

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 March 31, 2024

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 May 9, 2024
20,667,094

AFC GAMMA, INC.
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

AFC GAMMA, INC.
CONSOLIDATED BALANCE SHEETS

	As of	
	March 31, 2024 (unaudited)	December 31, 2023
Assets		
Loans held for investment at fair value (cost of \$68,514,273 and \$71,644,003 at March 31, 2024 and December 31, 2023, respectively, net)	\$ 54,977,282	\$ 61,720,705
Loans held for investment at carrying value, net	357,852,467	301,265,398
Loan receivable held at carrying value, net	2,040,058	2,040,058
Current expected credit loss reserve	(31,347,462)	(26,309,450)
Loans held for investment at carrying value and loan receivable held at carrying value, net of current expected credit loss reserve	328,545,063	276,996,006
Cash and cash equivalents	82,298,440	121,626,453
Accounts receivable	5,690,097	1,837,450
Interest receivable	4,362,274	3,715,995
Prepaid expenses and other assets	532,829	688,446
Total assets	\$ 476,405,985	\$ 466,585,055
Liabilities		
Accrued interest	\$ 2,201,888	\$ 894,000
Due to affiliate	19,765	16,437
Dividends payable	9,920,205	9,819,695
Current expected credit loss reserve	9,135	115,473
Accrued management and incentive fees	3,462,762	3,471,726
Accrued direct administrative expenses	962,721	1,486,256
Accounts payable and other liabilities	1,045,243	714,685
Senior notes payable, net	88,163,140	88,014,558
Line of credit payable, net	60,000,000	42,000,000
Total liabilities	165,784,859	146,532,830
Commitments and contingencies (Note 10)		
Shareholders' equity		
Preferred stock, par value \$0.01 per share, 10,000 shares authorized at March 31, 2024 and December 31, 2023 and 125 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	1	1
Common stock, par value \$0.01 per share, 50,000,000 shares authorized at March 31, 2024 and December 31, 2023 and 20,667,094 and 20,457,697 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	206,671	204,577
Additional paid-in capital	350,347,018	349,805,890
Accumulated (deficit) earnings	(39,932,564)	(29,958,243)
Total shareholders' equity	310,621,126	320,052,225
Total liabilities and shareholders' equity	\$ 476,405,985	\$ 466,585,055

See accompanying notes to the consolidated financial statements

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

	Three months ended March 31,	
	2024	2023
Revenue		
Interest income	\$ 16,361,060	\$ 18,500,486
Interest expense	(1,603,163)	(1,668,160)
Net interest income	14,757,897	16,832,326
Expenses		
Management and incentive fees, net (less rebate of \$374,803 and \$478,645, respectively)	3,462,762	3,704,219
General and administrative expenses	1,052,396	2,006,135
Stock-based compensation	543,222	280,578
Professional fees	956,568	420,898
Total expenses	6,014,948	6,411,830
Provision for current expected credit losses	(4,931,674)	(702,426)
Realized gains (losses) on investments, net	(93,338)	(26,384)
Gain (loss) on extinguishment of debt	—	1,986,381
Change in unrealized gains (losses) on loans at fair value, net	(3,613,693)	(1,477,691)
Net income before income taxes	104,244	10,200,376
Income tax expense	158,360	175,102
Net (loss) income	\$ (54,116)	\$ 10,025,274
Earnings per common share:		
Basic (loss) earnings per common share (in dollars per share)	\$ (0.01)	\$ 0.49
Diluted (loss) earnings per common share (in dollars per share)	\$ (0.01)	\$ 0.49
Weighted average number of common shares outstanding:		
Basic weighted average shares of common stock outstanding (in shares)	20,393,875	20,303,797
Diluted weighted average shares of common stock outstanding (in shares)	20,405,187	20,489,163

See accompanying notes to the consolidated financial statements

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

Three months ended March 31, 2024

	Preferred Stock	Common Stock		Additional Paid-In Capital	Accumulated Earnings (Deficit)	Total Shareholders' Equity
		Shares	Amount			
Balance at December 31, 2023	\$ 1	20,457,697	\$ 204,577	\$ 349,805,890	\$ (29,958,243)	\$ 320,052,225
Stock-based compensation	—	209,397	2,094	541,128	—	543,222
Dividends declared on common shares (\$0.48 per share)	—	—	—	—	(9,920,205)	(9,920,205)
Net (loss)	—	—	—	—	(54,116)	(54,116)
Balance at March 31, 2024	\$ 1	20,667,094	\$ 206,671	\$ 350,347,018	\$ (39,932,564)	\$ 310,621,126

Three months ended March 31, 2023

	Preferred Stock	Common Stock		Additional Paid-In Capital	Accumulated Earnings (Deficit)	Total Shareholders' Equity
		Shares	Amount			
Balance at December 31, 2022	\$ 1	20,364,000	\$ 203,640	\$ 348,817,914	\$ (9,962,186)	\$ 339,059,369
Stock-based compensation	—	125,234	1,252	267,406	—	268,658
Dividends declared on common shares (\$0.56 per share)	—	—	—	—	(11,473,971)	(11,473,971)
Net income	—	—	—	—	10,025,274	10,025,274
Balance at March 31, 2023	\$ 1	20,489,234	\$ 204,892	\$ 349,085,320	\$ (11,410,883)	\$ 337,879,330

See accompanying notes to the consolidated financial statements

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

	Three months ended	
	March 31,	
	2024	2023
Operating activities:		
Net (loss) income	\$ (54,116)	\$ 10,025,274
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Provision for current expected credit losses	4,931,674	702,426
Realized (gains) losses on investments, net	93,338	26,384
(Gain) loss on extinguishment of debt	—	(1,986,381)
Change in unrealized (gains) losses on loans at fair value, net	3,613,693	1,477,691
Accretion of deferred loan original issue discount and other discounts	(1,927,782)	(1,236,946)
Amortization of deferred financing costs - revolving credit facility	95,944	39,258
Amortization of deferred financing costs - senior notes	157,332	157,652
Stock-based compensation	543,222	268,658
Payment-in-kind interest	(1,600,987)	(4,503,746)
Changes in operating assets and liabilities		
Accounts receivable	55	—
Interest receivable	(640,023)	1,409,750
Prepaid expenses and other assets	50,923	1,431
Interest reserve	—	(3,010,610)
Accrued interest	1,307,888	1,180,416
Accrued management and incentive fees, net	(8,964)	(187,515)
Accrued direct administrative expenses	(523,535)	(757,625)
Accounts payable and other liabilities	333,886	776,510
Net cash provided by (used in) operating activities	6,372,548	4,382,627
Cash flows from investing activities:		
Issuance of and fundings on loans	(84,190,779)	(1,523,332)
Proceeds from sales of loans	1,796,042	13,693,481
Principal repayment of loans	28,513,871	2,821,467
Net cash provided by (used in) investing activities	(53,880,866)	14,991,616
Cash flows from financing activities:		
Borrowings on revolving credit facility	60,000,000	—
Repayment of revolving credit facility	(42,000,000)	(60,000,000)
Dividends paid to common and preferred shareholders	(9,819,695)	(11,403,840)
Repayment of senior notes	—	(7,737,500)
Net cash provided by (used in) financing activities	8,180,305	(79,141,340)
Net (decrease) increase in cash and cash equivalents	(39,328,013)	(59,767,097)
Cash and cash equivalents, beginning of period	121,626,453	140,372,841
Cash and cash equivalents, end of period	\$ 82,298,440	\$ 80,605,744
Supplemental disclosure of non-cash activity:		
Interest reserve withheld from funding of loans	\$ —	\$ 1,500,000
OID withheld from funding of loans	\$ 1,641,888	\$ —
Dividends declared and not yet paid	\$ 9,920,205	\$ 11,473,971
Supplemental information:		
Interest paid during the period	\$ 42,000	\$ 290,834
Income taxes paid during the period	\$ 124,733	\$ —

See accompanying notes to the consolidated financial statements

AFC GAMMA, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of March 31, 2024
(unaudited)

1. ORGANIZATION

AFC Gamma, Inc. (the “Company” or “AFCG”) is an institutional lender to the commercial real estate sector that was founded in July 2020 by a veteran team of investment professionals. The Company primarily originates, structures, underwrites, invests in and manages senior secured commercial real estate loans and other types of loans and debt securities, with a specialization in loans to 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 are consolidated within the Company’s consolidated financial statements. The Company’s wholly-owned subsidiary, Sunrise Realty Trust, Inc. (“SUNS”) (f/k/a CRE South LLC), was formed on August 28, 2023 and converted from a Delaware limited liability company to a Maryland corporation in February 2024. The financial statements of SUNS are consolidated within the Company’s consolidated financial statements.

The Company operates in one operating segment and is primarily focused on financing senior secured loans and other types of loans primarily to (i) senior secured loans to cannabis industry operators in states where medical and/or adult-use cannabis is legal and (ii) secured loans to commercial real estate owners, operators and related businesses. These loans are generally held for investment and are secured, directly or indirectly, by real estate, equipment, the value associated with licenses (where applicable) 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”). 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, 2023 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 accounting principles generally accepted in the United States of America (“GAAP”) and in conformity with the rules and regulations of the SEC applicable to interim financial information and include the accounts of the Company, and its wholly-owned subsidiaries. The unaudited interim consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for the fair presentation of the Company’s results of operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated in consolidation.

The current period’s results of operations will not necessarily be indicative of results that ultimately may be realized for the year ending December 31, 2024.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated 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 November 2023, the Financial Accounting Standards Board (“FASB”) issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, early adoption is permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The Company is currently evaluating the impact of the update on the Company’s future consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09—Income Taxes (Topic 740): Improvements to Income Tax Disclosures (“ASU 2023-09”). ASU 2023-09 improves the transparency of income tax disclosures related to rate reconciliation and income taxes. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied prospectively, however retrospective application is permitted. The Company is currently evaluating the impact of the update on the Company’s future consolidated financial statements.

3. LOANS HELD FOR INVESTMENT AT FAIR VALUE

As of March 31, 2024 and December 31, 2023, the Company’s portfolio included two loans held at fair value. The aggregate originated commitment under these loans was approximately \$94.2 million and \$94.2 million, respectively, and outstanding principal was approximately \$68.6 million and \$71.9 million as of March 31, 2024 and December 31, 2023, respectively. For the three months ended March 31, 2024, the Company received approximately \$4.0 million of principal repayments of loans held at fair value. As of March 31, 2024 and December 31, 2023, 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 March 31, 2024 and December 31, 2023:

	As of March 31, 2024			Weighted Average Remaining Life (Years)⁽³⁾⁽⁴⁾
	Fair Value⁽¹⁾	Carrying Value⁽²⁾	Outstanding Principal⁽²⁾	
Senior term loans	\$ 54,977,282	\$ 68,514,273	\$ 68,625,288	0.1
Total loans held at fair value	\$ 54,977,282	\$ 68,514,273	\$ 68,625,288	0.1

As of December 31, 2023

	Fair Value ⁽¹⁾	Carrying Value ⁽²⁾	Outstanding Principal ⁽²⁾	Weighted Average Remaining Life (Years) ⁽³⁾⁽⁴⁾
Senior term loans	\$ 61,720,705	\$ 71,644,003	\$ 71,883,402	0.4
Total loans held at fair value	\$ 61,720,705	\$ 71,644,003	\$ 71,883,402	0.4

(1) Refer to Note 14.

(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 March 31, 2024 and December 31, 2023.

(4) As of March 31, 2024 and December 31, 2023, the weighted average remaining life only reflects the remaining life of the Private Company A Credit Facility.

The following table presents changes in loans held at fair value as of and for the three months ended March 31, 2024:

	Principal	Original Issue Discount	Unrealized Gains (Losses)	Fair Value
Total loans held at fair value at December 31, 2023	\$ 71,883,402	\$ (239,399)	\$ (9,923,298)	\$ 61,720,705
Change in unrealized gains (losses) on loans at fair value, net	—	—	(3,613,693)	(3,613,693)
Accretion of original issue discount	—	128,384	—	128,384
Loan repayments	(4,003,945)	—	—	(4,003,945)
PIK interest	745,831	—	—	745,831
Total loans held at fair value at March 31, 2024	\$ 68,625,288	\$ (111,015)	\$ (13,536,991)	\$ 54,977,282

As of March 31, 2024, the Company had one loan held at fair value on nonaccrual status. As of March 1, 2024, the Company placed Private Company A on nonaccrual status with an outstanding principal amount of approximately \$49.7 million and an unrealized loss of approximately \$(10.2) million.

A more detailed listing of the Company’s loans held at fair value portfolio based on information available as of March 31, 2024 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, GA, MA, NM	C, D	\$ 39,435,412	\$ 49,618,381	\$ 49,729,397	15.7 % ⁽⁶⁾	5/8/2024	I/O
Private Co. B	MI	C, D	15,541,870	18,895,892	18,895,891	18.7 % ⁽⁷⁾	9/1/2023	I/O
Total loans held at fair value			\$ 54,977,282	\$ 68,514,273	\$ 68,625,288			

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

(2) Refer to Note 14.

(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 average interest rate of 13.0% and payment-in-kind (“PIK”) weighted average interest rate of 2.7%. In October 2023, AFC Agent LLC (“AFC Agent”) delivered a notice of default to Private Company A based on certain financial and other covenant defaults and began charging additional default interest of 5.0%, beginning as of July 1, 2023, in accordance with the terms of the Private Company A Credit Facility. Effective March 1, 2024, the Company placed the borrower on nonaccrual status.
- (7) The maturity date passed on the credit facility to Private Company B without repayment. The agent on the credit facility sent the borrower a notice of default and placed the borrower in receivership to maintain the borrower’s operations that were disrupted as a result of a management dispute. The Company has been in discussions with the borrower regarding refinancing the credit facility and with the receiver regarding a potential sale of the business in order to repay the loan. Until the loan is repaid, the borrower is obligated to pay interest at a base weighted average interest rate of 14.7% and PIK interest rate of 4.0%, plus a default interest rate of 4.0%. As amended by the forbearance and modification agreement entered into with Private Company B in February 2023, the 4.0% default interest rate is applicable from January 15, 2023 and is paid in kind.

4. LOANS HELD FOR INVESTMENT AT CARRYING VALUE

As of March 31, 2024 and December 31, 2023, the Company’s portfolio included twelve and nine loans held at carrying value, respectively. The aggregate originated commitment under these loans was approximately \$402.6 million and \$333.1 million, respectively, and outstanding principal was approximately \$370.6 million and \$314.4 million, respectively, as of March 31, 2024 and December 31, 2023. During the three months ended March 31, 2024, the Company funded approximately \$85.8 million of new loans and additional principal, had approximately \$24.5 million of principal repayments of loans held at carrying value and sold \$6.0 million of the Company’s investment in Subsidiary of Public Company M. As of March 31, 2024 and December 31, 2023, approximately 61% and 84%, respectively, of the Company’s loans held at carrying value had floating interest rates. As of March 31, 2024, these floating benchmark rates included one-month Secured Overnight Financing Rate (“SOFR”) subject to a weighted average floor of 3.7% and quoted at 5.3% and U.S. prime rate subject to a weighted average floor of 5.4% and quoted at 8.5%.

The following tables summarize the Company’s loans held at carrying value as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024			
	Outstanding Principal⁽¹⁾	Original Issue Discount	Carrying Value⁽¹⁾	Weighted Average Remaining Life (Years)⁽²⁾
Senior term loans	\$ 323,858,794	\$ (12,434,565)	\$ 311,424,229	2.2
Subordinate debt	46,696,032	(267,794)	46,428,238	1.5
Total loans held at carrying value	\$ 370,554,826	\$ (12,702,359)	\$ 357,852,467	2.1

	As of December 31, 2023			
	Outstanding Principal⁽¹⁾	Original Issue Discount	Carrying Value⁽¹⁾	Weighted Average Remaining Life (Years)⁽²⁾
Senior term loans	\$ 314,376,929	\$ (13,111,531)	\$ 301,265,398	2.2
Total loans held at carrying value	\$ 314,376,929	\$ (13,111,531)	\$ 301,265,398	2.2

(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 March 31, 2024 and December 31, 2023.

The following table presents changes in loans held at carrying value as of and for the three months ended March 31, 2024:

	<u>Principal</u>	<u>Original Issue Discount</u>	<u>Carrying Value</u>
Total loans held at carrying value at December 31, 2023	\$ 314,376,929	\$ (13,111,531)	\$ 301,265,398
New fundings	85,832,667	(1,641,888)	84,190,779
Accretion of original issue discount	—	1,799,398	1,799,398
Loan repayments	(23,290,973)	—	(23,290,973)
Sale of loans	(6,000,000)	251,662	(5,748,338)
PIK interest	855,156	—	855,156
Loan amortization payments	(1,218,953)	—	(1,218,953)
Total loans held at carrying value at March 31, 2024	\$ 370,554,826	\$ (12,702,359)	\$ 357,852,467

As of March 31, 2024, the Company had two loans held at carrying value on nonaccrual status.

The Company placed Subsidiary of Private Company G on nonaccrual status effective December 1, 2023, with an outstanding principal amount of approximately \$79.2 million and an amortized cost of approximately \$77.8 million. Subsidiary of Private Company G was previously placed on nonaccrual status during various periods in 2023. The Company will recognize income related to loan activity only upon receipt of cash. During the three months ended March 31, 2024, the Company recognized approximately \$0.7 million of interest income related to this loan.

The Company placed Private Company K on nonaccrual status effective December 1, 2023, with an outstanding principal amount of approximately \$13.4 million and an amortized cost of approximately \$12.8 million. The Company will recognize income related to loan activity only upon receipt of cash. During the three months ended March 31, 2024, the Company recognized approximately \$0.1 million of interest income related to this loan.

In March 2024, the Company was repaid on all remaining principal under the loan to Private Company I, which was previously placed on nonaccrual status, effective May 1, 2023. In addition to the repayment of the outstanding principal amount of approximately \$3.8 million, the Company also received and recognized past due cash interest of approximately \$0.7 million during the three months ended March 31, 2024.

A more detailed listing of the Company's loans held at carrying value portfolio based on information available as of March 31, 2024 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	\$ 3,656,235	\$ (52,181)	\$ 3,604,054	19.5 % ⁽⁵⁾	12/1/2025	P/I
Sub. of Private Co. G	NJ, PA	C, D	79,215,888	(1,444,847)	77,771,041	12.5 % ⁽⁶⁾	5/1/2026	I/O
Private Co. K	MA	C, D	13,445,762	(682,619)	12,763,143	19.3 % ⁽⁷⁾	5/3/2027	P/I
Private Co. J	MO	C, D	21,228,511	(278,793)	20,949,718	19.3 % ⁽⁸⁾	9/1/2025	P/I
Sub. of Public Co. H	CT, IA, IL, ME, MI, NJ, NY, OH, PA	C, D	84,000,000	(2,137,289)	81,862,711	14.3 % ⁽⁹⁾	1/1/2026	I/O
Private Co. L	MO, OH	C, D	44,332,375	(1,233,008)	43,099,367	13.7 % ⁽¹⁰⁾	5/1/2026	P/I
Sub. of Public Co. M	IL, MA, MD, MI, NJ, OH, PA	C, D	12,822,000	(1,521,459)	11,300,541	9.5 % ⁽¹¹⁾	8/27/2025	I/O
Private Co. M	AZ	D	31,158,023	(3,724,369)	27,433,654	9.0 % ⁽¹²⁾	7/31/2026	P/I
Private Co. N - Real Estate	FL	C, D	16,800,000	(672,000)	16,128,000	13.3 % ⁽¹³⁾	4/1/2028	P/I
Private Co. N - Non-Real Estate	FL	C, D	17,200,000	(688,000)	16,512,000	13.3 % ⁽¹⁴⁾	4/1/2028	P/I
CRE Private Co. A	TX	Mixed-use	25,779,522	—	25,779,522	20.6 % ⁽¹⁵⁾	5/31/2024	I/O
CRE Private Co. B	FL	Multifamily	20,916,510	(267,794)	20,648,716	13.0 % ⁽¹⁶⁾	5/12/2027	I/O
Total loans held at carrying value			\$ 370,554,826	\$ (12,702,359)	\$ 357,852,467			

(1) For cannabis operators, 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 U.S. prime rate (U.S. prime rate floor of 4.0%) and PIK interest rate of 2.0%.

(6) Base interest rate of 12.5%. Effective March 2024, pursuant to the forbearance agreement with Subsidiary of Private Company G, Subsidiary of Private Company G transitioned from a floating interest rate tied to U.S. prime rate to a fixed interest rate. Effective December 1, 2023, the Company placed the borrower on nonaccrual status.

(7) Base interest rate of 12.0% plus SOFR (SOFR floor of 1.0%) and PIK interest rate of 2.0%. As amended by the forbearance agreement entered into in March 2024, between 20.0% and 80.0% of the monthly cash interest will be paid in kind from December 1, 2023 to June 1, 2024. As of December 1, 2023, the Company placed the borrower on nonaccrual status.

(8) Base interest rate of 12.0% plus SOFR (SOFR floor of 1.0%) and PIK interest rate of 2.0%.

(9) Base interest rate of 5.8% plus U.S. prime rate (U.S. prime rate floor of 5.5%).

(10) Base interest rate of 8.4% plus SOFR (SOFR floor of 5.0%).

(11) Base interest rate of 9.5%.

(12) Base interest rate of 9.0%. Quarterly cash interest is paid in kind from closing to February 1, 2024 and then payable in cash thereafter.

(13) Base interest rate of 8.0% plus SOFR (SOFR floor of 4.5%).

(14) Base interest rate of 8.0% plus SOFR (SOFR floor of 4.5%).

(15) Base interest rate of 15.31% plus SOFR (SOFR floor of 4.0%).

(16) Base interest rate of 13.0%.

5. LOAN RECEIVABLE HELD AT CARRYING VALUE

As of March 31, 2024 and December 31, 2023, the Company's portfolio included one loan receivable held at carrying value. The originated commitment under this loan was \$4.0 million and outstanding principal was approximately \$2.0 million as of March 31, 2024 and December 31, 2023, respectively.

The following table presents changes in loans receivable as of and for the three months ended March 31, 2024:

	<u>Principal</u>	<u>Original Issue Discount</u>	<u>Carrying Value</u>
Total loan receivable held at carrying value at December 31, 2023	\$ 2,041,744	\$ (1,686)	\$ 2,040,058
Loan repayments	—	—	—
Total loan receivable held at carrying value at March 31, 2024	\$ 2,041,744	\$ (1,686)	\$ 2,040,058

As of March 31, 2024, the Company had one loan receivable held at carrying value on nonaccrual status with an outstanding principal amount of approximately \$2.0 million and amortized cost of approximately \$2.0 million.

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 the "CECL Reserve" using a model that considers multiple datapoints and methodologies that may include 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 the expected timing of loan repayments and 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.

As of March 31, 2024 and December 31, 2023, the Company's CECL Reserve for its loans held at carrying value and loan receivable held at carrying value is approximately \$31.4 million and \$26.4 million, respectively, or 8.71% and 8.71%, respectively, of the Company's total loans held at carrying value and loan receivable held at carrying value of approximately \$359.9 million and \$303.3 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 loan receivable held at carrying value of approximately \$31.3 million and \$26.3 million, respectively, and a liability for unfunded commitments of approximately \$9.1 thousand and \$115.5 thousand, 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 loan receivable held at carrying value as of and for the three months ended March 31, 2024 was as follows:

	Outstanding ⁽¹⁾	Unfunded ⁽²⁾	Total
Balance at December 31, 2023	\$ 26,309,450	\$ 115,473	\$ 26,424,923
Provision for current expected credit losses	5,038,012	(106,338)	4,931,674
Write-offs	—	—	—
Recoveries	—	—	—
Balance at March 31, 2024	\$ 31,347,462	\$ 9,135	\$ 31,356,597

- (1) As of March 31, 2024 and December 31, 2023, the CECL Reserve related to outstanding balances on loans held at carrying value and loan receivable held at carrying value is recorded within current expected credit loss reserve in the Company’s consolidated balance sheets.
- (2) As of March 31, 2024 and December 31, 2023, 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 March 31, 2024, the carrying value, excluding the CECL Reserve, of the Company’s loans held at carrying value and loan receivable held at carrying value within each risk rating by year of origination is as follows:

Risk Rating:	2024	2023	2022	2021	2020	Total
1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	—	—	—	—	3,604,054	3,604,054
3	79,068,238	27,433,654	54,399,908	102,812,429	—	263,714,229
4	—	—	—	—	—	—
5	—	—	12,763,143	77,771,041	2,040,058	92,574,242
Total	\$ 79,068,238	\$ 27,433,654	\$ 67,163,051	\$ 180,583,470	\$ 5,644,112	\$ 359,892,525

7. INTEREST RECEIVABLE

The following table summarizes the interest receivable by the Company as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024	As of December 31, 2023
Interest receivable	\$ 3,788,106	\$ 2,680,188
PIK receivable	414,863	1,009,974
Unused fees receivable	159,305	25,833
Total interest receivable	\$ 4,362,274	\$ 3,715,995

8. INTEREST RESERVE

At March 31, 2024 and December 31, 2023, the Company had zero loans that included a loan-funded interest reserve. For the three months ended March 31, 2024 and 2023, approximately zero and \$3.2 million, respectively, of aggregate interest income was earned and disbursed from the interest reserves.

The following table presents changes in interest reserve as of and for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
	2024	2023
Beginning reserves	\$ —	\$ 3,200,944
New reserves	—	1,716,985
Reserves disbursed	—	(3,227,595)
Ending reserves	\$ —	\$ 1,690,334

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. Upon entering into the Revolving Credit Agreement, the Company incurred a one-time commitment fee expense of approximately \$0.5 million, which was included in prepaid expenses and other assets on the Company’s consolidated balance sheets and 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, payable semi-annually in arrears, which is included within interest expense in the Company’s unaudited interim consolidated statements of operations. Based on the terms of the Revolving Credit Agreement, the Company’s estimated average cash balance will exceed the minimum balance required to waive the unused line fee and as such, the Company did not incur an unused line fee for the three months ended March 31, 2024. As of March 31, 2024 and December 31, 2023, outstanding borrowings under the Revolving Credit Facility was \$60.0 million and \$42.0 million, respectively, and zero and \$18.0 million was available for borrowing as of March 31, 2024 and December 31, 2023, 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.

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, which began 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 used 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. TRS1 and SUNS are currently subsidiary guarantors under the Indenture. Following the completion of the Spin-Off, SUNS will no longer be a guarantor under the Indenture.

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.

During the three months ended March 31, 2023, the Company repurchased \$10.0 million in principal amount of the Company’s 2027 Senior Notes at 77.4% of par value, plus accrued interest. This resulted in a gain on extinguishment of debt of approximately \$2.0 million, recorded within the unaudited interim consolidated statements of operations. No repurchases took place during the three months ended March 31, 2024. As of March 31, 2024, the Company had \$90.0 million in principal amount of the 2027 Senior Notes outstanding.

The 2027 Senior Notes are due on May 1, 2027. Scheduled principal payments on the 2027 Senior Notes as of March 31, 2024 are as follows:

	2027 Senior Notes	
Year		
2024 (remaining)	\$	—
2025		—
2026		—
2027		90,000,000
2028		—
Thereafter		—
Total principal		90,000,000
Deferred financing costs included in senior notes		(1,836,860)
Total due senior notes, net	\$	88,163,140

The following tables reflect a summary of interest expense incurred during the three months ended March 31, 2024 and 2023:

	Three months ended March 31, 2024		
	2027 Senior Notes	Revolving Credit Facility	Total Borrowings
	Interest expense	\$ 1,293,750	\$ 56,137
Unused fee expense	—	—	—
Amortization of deferred financing costs	157,332	95,944	253,276
Total interest expense	\$ 1,451,082	\$ 152,081	\$ 1,603,163

	Three months ended March 31, 2023		
	2027 Senior Notes	Revolving Credit Facility	Total Borrowings
	Interest expense	\$ 1,408,750	\$ 26,667
Unused fee expense	—	35,833	35,833
Amortization of deferred financing costs	157,652	39,258	196,910
Total interest expense	\$ 1,566,402	\$ 101,758	\$ 1,668,160

10. COMMITMENTS AND CONTINGENCIES

As of March 31, 2024 and December 31, 2023, the Company had the following commitments to fund various investments:

	As of March 31, 2024	As of December 31, 2023
Total original loan commitments	\$ 500,793,726	\$ 431,239,913
Less: drawn commitments	(486,213,058)	(421,239,913)
Total undrawn commitments	\$ 14,580,668	\$ 10,000,000

The Company from time to time may be a party to litigation in the normal course of business. As of March 31, 2024, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

On March 17, 2023, the Company appointed Brandon Hetzel to serve as its Chief Financial Officer and Treasurer in place of Brett Kaufman, effective as of such date, with Mr. Kaufman's employment with AFC Management, LLC, the Company's external manager (the "Manager"), terminated, effective as of April 17, 2023 (the "Separation Date"). In connection with his termination, Mr. Kaufman received (i) twelve (12) months' worth of his current base salary, (ii) his annual target bonus, (iii) continued payment by our Manager of 100% of the COBRA premiums for him and his dependents for a period of twelve (12) months following his Separation Date, (iv) accelerated vesting of one (1) additional tranche of each of Mr. Kaufman's outstanding equity awards, and (v) extension of the exercise period for Mr. Kaufman's outstanding options until one (1) year following the Separation Date, contingent on Mr. Kaufman executing and not revoking a release of claims in favor of the Company. During the three months ended March 31, 2024 and 2023, the Company recorded approximately zero and \$0.7 million in severance expense within general and administrative expenses within the unaudited interim consolidated statements of operations, respectively.

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 on 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 March 31, 2024 and December 31, 2023, 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

During the three months ended March 31, 2024 and year ended December 31, 2023, the Company did not issue any shares of its common stock, other than awards granted under the Stock Incentive Plan.

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 months ended March 31, 2024 and year ended December 31, 2023, the Company did not sell any shares of the Company’s common stock under the Sales Agreement.

As of March 31, 2024, the shares of common stock sold under the ATM Program are the only offerings that have been initiated under the Shelf Registration Statement.

Share Repurchase Program

On June 13, 2023, the Company's Board of Directors authorized a share repurchase program providing for the repurchase of up to \$20.0 million of the Company's outstanding common stock (the “Repurchase Program”). The timing, price, and volume of repurchases will be based on the Company’s stock price, general market conditions, applicable legal requirements and other factors. The repurchase of the Company’s common stock may be made from time to time in the open market, in privately negotiated transactions or otherwise in compliance with Rule 10b-18 and Rule 10b5-1 under the Securities Exchange Act of 1934. The Company expects to finance any share repurchases under the Repurchase Program using cash on hand, capacity available under our line of credit and cash flows from operations. The Repurchase Program may be discontinued, modified or suspended at any time. During the three months ended March 31, 2024 and year ended December 31, 2023, the Company did not repurchase any shares of its common stock pursuant to the Repurchase Program.

Stock Incentive Plan

The Company has established a stock 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 2024, the Company’s Board of Directors approved grants of restricted stock to the Company’s directors and officers, as well as employees of the Manager. In January 2024, the Company granted an aggregate of 209,397 shares of restricted stock to certain of our directors, officers and other eligible persons. The restricted stock granted in January 2024 under the 2020 Plan contain vesting periods that vary from immediately vested to vesting over a three-year period, with approximately 33% vesting on each of the first, second and third anniversaries of the vesting commencement date. As of March 31, 2024, there were 2,536,289 shares of common stock granted under the 2020 Plan, underlying 2,169,852 options and 366,437 shares of restricted stock.

During the first quarter of 2023, the Company's Board of Directors approved grants of restricted stock to the Company's directors and officers, as well as certain employees of the Manager. In January 2023, the Company granted an aggregate of 125,234 shares of restricted stock to certain of our directors, officers and other eligible persons. The restricted stock granted in January 2023 under the 2020 Plan contain vesting periods that vary from immediately vested to vesting over a three-year period, with approximately 33% vesting on each of the first, second and third anniversaries of the vesting commencement date.

As of March 31, 2024, 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 3,202,442 shares, which is an increase of 409,154 shares compared to December 31, 2023. The Share Limit increased pursuant to the Minimum Annual Increase provision in the 2020 Plan. 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, (iii) exercised and (iv) forfeited options granted for the Company's directors and officers and employees of the Manager as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024	As of December 31, 2023
Non-vested	161,879	206,304
Vested	2,212,753	2,168,328
Exercised	(5,511)	(5,511)
Forfeited	(200,169)	(200,169)
Balance	2,168,952	2,168,952

The Company uses the Black-Scholes option pricing model to value stock options in determining the stock-based compensation expense. The Company has elected to recognize forfeitures as they occur. Previously recognized compensation expense related to forfeitures are reversed in the period the nonvested awards are forfeited. 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 the 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 \$0.5 million and \$0.3 million for the three months ended March 31, 2024 and 2023, 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 as of and during the three months ended March 31, 2024:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding as of December 31, 2023	2,168,952	\$ 17.74		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding as of March 31, 2024	2,168,952	\$ 17.74	4.02 years	\$ —
Exercisable as of March 31, 2024	2,123,596	\$ 17.72	4.01 years	\$ —

The Company did not grant any options during the three months ended March 31, 2024 and 2023. No options were exercised during the three months ended March 31, 2024 and 2023.

The following table summarizes the non-vested restricted stock (i) granted, (ii) vested and (iii) forfeited for the Company's directors and officers and employees of the Manager as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024	As of December 31, 2023
Granted	400,371	190,974
Vested	(99,207)	(38,028)
Forfeited	(33,934)	(33,934)
Balance	267,230	119,012

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 as of and during the three months ended March 31, 2024:

	Number of shares of restricted stock	Weighted-average grant date fair value
Balance as of December 31, 2023	119,012	\$ 16.06
Granted	209,397	11.70
Vested	(61,179)	14.53
Forfeited	—	—
Balance as of March 31, 2024	267,230	\$ 13.00

The total fair value of shares vested during the three months ended March 31, 2024 was approximately \$0.7 million. During the three months ended March 31, 2023, 3,211 shares of restricted stock vested with a weighted-average grant date fair value of \$15.57. The total fair value of shares vested during the three months ended March 31, 2023 was approximately \$50.0 thousand.

As of March 31, 2024, there was approximately \$3.1 million of total unrecognized compensation cost related to non-vested restricted stock and stock option awards. That cost is expected to be recognized over a weighted-average period of 2.36 years.

12. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted weighted average (loss) earnings per common share for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
	2024	2023
Net (loss) income attributable to common shareholders	\$ (54,116)	\$ 10,025,274
Dividends paid on unvested restricted stock	(57,126)	(35,472)
Net (loss) income attributable to common shareholders	(111,242)	9,989,802
Divided by:		
Basic weighted average shares of common stock outstanding	20,393,875	20,303,797
Weighted average unvested restricted stock and dilutive stock options	11,312	185,366
Diluted weighted average shares of common stock outstanding	20,405,187	20,489,163
Basic weighted average (loss) earnings per common share	\$ (0.01)	\$ 0.49
Diluted weighted average (loss) earnings per common share	\$ (0.01)	\$ 0.49

Diluted EPS was computed using the treasury stock method for stock options and restricted stock. Diluted weighted average (loss) earnings per common share excluded 2,240,089 and 2,280,372 weighted average unvested restricted stock and stock options due to anti-dilutive effect for the three months ended March 31, 2024 and 2023, respectively.

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.

The income tax provision for the Company was approximately \$0.2 million and \$0.2 million for the three months ended March 31, 2024 and 2023, respectively. The income tax expense for the three months ended March 31, 2024 and 2023 primarily related to activities of the Company's taxable REIT subsidiary.

The income tax provision for the Company and TRS1 consisted of the following for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
	2024	2023
Current ⁽¹⁾	\$ 158,360	\$ 174,832
Deferred	—	—
Excise tax	—	270
Total income tax expense, including excise tax	\$ 158,360	\$ 175,102

(1) During the three months ended March 31, 2024, the Company incurred federal taxes of approximately \$105.3 thousand and state and local taxes of approximately \$53.1 thousand. During the three months ended March 31, 2023, the Company incurred federal taxes of approximately \$131.5 thousand and state and local taxes of approximately \$43.3 thousand.

For the three months ended March 31, 2024 and 2023, 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. Alternative valuation methodologies may be used as appropriate, and can include a market analysis, income analysis, or recovery analysis. 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 March 31, 2024 and December 31, 2023:

	Fair Value Measurement as of March 31, 2024			
	Total	Level 1	Level 2	Level 3
Loans held at fair value	\$ 54,977,282	\$ —	\$ —	\$ 54,977,282
Total	\$ 54,977,282	\$ —	\$ —	\$ 54,977,282

	Fair Value Measurement as of December 31, 2023			
	Total	Level 1	Level 2	Level 3
Loans held at fair value	\$ 61,720,705	\$ —	\$ —	\$ 61,720,705
Total	\$ 61,720,705	\$ —	\$ —	\$ 61,720,705

The following table presents changes in loans that use Level 3 inputs as of and for the three months ended March 31, 2024:

	Three months ended March 31, 2024
Total loans using Level 3 inputs at December 31, 2023	\$ 61,720,705
Change in unrealized gains (losses) on loans at fair value, net	(3,613,693)
Loan repayments	(4,003,945)
Accretion of original issue discount	128,384
PIK interest	745,831
Total loans using Level 3 inputs at March 31, 2024	\$ 54,977,282

The change in unrealized losses included in the unaudited interim consolidated statements of operations attributable to loans held at fair value, categorized as Level 3, held as of March 31, 2024 is \$(3,613,693).

The following tables summarize the significant unobservable inputs the Company used to value the loans categorized within Level 3 as of March 31, 2024 and December 31, 2023. 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 March 31, 2024					
	Fair Value	Primary Valuation Techniques	Unobservable Input		
			Input	Estimated Range	Weighted Average
Senior term loans	\$ 39,435,412	Recovery analysis	Recovery rate	75.50% - 83.10%	79.30%
Senior term loans	15,541,870	Market approach	Revenue multiple	0.75x - 1.00x	0.88x
Total investments	\$ 54,977,282				

As of December 31, 2023					
	Fair Value	Primary Valuation Techniques	Unobservable Input		
			Input	Estimated Range	Weighted Average
Senior term loans	\$ 47,627,845	Recovery analysis	Recovery rate	86.10% - 92.40%	89.25%
Senior term loans	14,092,860	Market approach	Revenue multiple	0.50x - 0.70x	0.60x
Total investments	\$ 61,720,705				

Changes in market yields, revenue multiples, and recovery rates 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, while a decrease in revenue multiples and recovery rates 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.

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 sheets, 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 unaudited interim consolidated balance sheets as of March 31, 2024:

	As of March 31, 2024	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 82,298,440	\$ 82,298,440
Loans held for investment at carrying value	\$ 357,852,467	\$ 329,881,425
Loan receivable held at carrying value	\$ 2,040,058	\$ 510,436
Financial liabilities:		
Senior notes payable, net	\$ 88,163,140	\$ 79,031,250

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 fair value of the Company's 2027 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 in the Management Agreement), 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.

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 months ended March 31, 2024 and 2023, was approximately \$2.5 million and \$2.8 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 in an amount equal to the proportional amount of time employees of the Manager spent providing services to the Company, as reasonably stipulated by time sheets.

The following table summarizes the related party costs incurred by the Company for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
	2024	2023
Affiliate Costs		
Management fees	\$ 1,346,138	\$ 1,347,685
Less: outside fees earned	(374,803)	(478,645)
Base management fees	971,335	869,040
Incentive fees earned	2,491,427	2,835,179
General and administrative expenses reimbursable to Manager	782,319	1,086,027
Total	\$ 4,245,081	\$ 4,790,246

Amounts payable to the Manager as of March 31, 2024 and December 31, 2023 were approximately \$4.4 million and \$5.0 million, respectively.

The Manager is a wholly-owned subsidiary of Castleground Holdings LLC (f/k/a Advanced Flower Capital Management, LLC) (the “Parent Manager”). Leonard Tannenbaum, Executive Chairman of the Board and Chief Investment Officer, owns 75.0% of the outstanding equity of the Parent Manager. Similarly, Robyn Tannenbaum, President, Bernard Berman, a member of the Company’s Investment Committee, and Daniel Neville, Chief Executive Officer, currently own 10.0%, 3.0% and 1.6%, respectively, of the Parent Manager.

Due to Affiliate

Amounts due to an affiliate of the Company as of March 31, 2024 and December 31, 2023 were approximately \$19.8 thousand and \$16.4 thousand, respectively.

Investments in Loans

From time to time, the Company may co-invest with other investment vehicles managed by the Manager or its affiliates, including the Manager, 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. Additionally, our Manager or its affiliates, including AFC Agent LLC (“AFC Agent”), may from time to time serve as administrative agent to the lenders under our co-investments. As of March 31, 2024, there were five co-invested loans held by the Company and affiliates of the Company.

16. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes the Company’s dividends declared during the three months ended March 31, 2024 and 2023:

	Record Date	Payment Date	Common Share Distribution Amount	Aggregate Amount Paid
Regular cash dividend	3/31/2023	4/14/2023	\$ 0.56	\$ 11,473,971
2023 Period Subtotal			\$ 0.56	\$ 11,473,971
Regular cash dividend	3/31/2024	4/15/2024	\$ 0.48	\$ 9,920,205
2024 Period Subtotal			\$ 0.48	\$ 9,920,205

17. SUBSEQUENT EVENTS

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

In April 2024, the Company received approximately \$8.1 million prepayment from Private Company L’s sale of certain collateral assets and \$0.2 million prepayment premium.

In April 2024, the co-agents under the credit facility with Subsidiary of Public Company H delivered a reservation of rights letter to the borrower citing certain defaults, including a breach of the minimum cash covenants as of March 31, 2024. The borrower has since failed to make the interest payment for the month ending April 30, 2024 that was due May 1, 2024, and which was subject to a five business day grace period. The lenders are evaluating the best course of action to protect their interests and pursue their rights and remedies under the credit facility.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”), 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. Some of the statements contained in this Quarterly Report, other than statements of current or historical facts, are forward-looking statements and are based on our current intent, belief, expectations and views of future events. 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,” “can,” “continuing,” “may,” “aim,” “intend,” “ongoing,” “plan,” “predict,” “potential,” “should,” “seeks,” “likely to” 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:

- our business and investment strategy;
- the ability of our Manager to locate suitable loan opportunities for us and to monitor and actively manage our portfolio and implement our investment strategy;
- our expectations for origination targets and repayments;
- the allocation of loan opportunities to us by our Manager;
- our projected operating results;
- 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 and certain state laws;
- the estimated growth in and evolving market dynamics of the cannabis market;
- changes in general economic conditions, in our industry and in the commercial finance and real estate markets;
- the demand for cannabis cultivation and processing facilities;
- shifts in public opinion and state regulation regarding cannabis;
- the state of the U.S. economy generally or in specific geographic regions;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the amount, collectability and timing of our cash flows, if any, from our loans;
- our ability to obtain and maintain financing arrangements;
- our expected leverage;
- changes in the value of our loans;
- losses that may arise due to the concentration of our portfolio in a limited number of loans and borrowers;
- our expected investment and underwriting process;
- the rates of default or recovery rates on our loans;

- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- the availability of investment opportunities in mortgage-related and real estate-related instruments and other securities;
- changes in interest rates and impacts of such changes on our results of operations, cash flows and the market value of our loans;
- interest rate mismatches between our loans and our borrowings used to fund such loans;
- the departure of any of the executive officers or key personnel supporting and assisting us from our Manager or its affiliates;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our exemption from registration under the Investment Company Act (as defined below);
- our ability to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes;
- estimates relating to our ability to make distributions to our shareholders in the future;
- our understanding of our competition;
- market trends in our industry, interest rates, real estate values, the securities markets or the general economy;
- our ability to complete the Spin-Off (as defined below) in a timely manner or at all; and
- we may not achieve some or all of the expected benefits of the Spin-Off (as defined below).

Please see the section entitled “*Risk Factors*” located in our Annual Report on Form 10-K, filed with the SEC on March 7, 2024, 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.

Overview

AFC Gamma, Inc. is an institutional lender to the commercial real estate sector that was founded in July 2020 by a veteran team of investment professionals. We primarily originate, structure, underwrite, invest in and manage senior secured loans and other types of commercial real estate loans and debt securities, with a specialization in loans to cannabis industry operators in states that have legalized medical and/or adult-use cannabis. We have recently expanded our investment guidelines to deploy capital in attractive lending opportunities secured by commercial real estate. Our expanded investment guidelines now include (i) first and second lien loans secured by mortgages to commercial real estate owners, operators and related 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 addition to our prior sole focus on first lien loans secured by mortgages to cannabis operators in states that have legalized medical and/or adult use cannabis. We expect the underwriting and investment process for these investments under our expanded guidelines to be substantially similar to the process we deploy for our loans to cannabis operators.

Our objective is to provide attractive risk-adjusted returns over time through cash distributions and capital appreciation primarily by providing loans to real estate developers and state law compliant cannabis companies. The loans we originate are primarily structured as senior loans secured by real estate, equipment, value associated with licenses (where applicable) 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 cannabis-related 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.

We have expanded our investment guidelines to invest in attractive commercial real estate financing opportunities emerging from the current interest rate environment. As the U.S. Federal Reserve Board (the “Federal Reserve”) began to increase interest rates in the first quarter of 2022 and continued to do so through the third quarter of 2023 in an effort to curb rising inflation, we believe the higher interest rates and associated pressures have created an opportunity in real estate lending, where there is currently less capital available in the marketplace to finance real estate projects. As a result of these market dynamics, we have identified a number of opportunities to provide acquisition and construction financing for real estate owners, operators and related businesses at attractive rates and secured by valuable real estate collateral.

Separately, 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 current capital constrained cannabis market, which does not typically have access to traditional bank financing, we believe we continue to be well positioned to act as a prudent financing source to cannabis industry operators given our stringent underwriting criteria, size and scale of operations and institutional infrastructure.

We are a Maryland corporation and externally managed by AFC Management, LLC, a Delaware limited liability company (our “Manager”), 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”) under Section 856 of the Internal Revenue Code of 1986, as amended (the “Code”), commencing with our taxable year ended December 31, 2020. We believe that we have qualified as a REIT and that our current and proposed method of operation will enable us to continue to qualify as a REIT. However, no assurances can be given that our beliefs or expectations will be fulfilled, since qualification as a REIT depends on us continuing to satisfy numerous asset, income and distribution tests, which in turn depends, in part, on our operating results and ability to obtain financing. 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 of 1940 as amended (the “Investment Company Act”).

Our wholly-owned subsidiary, AFCG TRS1, LLC (“TRS1”), operates as a taxable REIT subsidiary (a “TRS”). TRS1 began operating in July 2021. Our wholly-owned subsidiary, Sunrise Realty Trust, Inc. (“SUNS”) (f/k/a CRE South LLC), was formed on August 28, 2023 and converted from a Delaware limited liability company to a Maryland corporation in February 2024. The financial statements of TRS1 and SUNS are 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.

Spin-Off

On February 22, 2024, we announced that our Board unanimously approved a plan to spin-off (the “Spin-Off”) our wholly-owned subsidiary, SUNS, which holds our commercial real estate (“CRE”) portfolio into an independent, publicly traded REIT.

The separation and the resulting Spin-Off is expected to be implemented in two steps. First, we expect to contribute, and SUNS expects to accept and assume, all of the assets, liabilities and business related to our CRE lending business not related to our business of structuring, underwriting, origination and investing in loans to and debt securities of cannabis industry operators, as currently conducted by SUNS, including the operations, properties, services and activities of such business (the “Contribution”), to the extent such assets, liabilities and business are not already held at SUNS. Then, we plan to distribute all of the outstanding shares of SUNS common stock (“SUNS Common Stock”) on the distribution date to our stockholders as of the record date on a pro rata basis. We and SUNS expect that \$115 million of assets in the aggregate, in a combination of loans and cash, will either be contributed to SUNS in the Contribution or be held by SUNS immediately following the Contribution. Following the distribution, we and SUNS expect the SUNS Common Stock to be listed on the Nasdaq Capital Market. SUNS has filed a registration statement on Form 10, which is not effective, with the Securities and Exchange Commission which provides additional details about the Spin-Off. This quarterly report shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

During the three months ended March 31, 2024, we incurred approximately \$0.5 million related to spin-off costs recorded within professional fees in the unaudited interim consolidated statements of operations.

Pursuant to the amendment to our Management Agreement entered into in February 2024, upon the completion of the Spin-Off, we plan to focus on our investments in first and second lien loans, typically secured by mortgages and other security interests, to cannabis operators in states that have legalized medical and/or adult use cannabis. Pursuant to such amendment, upon the completion of the Spin-Off, the investment guidelines will be amended such that loans and investments made in respect of (x) first lien or second lien loans secured by mortgages or mezzanine loans to commercial real estate owners, operators and related businesses and (y) the ownership of non-cannabis related commercial real estate assets, were removed and are no longer permitted by the investment guidelines.

While SUNS will be an independent publicly-traded company, operating the Spin-Off Business separately from AFC Gamma, various individuals will serve as executive officers and directors of both companies. For example, Leonard Tannenbaum, our Chief Investment Officer and Executive Chairman of the Board, is expected to be the Executive Chairman, Brandon Hetzel, our Chief Financial Officer and Treasurer, is expected to be the Chief Financial Officer and Treasurer and Robyn Tannenbaum, our President, is expected to be the President of both entities immediately following the completion of the Spin-Off. Additionally, Alexander Frank, one of our directors, is expected to serve on the board of directors of both companies immediately following the completion of the Spin-Off.

Developments During the First Quarter March 31, 2024:

Updates to Our Loan Portfolio During the First Quarter March 31, 2024

In January 2024, the Company and an affiliate purchased an aggregate of approximately \$56.4 million in loan commitments in a secured mezzanine loan facility, CRE Private Company A, of which approximately \$28.2 million has been funded by us and another approximately \$28.2 million has been funded by an affiliate. The Company and the affiliate are each 50.0% syndicate lenders in the secured mezzanine loan facility. Approximately \$16.9 million was established as reserves, for the payment of interest and other costs and expenses, which is fully funded and held by the Agent on the loan. The lenders have a right to convert the mezzanine loan to a first priority mortgage loan after the repayment of the existing senior loan and subject to certain other terms and conditions. The secured mezzanine loan bears interest at an annual rate of Secured Overnight Financing Rate (“SOFR”) plus a 15.31% spread, subject to a SOFR floor of 2.42%. At the end of February 2024, the Company and the affiliate entered into an amendment to the secured mezzanine loan, which among other things, (1) extended the maturity date to May 31, 2024 and (2) amended the SOFR floor from 2.42% to 4.00%. Pursuant to the amendment, the Company and the affiliate received an extension fee of approximately \$0.1 million each, respectively.

In January 2024, the Company and an affiliate entered into a secured mezzanine loan facility with CRE Private Company B consisting of an aggregate of approximately \$56.4 million in loan commitments, of which approximately \$20.7 million of principal was funded by us as a result of our participation interest in the loan and another approximately \$20.7 million of principal was funded by the affiliate. The secured mezzanine loan commitments were issued by us and the affiliate at a discount of 1.0% for a net funding amount of approximately \$20.4 million each. The \$56.4 million of total commitments includes \$15.0 million of unfunded commitments which was established to be drawn to pay interest on the secured mezzanine loan, of which we are responsible for \$7.5 million. The \$15.0 million of unfunded commitments are anticipated to be drawn over the life of the loan. The Company and the affiliate are each 50.0% syndicate lenders in the secured mezzanine loan facility. The secured mezzanine loan bears interest at an annual fixed rate of 13.00% and matures in May 2027, which the borrower may extend, at its option and subject to meeting certain terms and conditions, to May 2028. The mezzanine loan facility is secured by a security interest in all of the equity interests held by the borrower in its wholly-owned subsidiary.

In January 2024, we entered into a partial release and amendment with Private Company L to, among other things, (i) permit the sale and release of certain collateral located in Missouri, subject to the terms and conditions contained therein and (ii) amend certain of the draw and prepayment requirements. In January 2024, we received approximately \$11.4 million prepayment from Private Company L's sale of certain collateral assets and \$0.3 million prepayment premium.

In January 2024, we delivered a reservation of rights letter to Private Company K with respect to the occurrence of certain events of default, including the failure to make principal and interest payments when due and deliver monthly statements as required under the credit agreement with Private Company K. In March 2024, we entered into a forbearance agreement with Private Company K, pursuant to which we agreed to forbear from exercising certain remedies as a result of the certain defaults under the credit agreement. In exchange for such forbearance, Private Company K agreed to, among others, (i) additional reporting requirements and (ii) contribute additional cash equity in an aggregate amount of up to \$5.5 million in increments on or before August 31, 2024 or obtain a combination of additional equity and debt financing in an aggregate amount of up to \$8.5 million in increments on or before August 31, 2024, certain of the proceeds of which shall be applied to the outstanding obligations under the credit agreement. The existing credit agreement was amended by the forbearance agreement entered into with Private Company K to require (a) 20% of the interest payable for December 2023 and January 2024 to be payable in cash in arrears and 80% paid in kind, (b) 35% of the interest payable for February 2024 to be payable in cash in arrears and 65% to be paid in kind, (c) 50% of the interest payable for March 2024, April 2024 and May 2024 to be payable in cash in arrears and 50% to be paid in kind, (d) interest for the remainder of the months during the term of the forbearance agreement to be payable in cash in arrears and (e) payments of principal during the term of the forbearance to be deferred during the term of the forbearance agreement. We placed Private Company K on nonaccrual status effective December 1, 2023 and will recognize income related to loan activity only upon receipt of cash. During the three months ended March 31, 2024, we recognized approximately \$0.1 million of interest income related to this loan. As of March 31, 2024, our outstanding principal balance was approximately \$13.4 million, which is fully funded.

On February 22, 2024, we announced that our Board unanimously approved a plan to spin-off our commercial real estate portfolio into an independent, publicly traded REIT, named Sunrise Realty Trust, Inc. See "*Spin-off*" above.

During the three months ended March 31, 2024, AFC Agent received approximately \$4.7 million in total loan principal prepayments and \$0.1 million in related exit fees from Private Company A's sale of its collateral assets, of which approximately \$4.0 million in principal prepayments and \$0.1 million in related exit fees were allocated to us relating to our pro rata portion of the Private Company A Credit Facility and was applied to the outstanding principal balance. Effective March 1, 2024, we placed Private Company A on nonaccrual status. As of March 31, 2024, our outstanding principal balance under the Private Company A Credit Facility was approximately \$49.7 million, which is fully funded. AFC Agent continues to monitor the court-appointed receivership installed to maintain the borrower's operations and maximize value for the benefit of its creditors.

In March 2024, we entered into a forbearance agreement with Subsidiary of Private Company G, pursuant to which we agreed to forbear from exercising certain remedies as a result of certain events of default under the credit agreement and under the forbearance agreement entered into with Subsidiary of Private Company G in September 2023. In exchange for such forbearance, Subsidiary of Private Company G agreed to, among other things, (i) contribute additional cash equity in an aggregate amount of not less than \$3.0 million before April 30, 2024, (ii) sell certain assets, the proceeds of which will be applied to pay down outstanding obligations under the credit agreement, (iii) enter into a management services agreement with a third party with respect to Subsidiary of Private Company G's operations in Pennsylvania, (iv) enter into a consulting or similar agreement with a third party with respect to Subsidiary of Private Company G's operations in New Jersey, and (v) deliver additional reporting requirements. In addition, the existing credit agreement was amended by the forbearance agreement entered into with Subsidiary of Private Company G to, for the remaining life of the loan (so long as Subsidiary of Private Company G complies with its obligations under the forbearance agreement), (a) remove the financial covenants, (b) revise the existing cash flow sweep such that 75% of excess cash flow is paid toward current interest, accrued interest, lender expenses and principal, (c) change the interest rate on the loans to 12.5% per annum, a minimum portion of which is payable in cash pursuant to the excess cash flow sweep, and the remainder of which, if any, is paid in kind, and (d) remove required amortization payments. We placed Subsidiary of Private Company G on nonaccrual effective December 1, 2023 and will recognize income related to loan activity only upon receipt of cash. During the three months ended March 31, 2024, we recognized approximately \$0.7 million of interest income related to this loan. As of March 31, 2024, our outstanding principal balance was approximately \$79.2 million, which is fully funded.

In March 2024, TRS1 sold \$6.0 million of our investment in Subsidiary of Public Company M, which was purchased at a blended weighted-average discount of 91.3% and sold for 94.3% of face value, resulting in a realized loss of approximately \$(0.1) million.

In March 2024, we were repaid on all outstanding principal under the loan to Private Company I, which was previously placed on nonaccrual status, effective May 1, 2023. In addition to the repayment of the outstanding principal amount of approximately \$3.8 million, we also received and recognized past due cash interest of approximately \$0.7 million during the three months ended March 31, 2024.

In March 2024, we entered into two senior secured credit facilities with Private Company N totaling \$34.0 million, which were fully funded at closing. The loans are bifurcated between Private Company N Real Estate and Private Company N Non-Real Estate with commitments of \$16.8 million and \$17.2 million, respectively, and were originated at a discount of 4.0%, for a net funded amount of approximately \$16.1 million and \$16.5 million, respectively. The loans each bear interest at an annual rate of SOFR plus 8.0%, subject to a SOFR floor of 4.5%, and mature on April 1, 2028.

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 the ATM Program to sell up to an aggregate of \$75.0 million of shares of our common stock 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 months ended March 31, 2024, we did not sell any shares of our common stock under the Sales Agreement.

Share Repurchase Program

On June 13, 2023, our Board authorized the Repurchase Program. The timing, price, and volume of repurchases will be based on our stock price, general market conditions, applicable legal requirements and other factors. The repurchase of our common stock may be made from time to time in the open market, in privately negotiated transactions or otherwise in compliance with Rule 10b-18 and Rule 10b5-1 under the Exchange Act. We expect to finance any share repurchases under the Repurchase Program using cash on hand, capacity available under our line of credit and cash flows from operations. The Repurchase Program is authorized until December 31, 2025 and may be discontinued, modified or suspended at any time. During the three months ended March 31, 2024, we did not repurchase any shares of our common stock pursuant to the Repurchase Program.

Dividends Declared Per Share

For the three months ended March 31, 2024 and 2023, 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 2, 2023	March 31, 2023	April 14, 2023	\$ 0.56	\$11.5 million
2023 Period Subtotal			\$ 0.56	\$11.5 million
March 4, 2024	March 31, 2024	April 15, 2024	\$ 0.48	\$ 9.9 million
2024 Period Subtotal			\$ 0.48	\$ 9.9 million

Recent Developments

In April 2024, we received approximately \$8.1 million prepayment from Private Company L's sale of certain collateral assets and \$0.2 million prepayment premium.

In April 2024, the co-agents under the credit facility with Subsidiary of Public Company H delivered a reservation of rights letter to the borrower citing certain defaults, including a breach of the minimum cash covenants as of March 31, 2024. The borrower has since failed to make the interest payment for the month ending April 30, 2024 that was due May 1, 2024, and which was subject to a five business day grace period. The lenders are evaluating the best course of action to protect their interests and pursue their rights and remedies under the credit facility.

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) increase (decrease) in provision for current expected credit losses, (v) TRS (income) loss, net of any dividends received from TRS 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 (loss) income to Distributable Earnings:

	Three months ended March 31,	
	2024	2023
Net (loss) income	\$ (54,116)	\$ 10,025,274
Adjustments to net (loss) income:		
Stock-based compensation expense	543,222	280,578
Depreciation and amortization	—	—
Unrealized (gains) losses, or other non-cash items	3,613,693	1,477,691
Increase (decrease) in provision for current expected credit losses	4,931,674	702,426
TRS (income) loss, net of dividends	931,233	(866,204)
One-time events pursuant to changes in GAAP and certain non-cash charges	—	—
Distributable earnings	\$ 9,965,706	\$ 11,619,765
Basic weighted average shares of common stock outstanding (in shares)	20,393,875	20,303,797
Distributable earnings per basic weighted average share	\$ 0.49	\$ 0.57

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 March 31, 2024 and December 31, 2023 was approximately \$15.03 and \$15.64, 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 our borrowers.

Results of Operations for the three months ended March 31, 2024 and 2023

Our net (loss) allocable to our common shareholders for the three months ended March 31, 2024, was approximately \$(0.1) million, or \$(0.01) per basic weighted average common share, compared to net income allocable to our common shareholders of approximately \$10.0 million, or \$0.49 per basic weighted average common share for the three months ended March 31, 2023.

Interest income decreased approximately \$(2.1) million, or (11.6)%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This decrease was driven by lower interest income of approximately (\$3.2) million driven by Subsidiary of Private Company G on nonaccrual status in the first quarter of 2024, lower unused fees of approximately (\$0.2) million driven by less unfunded commitments, partially offset by higher fee income recognized of approximately \$0.5 million and higher OID income of approximately \$0.7 million due to acceleration of unaccreted OID on loan repayments during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023, respectively.

Interest expense decreased approximately \$(0.1) million, or (3.9)%, for the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. The decrease was primarily due to lower interest incurred on the 2027 Senior Notes due to a weighted average decrease in the 2027 Senior Notes principal outstanding of approximately \$(7.6) million, or (7.7)%, for the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. This relates to the repurchase of \$10.0 million of our 2027 Senior Notes during the three months ended March 31, 2023. No repurchases took place during the same period in 2024.

Management fees increased approximately \$0.1 million, or 11.8%, for the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. Incentive fees decreased approximately \$(0.3) million, or (12.1)%, for the three months ended March 31, 2024, as compared to the three months ended March 31, 2023, driven by lower Core Earnings (as defined in the Management Agreement).

General and administrative expenses decreased approximately \$(1.0) million, or (47.5)%, for the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. This decrease was primarily due to severance expense incurred during the three months ended March 31, 2023 attributable to the departure of our former Chief Financial Officer of approximately \$0.7 million. No severance expense was incurred during the three months ended March 31, 2024.

Stock-based compensation increased approximately \$0.3 million, or 93.6%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This was driven by additional equity awards granted in January 2024.

Professional fees increased approximately \$0.5 million, or 127.3%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This was driven by approximately \$0.5 million of spin-off costs incurred during the three months ended March 31, 2024. No spin-off costs were incurred during the three months ended March 31, 2023.

The net change in realized gains (losses) on investments for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023 was approximately \$(0.1) million, driven by the change in realized losses relating to separate sales of our investment in Subsidiary of Public Company M during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023.

Investments in loans held at fair value are recorded on the trade date at cost, which reflects the amount of principal funded net of any original issue discounts. An unrealized gain arises when the fair value of the loan portfolio exceeds its cost and an unrealized loss arises when the fair value of the loan portfolio is less than its cost. The net change in unrealized gain (loss) of approximately \$(3.6) million and \$(1.5) million for the three months ended March 31, 2024 and 2023, respectively, was mainly driven by the net change in the valuation of the loans, which was impacted by changes in market yields, revenue multiples, and recovery rates.

The gain (loss) on extinguishment of debt was zero and approximately \$2.0 million for the three months ended March 31, 2024 and 2023, respectively, as a result of the repurchase of \$10.0 million of our 2027 Senior Notes during the three months ended March 31, 2023. No repurchases took place during the same period in 2024.

Provision for Current Expected Credit Losses

The provision for current expected credit losses increased approximately \$4.2 million, or 602.1%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. The balance as of March 31, 2024 was approximately \$31.4 million, or 8.71%, of our total loans held at carrying value and loan receivable held at carrying value balance of approximately \$359.9 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 loan receivable held at carrying value of approximately \$31.3 million and (ii) a liability for unfunded commitments of approximately \$9.1 thousand. The balance as of March 31, 2023 was approximately \$15.0 million, or 5.40%, of our total loans held at carrying value and loan receivable held at carrying value balance of approximately \$277.4 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 loan receivable held at carrying value of approximately \$14.4 million and (ii) a liability for unfunded commitments of approximately \$0.6 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 change in the provision for current expected credit losses for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 was due to changes in macroeconomic factors, changes to the loan portfolio including new commitments and repayments, borrower payment status, and changes in other data points we use in estimating the reserve.

Loan Portfolio

The below table summarizes our total loan portfolio as of March 31, 2024, unless otherwise specified. Borrower names have been kept confidential due to confidentiality agreement obligations.

Loan Names	Original Funding Date ⁽¹⁾	Loan Maturity	AFCG Loan, net of Syndication	% of Total AFCG	Principal Balance as of 3/31/2024	Cash Interest Rate	PIK	Fixed/Floating	Amortization During Term	YTM ₍₂₎₍₃₎
Public Co. A - Equipment Loans ⁽⁴⁾	8/5/2019	3/31/2025	\$ 4,000,000	0.8%	\$ 2,041,744	12.0%	N/A	Fixed	Yes	9%
Private Co. A ⁽⁵⁾	5/8/2020	5/8/2024	77,785,000	15.5%	49,729,397	13.0%	2.7%	Fixed	No	26%
Private Co. B ⁽⁶⁾	9/10/2020	9/1/2023	16,402,988	3.3%	18,895,891	14.7%	4.0%	Fixed	No	29%
Private Co. C	11/5/2020	12/1/2025	24,000,000	4.8%	3,656,235	17.5%	2.0%	Floating	Yes	26%
Sub of Private Co. G ⁽⁷⁾	4/30/2021	5/1/2026	73,500,000	14.7%	79,215,888	12.5%	N/A	Fixed	No	20%
Private Co. J	8/30/2021	9/1/2025	23,000,000	4.6%	21,228,511	17.3%	2.0%	Floating	Yes	25%
Private Co. K ⁽⁸⁾	4/28/2022	5/3/2027	13,229,626	2.6%	13,445,762	17.3%	2.0%	Floating	Yes	26%
Private Co. L	4/20/2022	5/1/2026	51,640,777	10.3%	44,332,375	13.7%	N/A	Floating	Yes	19%
Sub of Public Co. H	12/16/2021	1/1/2026	84,000,000	16.8%	84,000,000	14.3%	N/A	Floating	No	19%
Sub of Public Co. M	8/26/2022	8/27/2025	12,822,000	2.6%	12,822,000	9.5%	N/A	Fixed	No	19%
Private Co. M ⁽⁹⁾	7/31/2023	7/31/2026	30,000,000	6.0%	31,158,023	9.0%	N/A	Fixed	Yes	18%
Private Co. N - Real Estate	3/22/2024	4/1/2028	16,800,000	3.4%	16,800,000	13.3%	N/A	Floating	Yes	16%
Private Co. N - Non-Real Estate	3/22/2024	4/1/2028	17,200,000	3.4%	17,200,000	13.3%	N/A	Floating	Yes	16%
CRE Private Co. A	1/4/2024	5/31/2024	28,224,559	5.6%	25,779,522	20.6%	N/A	Floating	No	25%
CRE Private Co. B	1/31/2024	5/12/2027	28,188,776	5.6%	20,916,510	13.0%	N/A	Fixed	No	14%
		Subtotal⁽¹⁰⁾	\$ 500,793,726	100.0%	\$ 441,221,858	13.7%	0.6%			20%
										Wtd Average

- (1) 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.
- (2) 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 March 31, 2024 applied through maturity. Actual results could differ from those estimates and assumptions.

- (3) 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.
- (4) As of October 1, 2022, Public Company A equipment loan receivable was placed on nonaccrual status.
- (5) Cash interest and PIK interest rates for Private Company A represent a blended rate of differing cash interest and PIK interest rates applicable to each of the tranches to which the Company is a lender under the senior secured term loan credit facility with Private Company A (as may be amended, restated, and supplemented or otherwise modified from time to time, the "Private Company A Credit Facility"). In October 2023, AFC Agent delivered a notice of default to Private Company A based on certain financial and other covenant defaults and began charging additional default interest of 5.0%, beginning as of July 1, 2023, in accordance with the terms of the Private Company A Credit Facility. Effective March 1, 2024, Private Company A was placed on nonaccrual status.
- (6) Cash interest and PIK interest rates for Private Co. B are weighted average rates. As amended by the forbearance and modification agreement entered into with Private Company B in February 2023, the default interest rate of 4.0% is applicable from January 15, 2023 and is paid in kind.
- (7) Effective March 2024, pursuant to the forbearance agreement with Subsidiary of Private Company G, Subsidiary of Private Company G transitioned from a floating interest rate tied to U.S. prime rate to a fixed interest rate. Effective December 1, 2023, the Company placed the borrower on nonaccrual status.
- (8) As amended by the forbearance agreement entered into in March 2024, between 20.0% and 80.0% of the monthly cash interest will be paid in kind from December 1, 2023 to June 1, 2024. As of December 1, 2023, the Company placed the borrower on nonaccrual status.
- (9) Quarterly cash interest is paid in kind from closing to February 1, 2024 and then payable in cash thereafter.
- (10) The interest and PIK subtotal rates are weighted average rates.

Loans Held for Investment at Fair Value

As of March 31, 2024 and December 31, 2023, our portfolio included two loans held at fair value. The aggregate originated commitment under these loans was approximately \$94.2 million and \$94.2 million, respectively, and outstanding principal was approximately \$68.6 million and \$71.9 million as of March 31, 2024 and December 31, 2023, respectively. For the three months ended March 31, 2024, we received approximately \$4.0 million of principal repayments of loans held at fair value. As of March 31, 2024 and December 31, 2023, none of our loans held at fair value had floating interest rates.

The following tables summarize our loans held at fair value as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024			Weighted Average Remaining Life (Years)⁽³⁾⁽⁴⁾
	Fair Value⁽¹⁾	Carrying Value⁽²⁾	Outstanding Principal⁽²⁾	
Senior term loans	\$ 54,977,282	\$ 68,514,273	\$ 68,625,288	0.1
Total loans held at fair value	\$ 54,977,282	\$ 68,514,273	\$ 68,625,288	0.1

As of December 31, 2023

	Fair Value⁽¹⁾	Carrying Value⁽²⁾	Outstanding Principal⁽²⁾	Weighted Average Remaining Life (Years)⁽³⁾
Senior term loans	\$ 61,720,705	\$ 71,644,003	\$ 71,883,402	0.4
Total loans held at fair value	\$ 61,720,705	\$ 71,644,003	\$ 71,883,402	0.4

(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 March 31, 2024 and December 31, 2023.

(4) As of March 31, 2024 and December 31, 2023, the weighted average remaining life only reflects the remaining life of the Private Company A Credit Facility.

The following table presents changes in loans held at fair value as of and for the three months ended March 31, 2024:

	Principal	Original Issue Discount	Unrealized Gains (Losses)	Fair Value
Total loans held at fair value at December 31, 2023	\$ 71,883,402	\$ (239,399)	\$ (9,923,298)	\$ 61,720,705
Change in unrealized gains (losses) on loans at fair value, net	—	—	(3,613,693)	(3,613,693)
Accretion of original issue discount	—	128,384	—	128,384
Loan repayments	(4,003,945)	—	—	(4,003,945)
PIK interest	745,831	—	—	745,831
Total loans held at fair value at March 31, 2024	\$ 68,625,288	\$ (111,015)	\$ (13,536,991)	\$ 54,977,282

Loans Held for Investment at Carrying Value

As of March 31, 2024 and December 31, 2023, our portfolio included twelve and nine loans held at carrying value, respectively. The aggregate originated commitment under these loans was approximately \$402.6 million and \$333.1 million, respectively, and outstanding principal was approximately \$370.6 million and \$314.4 million, respectively, as of March 31, 2024 and December 31, 2023. During the three months ended March 31, 2024, we funded approximately \$85.8 million of new loans and additional principal, had approximately \$24.5 million of principal repayments of loans held at carrying value and sold \$6.0 million of our investment in Subsidiary of Public Company M. As of March 31, 2024 and December 31, 2023, approximately 61% and 84%, respectively, of our loans held at carrying value had floating interest rates. As of March 31, 2024, these floating benchmark rates included one-month Secured Overnight Financing Rate (“SOFR”) subject to a weighted average floor of 3.7% and quoted at 5.3% and U.S. prime rate subject to a weighted average floor of 5.4% and quoted at 8.5%.

The following tables summarize our loans held at carrying value as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024			
	Outstanding Principal ⁽¹⁾	Original Issue Discount	Carrying Value ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Senior term loans	\$ 323,858,794	\$ (12,434,565)	\$ 311,424,229	2.2
Subordinate debt	46,696,032	(267,794)	46,428,238	1.5
Total loans held at carrying value	\$ 370,554,826	\$ (12,702,359)	\$ 357,852,467	2.1

	As of December 31, 2023			
	Outstanding Principal ⁽¹⁾	Original Issue Discount	Carrying Value ⁽¹⁾	Weighted Average Remaining Life (Years) ⁽²⁾
Senior term loans	\$ 314,376,929	\$ (13,111,531)	\$ 301,265,398	2.2
Total loans held at carrying value	\$ 314,376,929	\$ (13,111,531)	\$ 301,265,398	2.2

(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 March 31, 2024 and December 31, 2023.

The following table presents changes in loans held at carrying value as of and for the three months ended March 31, 2024:

	Principal	Original Issue Discount	Carrying Value
Total loans held at carrying value at December 31, 2023	\$ 314,376,929	\$ (13,111,531)	\$ 301,265,398
New fundings	85,832,667	(1,641,888)	84,190,779
Accretion of original issue discount	—	1,799,398	1,799,398
Loan repayments	(23,290,973)	—	(23,290,973)
Sale of loans	(6,000,000)	251,662	(5,748,338)
PIK interest	855,156	—	855,156
Loan amortization payments	(1,218,953)	—	(1,218,953)
Total loans held at carrying value at March 31, 2024	\$ 370,554,826	\$ (12,702,359)	\$ 357,852,467

Loan Receivable Held at Carrying Value

As of March 31, 2024 and December 31, 2023, our portfolio included one loan receivable held at carrying value. The originated commitment under this loan was \$4.0 million and outstanding principal was approximately \$2.0 million as of March 31, 2024 and December 31, 2023, respectively.

The following table presents changes in loans receivable as of and for the three months ended March 31, 2024:

	<u>Principal</u>	<u>Original Issue Discount</u>	<u>Carrying Value</u>
Total loan receivable held at carrying value at December 31, 2023	\$ 2,041,744	\$ (1,686)	\$ 2,040,058
Loan repayments	—	—	—
Total loan receivable held at carrying value at March 31, 2024	\$ 2,041,744	\$ (1,686)	\$ 2,040,058

Collateral Overview

Our loans are secured by various types of assets of our borrowers, including real property and certain personal property, such as the value associated with licenses (where applicable), equipment, and other assets to the extent permitted by applicable laws and the regulations governing our borrowers.

With respect to our loans to cannabis operators, 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 March 31, 2024, our portfolio of assets held outside of TRS1 had a weighted average real estate collateral coverage of approximately 1.0 times our aggregate committed principal amount of such loans, with the real estate collateral coverage for each of our loans measured as of the time of closing for such loan 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 even for loans to cannabis operators, the collateral securing our loans may be sold 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 with respect to loans to cannabis operators. 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 three months ended March 31, 2024 of approximately \$6.4 million was less than our dividend payments of \$9.8 million made during the same period due to earned OID of \$1.9 million and PIK repayments of \$0.5 million related to the repayment from Private Company I 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.

As of March 31, 2024 and December 31, 2023, all of our cash was unrestricted and totaled approximately \$82.3 million and \$121.6 million, respectively.

As of March 31, 2024, 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.

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. During the three months ended March 31, 2024 and year ended December 31, 2023, we did not sell any shares of our common stock under the Sales Agreement.

On June 13, 2023, our Board authorized the Repurchase Program. The timing, price, and volume of repurchases will be based on our stock price, general market conditions, applicable legal requirements and other factors. The repurchase of our common stock may be made from time to time in the open market, in privately negotiated transactions or otherwise in compliance with Rule 10b-18 and Rule 10b5-1 under the Exchange Act. We expect to finance any share repurchases under the Repurchase Program using cash on hand, capacity available under our line of credit and cash flows from operations. The Repurchase Program may be discontinued, modified or suspended at any time. During the three months ended March 31, 2024 and year ended December 31, 2023, the Company did not repurchase any shares of its common stock pursuant to the Repurchase Program.

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 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.

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. As of March 31, 2024, we had \$60.0 million of borrowings outstanding and zero availability under our Revolving Credit Agreement, which may be borrowed, repaid and redrawn, subject to a borrowing base based on eligible loan obligations held by us and subject to the satisfaction of other conditions provided under the 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. Upon entering into the Revolving Credit Agreement, 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, payable semi-annually in arrears, which is included within interest expense in our unaudited interim consolidated statements of operations. Based on the terms of the Revolving Credit Agreement, our estimated average cash balance will exceed the minimum balance required to waive the unused line fee and as such, we did not incur an unused line fee for the three months ended March 31, 2024.

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. To the best of our knowledge, as of March 31, 2024, we were in compliance in all material respects with all covenants contained in our Revolving Credit Agreement.

2027 Senior Notes

On November 3, 2021, we issued \$100.0 million in 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, which began 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. We used the net 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 our investment strategy and (iii) for working capital and other general corporate purposes. The terms of the 2027 Senior Notes are governed by the Indenture. Under the Indenture governing the 2027 Senior Notes, 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. TRS1 and SUNS are currently subsidiary guarantors under the Indenture. Following the completion of the Spin-Off, SUNS will no longer be a guarantor under the Indenture.

Prior to February 1, 2027, we 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 governing the 2027 Senior Notes 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	\$90.0 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 March 31, 2024, 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 three months ended March 31, 2024 and 2023:

	March 31,	
	2024	2023
Net (loss) income	\$ (54,116)	\$ 10,025,274
Adjustments to reconcile net income to net cash (used in) provided by operating activities and changes in operating assets and liabilities	6,426,664	(5,642,647)
Net cash provided by (used in) operating activities	6,372,548	4,382,627
Net cash (used in) provided by investing activities	(53,880,866)	14,991,616
Net cash provided by (used in) financing activities	8,180,305	(79,141,340)
Change in cash and cash equivalents	\$ (39,328,013)	\$ (59,767,097)

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities during the three months ended March 31, 2024 was approximately \$6.4 million, compared to approximately \$4.4 million for the same period in 2023. The increase of approximately \$2.0 million during the three months ended March 31, 2023 to March 31, 2024 was primarily due to a decrease in net income of approximately \$(10.1) million, decrease in interest receivable of approximately \$(2.0) million, offset by a decrease in gain (loss) on extinguishment of debt of approximately \$2.0 million, an increase in the change in unrealized (gains) losses on loans held at fair value of approximately \$2.1 million, decrease in PIK interest of approximately \$2.9 million, increase in the provision for current expected credit losses of approximately \$4.2 million and increase in interest reserve of approximately \$3.0 million, respectively.

Net Cash Provided by (Used in) Investing Activities

Net cash used in investing activities during the three months ended March 31, 2024 was approximately \$(53.9) million, compared to net cash provided by investing activities of approximately \$15.0 million for the same period in 2023. The decrease of net cash used in investing activities of approximately \$(68.9) million during the three months ended March 31, 2023 to March 31, 2024 was primarily due to an increase in issuance and fundings on loans of approximately \$(82.7) million, a decrease in proceeds from the sale of loans of approximately \$(11.9) million, offset by an increase in principal repayments of loans of approximately \$25.7 million, respectively.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2024 was approximately \$8.2 million, compared to approximately \$(79.1) million for the same period in 2023. The increase of approximately \$87.3 million during the three months ended March 31, 2023 to March 31, 2024 was primarily due to an increase in borrowings on the Revolving Credit Facility of \$60.0 million, decrease in repayments on the Revolving Credit Facility of approximately \$18.0 million and decrease in repayments on the 2027 Senior Notes of approximately \$7.7 million, respectively.

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

Our contractual obligations as of March 31, 2024 are as follows:

	As of March 31, 2024				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Unfunded commitments	\$ 7,308,402	\$ —	\$ 7,272,266	\$ —	\$ 14,580,668
Total	\$ 7,308,402	\$ —	\$ 7,272,266	\$ —	\$ 14,580,668

As of March 31, 2024, all unfunded commitments related to our total loan commitments and were available for funding in less than four years.

We also had the following contractual obligations as of March 31, 2024 relating to the 2027 Senior Notes:

	As of March 31, 2024				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Contractual obligations ⁽¹⁾	\$ 5,175,000	\$ 10,350,000	\$ 92,587,500	\$ —	\$ 108,112,500
Total	\$ 5,175,000	\$ 10,350,000	\$ 92,587,500	\$ —	\$ 108,112,500

(1) Amounts include projected interest payments during the period based on interest rates in effect as of March 31, 2024.

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, 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 March 31, 2024, 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

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.

LIBOR Transition

In July 2017, the United Kingdom’s Financial Conduct Authority (the “FCA”) (the authority that regulates LIBOR) announced its intention to cease sustaining LIBOR by the end of 2021. The ICE Benchmark Administration (the “IBA”), which is supervised by the FCA, ended publication of the one-week and two-month USD LIBOR tenors on December 31, 2021, and the remaining USD LIBOR tenors (overnight, one-month, three-month, six-month and 12-month) ended following their publication on June 30, 2023. On April 3, 2023, the FCA announced that it would compel the IBA to publish an unrepresentative synthetic USD LIBOR through September 30, 2024 for use in legacy contracts.

As of March 31, 2024, eight of our loans, representing approximately 51% of our portfolio based on aggregate outstanding principal balances, paid interest at a variable rate tied to either SOFR or U.S. prime rate. If one of these floating benchmarks are no longer available, our applicable loan documents generally include fallback provisions that 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, changes to another index could result in mismatches with the interest rate of loans that we are financing. As of March 31, 2024, none of our loans paid interest at a variable rate tied to LIBOR.

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 March 31, 2024 and December 31, 2023, two of our loans held for investment were carried at fair value within loans held at fair value in our consolidated balance sheets, respectively, 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. Alternative valuation methodologies may be used as appropriate, and can include a market analysis, income analysis, or recovery analysis. 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, recovery rates, and revenue multiples 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, while a decrease in revenue multiples and recovery rates 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.

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. Alternative valuation methodologies may be used as appropriate, and can include a market analysis, income analysis, or recovery analysis. Changes in market yields, revenue multiples, and recovery rates 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, while a decrease in revenue multiples and recovery rates 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 March 31, 2024, 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 \$0.2 million and \$(0.2) million, respectively. As of March 31, 2024, we had eight floating-rate loans, representing approximately 51% of our portfolio based on aggregate outstanding principal balances. These floating benchmark rates included one-month SOFR subject to a weighted average floor of 3.7% and quoted at 5.3% and U.S. prime rate subject to a weighted average floor of 5.4% and quoted at 8.5%. 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 \$2.3 million and a hypothetical 100 basis points decrease in the floating benchmark rate would result in a decrease in annual interest income of approximately \$(1.9) million.

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 SOFR, U.S. 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 ongoing 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 March 31, 2024 was concentrated with the top four borrowers representing approximately 58.3% of the aggregate outstanding principal balances and approximately 57.3% of the total loan commitments. Additionally, the industry is experiencing significant consolidation, which we expect to increase, 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 19.0% of the aggregate outstanding principal balances of our portfolio and approximately 16.8% of our total loan commitments as of March 31, 2024. The borrower under this credit facility is a Subsidiary of Public Company H, 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 has a principal amount of \$84.0 million outstanding as of March 31, 2024, which is fully funded. This senior term loan accrues interest at a variable rate of U.S. prime rate plus 5.8%, subject to a U.S. prime rate floor of 5.5%.

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 within 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), 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 (“CEO”) and Chief Financial Officer (“CFO”). Based upon this evaluation, our CEO and CFO 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 recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms 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 CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Because of these and other inherent limitations of control systems, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

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 March 31, 2024 that have materially affected, or 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 March 31, 2024, we were not subject to any material legal proceedings.

Item 1A. Risk Factors

Except as disclosed below, during the quarter ended March 31, 2024, there were no material changes to the Risk Factors disclosed in Item 1A - "Risk Factors" in the Company's Annual Report for the fiscal year ended December 31, 2023.

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

None.

Issuer Purchases of Equity Securities

On June 13, 2023, our Board authorized a share repurchase program providing for the repurchase of up to \$20.0 million of our outstanding common stock (the "Repurchase Program"). The timing, price, and volume of repurchases will be based on our stock price, general market conditions, applicable legal requirements and other factors. The repurchase of our common stock may be made from time to time in the open market, in privately negotiated transactions or otherwise in compliance with Rule 10b-18 and Rule 10b5-1 under the Exchange Act. We expect to finance any share repurchases under the Repurchase Program using cash on hand, capacity available under our Revolving Credit Facility and cash flows from operations. The Repurchase Program is authorized until December 31, 2025 and may be discontinued, modified or suspended at any time. During the three months March 31, 2024, we did not repurchase any shares of our common stock pursuant to the Repurchase Program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1, 2024 to January 31, 2024	—	\$ —	—	\$ 20,000,000
February 1, 2024 to February 29, 2024	—	—	—	20,000,000
March 1, 2024 to March 31, 2024	—	—	—	20,000,000
	—	—	—	—

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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).
4.2	Indenture, dated as of November 3, 2021, by and between AFC Gamma, Inc. and TMI Trust Company, as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K on November 3, 2021 and incorporated herein by reference).
4.3	Form of 5.750% Senior Notes due 2027 (included in Exhibit 4.2).
10.1	Amended and Restated Management Agreement, dated January 14, 2021 by and between AFC Gamma, Inc. and AFC Management, LLC (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K on March 10, 2022 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 (filed as Exhibit 10.1B to the Company's Quarterly Report on Form 10-Q on November 8, 2022 and incorporated herein by reference).
10.1C	Third Amendment to Amended and Restated Management Agreement, dated March 6, 2023 by and between AFC Gamma, Inc. and AFC Management, LLC (filed as Exhibit 10.1C to the Company's Annual Report on Form 10-K on March 7, 2023 and incorporated herein by reference).
10.1D	Fourth Amendment to Amended and Restated Management Agreement, dated September 11, 2023 by and between AFC Gamma, Inc. and AFC Management, LLC (filed as Exhibit 10.1D to the Company's Current Report on Form 8-K on September 12, 2023 and incorporated herein by reference).
10.1E	Fifth Amendment to Amended and Restated Management Agreement, dated February 22, 2024 by and between AFC Gamma, Inc. and AFC Management, LLC (filed as Exhibit 10.1E to the Company's Current Report on Form 8-K on February 22, 2024 and incorporated herein by reference).
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).
10.7A†	Amendment Number One to Loan and Security Agreement, dated March 26, 2024, by and among AFC Gamma, Inc., the lenders party thereto, and the lead arranger, bookrunner and administrative agent party thereto (filed as Exhibit 10.7A to the Company's Current Report on Form 8-K on March 29, 2024 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: May 9, 2024

AFC GAMMA, INC.

By: /s/ Daniel Neville

Daniel Neville
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Brandon Hetzel

Brandon Hetzel
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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

I, Daniel Neville, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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: May 9, 2024

By: /s/ Daniel Neville
Daniel Neville
Chief Executive Officer
(Principal Executive Officer)

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

I, Brandon Hetzel, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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: May 9, 2024

By: /s/ Brandon Hetzel

Brandon Hetzel

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 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Daniel Neville, 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: May 9, 2024

By: /s/ Daniel Neville

Daniel Neville

Chief Executive Officer

(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 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Brandon Hetzel, 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: May 9, 2024

By: /s/ Brandon Hetzel

Brandon Hetzel

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.