

**APPENDIX A**

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**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 December 31, 2016**

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

**Commission File Number 814-01136**

**Terra Income Fund 6, Inc.**

**(Exact name of registrant as specified in its charter)**

**Maryland**  
**(State or other jurisdiction of  
incorporation or organization)**

**46-2865244**  
**(I.R.S. Employer  
Identification No.)**

**805 Third Avenue, 8<sup>th</sup> Floor  
New York, New York 10022**  
**(Address of principal executive offices)**

**(212) 753-5100**  
**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of February 14, 2017, the registrant had 5,077,797 shares of common stock, \$0.001 par value, outstanding.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Terra Income Fund 6, Inc.  
Statements of Assets and Liabilities**

	<b>December 31, 2016</b>	<b>September 30, 2016</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Investments, at fair value — non-controlled (amortized cost of \$31,137,671 and \$26,554,524, respectively)	\$ 31,476,126	\$ 26,723,922
Investments through participation interest, at fair value — non-controlled (amortized cost of \$9,451,081 and \$2,000,000, respectively) (Note 4)	9,592,750	2,022,814
Cash and cash equivalents	26,511,603	31,634,296
Cash, restricted	788,489	836,434
Interest receivable	403,176	278,424
Deferred offering costs	315,440	361,482
Prepaid expenses and other assets	79,824	274,851
<b>Total assets</b>	<b>69,167,408</b>	<b>62,132,223</b>
<b>Liabilities</b>		
Obligations under participation agreements, at fair value (proceeds of \$14,580,220 and \$14,508,034, respectively) (Note 4)	14,747,858	14,560,606
Transaction charge payable	2,399,134	2,191,734
Due to Adviser, net	2,022,291	1,498,808
Interest reserve and other deposits held on investments	788,489	836,434
Unsettled stock subscriptions	340,768	—
Accrued expenses	198,509	218,360
Interest payable from obligations under participation agreements	146,058	144,575
Directors' fees payable	24,125	5,625
Other liabilities	174,220	201,333
<b>Total liabilities</b>	<b>20,841,452</b>	<b>19,657,475</b>
<b>Net assets</b>	<b>\$ 48,325,956</b>	<b>\$ 42,474,748</b>
<b>Commitments and contingencies (See Note 5)</b>		
<b>Components of net assets:</b>		
Common stock, \$0.001 par value, 450,000,000 shares authorized, and 4,870,948 and 4,222,358 shares issued and outstanding, respectively	\$ 4,871	\$ 4,222
Capital in excess of par	48,733,102	42,537,764
Accumulated net investment loss	(763,604)	(206,878)
Net change in unrealized appreciation on investments	480,124	192,212
Net change in unrealized appreciation on obligations under participation agreements	(128,537)	(52,572)
<b>Net assets</b>	<b>\$ 48,325,956</b>	<b>\$ 42,474,748</b>
<b>Net asset value per share</b>	<b>\$ 9.92</b>	<b>\$ 10.06</b>

*See notes to financial statements.*

**Terra Income Fund 6, Inc.**  
**Statements of Operations**  
(Unaudited)

	Three Months Ended December 31,	
	2016	2015
<b>Investment income</b>		
Interest income	\$ 1,382,465	\$ 233,345
Other fee income	15,000	11,202
<b>Total investment income</b>	<u>1,397,465</u>	<u>244,547</u>
<b>Operating expenses</b>		
Interest expense from obligations under participation agreements	621,265	78,822
Marketing expenses	362,253	253,179
Professional fees	291,731	220,091
Base management fees	245,239	76,018
Amortization of offering costs	167,177	355,533
Operating expense reimbursement to Adviser (Note 4)	115,113	150,124
Insurance expense	53,466	56,798
Incentive fees on capital gain <sup>(1)</sup>	42,390	—
General and administrative expenses	31,432	17,546
Directors' fees	24,125	38,750
<b>Total operating expenses</b>	<u>1,954,191</u>	<u>1,246,861</u>
Less: Expense reimbursement from Adviser	—	(576,755)
<b>Net operating expenses</b>	<u>1,954,191</u>	<u>670,106</u>
<b>Net investment loss</b>	(556,726)	(425,559)
Net change in unrealized appreciation on investments	287,912	—
Net change in unrealized appreciation on obligations under participation agreements	(75,965)	—
<b>Net decrease in net assets resulting from operations</b>	<u>\$ (344,779)</u>	<u>\$ (425,559)</u>
<b>Per common share data:</b>		
Net investment loss per share	\$ (0.12)	\$ (0.33)
Net decrease in net assets per share resulting from operations	\$ (0.08)	\$ (0.33)
Weighted average common shares outstanding	<u>4,475,224</u>	<u>1,282,925</u>

(1) Incentive fees on capital gains are based on 20% of net unrealized capital gains of \$211,947. No incentive fees on capital gains are actually payable by the Company with respect to unrealized gains unless and until those gains are actually realized.

*See notes to financial statements.*

**Terra Income Fund 6, Inc.**  
**Statements of Changes in Net Assets**  
(Unaudited)

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operations</b>		
Net investment loss	\$ (556,726)	\$ (425,559)
Net change in unrealized appreciation on investments	287,912	—
Net change in unrealized appreciation on obligations under participation agreements	(75,965)	—
Net decrease in net assets resulting from operations	<u>(344,779)</u>	<u>(425,559)</u>
<b>Stockholder distributions</b>		
Dividends from return of capital	(1,123,928)	(321,405)
Net decrease in net assets resulting from stockholder distributions	<u>(1,123,928)</u>	<u>(321,405)</u>
<b>Capital share transactions</b>		
Issuance of common stock	7,636,409	11,997,169
Selling commissions, dealer manager fees and transaction charges	(696,058)	(1,090,682)
Reinvestment of stockholder distributions	379,564	113,650
Offering costs	—	(37,348)
Net increase in net assets resulting from capital share transactions	<u>7,319,915</u>	<u>10,982,789</u>
<b>Net increase in net assets</b>	<b>5,851,208</b>	<b>10,235,825</b>
<b>Net assets, at beginning of period</b>	<b>42,474,748</b>	<b>10,161,072</b>
<b>Net assets, at end of period</b>	<b><u>\$ 48,325,956</u></b>	<b><u>\$ 20,396,897</u></b>
<b>Capital Share Activity</b>		
Shares outstanding, at beginning of period	4,222,358	926,357
Shares issued from subscriptions	616,637	969,153
Shares issued from reinvestment of stockholder distributions	31,953	9,571
Shares outstanding, at end of period	<u>4,870,948</u>	<u>1,905,081</u>

*See notes to financial statements.*

**Terra Income Fund 6, Inc.**  
**Statements of Cash Flows**  
(Unaudited)

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net decrease in net assets resulting from operations	\$ (344,779)	\$ (425,559)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized appreciation on investments	(287,912)	—
Net change in unrealized appreciation on obligations under participation agreements	75,965	—
Amortization of deferred offering costs	167,177	355,533
Amortization and accretion of investment-related fees, net	93,673	—
Paid-in-kind interest, net	(14,471)	—
Amortization of discount on investment	(2,143)	—
Purchases of investments	(12,000,000)	(20,800,000)
Proceeds from obligations under participation agreements	—	14,300,000
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in cash, restricted	47,945	(2,048,548)
Increase in interest receivable	(124,752)	(65,122)
Increase in deferred offering costs	(121,135)	—
Decrease (increase) in prepaid expenses and other assets	195,027	(11,360)
Increase (decrease) in due to Adviser, net	523,483	(362,382)
(Decrease) increase in interest reserve and other deposits held on investments	(47,945)	2,048,548
Increase (decrease) in unsettled stock subscriptions	340,768	(111,797)
(Decrease) increase in accrued expenses	(19,851)	102,287
Increase in interest payable from obligations under participation agreements	1,483	27,872
Increase in directors' fees payable	18,500	—
(Decrease) increase in other liabilities	(105,581)	53,588
<b>Net cash used in operating activities</b>	<b>(11,604,548)</b>	<b>(6,936,940)</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	7,636,409	11,997,169
Payments of stockholder distributions	(744,364)	(207,755)
Payments of selling commissions, dealer manager fees and transaction charges	(410,190)	(885,701)
Payments of offering costs	—	(37,348)
<b>Net cash provided by financing activities</b>	<b>6,481,855</b>	<b>10,866,365</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(5,122,693)</b>	<b>3,929,425</b>
<b>Cash and cash equivalents, at beginning of period</b>	<b>31,634,296</b>	<b>8,248,797</b>
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 26,511,603</b>	<b>\$ 12,178,222</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid on obligations under participation agreements	\$ 441,650	\$ 72,200
<b>Supplemental non-cash information:</b>		
Reinvestment of stockholder distribution	\$ 379,564	\$ 113,650

*See notes to financial statements.*

**Terra Income Fund 6, Inc.**  
**Schedule of Investments**  
**December 31, 2016**  
**(Unaudited)**

Portfolio Company <sup>(1)</sup>	Structure	Collateral Location	Property Type	Interest Rate	Acquisition Date	Maturity Date	Principal	Amortized Cost	Fair Value <sup>(2)</sup>	% of Net Assets <sup>(3)</sup>
<b>Investments — non-controlled:</b>										
KOP Hotel XXXI Mezz, LP. <sup>(4) (5)</sup>	Mezzanine loan	US - PA	Hotel	13.00%	11/24/2015	12/6/2022	\$5,800,000	\$ 5,780,181	\$ 5,954,148	12.3%
QPT 24th Street Mezz, LLC <sup>(4) (5) (6)</sup>	Mezzanine loan	US - NY	Land	12.00% Current/ 2.00% PIK	12/15/2015	6/15/2017	15,337,224	15,391,525	15,480,991	32.0%
Hertz Clinton One Mezzanine, LLC	Mezzanine loan	US - MS	Office	12.00%	3/18/2016	1/1/2025	2,500,000	2,431,429	2,431,429	5.0%
GAHC3 Lakeview IN Medical Plaza, LLC <sup>(7)</sup>	B-Note	US - IN	Office	11.60% + LIBOR	6/17/2016	1/21/2019	3,074,671	3,074,671	3,074,671	6.4%
YIP Santa Maria LLC	Mezzanine loan	US - CA	Hotel	13.00%	11/15/2016	12/9/2019	4,500,000	4,459,865	4,534,887	9.4%
Total investments — non-controlled								\$31,137,671	\$31,476,126	65.1%
<b>Investments through participation interest — non-controlled:</b>										
TSG-Parcel 1, LLC <sup>(4) (8)</sup>	Participation in First Mortgage <sup>(9)</sup>	US - CA	Land	12.00%	7/17/2015	4/10/2017	\$2,000,000	\$ 2,020,000	\$ 2,033,300	4.2%
140 Schermerhorn Street Mezz LLC <sup>(4)</sup>	Participation in Mezzanine Loan <sup>(9)</sup>	US - NY	Hotel	12.00%	11/16/2016	12/1/2019	7,500,000	7,431,081	7,559,450	15.7%
Total investments through participation interest — non-controlled								\$ 9,451,081	\$ 9,592,750	19.9%
<b>Total Investments</b>								<b>\$40,588,752</b>	<b>\$41,068,876</b>	<b>85.0%</b>

- (1) All the Company's investments are issued by an eligible U.S. portfolio company, as defined in the Investment Company Act of 1940.
- (2) Because there is no readily available market for these investments, the fair value of these investments are approved in good faith by the Company's board of directors.
- (3) Percentages are based on net assets of \$48,325,956 as of December 31, 2016.
- (4) Participation interest is with Terra Property Trust, Inc., a related-party real estate investment trust managed by an affiliate of the Company's sponsor.
- (5) The loan participations from the Company do not qualify for sale accounting under Accounting Standards Codification ("ASC") Topic 860 — *Transfers and Servicing* ("ASC Topic 860"), and therefore, these loans remain in the Schedule of Investments. See "*Obligations under Participation Agreements*" in Note 3 in the accompanying notes to the financial statements.
- (6) Principal amount includes paid-in-kind ("PIK") interest of \$337,224.
- (7) The interest rate for this investment is indexed to London Interbank Offered Rate ("LIBOR"). At December 31, 2016, the effective interest rate on this investment was 12.37%. As of December 31, 2016, this investment had an unfunded commitment of \$425,329.
- (8) This loan was extended in January 2017.
- (9) See "*Participation Agreements*" in Note 4 in the accompanying notes to the financial statements.

*See notes to financial statements.*

**Terra Income Fund 6, Inc.**  
**Schedule of Investments**  
**September 30, 2016**

Portfolio Company <sup>(1)</sup>	Structure	Collateral Location	Property Type	Interest Rate	Acquisition Date	Maturity Date	Principal	Amortized Cost	Fair Value <sup>(2)</sup>	% of Net Assets <sup>(3)</sup>
<b>Investments — non-controlled:</b>										
KOP Hotel XXXI Mezz, LP. <sup>(4) (5)</sup>	Mezzanine loan	US - PA	Hotel	13.00%	11/24/2015	12/6/2022	\$5,800,000	\$ 5,800,000	\$ 5,969,398	14.1%
QPT 24th Street Mezz, LLC <sup>(4) (5) (6)</sup>	Mezzanine loan	US - NY	Land	12.00% Current/ 2% PIK	12/15/2015	6/15/2017	15,250,567	15,250,567	15,250,567	35.9%
Hertz Clinton One Mezzanine, LLC	Mezzanine loan	US - MS	Office	12.00%	3/18/2016	1/1/2025	2,500,000	2,429,286	2,429,286	5.7%
GAHC3 Lakeview IN Medical Plaza, LLC <sup>(7)</sup>	B-Note	US - IN	Office	11.60% + LIBOR	6/17/2016	1/21/2019	3,074,671	3,074,671	3,074,671	7.2%
Total investments — non-controlled								\$26,554,524	\$26,723,922	62.9%
<b>Investment through participation interest — non-controlled:</b>										
TSG-Parcel 1, LLC <sup>(4)</sup>	Participation in First Mortgage <sup>(8)</sup>	US - CA	Land	12.00%	7/10/2015	1/10/2017	\$2,000,000	\$ 2,000,000	\$ 2,022,814	4.8%
Total investment through participation interest — non-controlled								\$ 2,000,000	\$ 2,022,814	4.8%
<b>Total Investments</b>								<b>\$28,554,524</b>	<b>\$28,746,736</b>	<b>67.7%</b>

- (1) All the Company's investments are issued by an eligible U.S. portfolio company, as defined in the Investment Company Act of 1940.
- (2) Because there is no readily available market for these investments, the fair value of these investments are approved in good faith by the Company's board of directors.
- (3) Percentages are based on net assets of \$42,474,748 as of September 30, 2016.
- (4) Participation interest is with Terra Property Trust, Inc., a related-party real estate investment trust managed by an affiliate of the Company's sponsor.
- (5) The loan participations from the Company do not qualify for sale accounting under ASC Topic 860 and therefore, these loans remain in the Schedule of Investments. See "Obligations under Participation Agreements" in Note 3 in the accompanying notes to the financial statements.
- (6) Principal amount includes PIK interest of \$250,568.
- (7) The interest rate for this investment is indexed to LIBOR. At September 30, 2016, the effective interest rate on this investment was 12.13%. As of September 30, 2016, this investment had an unfunded commitment of \$425,329.
- (8) See "Participation Agreements" in Note 4 in the accompanying notes to the financial statements.

*See notes to financial statements.*



**Terra Income Fund 6, Inc.**  
**Notes to Financial Statements (Unaudited)**

**Note 1. Principal Business and Organization**

Terra Income Fund 6, Inc. (the “Company”) was incorporated under the general corporation laws of the State of Maryland on May 15, 2013. On March 2, 2015, the Company filed a public registration statement on Form N-2 (the “Registration Statement”) with the Securities and Exchange Commission (the “SEC”) to offer a minimum of \$2.0 million of common stock and a maximum of \$1.0 billion of common stock in a continuous public offering (the “Offering”). The Company formally commenced operations on June 24, 2015, upon raising gross proceeds in excess of \$2.0 million (the “Minimum Offering Requirement”) from sales of shares of its common stock in the Offering, including sales to persons who are affiliated with the Company or its adviser, Terra Income Advisors, LLC (“Terra Income Advisors”). Since commencing the Offering and through December 31, 2016, the Company has sold 4,759,457 shares of common stock, including shares purchased by Terra Capital Partners, LLC, the Company’s sponsor, and excluding shares sold through the distribution reinvestment plan (“DRIP”), in both an initial private placement and from the Offering, for gross proceeds of approximately \$58.9 million. The Company has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be taxed for federal income tax purposes, and to qualify annually thereafter, as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). The Company’s investment activities are externally managed by Terra Income Advisors, a private investment firm affiliated with the Company, pursuant to an investment advisory and administrative services agreement (the “Investment Advisory Agreement”), under the oversight of the Company’s board of directors (the “Board”), a majority of whom are independent directors. Terra Income Advisors is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (see [Note 4](#)).

The Company has retained Terra Capital Markets, LLC (“Terra Capital Markets”), an affiliate of Terra Income Advisors, to serve as the dealer manager of the Offering. As dealer manager, Terra Capital Markets is responsible for marketing the Company’s shares being offered pursuant to the Offering. The Company intends to file post-effective amendments to the Registration Statement that are subject to SEC review to allow it to continue the Offering for at least two years from the initial effective date of the Registration Statement.

The Company’s primary investment objectives are to pay attractive and stable cash distributions and to preserve, protect and return capital contributions to stockholders. The Company’s investment strategy is to use substantially all of the proceeds of the Offering to originate and manage a diversified portfolio consisting of (i) commercial real estate loans to U.S. companies qualifying as “eligible portfolio companies” under the 1940 Act, including mezzanine loans, first and second lien mortgage loans, subordinated mortgage loans, bridge loans and other commercial real estate-related loans related to or secured by high quality commercial real estate in the United States and (ii) preferred equity real estate investments in U.S. companies qualifying as “eligible portfolio companies” under the 1940 Act. The Company may also purchase select commercial real estate-related debt securities, such as commercial mortgage-backed securities or collateralized debt obligations; provided, however, that the Company will select all investments after considering its ability to maintain its qualification to be taxed as a RIC. The Company intends to either directly or through an affiliate, structure, underwrite and originate most of its investments, as it believes that doing so will provide it with the best opportunity to invest in loans that satisfy its standards, establish a direct relationship with the borrower and optimize the terms of its investments. The Company may hold its investments until their scheduled maturity dates or may sell them if able to command favorable terms for their disposition.

**Note 2. Summary of Significant Accounting Policies**

*Basis of Presentation:* The accompanying interim financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information. The accompanying interim financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. The Company is an investment company, as defined under U.S. GAAP, and applies accounting and reporting guidance in accordance with Financial Accounting Standards Board (“FASB”) ASC Topic 946, *Financial Services — Investment Companies*.

*Cash and Cash Equivalents:* The Company considers all highly liquid investments, with original maturities of ninety days or less when purchased, as cash equivalents. Cash and cash equivalents held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation (“FDIC”).

*Restricted Cash:* Restricted cash represents cash held as additional collateral by the Company on behalf of the borrowers related to the investments for the purpose of such borrowers making interest and property-related operating payments. There is a corresponding liability of the same amount on the statements of assets and liabilities called “Interest reserve and other deposits held on investments”.

*Organization and Offering Expenses:* Organization expenses are expensed on the Company’s statements of operations. All offering costs incurred during the offering period are recorded as deferred charge and amortized over twelve months from the date the cost is incurred, with the exception of those costs that were incurred prior to the commencement of operations on June 24, 2015, which were amortized over a 12-month period from that date forward. The Company accrues all organization and offering expenses paid by Terra Income Advisors on behalf of the Company as the Company believes they are probable of repayment (see Note 4).

*Investment Transactions and Investment Income (Expense):* The Company records investment transactions on the trade date. Realized gains or losses on dispositions of investments represent the difference between the amortized cost of the investment, based on the specific identification method, and the proceeds received from the sale or maturity (exclusive of any prepayment penalties). Realized gains and losses and changes in unrealized gains and losses are recognized in the statements of operations. Interest income is accrued based upon the outstanding principal amount and contractual terms of the debt instruments and preferred equity investments. Interest is accrued on a daily basis. Discounts and premiums on investments purchased are accreted or amortized over the expected life of the respective investment using the effective yield method, and are included in interest income in the statements of operations. Loan origination fees and exit fees are capitalized and the Company then amortizes such amounts using the effective interest method as interest income over the life of the investment. The amortized cost of investments represents the original cost adjusted for the accretion of discounts on investments and exit fees, and the amortizations of premiums on investments and origination fees. As prepayment(s), partial or full, occurs on an investment, prepayment income is recognized. All other income is recognized when earned.

The Company holds a debt investment in its portfolio that contains PIK interest provision. The PIK interest, which represents contractually deferred interest that is added to the principal balance that is due at maturity, is recorded on the accrual basis.

*Participation Interests:* The Company follows the guidance in ASC Topic 860 – *Transfers and Servicing*, when accounting for loan participations. Such guidance requires participations interests meet certain criteria in order for the interest transaction to be recorded as a sale. Loan participations from the Company which do not qualify for sale treatment remain on the Company’s statements of assets and liabilities and the proceeds are recorded as obligations under participation agreements. For the investments which participation has been granted, the interest earned on the entire loan balance is recorded within “interest income” and the interest related to the participation interest is recorded within “interest expense from obligations under participation agreements” in the accompanying statements of operations. See “*Obligations under Participation Agreements*” in Note 3 for additional information.

*Valuation of Investments:* The Company determines the value of its investments on a quarterly basis in accordance with fair value accounting guidance promulgated under U.S. GAAP, which establishes a three-tier hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. These tiers include:

- Level 1 — observable inputs, such as quoted prices in active markets. Publicly listed equities and publicly listed derivatives will be included in Level 1.
- Level 2 — observable inputs such as for similar securities in active markets and quoted prices for identical securities in markets that are not active. In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments. Investments which are generally expected to be included in this category include corporate bonds and loans, convertible debt indexed to publicly listed securities and certain over-the-counter derivatives.
- Level 3 — unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The inputs into the determination of fair value require significant judgment or estimation.

Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety

requires subjective judgment and consideration of factors specific to the investment. The fair values of the Company's investments are determined in good faith by the Board pursuant to the Company's valuation policy and consistently applied valuation process. It is expected that the Company's investments will primarily be classified as Level 3 investments.

*Transaction Charge Payable:* The Company pays Terra Capital Markets a total transaction charge (formerly referred to as distribution fee) of 4.5% of the gross proceeds from the sale of shares in the Offering, excluding shares sold through the DRIP. The transaction charge is recorded as a liability on the date of stockholder admittance with a corresponding reduction to equity and is payable annually at a rate of 1.125% of gross proceeds with respect to each share sold in the Offering on the first, second, third and fourth anniversaries of the month of purchase. The Company will no longer incur the transaction charge after the Offering is terminated or sooner if total underwriting compensation incurred in respect of the Offering reaches 10.0% of the gross offering proceeds.

*Stockholder Dividends and Distributions:* Dividends and distributions to stockholders, which are determined in accordance with federal income tax regulations, are recorded on the record date. The amount to be paid out as a dividend or distribution is approved by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually. The Company adopted an "opt in" distribution reinvestment plan pursuant to which stockholders may elect to have the full amount of stockholders cash distributions reinvested in additional shares of common stock. Participants in the DRIP are free to elect to participate or terminate participation in the plan within a reasonable time as specified in the plan. For stockholders who have opted in to the DRIP, they will have their cash distributions reinvested in additional shares of common stock, rather than receiving the cash distributions. The Company expects to coordinate distribution payment dates so that the same price that is used for the semi-monthly closing date immediately following such distribution payment date will be used to calculate the purchase price for purchasers under the DRIP. In such case, a stockholder's reinvested distributions will be used to purchase shares at a price equal to 95% of the price that shares are sold in the offering at the semi-monthly closing immediately following the distribution payment date and such price may represent a premium to net asset value ("NAV") per share.

*Incentive Fee on Capital Gains:* Pursuant to the terms of the Investment Advisory Agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of the Company's incentive fee on capital gains, which equals the realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, the Company accrues (but does not pay) for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period. While the Investment Advisory Agreement neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute of Certified Public Accountants Technical Practice Aid for investment companies, the Company accrues for this incentive fee to include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to Terra Income Advisors if the Company's entire portfolio were liquidated at its fair value as of the balance sheet date even though Terra Income Advisors is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

*Income Taxes:* The Company has elected to operate so as to qualify to be taxed as a RIC as defined under Subchapter M of the Code. Generally, a RIC is not required to pay corporate-level federal income tax on income and gains distributed to stockholders, provided that it distributes at least 90.0% of "investment company taxable income," as defined in the Code, each year and meets specified source-of-income and asset diversification requirements. Dividends paid up to one year after the current tax year can be carried back to the prior tax year for determining the dividends paid in such tax year. The Company intends to distribute sufficient dividends to maintain its qualification to be taxed as a RIC each year. The Company will also be subject to nondeductible federal excise taxes of 4.0% on undistributed income if it does not distribute an amount at least equal to the sum of (i) 98.0% of its ordinary income for the calendar year; (ii) 98.2% of its capital gain net income for the one-year period ending on October 31 of the calendar year; and (iii) any ordinary income and capital gain net income for the preceding year that were not distributed during such year and on which it paid no federal income tax.

The Company did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25, *Income Taxes*, nor did the Company have any unrecognized tax benefits as of the periods presented herein. The Company recognizes interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in its statements of operations. For the three months ended December 31, 2016 and 2015, the Company did not incur any interest or penalties. Although the Company files federal and state tax returns, its major tax jurisdiction is federal. The Company's inception-to-date federal tax years remain subject to examination by the Internal Revenue Service and the state department of revenue.

*Use of Estimates:* The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities

at the date of the financial statements, and reported amounts of income, expenses and gains and losses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

The financial statements include investments at fair value of approximately \$41.1 million and \$28.7 million at December 31, 2016 and September 30, 2016, respectively, and obligations under participation agreements at fair value of approximately \$14.7 million and \$14.6 million at December 31, 2016 and September 30, 2016, respectively. These fair values have been determined in good faith by the Board. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market existed for the investments and obligations under participation agreements, and the differences could be material.

*Recent Accounting Pronouncements:* In January 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity’s accounting related to (i) the classification and measurement of investments in equity securities and (ii) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. Management is currently evaluating the impact these changes will have on the Company’s financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB’s Emerging Issues Task Force (“ASU 2016-15”). ASU 2016-15 provides guidance on how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. Management is currently evaluating the impact these changes will have on the Company’s financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB’s Emerging Issues Task Force (“ASU 2016-18”). ASU 2016-18 requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public business entities for annual and interim periods beginning after December 15, 2017. For all other entities, ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period, and should be applied using a retrospective transition method. Management is currently evaluating the impact of this change will have on the Company’s financial statements and disclosures.

### Note 3. Investments

The following tables show the composition of the investment portfolio, at amortized cost and fair value at December 31, 2016 and September 30, 2016, respectively (with corresponding percentage of total portfolio investments):

	December 31, 2016			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Loans <sup>(1)</sup>	\$ 31,137,671	76.7%	\$ 31,476,126	76.6%
Loans through participation interest (Note 4)	9,451,081	23.3%	9,592,750	23.4%
Total	\$ 40,588,752	100.0%	\$ 41,068,876	100.0%

  

	September 30, 2016			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Loans <sup>(1)</sup>	\$ 26,554,524	93.0%	\$ 26,723,922	93.0%
Loans through participation interest (Note 4)	2,000,000	7.0%	2,022,814	7.0%
Total	\$ 28,554,524	100.0%	\$ 28,746,736	100.0%

(1) Amortized cost includes PIK interest of \$337,224 and \$250,568 as of December 31, 2016 and September 30, 2016, respectively.

***Obligations under Participation Agreements***

The Company has elected the fair value option under ASC Topic 825 — *Financial Instruments* relating to accounting for debt obligations at their fair value for its obligations under participation agreements which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. The Company employs the same yield approach valuation methodology used for the real-estate related loan investments on the Company's obligations under participation agreements. As of December 31, 2016 and September 30, 2016, obligations under participation agreements at fair value totaled approximately \$14.7 million and \$14.6 million, respectively, and the fair value of the loans that are associated with these obligations under participation agreements was approximately \$21.4 million and \$21.2 million, respectively, (See "*Participation Agreements*" in Note 4). For the three months ended December 31, 2016 and 2015, there were no repayments on obligations under participation agreements. The weighted average interest rate on the obligations under participation agreements was approximately 13.9% and 13.9% as of December 31, 2016 and September 30, 2016, respectively.

***Significant Risk Factors***

In the normal course of business, the Company enters into transactions in various financial instruments. The Company's financial instruments are subject to, but are not limited to, the following risks:

***Market Risk***

The Company's investments are highly illiquid and there is no assurance that the Company will achieve its investment objectives, including targeted returns. Due to the illiquidity of the investments, valuation of the investments may be difficult, as there generally will be no established markets for these investments. As the Company's investments are carried at fair value with fair value changes recognized in the statements of operations, all changes in market conditions will directly affect the Company's net asset value.

***Credit Risk***

Credit risk represents the potential loss that the Company would incur if the borrowers failed to perform pursuant to the terms of their obligations to the Company. The Company minimizes its exposure to credit risk by limiting exposure to any one individual borrower and any one asset class. Additionally, the Company employs an asset management approach and monitors the portfolio of investments, through, at a minimum, quarterly financial review of property performance including net operating income, loan-to-value, debt service coverage ratio ("DSCR") and the debt yield. The Company also requires certain borrowers to establish a cash reserve, as a form of additional collateral, for the purpose of providing for future interest or property-related operating payments.

Mezzanine loans and preferred equity investments are subordinate to senior mortgage loans and, therefore, involve a higher degree of risk. In the event of a default, mezzanine loans and preferred equity investments will be satisfied only after the senior lender's investment is fully recovered. As a result, in the event of a default, the Company may not recover any or all of its investment.

The Company maintains all of its cash at financial institutions which, at times, may exceed the amount insured by the FDIC.

***Concentration Risk***

The Company holds real estate related investments. Thus, the investment portfolio of the Company may be subject to a more rapid change in value than would be the case if the Company were required to maintain a wide diversification among industries, companies and types of investments. The result of such concentration in real estate assets is that a loss in such investments could materially reduce the Company's capital.

***Liquidity Risk***

Liquidity risk represents the possibility that the Company may not be able to sell its positions at a reasonable price in times of low trading volume, high volatility and financial stress.

***Interest Rate Risk***

Interest rate risk represents the effect from a change in interest rates, which could result in an adverse change in the fair value of the Company's interest-bearing financial instruments.

***Prepayment Risk***

Prepayments can either positively or adversely affect the yields on investments. Prepayments on debt instruments, where permitted under the debt documents, are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond the Company's control, and consequently, such prepayment rates cannot be predicted with certainty. If the

Company does not collect a prepayment fee in connection with a prepayment or is unable to invest the proceeds of such prepayments received, the yield on the portfolio will decline. In addition, the Company may acquire assets at a discount or premium and if the asset does not repay when expected, the anticipated yield may be impacted. Under certain interest rate and prepayment scenarios the Company may fail to recoup fully its cost of acquisition of certain investments.

#### *Use of Leverage*

As part of the Company's investment strategy, the Company may borrow and utilize leverage; however, the Company currently does not utilize leverage in connection with originating or acquiring real estate related loans. The Company may do so in the future if Terra Income Advisors determines that utilizing leverage is in the best interest of the Company's stockholders. While borrowing and leverage present opportunities for increasing total return, they may have the effect of potentially creating or increasing losses. For purposes of calculating the asset coverage ratio per unit, the Company considers the obligations under the participation agreements to be senior security.

#### *Valuation Methodology*

Market quotations are not readily available for the Company's real estate-related loan investments, all of which are included in Level 3 of the fair value hierarchy, and therefore these investments are valued utilizing a yield approach, i.e. a discounted cash flow methodology to arrive at an estimate of the fair value of each respective investment in the portfolio using an estimated market yield. In following this methodology, investments are evaluated individually, and management takes into account, in determining the risk-adjusted discount rate for each of the Company's investments, relevant factors, including available current market data on applicable yields of comparable debt/preferred equity instruments, market credit spreads and yield curves, the investment's yield, covenants of the investment, including prepayment provisions, the portfolio company's ability to make payments, its net operating income, DSCR, the nature, quality, and realizable value of any collateral (and loan to value ratio), the forces that influence the local markets in which the asset (the collateral) is purchased and sold, such as capitalization rates, occupancy rates, rental rates, replacement costs and the anticipated duration of each real estate-related loan investment.

These valuation techniques are applied in a consistent and verifiable manner to all investments that are categorized within Level 3 of the fair value hierarchy and Terra Income Advisors provides the valuation committee of the Board (which is made up exclusively of independent directors) with portfolio security valuations that are based on this discounted cash flow methodology. Valuations are prepared quarterly, or more frequently as needed, with each asset in the portfolio subject to a valuation prepared by a third-party valuation service at a minimum of once during every 12-month period. The valuation committee reviews the preliminary valuation with Terra Income Advisors and, together with an independent valuation firm, if applicable, responds and supplements the preliminary valuation to reflect any comments provided by the valuation committee. The Board discusses valuations and determines the fair value of each investment in the portfolio in good faith based on various statistical and other factors, including the input and recommendation provided by Terra Income Advisors, the valuation committee and any third-party valuation firm, if applicable.

The following tables present fair value measurements of investments, by major class, as of December 31, 2016 and September 30, 2016, according to the fair value hierarchy:

	<b>December 31, 2016</b>			
	<b>Fair Value Measurements</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments:</b>				
Loans	\$ —	\$ —	\$ 31,476,126	\$ 31,476,126
Loans through participation interest	—	—	9,592,750	9,592,750
Total Investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 41,068,876</u>	<u>\$ 41,068,876</u>
Obligations under participation agreements	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,747,858</u>	<u>\$ 14,747,858</u>

	September 30, 2016			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Loans	\$ —	\$ —	\$ 26,723,922	\$ 26,723,922
Loans through participation interest	—	—	2,022,814	2,022,814
Total Investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,746,736</u>	<u>\$ 28,746,736</u>
Obligations under participation agreements	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,560,606</u>	<u>\$ 14,560,606</u>

Changes in Level 3 investments for the three months ended December 31, 2016 and 2015 were as follows:

	Three Months Ended December 31, 2016			
	Loans	Loans Through Participation	Total Investments	Obligations under Participation Agreements
Balance as of October 1, 2016	\$ 26,723,922	\$ 2,022,814	\$ 28,746,736	\$ 14,560,606
Net change in unrealized appreciation on investments	169,058	118,854	287,912	—
Purchases	4,500,000	7,500,000	12,000,000	—
Unamortized exit fees and origination fees, net	(5,654)	(48,918)	(54,572)	39,101
PIK interest income	86,657	—	86,657	—
Amortization of discount on investment	2,143	—	2,143	—
Net change in unrealized appreciation on obligations under participation agreements	—	—	—	75,965
Proceeds from obligations under participation agreements	—	—	—	—
PIK interest expense	—	—	—	72,186
Balance as of December 31, 2016	<u>\$ 31,476,126</u>	<u>\$ 9,592,750</u>	<u>\$ 41,068,876</u>	<u>\$ 14,747,858</u>
Unrealized appreciation (depreciation) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net change in unrealized appreciation on investments and obligations under participation agreements	\$ 169,058	\$ 118,854	\$ 287,912	\$ 75,965

	Three Months Ended December 31, 2015			
	Loans	Loans Through Participation	Total Investments	Obligations under Participation Agreements
Balance as of October 1, 2015	\$ —	\$ 2,000,000	\$ 2,000,000	\$ —
Purchases	20,800,000	—	20,800,000	—
Proceeds from obligations under participation agreements	—	—	—	14,300,000
Balance as of December 31, 2015	<u>\$ 20,800,000</u>	<u>\$ 2,000,000</u>	<u>\$ 22,800,000</u>	<u>\$ 14,300,000</u>
Unrealized appreciation (depreciation) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net unrealized appreciation on investments and obligations under participation agreements	\$ —	\$ —	\$ —	\$ —

Purchases represent the acquisition of new investments at cost. Redemptions represent principal payments received during the period.

Transfers between levels, if any, are recognized at the beginning of the period in which transfers occur. For the three months ended December 31, 2016 and 2015, there were no transfers.

#### Significant Unobservable Inputs

The following table summarizes the significant unobservable inputs used by the Company to value the Level 3 investments as of December 31, 2016 and September 30, 2016. The table is not intended to be all-inclusive, but instead identifies the significant unobservable inputs relevant to the determination of fair values.

December 31, 2016						
Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input	Range		Weighted Average
				Minimum	Maximum	
<b>Assets:</b>						
Loans	\$ 31,476,126	Discounted cash flow	Discount rate	9.99%	13.41%	12.02%
Loans through participation interest	9,592,750	Discounted cash flow	Discount rate	11.00%	13.20%	11.46%
<b>Total Level 3 Assets</b>	<b>\$ 41,068,876</b>					
<b>Liabilities:</b>						
Obligations under Participation Agreements	\$ 14,747,858	Discounted cash flow	Discount rate	11.90%	12.20%	12.16%
September 30, 2016						
Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input	Range		Weighted Average
				Minimum	Maximum	
<b>Assets:</b>						
Loans	\$ 26,723,922	Discounted cash flow	Discount rate	10.29%	13.82%	12.88%
Loans through participation interest	2,022,814	Discounted cash flow	Discount rate	9.09%	9.09%	9.09%
<b>Total Level 3 Assets</b>	<b>\$ 28,746,736</b>					
<b>Liabilities:</b>						
Obligations under Participation Agreements	\$ 14,560,606	Discounted cash flow	Discount rate	11.90%	13.82%	13.58%

#### Note 4. Related Party Transactions

The Company entered into various agreements with Terra Income Advisors whereby the Company pays and reimburses Terra Income Advisors for certain fees and expenses, and Terra Income Advisor reimburses the Company for excess operating expenses. Additionally, the Company pays Terra Capital Markets certain fees in connection with its Offering. The following table presents a summary of such fees and reimbursements in accordance with the terms of the related agreements:

	Three Months Ended December 31,	
	2016	2015
<b>Amounts Included in the Statements of Operations</b>		
Base management fees	\$ 245,239	\$ 76,018
Incentive fees on capital gains <sup>(1)</sup>	42,390	—
Operating expense reimbursement to Adviser <sup>(2)</sup>	115,113	150,124
Expense Support Payment from Adviser	—	(576,755)
<b>Commissions, dealer manager fees and transaction charges incurred</b>		
Commissions, dealer manager fees and transaction charges <sup>(3)</sup>	\$ 698,478	\$ 1,091,662

(1) Incentive fees on capital gains are based on 20% of net unrealized capital gains of \$211,947. No incentive fees on capital gains are actually payable by the Company with respect to unrealized gains unless and until those gains are actually realized.



- (2) Amounts were primarily compensation for time spent supporting the Company's day-to-day operations.
- (3) Approximately \$0.5 million and \$0.7 million, respectively, were re-allowed to selected broker-dealers. Amounts were recorded as reductions to capital in excess of par on the statements of assets and liabilities.

**Due to / Due from Adviser**

The Company determined that it has the right of offset on the amounts due to and due from Terra Income Advisor under the guidance in ASC Topic 210 – *Balance Sheet*. As such, the net amount is presented as Due to Adviser, net on the statements of assets and liabilities. The following table presents a summary of Due to Adviser, net as of December 31, 2016 and September 30, 2016:

	December 31, 2016	September 30, 2016
<b>Due to Adviser:</b>		
Organization and offering costs	\$ 1,914,872	\$ 2,051,479
Reimbursable costs - marketing and other operating expense	—	863,012
Base management fee and expense reimbursement payable	37,101	823,444
Incentive fees on capital gains	70,318	27,928
	<u>2,022,291</u>	<u>3,765,863</u>
<b>Due from Adviser:</b>		
Expense support payments	—	2,267,055
<b>Due to Adviser, net</b>	<u>\$ 2,022,291</u>	<u>\$ 1,498,808</u>

**Management and Incentive Fee Compensation to Adviser**

On April 20, 2015, the Company entered into the Investment Advisory Agreement with Terra Income Advisors, a subsidiary of the Terra Capital Partners, the Company's sponsor. Terra Income Advisors is responsible for the Company's day-to-day operations. Pursuant to the Investment Advisory Agreement, Terra Income Advisors is paid for its services in two components — a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.0% of the Company's average gross assets. The base management fee is payable quarterly in arrears and calculated based on the average value of the Company's gross assets at the end of the two most recently completed calendar quarters.

The incentive fee consists of two parts. The first part, which is referred to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears based upon the Company's "pre-incentive fee net investment income" for the immediately preceding quarter. The subordinated incentive fee on income is subject to a quarterly hurdle rate, expressed as a rate of return on adjusted capital at the beginning of the most recently completed calendar quarter, of 2.0% (8.0% annualized), subject to a "catch up" feature. For this purpose, "pre-incentive fee net investment income" means interest income, dividend income and any other income (including any other fees, other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company's operating expenses for the quarter (including the base management fee, expenses reimbursed to Terra Income Advisors under the Investment Advisory Agreement and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that the Company has not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. The calculation of the subordinated incentive fee on income for each quarter is as follows:

- No incentive fee is payable to Terra Income Advisors in any calendar quarter in which the Company's pre-incentive fee net investment income does not exceed the hurdle rate of 2.0% (8.0% annualized);
- 100% of the Company's pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any calendar quarter (10.0% annualized) is payable to Terra Income Advisors, all or any portion of which may be waived or deferred in Terra Income Advisors' discretion. This portion of the pre-incentive fee net investment income (which exceeds the hurdle rate but is less than or equal to 2.5%) is referred to as the "catch-up." The "catch-up" provision is intended to provide Terra Income Advisors with an incentive fee of 20.0% on all of the Company's pre-incentive fee net investment income when the Company's pre-incentive fee net investment income reaches 2.5% in any calendar quarter; and

- 20.0% of the amount of the Company's pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to Terra Income Advisors once the hurdle rate is reached and the catch-up is achieved.

The second part of the incentive fee, which is referred to as the incentive fee on capital gains, is an incentive fee on capital gains earned on liquidated investments from the portfolio and is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of the Company's incentive fee on capital gains, which equals the realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, the Company accrues (but does not pay) for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

The services provided by Terra Income Advisors include, but are not limited to, accounting and administrative services. The Company is expected to reimburse Terra Income Advisors for the costs incurred by Terra Income Advisors to provide these services.

### *Operating Expenses*

The Company reimburses Terra Income Advisors for operating expenses incurred in connection with administrative services provided to the Company, including compensation to administrative personnel. The Company does not reimburse Terra Income Advisors for personnel costs in connection with services for which Terra Income Advisors receives a separate fee. In addition, the Company does not reimburse the Terra Income Advisors for (i) rent or depreciation, capital equipment or other costs of its own administrative items, or (ii) salaries, fringe benefits, travel expenses and other administrative items incurred or allocated to any controlling person of Terra Income Advisors.

### *Organization and Offering Expenses*

For the three months ended December 31, 2016 and 2015, Terra Income Advisors did not incur organization costs on behalf of the Company.

As of December 31, 2016 and September 30, 2016, Terra Income Advisors incurred cumulative organization costs of approximately \$0.2 million and \$0.2 million, respectively, and cumulative offering costs of approximately \$2.3 million and \$2.2 million, respectively, on behalf of the Company. Offering expenses consist of costs paid by Terra Income Advisors that are directly related to the registration and offering of the Company's shares, including registration fees, legal fees and printing costs. Organization costs include those expenses paid by Terra Income Advisors for the legal organization, drafting and filing of the Company's charter and other governance documents and include, but are not limited to, legal, accounting and filing fees.

Upon meeting the Minimum Offering Requirement, Terra Income Advisors is responsible for the payment of the Company's cumulative organization and offering expenses to the extent such expenses exceed 1.5% of the gross proceeds from the Offering, without recourse against or reimbursement by the Company. As a result, Terra Income Advisors will bear all organization and offering expenses in excess of 1.5% of the gross proceeds from the Offering. Through December 31, 2016, the Company believes that it is highly likely that it will raise sufficient funds to reimburse Terra Income Advisors in full for all cumulative organization and offering expenses incurred to date and has accrued those expenses and costs. As of December 31, 2016 and September 30, 2015, the unreimbursed amount in excess of the 1.5% threshold was approximately \$1.6 million and \$1.6 million, respectively, and is included in Due to Adviser, net on the statements of assets and liabilities. For the three months ended December 31, 2016, and 2015, the Company made reimbursement payments of approximately \$0.3 million and \$0.1 million, respectively, to Terra Income Advisors for offering costs incurred on behalf of the Company.

### *Dealer Manager Agreement*

On April 20, 2015, the Company entered into a dealer manager agreement (the "Dealer Manager Agreement") with Terra Capital Markets, an affiliate of Terra Income Advisors, to serve as the dealer manager of the Offering. As dealer manager, Terra Capital Markets is responsible for marketing the Company's shares being offered pursuant to the Offering. In this role, it manages a group of selling dealers, including other unaffiliated broker-dealers who enter into Selected Dealer Arrangements with Terra Capital Markets. Terra Capital Markets received selling commissions of 6.0% of gross proceeds from the Offering, dealer manager fees of up to 3.0% of gross proceeds from the Offering, and broker-dealer fees of up to 1.0% of gross proceeds from the Offering for reimbursement of marketing and expenses, in connection with the sale of shares of common stock in the Offering, all or a portion of which may be re-allowed to selected broker-dealers.

On April 27, 2016, the Company adopted an amended and restated dealer manager agreement (the "Amended Dealer Manager Agreement"). Under the terms of the Amended Dealer Manager Agreement, Terra Capital Markets receives selling commissions of 3.0% of gross proceeds from the Offering, dealer manager fees of up to 1.5% of the gross proceeds from the Offering, and broker-dealer fees of up to 1.0% of gross proceeds from the Offering for reimbursement of marketing and expenses, in connection

with the sale of shares of the Company's common stock in the Offering, all or a portion of which may be re-allowed to selected broker-dealers. In addition, Terra Capital Markets receives a transaction charge at an annual rate of 1.125% of gross offering proceeds, excluding shares sold through the DRIP, all or a portion of which may be re-allowed to selected broker-dealers for services performed in connection with the distribution of the Company's shares. The transaction charge is payable annually with respect to each share sold in the primary offering on the first, second, third, and fourth anniversaries of the month of purchase. In connection with the adoption of the Amended Dealer Manager Agreement, Terra Capital Markets reimbursed the Company approximately \$1.3 million for commissions and dealer manager fees the Company paid related to the shares sold on and prior to February 20, 2016, the last shareholder admittance date prior to the adoption of the Amended Dealer Manager Agreement. The reimbursement amount will be paid back to Terra Capital Markets on the first, second, third and fourth anniversaries of the months of purchase. As of December 31, 2016 and September 30, 2016, total transaction charge payable was \$2.4 million and \$2.2 million, respectively, as reflected on the statements of assets and liabilities.

#### **Expense Support Agreement**

On June 30, 2015, the Company entered into an expense support agreement (the "Expense Support Agreement") with Terra Income Advisors, whereby Terra Income Advisors may pay up to 100% of the Company's costs and expenses, including all fees payable to Terra Income Advisors pursuant to the Investment Advisory Agreement from inception until the Company and Terra Income Advisors mutually agree otherwise. This payment (the "Expense Support Payment") for any month shall be paid by Terra Income Advisors to the Company in any combination of cash or other immediately available funds, and/or offsets against amounts due from the Company to Terra Income Advisors. The purpose of the Expense Support Payment is to reduce offering and operating expenses until the Company has achieved economies of scale sufficient to ensure that the Company is able to bear a reasonable level of expense in relation to investment income. Operating expenses subject to the Expense Support Agreement include expenses as defined by U.S. GAAP, including, without limitation, fees payable to Terra Income Advisors and interest on indebtedness for such period, if any.

Pursuant to the terms of the Expense Support Agreement, the Company has agreed to reimburse Terra Income Advisors for each Expense Support Payment within three years after such Expense Support Payment is made by Terra Income Advisors. Reimbursement shall be made as promptly as possible on a date mutually agreed to by the Company and Terra Income Advisors provided that (i) the operating expense ratio, defined as operating expenses excluding organization and offering expenses, base management fee, incentive fee and any interest expense attributable to indebtedness by the Company ("Net Operating Expenses") expressed as a percentage of the Company's net assets on the relevant measurement date, as of such Reimbursement Date is equal to or less than the operating expense ratio as of the Expense Support Payment date attributable to such specified Expense Support Payment, (ii) the annualized distribution rate as of such Reimbursement Date is equal to or greater than the annualized distribution rate as of the Expense Support Payment date attributable to such specified Expense Support Payment; (iii) such Reimbursement Date is not later than three years following such specified Expense Support Payment date; and (iv) the Expense Support Payment does not cause the Company's Net Operating Expenses to exceed 1.5% of the Company's net assets attributable to common shares, after taking such reimbursement into account. Terra Income Advisors is entitled to reimbursement of all previously unreimbursed Expense Support Payments in the event of termination of the Expense Support Agreement.

The following table provides information regarding the expenses that the parties to the agreement determined would be incurred by Terra Income Advisors pursuant to the Expense Support Agreement:

<b>Three months ended</b>	<b>Amount of Expense Reimbursement Payment</b>	<b>Annualized Operating Expense Ratio as of the Date of Expense Reimbursement Payment</b>	<b>Annualized Rate of Distributions Per Share <sup>(1)</sup></b>	<b>Reimbursement Eligibility Expiration</b>
June 30, 2015	\$ 515,813	24.53%	8.00%	June 30, 2018
September 30, 2015	1,174,487	66.63%	8.00%	September 30, 2018
December 31, 2015 <sup>(2)</sup>	576,755	15.60%	8.00%	November 30, 2018

(1) The annualized rate of distributions per share is expressed as a percentage equal to the projected annualized distribution amount as of the date each payment was made (which is calculated by annualizing the regular daily cash distribution per share as of the date each payment was made without compounding), divided by the Company's public offering price per share as of the date each payment was made.

(2) The expense reimbursement payment amount of \$576,755 represents the total of the twice monthly expense reimbursement payments through November 30, 2015. The annualized operating expense ratio of 15.60% represents the ratio average of such twice monthly expense reimbursement payment dates.

**Participation Agreements**

The Company may enter into participation agreements with related and unrelated parties, primarily other affiliated funds of Terra Income Advisors. The participation agreements provide the Company with the opportunity to invest along the same terms, conditions, price and rights in the specified investment. The purpose of the participation agreements is to allow the Company and an affiliate to originate a specified investment when, individually, the Company does not have the liquidity to do so or to achieve a certain level of portfolio diversification. The Company may transfer portions of its investments to other participants or it may be a participant to an investment held by another entity.

ASC Topic 860, *Transfers and Servicing*, establishes accounting and reporting standards for transfers of financial assets. ASC 860-10 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. The Company has determined that the participation agreements it enters into are accounted for as secured borrowings under ASC Topic 860 (see “*Participation Interests*” in Note 2 and “*Obligations under Participation Agreements*” in Note 3).

*Participation interest purchased by the Company:* The below tables list the investment interests participated by the Company via Participation Agreement (the “PA”) as of December 31, 2016 and September 30, 2016. In accordance with the terms of each PA, each Participant’s rights and obligations, including interest income and other income (e.g., exit fee and prepayment income) and related fees/expenses are based upon its respective pro-rata participation interest in such investments, as specified in the respective PA. The Company’s share of the investment is repayable only from the proceeds received from the related borrower/issuer of the investment, and therefore the Company is also subject to the credit risk (i.e., risk of default by the underlying borrower/issuer).

Pursuant to the PA, the affiliated fund receives and allocates the interest income and other related investment incomes in respect of the investment to the Company. The Company pays related expenses (i.e., the base management fee) directly to Terra Income Advisors.

	Participating Interests at December 31, 2016	December 31, 2016		September 30, 2016	
		Principal Balance	Fair Value	Principal Balance	Fair Value
TSG-Parcel 1, LLC <sup>(1)</sup>	88.9%	\$ 2,000,000	\$ 2,033,300	\$ 2,000,000	\$ 2,022,814
140 Schermerhorn Street Mezz LLC <sup>(1)(2)</sup>	50.0%	7,500,000	7,559,450	—	—
Total		\$ 9,500,000	\$ 9,592,750	\$ 2,000,000	\$ 2,022,814

(1) Participation through Terra Property Trust, Inc., an affiliated fund managed by the Adviser.

(2) The Company acquired this investment in November 2016.

*Transfers of participation interests by the Company:* The following table summarizes the investments that were subject to PAs with investment partnerships affiliated with Terra Income Advisors as of December 31, 2016 and September 30, 2016:

	Principal	Fair Value	% Transferred	December 31, 2016	
				Transfers treated as obligations under participation agreements	
				Principal	Fair Value
KOP Hotel XXXI Mezz, LP. <sup>(1)(2)</sup>	\$ 5,800,000	\$ 5,954,148	31.0%	\$ 1,800,000	\$ 1,847,839
QPT 24th Street Mezz, LLC <sup>(1)</sup>	15,337,224	15,480,991	83.3%	12,780,220	12,900,019
Total	\$ 21,137,224	\$ 21,435,139		\$ 14,580,220	\$ 14,747,858

	September 30, 2016				
	Principal	Fair Value	% Transferred	Transfers treated as obligations under participation agreements	
				Principal	Fair Value
KOP Hotel XXXI Mezz, LP. <sup>(1)(2)</sup>	\$ 5,800,000	\$ 5,969,398	31.0%	\$ 1,800,000	\$ 1,852,572
QPT 24th Street Mezz, LLC <sup>(1)</sup>	15,250,568	15,250,567	83.3%	12,708,034	12,708,034
Total	<u>\$ 21,050,568</u>	<u>\$ 21,219,965</u>		<u>\$ 14,508,034</u>	<u>\$ 14,560,606</u>

- (1) The principal amount includes PIK interest of \$337,224 and \$250,568 as of December 31, 2016 and September 30, 2016, respectively, of which \$280,220 and \$208,034 was treated as obligations under participation agreements, respectively.
- (2) Participant is Terra Property Trust, Inc., an affiliated fund managed by the Adviser.

As a BDC, the Company is subject to certain regulatory restrictions in making its investments. For example, the Company may be prohibited under the 1940 Act from knowingly participating in certain transactions with its affiliates without the prior approval of its Board who are not interested persons and, in some cases, prior approval by the SEC. Specifically, the Company generally is not permitted to co-invest with certain entities affiliated with Terra Income Advisors in transactions originated by Terra Income Advisors or its affiliates unless the Company obtains an exemptive order from the SEC or co-invest alongside Terra Income Advisors or its respective affiliates in accordance with existing regulatory guidance and the allocation policies of Terra Income Advisors and its affiliates, as applicable. However, the Company is permitted to, and may, co-invest in syndicated deals and secondary loan market transactions where price is the only negotiated point. The SEC has granted the Company exemptive relief permitting it, subject to satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with certain affiliates of Terra Income Advisors, including the Terra Income Funds, Terra Property Trust, and any future BDC or closed-end management investment company that is registered under the 1940 Act and is advised by Terra Income Advisors or its affiliated investment advisers (the “Co-Investment Affiliates”). However, the Company will be prohibited from engaging in certain transactions with its affiliates even under the terms of this exemptive order. The Company believes this relief will not only enhance its ability to further its investment objectives and strategy, but may also increase favorable investment opportunities for the Company, in part by allowing the Company to participate in larger investments, together with its Co-Investment Affiliates, than would be available to the Company if it had not obtained such relief.

#### Note 5. Commitments and Contingencies

In the ordinary course of business, the Company may enter into future funding commitments. As of both December 31, 2016 and September 30, 2016, the Company had approximately \$0.4 million of unfunded commitments. The Company maintains sufficient cash on hand to fund such unfunded commitments.

The Company enters into contracts that contain a variety of indemnification provisions. The Company’s maximum exposure under these arrangements is unknown; however, the Company has not had prior claims or losses pursuant to these contracts. Management of Terra Income Advisors has reviewed the Company’s existing contracts and expects the risk of loss to the Company to be remote.

The Company is not currently subject to any material legal proceedings and, to the Company’s knowledge, no material legal proceedings are threatened against the Company. From time to time, the Company may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of the Company’s rights under contracts with its portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, the Company does not expect that any such proceedings will have a material adverse effect upon its financial condition or results of operations.

See “Note 4. Related Party Transactions”, for a discussion of the Company’s commitments to Terra Income Advisors and its affiliates.

#### Note 6. Income Taxes

The Company has elected to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, is not subject to federal income tax on the portion of taxable income distributed to stockholders.

In order to maintain its qualification to be taxed as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code, each year. Because federal income tax regulations differ from U.S. GAAP, distributions in accordance with tax regulations may differ from net investment for financial reporting purposes. Differences may be permanent or temporary in nature. Permanent

differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Taxable income generally differs from net increase (decrease) in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes unrealized appreciation (depreciation) on investments as investment gains and losses are not included in taxable income until they are realized.

The following table reconciles net decrease in net assets resulting from operations to taxable loss:

	Three Months Ended December 31,	
	2016	2015
Net investment loss	\$ (344,779)	\$ (425,559)
Net change in unrealized appreciation on investments	(287,912)	—
Net change in unrealized appreciation on obligations under participation agreements	75,965	—
Amortization of deferred offering costs	167,177	355,533
Expense reimbursement from Adviser	—	(576,755)
Incentive fees on capital gains	42,390	—
Other temporary differences <sup>(1)</sup>	53,391	36,279
Total taxable loss	<u>\$ (293,768)</u>	<u>\$ (610,502)</u>

(1) Other temporary differences primarily related to deferred origination fee and amortization of organization fee and exit fee.

The following table reflects, for tax purposes, the estimated sources of the cash distributions that the Company has paid on its common stock during the three months ended December 31, 2016 and 2015:

Source of Distribution	Three Months Ended December 31,			
	2016		2015	
	Distribution Amount <sup>(1)</sup>	Percentage	Distribution Amount <sup>(1)</sup>	Percentage
Return of capital	\$ 1,123,928	100.0%	\$ 321,405	—
Ordinary income	—	—	—	—
Distributions on a tax basis:	<u>\$ 1,123,928</u>	<u>100.0%</u>	<u>\$ —</u>	<u>—</u>

(1) The Distribution Amount and Percentage reflected for the three months ended December 31, 2016 are estimated figures. The actual source of distributions for the fiscal year ending 2016 will be calculated in connection with the Company's year-end procedures.

As of December 31, 2016, the Company did not have differences between book basis and tax basis cost of investments.

#### Note 7. Directors' Fees

The Company's directors who do not serve in an executive officer capacity for the Company or Terra Income Advisors are entitled to receive annual cash retainer fees, fees for attending board and committee meetings and annual fees for serving as a committee chairperson. These directors receive an annual fee of \$20,000, plus \$2,500 for each board meeting attended in person, \$1,000 for each board meeting attended via teleconference and \$1,000 for each committee meeting attended. In addition, the chairman of the audit committee receives an annual fee of \$7,500 and the chairman of each of the nominating and corporate governance and the valuation committees, and any other committee, receives an annual fee of \$2,500 for their additional services. For the three months ended December 31, 2016 and 2015, the Company recorded approximately \$0.02 million and \$0.04 million for directors' fees expense, respectively.

The Company will also reimburse each of the above directors for all reasonable and authorized business expenses in accordance with the Company policies as in effect from time to time, including reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and each committee meeting not held concurrently with a board meeting.

The Company does not pay compensation to the directors who also serve in an executive officer capacity for the Company or Terra Income Advisors.

**Note 8. Capital**

The Company entered into a stock purchase agreement with Terra Capital Partners, the Company’s sponsor. On September 19, 2014, pursuant to a private placement, Terra Capital Partners contributed cash consideration of \$125,000 to purchase approximately 11,111 shares of common stock at \$11.25 per share. On October 20, 2014, pursuant to a private placement, Terra Capital Partners contributed an additional \$50,000 in cash to purchase approximately 4,445 additional shares of common stock at \$11.25 per share. As of December 31, 2016, the Company had 4,870,948 shares of common stock outstanding.

On February 25, 2015, the Board determined to change the initial offering price from \$10.00 per share to \$12.50 per share. As a result, on February 26, 2015, the Company effected a reverse stock split to account for the change in the Company’s offering price since the initial investment by Terra Capital Partners. As such, all share references reflect this reverse stock split.

On May 1, 2015, Terra Capital Partners contributed cash of \$275,000 to purchase approximately 24,444 additional shares from the Offering at a per share price of \$11.25, which price represents the public offering price of \$12.50 per share, net of selling commissions, broker-dealer fees and dealer manager fees. This contribution, in addition to the initial capital contributions, fulfilled Terra Capital Partners’ commitment to contribute total seed capitalization of \$450,000.

On November 11, 2015, and effective December 1, 2015, the Board approved a change to a certain aspect of the Company’s share pricing policy such that, once it raised gross offering proceeds in excess of \$125 million, or prior to then in the sole discretion of the Board, in the event of a material decline in NAV per share, which the Company’s considers to be a 2.5% decrease below the then-current net offering price, the Company will reduce the offering price to establish a new net offering price not more than 2.5% above the NAV per share.

On January 13, 2017, the Board determined to change the initial offering price from \$12.50 per share to \$10.90 per share, effective as of January 17, 2017.

**Note 9. Net Decrease in Net Assets**

Loss per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. Other potentially dilutive shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. As of December 31, 2016 and September 30, 2016, there were no dilutive shares.

The following information sets forth the computation of the weighted average net decrease in net assets per share from operations for the three months ended December 31, 2016 and 2015:

Basic	Three Months Ended December 31,	
	2016	2015
Net decrease in net assets resulting from operations	\$ (344,779)	\$ (425,559)
Weighted average common shares outstanding	4,475,224	1,282,925
Net decrease in net assets per share resulting from operations	\$ (0.08)	\$ (0.33)

**Note 10. Distributions**

Dividends from net investment income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which differ from U.S. GAAP.

The following table reflects the Company's distributions for the three months ended December 31, 2016 and 2015:

Record Date	Payment Date	Per Share Per Day	Distributions Paid in Cash	Distributions Paid through the DRIP	Total Distributions Paid/Accrued
October 20, 2016	October 31, 2016	\$ 0.002733	\$ 237,090	\$ 123,938	\$ 361,028
November 20, 2016	November 30, 2016	0.002733	242,959	123,376	366,335
December 20, 2016	December 31, 2016	0.002733	264,315	132,250	396,565
			<u>\$ 744,364</u>	<u>\$ 379,564</u>	<u>\$ 1,123,928</u>

Record Date	Payment Date	Per Share Per Day	Distributions Paid in Cash	Distributions Paid through the DRIP	Total Distributions Paid/Accrued
October 20, 2015	October 31, 2015	\$ 0.002740	\$ 56,467	\$ 27,330	\$ 83,797
November 20, 2015	November 30, 2015	0.002740	66,042	37,026	103,068
December 20, 2015	December 31, 2015	0.002740	85,246	49,294	134,540
			<u>\$ 207,755</u>	<u>\$ 113,650</u>	<u>\$ 321,405</u>

On January 13, 2017, the Board authorized a series of monthly cash distributions. Each of the cash distributions are in an amount equal to 8% on an annualized basis, which based on the public offering price of \$10.90 is equal to \$0.002389 per share per day. The cash distributions are payable on the last business day of each month beginning in January 2017 to stockholders of record as of the first business day following the 20th day of each immediately preceding month.

#### Note 11. Financial Highlights

The following is a schedule of financial highlights for the three months ended December 31, 2016 and 2015:

	Three Months Ended December 31,	
	2016	2015
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 10.06	\$ 10.97
Results of operations <sup>(1)</sup> :		
Net investment loss	(0.12)	(0.33)
Net change in unrealized appreciation on investments	0.06	—
Net change in unrealized appreciation on obligations under participation agreements	(0.02)	—
Net decrease in net assets resulting from operations	(0.08)	(0.33)
Stockholder distributions <sup>(2)</sup> :		
Dividends declared from return of capital	(0.25)	(0.25)
Net decrease in net assets resulting from stockholder distributions	(0.25)	(0.25)
Capital share transactions:		
Other <sup>(3)</sup>	0.19	0.32
Net increase in net assets resulting from capital share transactions	0.19	0.32
Net asset value, end of period	<u>\$ 9.92</u>	<u>\$ 10.71</u>
Shares outstanding at end of period	4,870,948	1,905,081
Total return <sup>(4)</sup>	0.71 %	0.01 %
<b>Ratio/Supplemental data:</b>		
Net assets, end of period	\$ 48,325,956	\$ 20,396,897
Ratio of net investment loss to average net assets <sup>(5)</sup>	(4.87)%	(11.08)%
Ratio of operating expenses to average net assets <sup>(5)</sup>	4.30 %	17.45 %
Portfolio turnover	— %	— %



- (1) The per share data was derived by using the weighted average shares outstanding during the applicable period.
- (2) The per share data for distributions reflects the actual amount of distributions declared per share during the period.
- (3) The continuous issuance of shares of common stock may cause an incremental increase in net asset value per share due to the sale of shares at the then prevailing public offering price and the receipt of net proceeds per share by the Company in excess of the net asset value per share on each subscription closing date. In addition, the timing of the Company's sales of shares during the year also impacted the net asset value per share.
- (4) Total return is calculated assuming a purchase of shares of common stock at the current net asset value on the first day and a sale at the current net asset value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the DRIP.
- (5) For the period ended September 30, 2015, excluding the expense support and conditional reimbursement, the ratios of net investment loss and operating expenses to average net assets are (26.10)% and 32.47%, respectively.

**Note 12. Subsequent Events**

The management of the Company has evaluated events and transactions through February 14, 2017, the date the financial statements were issued, and has determined that there are no material events that would require adjustment to or disclosure in the Company's financial statements other than those listed below.

From January 1, 2017 through February 14, 2017, the Company has issued 206,849 shares of common stock, including shares issued pursuant to the DRIP. The gross proceeds from these issuances including proceeds from shares issued pursuant to the DRIP were approximately \$2.5 million.

On January 13, 2017, the Company decreased the public offering price of its common stock from \$12.50 per share to \$10.90 per share. The decrease in the public offering price was effective as of the Company's January 17, 2017 bi-monthly closing and first applied to subscriptions received from December 31, 2016 through January 16, 2017.

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

The information contained in this section should be read in conjunction with our unaudited financial statements and related notes thereto and other financial information included elsewhere in this quarterly report on Form 10-Q. In this report, "we," "us" and "our" refer to Terra Income Fund 6, Inc.

### FORWARD-LOOKING STATEMENTS

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q may include, but are not limited to, statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our current and expected financings and investments;
- the adequacy of our cash resources, financing sources and working capital;
- the timing and amount of cash flows, distributions and dividends, if any, from our portfolio companies;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with any of the following affiliated entities: Terra Income Advisors, LLC, our investment adviser ("Terra Income Advisors"); Terra Capital Partners, LLC, our sponsor; Terra Secured Income Fund, LLC and, together with Terra Secured Income Fund 2, LLC, Terra Secured Income Fund 3, LLC, Terra Secured Income Fund 4, LLC, Terra Secured Income Fund 5, LLC, Terra Secured Income Fund 5 International, Terra Income Fund International and Terra Secured Income Fund 7, LLC, the "Terra Income Funds"; Terra Property Trust, Inc., a subsidiary of Terra Secured Income 5, LLC; Terra Capital Advisors, LLC; Terra Capital Advisors 2, LLC; Terra Income Advisors 2, LLC; or any of their affiliates;
- the dependence of our future success on the general economy and its effect on our investments;
- our use of financial leverage;
- the ability of Terra Income Advisors to locate suitable investments for us and to monitor and administer our investments;
- the ability of Terra Income Advisors or its affiliates to attract and retain highly talented professionals;
- our ability to elect to be taxed as, and maintain thereafter, our qualification as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code") and as a business development company under the Investment Company Act of 1940;
- the impact on our business of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations issued thereunder;
- the effect of changes to tax legislation and our tax position; and
- the tax status of the enterprises in which we invest.

In addition, words such as "anticipate," "believe," "expect" and "intend" indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth as "Risk Factors" in our Annual Report on Form 10-K. Other factors that could cause actual results to differ materially include:

- changes in the economy;

- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- future changes in laws or regulations and conditions in our operating areas.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders are advised to consult any additional disclosures that we may make directly to stockholders or through reports that we may file in the future with the Securities and Exchange Commission (the “SEC”), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

## **Overview**

We were incorporated under the general corporation laws of the State of Maryland on May 15, 2013 and commenced operations on June 24, 2015, upon the raising of gross proceeds in excess of \$2.0 million from sales of shares of our common stock in our continuous public offering, including sales to persons who are affiliated with us or Terra Income Advisors (the “Minimum Offering Requirement”). We are an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”), and have elected to be taxed for federal income tax purposes, beginning with our taxable year ended September 30, 2015, and to qualify annually thereafter, as a RIC under Subchapter M of the Code. Prior to satisfying the Minimum Offering Requirement, we had no operations except for matters relating to our organization and registration.

Our investment activities are externally managed by Terra Income Advisors and supervised by our board of directors (the “Board”), a majority of whom are independent. Under the investment advisory and administration services agreement (the “Investment Advisory Agreement”), we have agreed to pay Terra Income Advisors an annual base management fee based on our average quarterly gross assets, as well as incentive fees based on our performance. (See [Note 4. Related Party Transactions](#)).

Also, we have agreed to pay selling commissions, broker-dealer fees, a dealer manager fee and transaction charges (formerly referred to as distribution fees), and to reimburse Terra Income Advisors for our organization and offering expenses up to a maximum amount equal to 1.5% of the gross proceeds from our continuous public offering of our company stock (the “Offering”). Terra Income Advisors will bear all organization and offering expenses in excess of this amount.

Our primary investment objectives are to pay attractive and stable cash distributions and to preserve, protect and return capital contributions to stockholders. Our investment strategy is to use substantially all of the proceeds of the Offering to originate and manage a diversified portfolio consisting of (i) commercial real estate loans to U.S. companies qualifying as “eligible portfolio companies” under the 1940 Act, including mezzanine loans, first and second lien mortgage loans, subordinated mortgage loans, bridge loans and other commercial real estate-related loans related to or secured by high quality commercial real estate in the United States and (ii) preferred equity real estate investments in U.S. companies qualifying as “eligible portfolio companies” under the 1940 Act. We may also purchase select commercial real estate-related debt securities, such as commercial mortgage-backed securities or collateralized debt obligations; provided, however, that we will select all investments after considering our ability to continue to qualify to be taxed as a RIC.

The level of our investment activity depends on many factors, including the amount of debt and equity capital available to prospective borrowers, the level of refinancing activity for such companies, the availability of credit to finance transactions, the general economic environment and the competitive environment for the types of investments we make. Based on prevailing market conditions exclusive of the restrictions imposed by the RIC diversification requirement, we anticipate that we will invest the proceeds from each subscription closing generally within 90 days of such closing. The precise timing will depend on the availability of investment opportunities that are consistent with our investment objective and strategies. Any distributions we make prior to the time that all capital raised has been deployed may be substantially lower than the distributions that we expect to pay when our portfolio is fully invested.

Our management is not aware of any material trends or uncertainties, favorable or unfavorable, which may reasonably be anticipated to have a material impact on the capital resources and the revenue or income to be derived from our assets.

## **Revenues**

We generate revenue primarily in the form of interest on the debt securities that we hold. We make debt investments that bear interest at fixed and floating rates. Interest on debt securities is generally payable monthly. The principal amount of the debt

securities and any accrued but unpaid interest generally become due at the maturity date. In addition, we may generate revenue in the form of exit fees payable upon repayment of the loans we hold, origination fees for loans we originate, commitment and other fees in connection with transactions. We record prepayment premiums on loans and debt securities as interest income. Preferred returns earned on any preferred equity investments, if any, is recognized on an accrual basis to the extent that we expect to collect such amounts.

### *Expenses*

Our primary operating expenses include interest expense from obligations under participation agreements, amortization of deferred offering costs, professional fees, marketing expenses, payment of adviser fees and reimbursement of expenses to Terra Income Advisors and other expenses necessary for our operations. We bear other expenses, which include, among other things:

- corporate, organizational and offering expenses relating to offerings of our common stock, subject to limitations included in the Investment Advisory Agreement;
- the cost of calculating our net asset value (“NAV”), including the related fees and cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, monitoring our financial and legal affairs;
- making investments and valuing investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- interest payable on debt, if any, incurred to finance our investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees;
- federal, state and local taxes;
- independent directors’ fees and expenses, including travel expenses;
- costs of director and stockholder meetings, proxy statements, stockholders’ reports and notices;
- costs of fidelity bonds, directors and officers/errors and omissions liability insurance and other insurance premiums;
- direct costs, including those relating to printing of stockholder reports and advertising or sales materials, mailing and long distance telephone expenses;
- fees and expenses associated with independent audits and outside legal costs, including compliance with the Sarbanes-Oxley Act of 2002, the 1940 Act and applicable federal and state securities laws;
- costs associated with our chief compliance officer;
- brokerage commissions for our investments; and
- all other expenses incurred by us or Terra Income Advisors in connection with administering our investment portfolio, including expenses incurred by Terra Income Advisors in performing certain of its obligations under the Investment Advisory Agreement.

We reimburse Terra Income Advisors for expenses necessary to perform services related to our administration and operation. The amount of this reimbursement is set at the lesser of (i) Terra Income Advisors’ actual costs incurred in providing such services and (ii) the amount that the Board, including a majority of our independent directors, estimates we would be required to pay alternative service providers for comparable services in the same geographic location. Terra Income Advisors is required to allocate the cost of such services to us based on objective factors, such as total assets, revenues, time allocations and/or other reasonable metrics. The Board then assesses the reasonableness of such reimbursements based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party providers known to be available. In addition, the Board considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Board compares the total amount paid to Terra Income Advisors for such services as

a percentage of our net assets to the same ratio as reported by other comparable BDCs. We do not reimburse Terra Income Advisors for any services for which it receives a separate fee, or for rent, depreciation, utilities, capital equipment or other administrative items allocated to a controlling person of Terra Income Advisors.

### Net Investment Portfolio

The tables below present our investment portfolio on a net investment basis, which represents our proportionate share of the investments, based on our economic ownership of these investments. This measure is used in reports to our executive management and is used as a component to the asset base from which we calculate our base management fee. We believe that this measure provides useful information to investors because it represents our total assets under management and the financial exposure of each investment individually.

	December 31, 2016					
	Gross Investments		Transfers Treated as Obligations Under Participation Agreements		Net Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair value
QPT 24th Street Mezz, LLC	\$ 15,391,525	\$ 15,480,991	\$ 12,825,471	\$ 12,900,019	\$ 2,566,054	\$ 2,580,972
140 Schermerhorn Street Mezz LLC	7,431,081	7,559,450	—	—	7,431,081	7,559,450
KOP Hotel XXXI Mezz, LP.	5,780,181	5,954,148	1,793,849	1,847,839	3,986,332	4,106,309
YIP Santa Maria LLC	4,459,865	4,534,887	—	—	4,459,865	4,534,887
GAHC3 Lakeview IN Medical Plaza, LLC	3,074,671	3,074,671	—	—	3,074,671	3,074,671
Hertz Clinton One Mezzanine, LLC	2,431,429	2,431,429	—	—	2,431,429	2,431,429
TSG-Parcel 1, LLC	2,020,000	2,033,300	—	—	2,020,000	2,033,300
	<u>\$ 40,588,752</u>	<u>\$ 41,068,876</u>	<u>\$ 14,619,320</u>	<u>\$ 14,747,858</u>	<u>\$ 25,969,432</u>	<u>\$ 26,321,018</u>

	September 30, 2016					
	Gross Investments		Transfers Treated as Obligations Under Participation Agreements		Net Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
QPT 24th Street Mezz, LLC	\$ 15,250,567	\$ 15,250,567	\$ 12,708,034	\$ 12,708,034	\$ 2,542,533	\$ 2,542,533
KOP Hotel XXXI Mezz, LP.	5,800,000	5,969,398	1,800,000	1,852,572	4,000,000	4,116,826
GAHC3 Lakeview IN Medical Plaza, LLC	3,074,671	3,074,671	—	—	3,074,671	3,074,671
Hertz Clinton One Mezzanine, LLC	2,429,286	2,429,286	—	—	2,429,286	2,429,286
TSG-Parcel 1, LLC	2,000,000	2,022,814	—	—	2,000,000	2,022,814
	<u>\$ 28,554,524</u>	<u>\$ 28,746,736</u>	<u>\$ 14,508,034</u>	<u>\$ 14,560,606</u>	<u>\$ 14,046,490</u>	<u>\$ 14,186,130</u>

### Portfolio Investment Activity

For the three months ended December 31, 2016, we invested approximately \$12.0 million in two new loans and had no exits or repayments resulting in net gross investments made of approximately \$12.0 million. For the three months ended December 31, 2015, we invested approximately \$20.8 million in two new loans and had no exits or repayments, resulting in net gross investments made of approximately \$20.8 million for the period.

Our portfolio composition, based on fair value at December 31, 2016 and September 30, 2016 was as follows:

	December 31, 2016		September 30, 2016	
	Percentage of Total Portfolio	Weighted Average Yield <sup>(1)</sup>	Percentage of Total Portfolio	Weighted Average Yield <sup>(1)</sup>
Loans	76.6%	13.3%	93.0%	13.4%
Loans through participation interest (Note 4)	23.4%	12.0%	7.0%	12.0%
Total	100.0%	13.1%	100.0%	13.3%

(1) Based upon the par value of our debt investments.

The following table shows the portfolio composition by property type grouping based on fair value at December 31, 2016 and September 30, 2016:

	December 31, 2016		September 30, 2016	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Hotel	\$ 18,048,485	44.0%	\$ 5,969,398	20.8%
Land	17,514,291	42.6%	17,273,381	60.1%
Office	5,506,100	13.4%	5,503,957	19.1%
Total	\$ 41,068,876	100.0%	\$ 28,746,736	100.0%

The following table presents the fair value measurements at December 31, 2016 and September 30, 2016:

	December 31, 2016		September 30, 2016	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Loans	\$ 31,476,126	76.6%	26,723,922	93.0%
Loans through participation interest (Note 4)	9,592,750	23.4%	2,022,814	7.0%
Total	\$ 41,068,876	100.0%	28,746,736	100.0%

#### Obligations under Participation Agreements

We may enter into participation agreements with related and unrelated parties, primarily other affiliated funds of our sponsor. The participation agreements provide us with the opportunity to invest along the same terms, conditions, price, and rights in the specified investment. The purpose of the participation agreements is to allow us and an affiliate to originate a specified investment when, individually, we do not have the liquidity to do so or to achieve a certain level of portfolio diversification. We may transfer portions of our investments to other participants or we may be a participant to an investment held by another entity.

Certain partial loan sales do not qualify for sale accounting under Accounting Standard Codification (“ASC”) Topic 860 – *Transfers and Servicing* (“ASC Topic 860”) because these sales do not meet the definition of a “participating interest,” as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on the accompanying statements of assets and liabilities and the portion transferred is recorded as obligations under participation agreements in the liabilities section of the statements of assets and liabilities.

As of December 31, 2016 and September 30, 2016, obligations under participation agreements at fair value totaled approximately \$14.7 million and \$14.6 million, respectively, and the fair value of the loans that are associated with these obligations under participation agreements was approximately \$21.4 million and \$21.2 million, respectively. During the three months ended December 31, 2016 and 2015, there were no repayments on obligations under participation agreements. The weighted average interest rate on our obligations under participation agreements was approximately 13.9% and 13.9% as of December 31, 2016 and September 30, 2016, respectively.

## Results of Operations

We were formed on May 15, 2013 and commenced operations on June 24, 2015. Our management is not aware of any material trends or uncertainties, favorable or unfavorable, other than national economic conditions affecting our target portfolio, which may be reasonably anticipated to have a material impact of the capital resources and the revenue or income to be derived from the operations of our net assets.

Operating results for the three months ended December 31, 2016 and 2015 were as follows:

	Three Months Ended December 31,		
	2016	2015	Change
Total investment income	\$ 1,397,465	\$ 244,547	\$ 1,152,918
Total operating expenses	1,954,191	1,246,861	707,330
Less: Expense reimbursement from Adviser	—	(576,755)	576,755
Net operating expenses	1,954,191	670,106	1,284,085
Net investment loss	(556,726)	(425,559)	(131,167)
Net change in unrealized appreciation on investments	287,912	—	287,912
Net change in unrealized appreciation on obligations under participation agreements	(75,965)	—	(75,965)
Net decrease in net assets resulting from operations	\$ (344,779)	\$ (425,559)	\$ 80,780

### Investment Income

For the three months ended December 31, 2016 as compared to the same period in 2015, total investment income increased by approximately \$1.2 million, primarily due to new investments we made during 2016. For the three months ended December 31, 2016, our weighted-average investment balance was approximately \$34.4 million and weighted-average annual interest rate on the investments was 13.1%, compared to weighted-average investment balance of approximately \$4.2 million and annual interest rate of the investments of 12.4% for the same period in 2015.

### Operating Expenses

The composition of our operating expenses for the three months ended December 31, 2016 and 2015 were as follows:

	Three Months Ended December 31,		
	2016	2015	Change
Interest expense from obligations under participation agreements	\$ 621,265	\$ 78,822	\$ 542,443
Marketing expenses	362,253	253,179	109,074
Professional fees	291,731	220,091	71,640
Base management fees	245,239	76,018	169,221
Amortization of offering costs	167,177	355,533	(188,356)
Operating expense reimbursement to Adviser (Note 4)	115,113	150,124	(35,011)
Insurance expense	53,466	56,798	(3,332)
Incentive fees on capital gain	42,390	—	42,390
General and administrative expenses	31,432	17,546	13,886
Directors' fees	24,125	38,750	(14,625)
Total operating expenses	1,954,191	1,246,861	707,330
Less: Expense reimbursement from Adviser	—	(576,755)	576,755
Net expenses	\$ 1,954,191	\$ 670,106	\$ 1,284,085

Our primary operating expenses include interest expense from obligations under participation agreements, amortization of deferred offering costs, professional fees, marketing expenses, which include the costs of educational and training seminars and other marketing related expenses, base management fees, operating expense reimbursement to Adviser, insurance expense and directors' fees. Operating expense reimbursement to Adviser include reimbursements to Terra Income Advisers for operating expenses incurred in connection with administrative services provided to us, including compensation to administrative personnel.

For the three months ended December 31, 2016 as compared to the same period in 2015, total operating expenses increased by approximately \$0.7 million, primarily due to (i) an increase in interest expense from obligations under participation agreements of approximately \$0.5 million; (ii) an increase in base management fees of approximately \$0.2 million; (iii) an increase in marketing expense of approximately \$0.1 million; and (iv) an increase in professional fees of approximately \$0.1 million. These increases were partially offset by a decrease in amortization of offering costs of approximately \$0.2 million and a decrease in operating expense reimbursement to Adviser of approximately \$0.04 million. Interest expense from obligations under participation agreements increased due to three months of expense recognized during the three months ended December 31, 2016 as compared to half month of expense recognized during the same period in 2015 for participation liabilities incurred during 2015. Base management fees and professional fees increased as a result of investments entered into during 2015 and 2016, which increased our asset base. Amortization of offering costs decreased as a result of offering costs incurred prior to the commencement of operations became fully amortized prior to September 30, 2016. Operating expense reimbursement to Adviser decreased as a result of a change in allocation percentage of the Adviser's operating expenses to the entities it advised and managed.

#### ***Expense Support and Reimbursement Agreement***

On June 30, 2015, we entered into an expense support agreement (the "Expense Support Agreement") with Terra Income Advisors, whereby Terra Income Advisors may pay up to 100% of our costs and expenses for any period since inception, including all fees payable to Terra Income Advisors pursuant to the Investment Advisory Agreement, until we and Terra Income Advisors mutually agree otherwise. This payment (the "Expense Support Payment") for any month shall be paid by Terra Income Advisors to us in any combination of cash or other immediately available funds, and/or offsets against amounts due from us to Terra Income Advisors. The purpose of the Expense Support Payment is to reduce offering and operating expenses until we have achieved economies of scale sufficient to ensure that we are able to bear a reasonable level of expense in relation to investment income. Operating expenses subject to the Expense Support Agreement include expenses as determined by U.S. GAAP, including, without limitation, fees payable to Terra Income Advisors and interest on indebtedness for such period, if any.

Pursuant to the terms of the Expense Support Agreement, we have agreed to reimburse Terra Income Advisors for each Expense Support Payment within three years after such Expense Support Payment is made by Terra Income Advisors. Reimbursement shall be made as promptly as possible on a date mutually agreed to by us and Terra Income Advisors provided that (i) the operating expense ratio, defined as operating expenses excluding organization and offering expenses, base management fees, incentive fees and any interest expense attributable to indebtedness by us ("Net Operating Expenses") expressed as a percentage of our net assets on the relevant measurement date, as of such reimbursement date is equal to or less than the operating expense ratio as of the Expense Support Payment date attributable to such specified Expense Support Payment, (ii) the annualized distribution rate as of such reimbursement date is equal to or greater than the annualized distribution rate as of the Expense Support Payment date attributable to such specified Expense Support Payment; (iii) such reimbursement date is not later than three years following such specified Expense Support Payment date; and (iv) the Expense Support Payment does not cause our Net Operating Expenses to exceed 1.5% of our net assets attributable to common shares, after taking such reimbursement into account. Terra Income Advisors is entitled to reimbursement of all previously unreimbursed Expense Support Payments in the event of termination of the Expense Support Agreement.

For the three months ended December 31, 2016, we did not record any expense reimbursements. For the three months ended December 31, 2015, we recognized expense reimbursements made by Terra Income Advisors of approximately \$0.6 million, which are included in the statements of operations.

#### ***Net Realized Gains or Losses from Investments and Obligations under Participation Agreements***

Gains or losses on the sale of investments will be calculated by using the specific identification method. We will measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized but considering unamortized upfront fees.

There were no sales or repayments for the three months ended December 31, 2016 and 2015, therefore, there were no realized gains or losses.

#### ***Net Change in Unrealized Appreciation on Investments and Obligations under Participation Agreements***

Net change in unrealized appreciation on investments and obligations under participation agreements reflects the change in our portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gains or losses, when gains or losses are realized. Valuation of our portfolio investments fluctuates over time, reflecting changes in the market yields for loans and debt investments, and any associated premium or discount will be amortized down or accreted up to par value as each investment approaches maturity.



For both the three months ended December 31, 2016, net change in unrealized appreciation on investment was approximately \$0.3 million and net change in unrealized appreciation on obligations under participation agreements was approximately \$0.1 million. For the three months ended December 31, 2015, there was no unrealized appreciation or depreciation on our investments or obligations under participation agreements. The net change in unrealized appreciation on our investments and obligations under participation agreements during the three months ended December 31, 2016 was primarily due to new investments we made during 2016, which increased our investments in the portfolio for the three months ended December 31, 2016 as compared to the same period in the prior year.

#### ***Net Decrease in Net Assets Resulting from Operations***

For the three months ended December 31, 2016 and 2015, we recorded a net decrease in net assets resulting from operations of approximately \$0.3 million and \$0.4 million, respectively. Based on the weighted average shares of common stock outstanding for the three months ended December 31, 2016 and 2015, our per share net decrease in net assets resulting from operations was \$0.08 and \$0.33, respectively.

#### **Capital Contribution from Terra Capital Partners**

Pursuant to an initial capitalization and subsequent private placement, Terra Capital Partners had purchased an aggregate of \$175,000 of shares of our common stock at \$9.00 per share, which price represented the initial public offering price of \$10.00 per share, net of selling commissions, broker-dealer fees and dealer manager fees. On February 25, 2015, the Board determined to change the initial offering price from \$10.00 per share to \$12.50 per share. As a result, on February 26, 2015, we effected a reverse stock split to account for the change in our offering price since the initial investment by Terra Capital Partners. On May 1, 2015, Terra Capital Partners also purchased an additional \$275,000 of shares of our common stock from the Offering at \$11.25 per share, also net of selling commissions, broker-dealer fees and dealer manager fees from the then-current offering price of \$12.50 per share. As a result, gross offering proceeds of \$450,000 were immediately available to us. The gross offering proceeds from Terra Capital Partners' capital contributions have been included for purposes of determining our satisfaction of the Minimum Offering Requirement.

#### **Financial Condition, Liquidity and Capital Resources**

We currently generate cash primarily from the net proceeds of the Offering and from cash flows from interest, dividends and fees earned from our investments and principal repayments and proceeds from sales of our investments. Our primary use of cash is for our targeted investments, payments of our expenses and cash distributions to our stockholders. We sell our shares on a continuous basis at a current per share price of \$10.90. However, to the extent that our NAV per share increases, we will sell at a price necessary to ensure that our shares are not sold at a price, after deduction of selling commissions, broker-dealer fees and dealer manager fees, that is below NAV per share. On November 11, 2015, and effective as December 1, 2015, the Board approved a change to a certain aspect of our share pricing policy such that, once we have raised gross offering proceeds in excess of \$125 million, or prior to then in the sole discretion of our Board, in the event of a material decline in our NAV per share, which we consider to be a 2.5% decrease below our then-current net offering price, we will reduce our offering price to establish a new net offering price not more than 2.5% above our NAV per share.

Prior to investing in securities of portfolio companies, we will invest the net proceeds from the Offering and from sales and paydowns of existing investments primarily in cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt instruments maturing in one year or less from the time of investment, consistent with our intended BDC election and our election to be taxed as a RIC.

We may borrow funds to make investments, including before we have fully invested the proceeds of our continuous offering, to the extent we determine that leveraging our portfolio would be appropriate. We have not decided whether, and to what extent, we will finance portfolio investments using debt or the specific form that any such financing would take. Accordingly, we cannot predict with certainty what terms any such financing would have or the costs we would incur in connection with any such arrangement. We currently do not anticipate issuing any preferred stock; however, our charter authorizes us to do so.

Our principal demands for funds are for portfolio investments, either directly or through investment interests, for the payment of operating expenses, distributions to our investors and for the payment of principal and interest on any outstanding indebtedness we may acquire. Generally, cash needs for investment activities will be met through proceeds from the sale of shares of our common stock through the Offering. Management expects that in the future, as our investment portfolio grows, our investments will generate sufficient cash flow to cover operating expenses and the payment of a monthly distribution.

### **Cash Flows for the Three Months Ended December 31, 2016**

*Operating Activities* — For the three months ended December 31, 2016, net cash used in operating activities was approximately \$11.6 million. The level of cash flows used in or provided by operating activities is affected by the timing of purchases, redemptions and sales of portfolio investments, among other factors. Cash flows used in operating activities for the three months ended December 31, 2016 were primarily purchases of investments totaling approximately \$12.0 million.

*Financing Activities* — For the three months ended December 31, 2016, net cash provided by financing activities was approximately \$6.5 million, primarily related to proceeds from the issuance of common stock of approximately \$7.6 million, partially offset by payments of selling commissions and dealer manager fees of approximately \$0.4 million and distributions paid to stockholders of approximately \$0.7 million.

### **Cash Flows for the Three Months Ended December 31, 2015**

*Operating Activities* — For the three months ended December 31, 2015, net cash used in operating activities was approximately \$6.9 million, primarily due to purchases of investments totaling approximately \$20.8 million, partially offset by net proceeds from obligations under participation agreements of approximately \$14.3 million.

*Financing Activities* — For the three months ended December 31, 2015, net cash provided by financing activities was approximately \$10.9 million, primarily related to proceeds from the issuance of common stock of approximately \$12.0 million, partially offset by payments of selling commissions and dealer manager fees of approximately \$0.9 million and distributions paid to stockholders of approximately \$0.2 million.

### **RIC Status and Distributions**

We have elected to be treated for federal income tax purposes and to qualify annually thereafter, as a RIC under Subchapter M of the Code. In order to maintain our qualification to be taxed as a RIC, we must, among other things, distribute at least 90.0% of our “investment company taxable income,” as defined by the Code, each year. As long as the distributions are declared by the later of the fifteenth day of the ninth month following the close of the taxable year or the due date of the tax return, including extensions, distributions paid up to one year after the current tax year can be carried back to the prior tax year for determining the distributions paid in such tax year. We intend to make sufficient distributions to our stockholders to maintain our qualification to be taxed as a RIC each year. We are also subject to nondeductible federal excise taxes if we do not distribute at least 98.0% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years on which we paid no federal income taxes.

Distributions to our stockholders are recorded as of the record date. Subject to the discretion of the Board and applicable legal restrictions, we authorize and declare ordinary cash distributions on either a monthly or quarterly basis and pay such distributions on a monthly basis. We calculate each stockholder’s specific distribution amount for the period using daily record dates, and each stockholder’s distributions begin to accrue on the date we accept such stockholder’s subscription for shares of our common stock. From time to time at the discretion of the Board, we may also pay special interim distributions in the form of cash or shares of common stock.

During certain periods, our distributions may exceed our earnings, especially during the period before we have substantially invested the proceeds from the Offering of our common stock. As a result, it is possible that some or all of the distributions we make will represent a return of capital for tax purposes. A return of capital generally is a return of an investor’s investment rather than a return of earnings or gains derived from our investment activities and will be made after deducting the fees and expenses payable in connection with the Offering, including any fees payable to Terra Income Advisors. Each year a statement on Form 1099-DIV identifying the sources of the distributions will be mailed to our stockholders.

We intend to continue to make our ordinary distributions in the form of cash out of assets legally available for distribution, unless stockholders elect to receive their cash distributions in additional shares of our common stock under our distribution reinvestment plan. Any distributions reinvested under the plan will nevertheless remain taxable to a U.S. stockholder.

We have adopted an “opt in” distribution reinvestment plan for our stockholders. As a result, if we make a cash distribution, our stockholders will receive distributions in cash unless they specifically “opt in” to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of our common stock. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a stockholder’s ability to participate in the distribution reinvestment plan.

We may fund our cash distributions to stockholders from any sources of funds available to us, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds

from the sale of assets, dividends or other distributions paid to us on account of preferred and common equity investments in portfolio companies. We have not established limits on the amount of funds we may use from available sources to make distributions.

### **Critical Accounting Policies**

Our financial statements are prepared in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses. As we execute our expected operating plans, we will describe additional critical accounting policies in the notes to our future financial statements in addition to those discussed below.

### **Valuation of Investments**

We measure the value of our investments in accordance with fair value accounting guidance promulgated under U.S. GAAP, which establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value will be classified and disclosed in one of the following categories:

- Level 1 — observable inputs, such as quoted prices in active markets. Publicly listed equities and publicly listed derivatives will be included in Level 1. In addition, securities sold, but not yet purchased, and call options will be included in Level 1.
- Level 2 — observable inputs such as for similar securities in active markets and quoted prices for identical securities in markets that are not active. In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments. Investments which are generally expected to be included in this category include corporate bonds and loans, convertible debt indexed to publicly listed securities and certain over-the-counter derivatives.
- Level 3 — unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The inputs into the determination of fair value require significant judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and we consider factors specific to the investment. We expect most of the investments that will be held in the investment portfolio to fall into Level 3 of the fair value hierarchy.

### **Valuation of Obligations under Participation Agreements**

We have elected the fair value option under ASC Topic 825 — *Financial Instruments* relating to accounting for debt obligations at their fair value for obligations under participation agreements which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. We employ the yield approach valuation methodology used for the real-estate related loan investments on our obligations under participation agreements.

### ***Revenue Recognition***

Security transactions are accounted for on their trade date. We record interest income on an accrual basis to the extent that we expect to collect such amounts. We do not accrue as a receivable interest on loans and securities if there is reason to doubt the collectability of such income. Loan origination fees, exit fees, original issue discount and market discount are capitalized and such amounts are amortized into interest income as a yield adjustment using the effective interest method over the respective term of the loan. We record prepayment premiums on loans and securities as interest income when we receive such amounts.

### ***Organization Costs***

Organization costs include, among other things, the cost of incorporating, including the cost of legal services and other fees pertaining to our organization. These costs are expensed as incurred.

### ***Offering Costs***

Our offering costs include, among other things, legal and printing costs pertaining to preparation of the initial registration statement and prospectus and registration fees relating to the Offering. All offering costs incurred during the offering period are recorded as deferred charge and amortized over twelve months from the date the cost is incurred, with the exception of those costs that were incurred prior to the commencement of operations on June 24, 2015, which were amortized over a twelve month period from that date forward.

### ***Incentive Fee on Capital Gains***

Pursuant to the terms of the Investment Advisory Agreement, the incentive fee on capital gains is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of our incentive fee on capital gains, which equals the realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue (but do not pay) for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period. While the Investment Advisory Agreement neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute of Certified Public Accountants Technical Practice Aid for investment companies, we accrue for this incentive fee to include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to Terra Income Advisors if our entire portfolio were liquidated at its fair value as of the balance sheet date even though Terra Income Advisors is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

### ***Federal Income Taxes***

We have elected to be taxed for federal income tax purposes, and to qualify annually thereafter, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders from our earnings and profits as determined for federal income tax purposes. To maintain our RIC tax treatment, we must, among other things, meet specified source-of-income and asset diversification requirements and distribute annually at least 90.0% of our ordinary net income and realized net short-term capital gains in excess of realized net long-term capital losses, if any.

Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is “more likely than not” to be sustained assuming examination by taxing authorities. We recognize interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in the statements of operations. During the three months ended December 31, 2016 and 2015, we did not incur any interest or penalties.

### ***Contractual Obligations***

We have entered into certain contracts under which we have material future commitments. On April 20, 2015, we entered into the Investment Advisory Agreement with Terra Income Advisors in accordance with the 1940 Act. The Investment Advisory Agreement became effective on June 24, 2015, the date that we met the Minimum Offering Requirement. Terra Income Advisors serves as our investment adviser in accordance with the terms of the Investment Advisory Agreement. Payments under the Investment Advisory Agreement in each reporting period consist of (i) a base management fee equal to a percentage of the value of our average gross assets and (ii) an incentive fee based on our performance. Terra Income Advisors is reimbursed for allocated administrative expenses incurred on our behalf. For the three months ended December 31, 2016 and 2015, we incurred approximately \$0.2 million and \$0.1 million, respectively, in base management fee under the Investment Advisory Agreement. For the three months ended December 31, 2016, we incurred approximately \$0.1 million and \$0.2 million, respectively, in allocated administrative expenses reimbursable to Terra Income Advisors.

On April 20, 2015, we entered into a dealer manager agreement with Terra Capital Markets, an affiliate of Terra Income Advisors, to serve as the dealer manager of the Offering. On April 27, 2016, we adopted an amended and restated dealer manager agreement (the “Amended Dealer Manager Agreement”). Under the terms of the Amended Dealer Manager Agreement, Terra Capital Markets receives selling commissions, dealer manager fees and broker-dealer fees of 3.0%, 1.5%, and up to 1.0%, respectively, of gross proceeds from the Offering, all or a portion of which may be re-allowed to selected broker-dealers for marketing and expenses. In addition, Terra Capital Markets receives a transaction charge at an annual rate of 1.125% of gross offering proceeds, excluding shares sold through the distribution reinvestment plan, all or a portion of which may be re-allowed to selected broker-dealers for services performed in connection with the distribution of our shares. The transaction charge is payable annually with respect to each share sold in the primary offering on the first, second, third, and fourth anniversaries of the month of purchase.

For the three months ended December 31, 2016 and 2015, we incurred approximately \$0.7 million and \$1.1 million, respectively, of broker-dealer commissions and fees and, of this amount, approximately \$0.5 million and \$0.7 million, respectively, were re-allowed to selected broker-dealers. As of December 31, 2016, total transaction charge payable was approximately \$2.4 million, as reflected on the statements of assets and liabilities. The following table reflects the payment schedule of the transaction charge payable:

	Payments Due by Period as of December 31, 2016				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Transaction charge payable	\$ 2,399,134	\$ 666,355	\$ 1,332,571	\$ 400,208	\$ —

In June 2016, we purchased a B-Note that provides for a total lending commitment of \$3.5 million. As of December 31, 2016, the unfunded commitment on this investment was approximately \$0.4 million. We expect to fund this commitment in the next year.

#### Off-Balance Sheet Arrangements

Other than contractual commitments and other legal contingencies incurred in the normal course of our business, we do not have any off-balance sheet financings or liabilities.

#### Recently Issued Accounting Standards

In January 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity’s accounting related to (i) the classification and measurement of investments in equity securities and (ii) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. We are currently evaluating the impact these changes will have on our financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB’s Emerging Issues Task Force (“ASU 2016-15”). ASU 2016-15 provides guidance on how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. We are currently evaluating the impact these changes will have on our financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB’s Emerging Issues Task Force (“ASU 2016-18”). ASU 2016-18 requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public business entities for annual and interim periods beginning after December 15, 2017. For all other entities, ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period, and should be applied using a retrospective transition method. We are currently evaluating the impact of this change will have on our financial statements and disclosures.

## Related Party Transactions

### *Compensation of Terra Income Advisors and Terra Capital Markets*

Pursuant to the Investment Advisory Agreement, we pay Terra Income Advisors a base management fee and an incentive fee. We commenced accruing fees under the Investment Advisory Agreement on June 24, 2015, upon commencement of our operations.

The base management fee is calculated at an annual rate of 2.0% of our average gross assets. The base management fee is payable quarterly in arrears and is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. The base management fee may or may not be taken in whole or in part at the discretion of Terra Income Advisors. All or any part of the base management fee not taken as to any quarter will be deferred without interest and may be taken in such other quarter as Terra Income Advisors shall determine. The base management fee for any partial month or quarter will be prorated for such partial period.

The incentive fee consists of two parts. The first part, which we refer to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears based upon our “pre-incentive fee net investment income” for the immediately preceding quarter. The subordinated incentive fee on income is subject to a quarterly hurdle rate, expressed as a rate of return on adjusted capital at the beginning of the most recently completed calendar quarter, of 2.0% (8.0% annualized), subject to a “catch up” feature. For this purpose, “pre-incentive fee net investment income” means interest income, dividend income and any other income (including any other fees, other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses reimbursed to Terra Income Advisors under the Investment Advisory Agreement and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. The calculation of the subordinated incentive fee on income for each quarter is as follows:

- No incentive fee is payable to Terra Income Advisors in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate of 2.0% (8.0% annualized);
- 100% of our pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any calendar quarter (10.0% annualized) is payable to Terra Income Advisors, all or any portion of which may be waived or deferred in Terra Income Advisors’ discretion. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than or equal to 2.5%) as the “catch-up.” The “catch-up” provision is intended to provide Terra Income Advisors with an incentive fee of 20.0% on all of our pre-incentive fee net investment income when our pre-incentive fee net investment income reaches 2.5% in any calendar quarter; and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to Terra Income Advisors once the hurdle rate is reached and the catch-up is achieved.

The second part of the incentive fee, which we refer to as the incentive fee on capital gains, is an incentive fee on capital gains earned on liquidated investments from the portfolio and is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of our incentive fee on capital gains, which equals our realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue (but do not pay) for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

We reimburse Terra Income Advisors for expenses necessary to perform services related to our administration and operation. The amount of this reimbursement is set at the lesser of (i) Terra Income Advisors’ actual costs incurred in providing such services and (ii) the amount that the Board, including a majority of our independent directors, estimates we would be required to pay alternative service providers for comparable services in the same geographic location. Terra Income Advisors is required to allocate the cost of such services to us based on objective factors such as total assets, revenues, time allocations and/or other reasonable metrics. The Board then assesses the reasonableness of such reimbursements based on the breadth, depth and quality of such services as compared to the estimated cost to us of obtaining similar services from third-party providers known to be available. In addition, the Board considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Board compares the total amount paid to Terra Income Advisors for such services as a percentage of our net assets to the same ratio as reported by other comparable BDCs. We do not reimburse Terra Income Advisors

for any services for which it receives a separate fee, or for rent, depreciation, utilities, capital equipment or other administrative items allocated to a controlling person of Terra Income Advisors.

Terra Income Advisors has funded our offering costs and organization costs. Organization expenses are expensed on our statements of operations. All offering costs incurred during the offering period are recorded as deferred charge and amortized over twelve months from the date the cost is incurred, with the exception of those costs that were incurred prior to the commencement of operations on June 24, 2015, which are being amortized over a 12-month period from that date forward. Terra Income Advisors is responsible for the payment of our cumulative organization and offering expenses to the extent such expenses exceed 1.5% of the gross proceeds from the Offering, without recourse against or reimbursement by us. As a result, Terra Income Advisors will bear all organization and offering expenses in excess of 1.5% of the gross proceeds from the Offering. Through December 31, 2016, we believe that it is highly likely that we will raise sufficient funds to reimburse Terra Income Advisors in full for all cumulative organization and offering expenses incurred to date and has accrued those expenses and costs. As of December 31, 2016 and September 30, 2016, Terra Income Advisors funded offering costs and organization costs in the amount of approximately \$2.5 million and \$2.4 million, respectively. The unreimbursed amount in excess of the 1.5% threshold was approximately \$1.6 million and \$1.6 million as of December 31, 2016 and September 30, 2016, respectively, and is included in Due to Adviser, net on the statements of assets and liabilities. For the three months ended December 31, 2016 and 2015, we made reimbursement payments of approximately \$0.3 million and \$0.1 million, respectively, to Terra Income Advisors for offering costs incurred on our behalf.

Under the Amended Dealer Manager Agreement, Terra Capital Markets, an affiliate of Terra Income Advisors, is entitled to receive selling commissions, broker-dealer fees and dealer manager fees in connection with the sale of shares of our common stock in the Offering, all or a portion of which may be re-allowed to selected broker-dealers. For the three months ended December 31, 2016 and 2015, we incurred approximately \$0.7 million and \$1.1 million, respectively, of broker-dealer commissions and fees and, of this amount, approximately \$0.5 million and \$0.7 million, respectively, were re-allowed to selected broker-dealers. As of December 31, 2016, total transaction charge payable was approximately \$2.4 million, as reflected on the statements of assets and liabilities.

Pursuant to the Expense Support Agreement, Terra Income Advisors has agreed to reimburse us for certain operating expenses for any period since inception, until we and Terra Income Advisors mutually agree otherwise. This payment for any month shall be paid by Terra Income Advisors to us in any combination of cash or other immediately available funds, and/or offsets against amounts due from us to Terra Income Advisors. Reimbursement shall be made as promptly as possible on a date mutually agreed to by us and Terra Income Advisors provided that (i) the operating expense ratio, defined as Net Operating Expenses expressed as a percentage of our net assets on the relevant measurement date, as of such reimbursement date is equal to or less than the operating expense ratio as of the Expense Support Payment date attributable to such specified Expense Support Payment, (ii) the annualized distribution rate as of such reimbursement date is equal to or greater than the annualized distribution rate as of the Expense Support Payment date attributable to such specified Expense Support Payment; (iii) such reimbursement date is not later than three years following such specified Expense Support Payment date; and (iv) the Expense Support Payment does not cause our Net Operating Expenses to exceed 1.5% of our net assets attributable to common shares, after taking such reimbursement into account. Terra Income Advisors is entitled to reimbursement of all previously unreimbursed Expense Support Payments in the event of termination of the Expense Support Agreement. For the three months ended December 31, 2015, we recorded Expense Support Payment of approximately \$0.6 million, which are included in the statements of operations. There was no such Expense Support Payment recorded for the three months ended December 31, 2016. As of September 30, 2016, we accrued cumulative Expense Support Payments of approximately \$2.3 million, which is included in Due to Adviser, net on the statements of assets and liabilities, and were settled during the three months ended December 31, 2016.

### ***Potential Conflicts of Interest***

Terra Income Advisors, our investment adviser, currently serves as the investment manager to the Terra Income Funds. While Terra Income Advisors intends to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies, if necessary, so that we will not be disadvantaged in relation to any other client of Terra Income Advisors, it is possible that some investment opportunities may be provided to the Terra Income Funds rather than to us.

### ***Distributions***

Distributions to our stockholders are recorded as of the applicable record date. Subject to the discretion of the Board and applicable legal restrictions, we intend to authorize and declare ordinary cash distributions on either a monthly or quarterly basis and pay such distributions on a monthly basis. Net realized capital gains, if any, will be distributed or deemed distributed at least annually.

### *Capital Gains Incentive Fee*

Pursuant to the terms of the advisory agreement, the incentive fee on capital gains earned on liquidated investments of our portfolio is determined and payable in arrears as of the end of each calendar year (or upon termination of the advisory agreement). Such fee equals 20% of our incentive fee on capital gains (*i.e.*, its realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. Once any amount of this fee has been earned, on a quarterly basis, we accrue (but do not pay) for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

### *Exemptive Relief*

The SEC has granted us exemptive relief from the provisions of Sections 17(d) and 57(a)(4) of the 1940 Act, thereby permitting us, subject to the satisfaction of certain conditions, to co-invest in certain privately negotiated investment transactions with our Co-Investment Affiliates. However, we will be prohibited from engaging in certain transactions with our affiliates even under the terms of this exemptive order. We believe the relief granted to us under this exemptive order may not only enhance our ability to further our investment objectives and strategies, but may also increase favorable investment opportunities for us, in part by allowing us to participate in larger investments, together with our Co-Investment Affiliates, than would be available to us in the absence of such relief.

On April 19, 2016, the Board approved the Amended Dealer Manager Agreement. Under the terms of the Amended Dealer Manager Agreement, Terra Capital Markets receives selling commissions, dealer manager fees and broker-dealer fees of 3.0%, 1.5% and 1.0%, respectively, of gross proceeds from the Offering, all or a portion of which may be re-allowed to selected broker-dealers for marketing and expenses. In addition, Terra Capital Markets receives a transaction charge at an annual rate of 1.125% of gross offering proceeds, excluding shares sold through the distribution reinvestment plan. The transaction charge is payable annually with respect to each share sold in the primary offering on the first, second, third and fourth anniversaries of the month of purchase.

In connection with the approval of the Amended Dealer Manager Agreement, Terra Capital Markets reimbursed us an amount equal to the transaction charges expected to be paid on all outstanding shares of common stock as of April 27, 2016. Both Terra Capital Markets and Terra Income Advisors are subsidiaries of Terra Capital Partners, our sponsor. Therefore, the transaction charge reimbursement and the Amended Dealer Manager Agreement may be deemed a “joint enterprise or other joint arrangement” within the meaning of the 1940 Act and the rules promulgated thereunder. Accordingly, to eliminate any uncertainty, we applied for and were granted exemptive relief from the provisions of Section 57(a)(4) of the 1940 Act and Rule 17d-1 under the 1940 Act by the SEC, pursuant to an exemptive order permitting Terra Capital Markets, subject to the satisfaction of certain conditions, to effect the transaction charge reimbursement. We believe the transaction charge reimbursement, the changes to the selling commissions, dealer manager fees, and broker-dealer fees, and implementation of the transaction charge, is likely to lead to greater demand for our common stock in the Offering, which we believe will further benefit our investors by facilitating a lower operating expense ratio and greater diversification of its investment portfolio.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We may be subject to financial market risks, including changes in interest rates. To the extent that we borrow money to make investments, our net investment income will be dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. In periods of rising interest rates, our cost of funds would increase, which may reduce our net investment income. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

As of December 31, 2016, we had one investment with a principal balance of approximately \$3.1 million that provides for interest income indexed to London Interbank Offered Rate (“LIBOR”) (see “Item 1. Financial Statements — Schedule of Investments”). A decrease of 1% in LIBOR would decrease our annual interest income by approximately \$0.02 million and an increase of 1% in LIBOR would increase our annual interest income by approximately \$0.03 million.

We may hedge against interest rate and currency exchange rate fluctuations by using standard hedging instruments, such as futures, options and forward contracts, subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in benefits of lower interest rates with respect to our portfolio of investments with fixed interest rates. For the three months ended December 31, 2016 and 2015, we did not engage in interest rate hedging activities.

In addition, we may have risks regarding portfolio valuation. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Valuation of Investments.”



**Item 4. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2016. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that we would meet our disclosure obligations.

***Changes in Internal Control Over Financial Reporting***

During the most recent fiscal quarter, there was no change in our internal controls over financial reporting, as defined under Rule 13a-15(f) under the Exchange Act, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

Neither we nor Terra Income Advisors is currently subject to any material legal proceedings, nor, to our knowledge, are material legal proceedings threatened against us or Terra Income Advisors. From time to time, we and individuals employed by Terra Income Advisors may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

### Item 1A. Risk Factors.

There have been no material changes from the risk factors set forth in our Annual Report on Form 10-K for the year ended September 30, 2016.

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

Not applicable.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

On January 13, 2017, the Company decreased the public offering price of its common stock from \$12.50 per share to \$10.90 per share. The decrease in the public offering price was effective as of the Company's January 17, 2017 bi-monthly closing and first applied to subscriptions received from December 31, 2016 through January 16, 2017.

### Item 6. Exhibits.

The following exhibits are filed with this report. Documents other than those designated as being filed herewith are incorporated herein by reference.

<b>Exhibit No.</b>	<b>Description and Method of Filing</b>
3.1	Articles of Amendment and Restatement of Terra Income Fund 6, Inc. <i>(incorporated by reference to Exhibit (a) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-202399) filed with the SEC on May 12, 2015).</i>
3.2	Amended and Restated Bylaws of Terra Income Fund 6, Inc. <i>(incorporated by reference to Exhibit (b) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-202399) filed with the SEC on May 12, 2015).</i>
4.1	Form of Subscription Agreement <i>(incorporated by reference to Appendix A to the Final Prospectus dated April 27, 2016, filed with the SEC April 27, 2016).</i>
4.2	Distribution Reinvestment Plan <i>(incorporated by reference to Exhibit (e) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-202399) filed with the SEC on May 12, 2015).</i>
10.1	Investment Advisory and Administrative Services Agreement, dated as of April 20, 2015, by and between Terra Income Fund 6, Inc. and Terra Income Advisors, LLC <i>(incorporated by reference to Exhibit (g)(1) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-202399) filed with the SEC on May 12, 2015).</i>

Exhibit No.	Description and Method of Filing
10.2	Amended and Restated Dealer Manager Agreement, dated as of April 27, 2016, by and among Terra Income Fund 6, Inc., Terra Income Advisors, LLC and Terra Capital Markets, LLC ( <i>incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the SEC on May 12, 2016</i> ).
10.3	Form of Selected Dealer Agreement ( <i>incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the SEC on May 12, 2016</i> ).
10.4	Expense Support Agreement dated as of June 30, 2015 by and between Terra Income Fund 6, Inc. and Terra Capital Advisors, LLC ( <i>incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on July 2, 2015</i> ).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 14, 2017

### **TERRA INCOME FUND 6, INC.**

By: /s/ Bruce D. Batkin

Bruce D. Batkin

Chief Executive Officer

(Principal Executive Officer)

By: /s/ Gregory M. Pinkus

Gregory M. Pinkus

Chief Financial Officer, Chief Operating Officer,

Treasurer and Secretary

(Principal Financial and Accounting Officer)