14.5 %	4.0%	Floating	Yes	24 %
Sub of Private Co. G	4/30/2021	5/1/2026	73,500,000	14.6 %	67,912,444	16.5 %	N/A	Floating	Yes	23 %
Sub of Private Co. H ⁽⁷⁾	5/11/2021	5/11/2023	5,781,250	1.2 %	5,781,250	15.0 %	N/A	Fixed	No	20 %
Public Co. F ⁽⁸⁾	5/21/2021	5/30/2023	86,600,000	17.2 %	86,600,000	8.6 %	N/A	Fixed	No	12 %
Private Co. I	7/14/2021	8/1/2026	10,430,144	2.1 %	10,550,781	15.1 %	2.5%	Floating	Yes	22 %
Private Co. K	4/28/2022	5/3/2027	25,245,000	5.0 %	10,765,379	15.0 %	N/A	Floating	Yes	18 %
Private Co. J	8/30/2021	9/1/2025	23,000,000	4.6 %	23,568,458	15.1 %	4.0%	Floating	Yes	22 %
Sub of Public Co. H	12/16/2021	1/1/2026	60,000,000	11.9 %	60,000,000	9.8 %	N/A	Fixed	No	14 %
Private Co. L	4/20/2022	5/1/2026	82,500,000	16.4 %	50,000,000	12.0 %	N/A	Fixed	Yes	16 %
Sub of Public Co. M	8/26/2022	8/27/2025	10,000,000	2.0 %	10,000,000	9.5 %	N/A	Fixed	No	14 %
SubTotal⁽⁹⁾ \$			502,184,382	100.0 %	\$ 447,135,252	12.4 %	1.1%			19 %
										Wtd Average

Information is as of September 30, 2022 unless otherwise specified. Borrower names have been kept confidential due to confidentiality agreement obligations.

- All loans originated prior to July 31, 2020 were purchased from an affiliated entity at fair value which approximated accreted and/or amortized cost plus accrued interest on July 31, 2020.
- Estimated YTM includes a variety of fees and features that affect the total yield, which may include, but is not limited to, OID, exit fees, prepayment fees, unused fees and contingent features. OID is recognized as a discount to the funded loan principal and is accreted to income over the term of the loan. Loans originated before July 31, 2020 were acquired by us, net of unaccreted OID, which we accrete to income over the remaining term of the loan. In some cases, additional OID is recognized from additional purchase discounts attributed to the fair value of equity positions that were separated from the loans prior to our acquisition of such loans.
The estimated YTM calculations require management to make estimates and assumptions, including, but not limited to, the timing and amounts of loan draws on delayed draw loans, the timing and collectability of exit fees, the probability and timing of prepayments and the probability of contingent features occurring. For example, certain credit agreements contain provisions pursuant to which certain PIK interest rates and fees earned by us under such credit agreements will decrease upon the satisfaction of certain specified criteria which we believe may improve the risk profile of the applicable borrower. To be conservative, we have not assumed any prepayment penalties or early payoffs in our estimated YTM calculation. Estimated YTM is based on current management estimates and assumptions, which may change. Estimated YTM is calculated using the interest rate as of September 30, 2022 applied through maturity. Actual results could differ from those estimates and assumptions.
- Estimated YTM for the loan with Private Company A is enhanced by purchase discounts attributed to the fair value of equity warrants that were separated from the loan prior to our acquisition of such loan. The purchase discounts accrete to income over the respective remaining terms of the applicable loan.
- As amended, cash interest is deferred from July 1, 2022 until November 1, 2022.
- PIK interest rate for Private Co. A represents a blended rate of differing PIK interest rates applicable to each of the three tranches to which we are a lender under the senior secured term loan credit facility with Private Company A (as may be amended, supplemented, amended and restated or otherwise modified from time to time, the "Private Company A Credit Facility").
- Cash interest and PIK interest rates for Private Co. B are weighted average rates.
- Loan to Subsidiary of Private Company H does not reflect the borrower's option to request up to two maturity extensions each for an additional six months from the then-existing loan maturity date. The first extension, which is available at the borrower's sole option, is subject to a payment of a 2.0% fee. The second extension is subject to the approval of all lenders.
- Cash interest and PIK interest rates for Public Co. F represents a blended rate of differing cash interest and PIK interest rates applicable to each of the three tranches with differing rates.
- The interest and PIK subtotal rates are weighted average rates.

Collateral Overview

Our loans are secured by various types of assets of our borrowers, including real property and certain personal property, including value associated with licenses, equipment, and other assets to the extent permitted by applicable laws and the regulations governing our borrowers. We do not have liens on cannabis inventory and are generally restricted from taking ownership of state licenses by current statutory prohibitions and exchange listing standards. The documents governing our loans also include a variety of provisions intended to provide remedies against the value associated with licenses. For example, some loan documents require a grant of a security interest in all property of the entities holding licenses to the extent not prohibited by applicable law or regulations (or requiring regulatory approval), equity pledges of entities holding licenses, receivership remedies and/or other remedies to secure the value associated with the borrowers' licenses. Upon default of a loan, we may seek to sell the loan to a third party or have an affiliate or a third-party work with the borrower to have the borrower sell collateral securing the loan to a third party or institute a foreclosure proceeding to have such collateral sold, in each case, to generate funds towards the payoff of the loan. While we believe that the appraised value of any real estate assets or other collateral securing our loans may impact the amount of the recovery in each such scenario, the amount of any such recovery from the sale of such real estate or other collateral may be less than the appraised value of such collateral and the sale of such collateral may not be sufficient to pay off the remaining balance on the defaulted loan. Becoming the holder of a license through foreclosure or otherwise, the sale of a license or other realization of the value of licenses requires the approval of regulatory authorities. As of September 30, 2022, our portfolio of loans had a weighted average real estate collateral coverage of approximately 1.0 times our aggregate committed principal amount of such loans. Our real estate collateral coverage for each of our loans was measured at the time of underwriting and based on various sources of data available at such time. We calculate our weighted average real estate collateral coverage by estimating the underlying value of our real estate collateral based on various objective and subjective factors, including, without limitation, third party appraisals, total cost basis of the subject property and/or our own internal estimates.

We may pursue a sale of a defaulted loan if we believe that a sale would yield higher proceeds or that a sale could be accomplished more quickly than a foreclosure proceeding while yielding proceeds comparable to what would be expected from a foreclosure sale. To the extent that we determine that the proceeds are more likely to be maximized through instituting a foreclosure sale or through taking title to the underlying collateral, we will be subject to the rules and regulations under state law that govern foreclosure sales and Nasdaq listing standards that do not permit us to take title to real estate while it is involved in commercial sales of cannabis. In addition, the sale of the collateral securing our loans may be difficult and may be to a party outside of the cannabis industry. Therefore, any appraisal-based value of our real estate and other collateral may not equal the value of such collateral if it were to be sold to a third party in a foreclosure or similar proceeding. We may seek to sell a defaulted loan prior to commencing a foreclosure proceeding or during a foreclosure proceeding to a purchaser that is not required to comply with Nasdaq listing standards. We believe a third-party purchaser that is not subject to Nasdaq listing standards may be able to realize greater value from real estate and other collateral securing our loans. However, we can provide no assurances that a third party would buy such loans or that the sales price of such loans would be sufficient to recover the outstanding principal balance, accrued interest, and fees. We will not own real estate as long as it is used in the commercial sale of cannabis due to current statutory prohibitions and exchange listing standards, which may delay or limit our remedies in the event that any of our borrowers default under the terms of their loans with us.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our shareholders and meet other general business needs. We use significant cash to purchase our target investments, repay principal and interest on our borrowings, make distributions to our shareholders and fund our operations. The sources of financing for our target investments are described below.

Our primary sources of cash generally consist of unused borrowing capacity under our Revolving Credit Facility, the net proceeds of future debt or equity offerings, including in connection with the ATM Program, payments of principal and interest we receive on our portfolio of assets and cash generated from our operating results.

Our net cash provided by operating activities for the nine months ended September 30, 2022 of approximately \$27.5 million was less than our dividend payments of \$30.2 million made during the same period due to earned OID of \$9.7 million and PIK repayments of \$1.2 million related to repayments from Private Company D, Private Company F and Private Company E during such period. OID relates to cash withheld by the Company upon funding of its investments and is included under the 'Supplemental disclosure of non-cash activity' on the Consolidated Statements of Cash Flows.

Capital Markets

Our Shelf Registration Statement became effective on April 18, 2022, allowing us to sell, from time to time in one or more offerings, up to \$1.0 billion of our securities, including common stock, preferred stock, debt securities, warrants and rights (including as part of a unit) to purchase shares of our common stock or preferred stock. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering. We may also access liquidity through our ATM Program, which was established in April 2022, pursuant to which we may sell, from time to time, up to \$75.0 million of our common stock. As of September 30, 2022, we sold an aggregate of 621,398 shares of the Company's common stock under the Sales Agreement at an average price of \$18.30 per share. The sales generated net proceeds of approximately \$10.4 million.

We may seek to raise further equity capital and issue debt securities in order to fund our future investments in loans. As the cannabis industry continues to evolve and to the extent that additional states legalize cannabis, the demand for capital continues to increase as operators seek to enter and build out new markets. We expect the principal amount of the loans we originate for cannabis operators to increase. We also expect that our expanded investment focus to require additional capital. As a result, we expect we will need to raise additional equity and/or debt funds to increase our liquidity in the near future.

As of September 30, 2022 and December 31, 2021, all of our cash was unrestricted and totaled approximately \$36.3 million and \$109.2 million, respectively.

As of September 30, 2022, we believe that our cash on hand, capacity available under our line of credit and cash flows from operations will be sufficient to satisfy the operating requirements of our business through at least the next twelve months.

Revolving Credit Facility

On April 29, 2022, we entered into a Revolving Credit Agreement by and among us, the other loan parties from time to time party thereto, the lenders party thereto, and the lead arranger, bookrunner and administrative agent party thereto, pursuant to which, we obtained a \$60.0 million senior-secured revolving credit facility.

The Revolving Credit Facility contains aggregate commitments of \$60.0 million from two FDIC-insured banking institutions, which may be increased to up to \$100.0 million in aggregate (subject to available borrowing base and additional commitments), and contains a maturity date of April 29, 2025. Interest is payable on the Revolving Credit Facility at the greater of (1) the applicable base rate plus 0.50% and (2) 4.50%, as provided in the Revolving Credit Agreement, payable in cash in arrears. We incurred a one-time commitment fee expense of approximately \$0.5 million, which is amortized over the life of the facility. Commencing on the six-month anniversary of the closing date, the Revolving Credit Facility has an unused line fee of 0.25% per annum, to be paid semi-annually in arrears, which will be included within interest expense in the Company's consolidated statements of operations.

Our obligations under the Revolving Credit Facility are secured by certain assets of ours comprising of or relating to loan obligations designated for inclusion in the borrowing base. In addition, we are subject to various financial and other covenants, including: (1) liquidity of at least \$5.0 million, (2) annual debt service coverage of at least 1.50 to 1.0 and (3) secured debt not to exceed 25% of total consolidated assets of us and our subsidiaries.

Termination of AFC Finance Credit Facility

On April 29, 2022, upon our entry into the Revolving Credit Facility, we terminated the AFCF Revolving Credit Facility with AFC Finance, LLC. In connection with the termination, we paid the outstanding amounts remaining in connection with the commitment fee of approximately \$0.1 million and accelerated the remaining deferred financing costs of approximately \$0.1 million in the second quarter of 2022. There were no other payments, premiums or penalties required to be paid in connection with the termination.

2027 Senior Notes

On November 3, 2021, we issued \$100.0 million in the aggregate principal amount of the 2027 Senior Notes. The 2027 Senior Notes accrue interest at a rate of 5.75% per annum. Interest on the 2027 Senior Notes is due semi-annually on May 1 and November 1 of each year, beginning on May 1, 2022. The net proceeds from the issuance of the 2027 Senior Notes were approximately \$97.0 million, after deducting the initial purchasers' discounts and commissions and estimated offering fees and expenses payable by us.

Under the Indenture, we are required to cause all of our existing and future subsidiaries to guarantee the 2027 Senior Notes, other than certain immaterial subsidiaries as set forth in the Indenture. Subsequent to the transfer of our investment in the senior secured loan to Private Company I to TRS1 on April 1, 2022, TRS1 was added as a subsidiary guarantor under the Indenture. As of September 30, 2022, the 2027 Senior Notes are guaranteed by TRS1.

Prior to February 1, 2027, we may redeem the 2027 Senior Notes at any time, in whole or from time to time in part, at a redemption price equal to the greater of 100% of the principal amount thereof or a make-whole premium set forth in the Indenture, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. On or after February 1, 2027, we may redeem the 2027 Senior Notes in whole or in part at a price equal to 100% of the principal amount of the 2027 Senior Notes being redeemed, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. The Indenture also requires us to offer to purchase all of the 2027 Senior Notes at a purchase price equal to 101% of the principal amount of the 2027 Senior Notes, plus accrued and unpaid interest if a “change of control triggering event” (as defined in the Indenture) occurs.

The Indenture contains customary terms and restrictions, subject to a number of exceptions and qualifications, including restrictions on our ability to (1) incur additional indebtedness unless the Annual Debt Service Charge (as defined in the Indenture) is no less than 1.5 to 1.0, (2) incur or maintain total debt in an aggregate principal amount greater than 60% of our consolidated Total Assets (as defined in the Indenture), (3) incur or maintain secured debt in an aggregate principal amount greater than 25% of our consolidated Total Assets (as defined in the Indenture); and (4) merge, consolidate or sell substantially all of our assets. In addition, the Indenture also provides for customary events of default. If any event of default occurs, any amount then outstanding under the Indenture may immediately become due and payable. These events of default are subject to a number of important exceptions and qualifications set forth in the Indenture. We were in compliance with the terms of the Indenture as of the date of this quarterly report.

The table below sets forth the material terms of our outstanding senior notes as of the date of this quarterly report:

Senior Notes	Issue Date	Amount Outstanding	Interest Rate Coupon	Maturity Date	Interest Due Dates	Optional Redemption Date
2027 Senior Notes	November 3, 2021	\$100.0 million	5.75%	May 1, 2027	May 1 and November 1	February 1, 2027

Other Credit Facilities, Warehouse Facilities and Repurchase Agreements

In the future, we may also use other sources of financing to fund the origination or acquisition of our target investments, including other credit facilities and other secured and unsecured forms of borrowing. These financings may be collateralized or non-collateralized and may involve one or more lenders. We expect that these facilities will typically have maturities ranging from two to five years and may accrue interest at either fixed or floating rates.

Debt Service

As of September 30, 2022, we believe that our cash on hand, capacity available under our Revolving Credit Facility, and cash flows from operations will be sufficient to service our outstanding debt during the next twelve months.

Cash Flows

The following table sets forth changes in cash and cash equivalents for the nine months ended September 30, 2022 and 2021:

	September 30,	
	2022	2021
Net income	\$ 32,994,312	\$ 13,959,222
Adjustments to reconcile net income to net cash (used in) provided by operating activities and changes in operating assets and liabilities	(5,538,246)	(6,353,478)
Net cash provided by (used in) operating activities	27,456,066	7,605,744
Net cash (used in) provided by investing activities	(68,520,844)	(121,463,591)
Net cash (used in) provided by financing activities	(31,861,647)	174,208,418
Change in cash and cash equivalents	\$ (72,926,425)	\$ 60,350,571

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2022 was approximately \$27.5 million, compared to approximately \$7.6 million for the same period in 2021. The increase from September 30, 2021 to September 30, 2022 was primarily due to an increase in net income of approximately \$19.0 million, offset by an increase in accretion of OID of approximately \$(5.7) million, increase in PIK interest of approximately \$(2.3) million, increase in provision for current expected credit losses of approximately \$1.7 million, increase in unrealized losses (gains) on loans held at fair value of approximately \$2.4 million and an increase in interest reserve of approximately \$3.4 million.

Net Cash Provided by (Used in) Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2022 was approximately \$68.5 million, compared to approximately \$121.5 million for the same period in 2021. The change was caused primarily by loan issuance and fundings of approximately \$127.2 million during the nine months ended September 30, 2022, compared to approximately \$156.3 million for the same period in 2021, offset by repayment of loans of approximately \$32.2 million during the nine months ended September 30, 2022, compared to \$22.2 million during the nine months ended September 30, 2021, proceeds received from the sale of loans and marketable securities of \$26.5 million during the nine months ended September 30, 2022, compared to \$10.4 million for the same period in 2021 and proceeds received from the sale of Assigned Rights of \$0.0 million during the nine months ended September 30, 2022, compared to \$2.3 million for the same period in 2021.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities during the nine months ended September 30, 2022 was approximately \$31.9 million, compared to net cash provided by financing activities of approximately \$174.2 million for the same period in 2021. The change was caused primarily by the change in proceeds from the sale of common stock of approximately \$75.1 million in the current period versus approximately \$185.5 million in the prior year period, repayments on the AFCF Revolving Credit Facility of \$75.0 million in the current period versus \$0.0 million for the same period in 2021 and dividends paid of approximately \$30.2 million in the current period versus \$7.3 million for the same period in 2021.

Contractual Obligations, Other Commitments, and Off-Balance Sheet Arrangements

Our contractual obligations as of September 30, 2022 are as follows:

	As of September 30, 2022				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Unfunded commitments	\$ 9,181,538	\$ 46,979,621	\$ —	\$ —	\$ 56,161,159
Total	\$ 9,181,538	\$ 46,979,621	\$ —	\$ —	\$ 56,161,159

As of September 30, 2022, all unfunded commitments relate to our total loan commitments and were available for funding in less than two years.

We also had the following contractual obligations as of September 30, 2022 relating to the 2027 Senior Notes:

	As of September 30, 2022				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Contractual obligations ⁽¹⁾	\$ 7,666,667	\$ 11,500,000	\$ 109,583,333	\$ —	\$ 128,750,000
Total	\$ 7,666,667	\$ 11,500,000	\$ 109,583,333	\$ —	\$ 128,750,000

(1) Amounts include projected interest payments during the period based on interest rates in effect as of September 30, 2022.

We may enter into certain contracts that may contain a variety of indemnification obligations. The maximum potential future payment amounts we could be required to pay under these indemnification obligations may be unlimited.

Off-balance sheet commitments consist of unfunded commitments on delayed draw loans. Other than as set forth in this quarterly report on Form 10-Q, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, special purpose entities or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment or intend to provide additional funding to any such entities.

Leverage Policies

We currently do not intend to have leverage of more than one times equity. While we are required to maintain our leverage ratio in compliance with the 2027 Senior Notes Indenture, we expect to employ prudent amounts of leverage and, when appropriate, to use debt as a means of providing additional funds for the acquisition of loans, to refinance existing debt or for general corporate purposes. Leverage is primarily used to provide capital for forward commitments until additional equity is raised or additional medium- to long-term financing is arranged. This policy is subject to change by management and our Board.

Dividends

We have elected to be taxed as a REIT for United States federal income tax purposes and, as such, intend to annually distribute to our shareholders at least 90% of our REIT taxable income, prior to the deduction for dividends paid and excluding our net capital gain. If we distribute less than 100% of our REIT taxable income in any tax year (taking into account any distributions made in a subsequent tax year under Sections 857(b)(9) or 858 of the Code), we will pay tax at regular corporate rates on that undistributed portion. Furthermore, if we distribute less than the sum of (i) 85% of our ordinary income for the calendar year, (ii) 95% of our capital gain net income for the calendar year and (iii) any undistributed shortfall from our prior calendar year (the "Required Distribution") to our shareholders during any calendar year (including any distributions declared by the last day of the calendar year but paid in the subsequent year), then we are required to pay non-deductible excise tax equal to 4% of any shortfall between the Required Distribution and the amount that was actually distributed. Any of these taxes would decrease cash available for distribution to our shareholders. The 90% distribution requirement does not require the distribution of net capital gains. However, if we elect to retain any of our net capital gain for any tax year, we must notify our shareholders and pay tax at regular corporate rates on the retained net capital gain. The shareholders must include their proportionate share of the retained net capital gain in their taxable income for the tax year, and they are deemed to have paid the REIT's tax on their proportionate share of the retained capital gain. Furthermore, such retained capital gain may be subject to the nondeductible 4% excise tax. If we determine that our estimated current year taxable income (including net capital gain) will be in excess of estimated dividend distributions (including capital gains dividends) for the current year from such income, we will accrue excise tax on a portion of the estimated excess taxable income as such taxable income is earned.

To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may be required to fund distributions from working capital or through equity, equity-related or debt financings or, in certain circumstances, asset sales, as to which our ability to consummate transactions in a timely manner on favorable terms, or at all, cannot be assured, or we may make a portion of the Required Distribution in the form of a taxable stock distribution or distribution of debt securities.

Critical Accounting Policies and Estimates

As of September 30, 2022, there were no significant changes in or changes in the application of our critical accounting policies or estimates from those presented in our Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to fluctuations in interest rates. Our loans are typically valued using a yield analysis, which is typically performed for non-credit impaired loans to borrowers. Changes in market yields may change the fair value of certain of our loans. Generally, an increase in market yields may result in a decrease in the fair value of certain of our loans; however, this is mitigated to the extent our loans bear interest at a floating rate. As of September 30, 2022, a decrease of 50 bps or increase of 50 bps of the market yield would have resulted in a change in unrealized gain (loss) of approximately \$0.5 million and \$(0.5) million, respectively. As of September 30, 2022, we had five floating-rate loans, representing approximately 31% of our portfolio based on aggregate outstanding principal balances. These floating benchmark rates include one-month LIBOR subject to a weighted average floor of 1.0% and quoted at 3.143%, one-month Secured Overnight Financing Rate (“SOFR”) subject to a weighted average floor of 1.0%, and quoted at 3.042% and U.S. Prime Rate subject to a weighted average floor of 4.4% quoted at 6.250%. We estimate that a hypothetical 100 basis points increase in the floating benchmark rate would result in an increase in annual interest income of approximately \$1.4 million and a hypothetical 100 basis points decrease in the floating benchmark rate would result in a decrease in annual interest income of approximately \$(1.4) million.

Potential Impact of LIBOR Transition

As of September 30, 2022, five of our loans, representing approximately 31% of our portfolio based on aggregate outstanding principal balances, paid interest at a variable rate tied to either LIBOR, SOFR, or U.S. Prime Rate. If one of these floating benchmarks are no longer available, our applicable loan documents generally allow us to choose a new index based upon comparable information. However, if each of these benchmarks are no longer available, we may need to renegotiate some of our agreements to determine a replacement index or rate of interest. As such, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined and any changes to benchmark interest rates could increase our financing costs, which could impact our results of operations, cash flows and the market value of our loans. In addition, the elimination of LIBOR and/or changes to another index could result in mismatches with the interest rate of loans that we are financing.

Changes in Fair Value of Our Assets

We generally hold our target investments as long-term loans; however, we may occasionally classify some of our loans as held for sale. We may carry our loans at fair value or carrying value in our consolidated balance sheet. As of September 30, 2022 and December 31, 2021, three of our loans held for investment were carried at fair value within loans held at fair value in our consolidated balance sheets, with changes in fair value recorded through earnings.

We evaluate our loans on a quarterly basis and fair value is determined by our Board through its independent Audit and Valuation Committee. We use an independent third-party valuation firm to provide input in the valuation of all of our unquoted investments, which we consider along with other various subjective and objective factors in making our evaluations.

Our loans are typically valued using a yield analysis, which is typically performed for non-credit impaired loans to borrowers. To determine fair value using a yield analysis, a current price is imputed for the loan based upon an assessment of the expected market yield for a similarly structured loan with a similar level of risk. In the yield analysis, we consider the current contractual interest rate, the maturity and other terms of the loan relative to risk of the borrower and the specific loan. A key determinant of risk, among other things, is the leverage through the loan relative to the enterprise value of the borrower. As loans held by us are substantially illiquid with no active transaction market, we depend on primary market data, including newly funded loans, as well as secondary market data with respect to high-yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable. Changes in market yields may change the fair value of certain of our loans. Generally, an increase in market yields may result in a decrease in the fair value of certain of our loans; however, this is mitigated to the extent our loans bear interest at a floating rate.

Due to the inherent uncertainty of determining the fair value of loans that do not have a readily available market value, the fair value of our loans may fluctuate from period to period. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize. Further, such loans are generally subject to legal and other restrictions on resale or

otherwise are less liquid than publicly traded securities. If we were required to liquidate our investment in a loan in a forced or liquidation sale, we could realize significantly less than the value at which we had recorded such loan investment.

Changes in Market Interest Rates and Effect on Net Interest Income

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our assets and our related financing obligations.

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing. The cost of our borrowings generally will be based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase (a) while the yields earned on our leveraged fixed-rate loan assets will remain static, and (b) at a faster pace than the yields earned on our leveraged floating-rate loan assets, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our target investments. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

Interest Rate Cap Risk

Through our Manager, we originate both fixed and floating rate loans and going forward, we intend to have the majority of our loans by aggregate commitments accrue at floating rates. These are assets in which the loans may be subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the asset's interest yield may change during any given period. However, our borrowing costs pursuant to our financing agreements may not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our floating-rate assets would effectively be limited. In addition, floating-rate assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of cash income from such assets in an amount that is less than the amount that we would need to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk

We may fund a portion of our origination of loans, or of loans that we may in the future acquire, with borrowings that are based on various benchmarks, while the interest rates on these assets may be fixed or indexed to LIBOR, SOFR, Prime Rate, or another index rate. Accordingly, any increase in an index rate will generally result in an increase in our borrowing costs that would not be matched by fixed-rate interest earnings and may not be matched by a corresponding increase in floating-rate interest earnings. Any such interest rate mismatch could adversely affect our profitability, which may negatively impact distributions to our shareholders.

Our analysis of risks is based on our Manager's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions by our Manager and our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results.

Credit Risk

We are subject to varying degrees of credit risk in connection with our loans and interest receivable. Our Manager seeks to mitigate this risk by seeking to originate loans, and may in the future acquire loans, of higher quality at appropriate prices given anticipated and unanticipated losses, by employing a comprehensive review and selection process and by proactively monitoring originated and acquired loans. Nevertheless, unanticipated credit losses could occur that could adversely impact our operating results.

We expect to be subject to varying degrees of credit risk in connection with holding our portfolio of loans. We will have exposure to credit risk on our commercial real estate loans and other targeted types of loans. Our Manager will seek to manage credit risk by performing deep credit fundamental analysis of potential assets and through the use of non-recourse financing, when and where available and appropriate.

Credit risk will also be addressed through our Manager's on-going review, and loans will be monitored for variance from expected prepayments, defaults, severities, losses and cash flow on a quarterly basis.

Other than the acquisition of our initial portfolio of loans and certain loan commitments relating to Private Company A, we, through our Manager, have originated substantially all of our loans and intend to continue to originate our loans, but we have previously and may in the future acquire loans from time to time. Our Investment Guidelines are not subject to any limits or proportions with respect to the mix of target investments that we make or that we may in the future acquire other than as necessary to maintain our exemption from registration under the Investment Company Act and our qualification as a REIT. Our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our capital that will be invested in any individual target investment at any given time.

Our loan portfolio as of September 30, 2022 was concentrated with the top four borrowers representing approximately 63.6% of the aggregate outstanding principal balances and approximately 63.8% of the total loan commitments. Additionally, the industry is experiencing significant consolidation, which we expect to continue, among cannabis operations and certain of our borrowers may combine, increasing the concentration of our borrower portfolio with those consolidated operators. Our largest credit facility represented approximately 17.2% of our total loan commitments and approximately 19.4% of the aggregate outstanding principal balances of our portfolio as of September 30, 2022. The borrower under this credit facility is Public Company F, a multi-state operator with real estate assets in several states, certain of which have been included as collateral in connection with the senior term loan. Our portion of the senior term loan provided to such borrower had an aggregate principal amount of \$86.6 million outstanding as of September 30, 2022. This senior term loan accrues interest at a blended rate of 8.6% per annum, payable in cash, across the three tranches of the senior term loan facility. The Public Company F senior term loan is managed by a third-party agent, acting as sole lead arranger, administrative agent and collateral agent, which is an affiliate of one of the other lender parties. Subsequent to the end of the third quarter, Public Company F repaid its loan in full. Refer to Note 17 to our unaudited interim consolidated financial statements titled "*Subsequent Events*" for more information.

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, which replaced the incurred loss impairment methodology pursuant to GAAP with a methodology that reflects current expected credit losses ("CECL") on both the outstanding balances and unfunded commitments on loans held for investment and requires consideration of a broader range of historical experience adjusted for current conditions and reasonable and supportable forecast information to inform credit loss estimates (the "CECL Reserve"). We adopted ASU No. 2016-13 as of July 31, 2020, the date of our commencement of operations. Subsequent period increases and decreases to expected credit losses impact earnings and are recorded within provision for current expected credit losses in our consolidated statement of operations. The CECL Reserve related to outstanding balances on loans held for investment required under ASU No. 2016-13 is a valuation account that is deducted from the amortized cost basis of our loans held at carrying value and loans receivable at carrying value in our consolidated balance sheet. The CECL Reserve related to unfunded commitments on loans held at carrying value is recorded within current expected credit loss reserve as a liability in our consolidated balance sheet. Refer to Note 6 to our unaudited interim consolidated financial statements titled "*Current Expected Credit Losses*" for more information on CECL.

We primarily provide loans to companies operating in the cannabis industry which involves significant risks, including the risk of strict enforcement against our borrowers of the federal illegality of cannabis, our borrowers' inability to renew or otherwise maintain their licenses or other requisite authorizations for their cannabis operations, and such loans lack of liquidity, and we could lose all or part of any of our loans.

Our ability to grow or maintain our core business depends on state laws pertaining to the cannabis industry. New laws that are adverse to our borrowers may be enacted, and current favorable state or national laws or enforcement guidelines relating to cultivation, production and distribution of cannabis may be modified or eliminated in the future, which would impede our ability to grow and could materially adversely affect our business.

Management's plan to mitigate risks include monitoring the legal landscape as deemed appropriate. Also, should a loan default or otherwise be seized, we may be prohibited from owning cannabis assets and thus could not take possession of collateral, in which case we would look to sell the loan, which could result in us realizing a loss on the transaction.

Real Estate Risk

Commercial real estate loans are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction

quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loan or loans, as the case may be, which could also cause us to suffer losses.

Risk Management

To the extent consistent with maintaining our REIT qualification and our exemption from registration under the Investment Company Act, we seek to manage risk exposure by closely monitoring our portfolio and actively managing financing, interest rate, credit, prepayment and convexity (a measure of the sensitivity of the duration of a loan to changes in interest rates) risks associated with holding our portfolio. Generally, with the guidance and experience of our Manager:

- we manage our portfolio through an interactive process with our Manager and service our self-originated loans through our Manager's servicer;
- we invest in a mix of floating- and fixed-rate loans to mitigate the interest rate risk associated with the financing of our portfolio;
- we actively employ portfolio-wide and asset-specific risk measurement and management processes in our daily operations, including utilizing our Manager's risk management tools such as software and services licensed or purchased from third-parties and proprietary analytical methods developed by our Manager; and
- we seek to manage credit risk through our due diligence process prior to origination or acquisition and through the use of non-recourse financing, when and where available and appropriate. In addition, with respect to any particular target investment, prior to origination or acquisition our Manager's investment team evaluates, among other things, relative valuation, comparable company analysis, supply and demand trends, shape-of-yield curves, delinquency and default rates, recovery of various sectors and vintage of collateral.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2022 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in litigation or other legal proceedings relating to claims arising from the ordinary course of business. Furthermore, third parties may try to seek to impose liability on us in connection with our loans. As of September 30, 2022, we were not subject to any material legal proceedings.

Item 1A. Risk Factors

Except as disclosed below, during the quarter ended September 30, 2022, there were no material changes to the Risk Factors disclosed in Item 1A - “Risk Factors” in the Company’s Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the nine months ended September 30, 2022.

Repurchases of Common Stock

There were no issuer repurchases of common stock during the quarter ended September 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 7, 2022, we entered into an amendment to our Management Agreement between us and our Manager (the “Management Agreement Amendment”). Our Manager is a wholly-owned subsidiary of the Parent Manager, which is an entity that is over 70%, 10% and 5% beneficially owned by Mr. Tannenbaum, Robyn Tannenbaum, our Managing Director, Head of Originations and Investor Relations and Jonathan Kalikow, our Head of Real Estate and one of our directors, respectively. Pursuant to the Management Agreement Amendment, the Management Agreement was amended to update the investment guidelines to allow for investments in (i) first lien loans secured by mortgages to businesses that are not related to the cannabis industry, (ii) the ownership of non-cannabis related real property assets and (iii) mortgage-backed securities. A copy of the Management Agreement Amendment is filed as Exhibit 10.1B to this Form 10-K and incorporated herein by reference.

Item 6. Exhibits

Exhibit No.	Description of Exhibits
3.1	Articles of Amendment and Restatement of AFC Gamma, Inc. (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-11 on January 22, 2021 and incorporated herein by reference).
3.1A	Articles of Amendment, dated March 10, 2022 (filed as Exhibit 3.1A to the Company's Annual Report on Form 10-K on March 10, 2022 and incorporated herein by reference).
3.4	Amended and Restated Bylaws of AFC Gamma, Inc. (filed as Exhibit 3.4 to the Company's Registration Statement on Form S-11 on January 22, 2021 and incorporated herein by reference).
10.1A	First Amendment to Amended and Restated Management Agreement, dated March 10, 2022 by and between AFC Gamma, Inc. and AFC Management, LLC (filed as Exhibit 10.1A to the Company's Annual Report on Form 10-K on March 10, 2022 and incorporated herein by reference).
10.1B*	Second Amendment to Amended and Restated Management Agreement, dated November 7, 2022 by and between AFC Gamma, Inc. and AFC Management, LLC
10.7†	Loan and Security Agreement, dated April 29, 2022, by and among AFC Gamma, Inc., as Borrower, and the lenders that are party thereto (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K on May 2, 2022 and incorporated herein by reference).
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.
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

† The registrant has omitted portions of the referenced exhibit pursuant to Item 601(b) of Regulation S-K because such portions are both (i) not material and (ii) would likely cause competitive harm to the registrant if publicly disclosed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2022

AFC GAMMA, INC.

By: /s/ Leonard M. Tannenbaum

Leonard M. Tannenbaum
Chief Executive Officer and Chairman
(Principal Executive Officer)

By: /s/ Brett Kaufman

Brett Kaufman
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

SECOND AMENDMENT TO AMENDED AND RESTATED MANAGEMENT AGREEMENT

This Second Amendment to Amended and Restated Management Agreement (this “**Amendment**”) is entered into effective as of November 7, 2022 (the “**Effective Date**”) by and between AFC Gamma, Inc., a Maryland corporation (together with its subsidiaries, the “**Company**”) and AFC Management, LLC, a Delaware limited liability company (the “**Manager**”).

RECITALS

WHEREAS, the Company and the Manager entered into the Amended and Restated Management Agreement, dated as of January 14, 2021, as amended by the First Amendment, dated March 10, 2022 (as amended, the “**Management Agreement**”), under which the Company has retained the Manager to administer the business activities and day-to-day operations of the Company and to perform services for the Company in the manner and on the terms set forth therein; and

WHEREAS, the Company and the Manager desire to amend the Management Agreement in certain respects as more fully set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Manager, intending to be legally bound hereby, agree as follows:

1. All capitalized terms not defined in this Amendment shall have the meanings assigned to them in the Management Agreement.
2. Effective on the Effective Date, the Investment Guidelines, as set forth on Exhibit A to the Management Agreement, is hereby amended (a) to delete the red stricken text (indicated textually in the same manner as the following examples: ~~stricken text~~) and (b) to add the blue underlined text (indicated textually in the same manner as the following examples: underlined text), in each case, as set forth in the marked copy of the Exhibit A to the Management Agreement attached hereto as Annex I, and made a part hereof for all purposes.
3. Except as expressly modified by this Amendment, the Management Agreement shall continue to be and remain in full force and effect in accordance with its terms. Any future reference to the Management Agreement shall be deemed to be a reference to the Management Agreement as modified by this Amendment.
4. The provisions of Section 16 of the Management Agreement are incorporated herein by reference *mutatis mutandis* with the same force and effect as if expressly written herein.
5. This Amendment may be executed by the parties to this Amendment on any number of separate counterparts (including by facsimile), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the parties hereto has executed this Amendment as of the Effective Date.

AFC GAMMA, INC.

By: /s/ Brett Kaufman
Name: Brett Kaufman
Title: Chief Financial Officer and Treasurer

AFC MANAGEMENT, LLC

By: /s/ Leonard M. Tannenbaum
Name: Leonard M. Tannenbaum
Title: Manager

[Signature Page To Second Amendment]

Annex I

Amended Investment Guidelines

[See attached.]

Investment Guidelines

1. No investment shall be made that would cause the Company to fail to qualify as a REIT under the Code.
2. No investment shall be made that would cause the Company to be regulated as an investment company under the Investment Company Act.

3. No investment shall be made that would cause the Company to violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company (excluding for purposes of this clause, the federal prohibition under the U.S. Controlled Substances Act of the cultivation, processing, sale or possession of cannabis or parts of cannabis including the sale or possession of cannabis paraphernalia, advertising the sale of cannabis, products containing cannabis or cannabis paraphernalia, or controlling or managing real estate on which cannabis is trafficked, as long as such investments are in compliance with applicable state law) or of any securities exchange on which the securities of the Company may be listed or that would otherwise not be permitted by the Company's Governing Instruments.

4. The Company's investments shall be in (i) first lien loans secured by mortgages to (A) cannabis operators in states that have legalized medical and/or adult use cannabis (the "Cannabis Investments"), and (B) businesses that are not related to the cannabis industry, (ii) the ownership of non-cannabis related real property assets, and (iii) mortgage-backed securities, in each case subject to the restrictions set forth in paragraphs 1 through 3 above.

~~4. The Company's investments shall be in the Investments.~~ Notwithstanding the foregoing, this paragraph 4 shall not prohibit the Manager from causing the Company to invest in (i) debt securities (including seller notes) with characteristics similar to the ~~Target Cannabis~~ Investments, or (ii) the types of assets described in paragraph 5 below until appropriate investments ~~in the Target Investments~~ described in this paragraph 4 are identified.

5. Until appropriate investments ~~in the Target Investments~~ are identified, the Manager may cause the Company to invest its available cash in interest-bearing, short-term investments, including money market accounts or funds, commercial ~~mortgage-backed~~ mortgage-backed securities, corporate bonds, ~~and other investments, debt~~ and equity interests of ~~real estate investment trusts, REITs and other investments, in each case~~ subject to the requirements for the Company's qualification as a REIT under the Code set forth in paragraphs 1 through 3 above.

6. All investments by the Company require the approval of the Investment Committee.

These Investment Guidelines may be amended, restated, modified, supplemented or waived by the Board (which must include a majority of the Independent Directors) and the Manager without the approval of the Company's stockholders.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Leonard M Tannenbaum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AFC Gamma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

By: /s/ Leonard M. Tannenbaum

Leonard M. Tannenbaum

Chief Executive Officer, Chairman and Director

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brett Kaufman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AFC Gamma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

By: /s/ Brett Kaufman

Brett Kaufman

Chief Financial Officer and Treasurer

(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of AFC Gamma, Inc. (the "Company") for the period ending September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Leonard M Tannenbaum, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

By: /s/ Leonard M. Tannenbaum

Leonard M. Tannenbaum

Chief Executive Officer, Chairman and Director

(Principal Executive Officer)

* A signed original of this written statement required by Section 906 has been provided to AFC Gamma, Inc. and will be retained by AFC Gamma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report on Form 10-Q of AFC Gamma, Inc. (the "Company") for the period ending September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Brett Kaufman, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

By: /s/ Brett Kaufman

Brett Kaufman

Chief Financial Officer and Treasurer

(Principal Financial Officer and Principal Accounting Officer)

* A signed original of this written statement required by Section 906 has been provided to AFC Gamma, Inc. and will be retained by AFC Gamma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.