

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2022

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 46-2865244
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

550 Fifth Avenue, 6th Floor

New York, New York 10036

(Address of principal executive offices) (Zip Code)

(212) 753-5100

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
7.00% Notes due 2026	TFSA	New York Stock Exchange

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

Common stock, \$0.001 par value

(Title of Class)

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of May 6, 2022, the registrant had 8,109,760 shares of common stock, \$0.001 par value, outstanding. No market value has been computed based upon the fact that no active trading market had been established as of the date of this document.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
	<u>(unaudited)</u>	
Assets		
Investments, at fair value — non-controlled (amortized cost of \$69,600,647 and \$60,352,932, respectively)	\$ 70,502,708	\$ 61,281,259
Investment through participation interest, at fair value — non-controlled (amortized cost of \$65,895,748 and \$48,780,897, respectively) (Note 4)	66,133,598	48,349,374
Marketable securities, at fair value — non-controlled (cost of \$331,987 and \$789,335, respectively)	356,404	879,272
Total investments	136,992,710	110,509,905
Cash and cash equivalents	2,697,171	12,232,256
Restricted cash	283,371	224,618
Unsettled sale of marketable securities	85,643	—
Interest receivable	1,806,000	1,450,451
Prepaid expenses and other assets	661,373	314,945
Total assets	142,526,268	124,732,175
Liabilities		
Unsecured notes payable (net of unamortized debt issuance costs of \$1,784,411 and \$1,877,388)	36,590,589	36,497,612
Term loan payable (net of unamortized debt issuance costs of \$775,358 and \$829,836)	23,224,642	4,170,164
Obligations under participation agreements, at fair value (proceeds of \$5,444,696 and \$4,863,009, respectively) (Note 4)	5,468,476	4,883,877
Interest reserve and other deposits held on investments	283,371	224,618
Due to related party	—	3,108,922
Due to Adviser, net	774,963	843,040
Accrued expenses	834,835	651,637
Interest payable from obligations under participation agreements	37,889	—
Other liabilities	884,986	765,661
Total liabilities	68,099,751	51,145,531
Net assets	\$ 74,426,517	\$ 73,586,644
Commitments and contingencies (See Note 6)		
Components of net assets:		
Common stock, \$0.001 par value, 450,000,000 shares authorized, and 8,102,167 and 8,078,627 shares issued and outstanding, respectively	\$ 8,102	\$ 8,079
Capital in excess of par	72,773,288	72,902,542
Accumulated distributable net income	1,645,127	676,023
Net assets	\$ 74,426,517	\$ 73,586,644
Net asset value per share	\$ 9.19	\$ 9.11

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Investment income		
Interest income	\$ 4,087,414	\$ 2,138,391
Dividend and other income	48,361	220,581
Total investment income	4,135,775	2,358,972
Operating expenses		
Base management fees	621,818	476,064
Incentive fees on capital gains	124,641	37,222
Operating expense reimbursement to Adviser (Note 4)	300,190	255,212
Servicing fees (Note 2 , Note 4)	118,974	125,339
Interest expense on unsecured notes payable	764,539	414,217
Professional fees	355,304	250,408
Interest expense from obligations under participation agreements (Note 4)	121,567	141,611
Interest expense on term loan	271,504	—
Directors' fees	30,126	33,125
Insurance expense	67,152	55,877
General and administrative expenses	8,273	16,127
Total operating expenses	2,784,088	1,805,202
Net investment income before income taxes	1,351,687	553,770
Income tax expense	439,653	—
Net investment income	912,034	553,770
Net change in unrealized appreciation on investments	577,587	181,105
Net change in unrealized depreciation on obligations under participation agreements	12,361	5,005
Net realized gain on investments	33,260	—
Net increase in net assets resulting from operations	\$ 1,535,242	\$ 739,880
Per common share data:		
Net investment income per share	\$ 0.11	\$ 0.07
Net increase in net assets resulting from operations per share	\$ 0.19	\$ 0.09
Weighted average common shares outstanding	8,086,765	8,405,272

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Operations		
Net investment income	\$ 912,034	\$ 553,770
Net change in unrealized appreciation on investments	577,587	181,105
Net change in unrealized depreciation on obligations under participation agreements	12,361	5,005
Net realized gain on investments	33,260	—
Net increase in net assets resulting from operations	1,535,242	739,880
Stockholder distributions		
Distributions from return of capital	(341,094)	(423,768)
Distributions from net investment income	(566,138)	(517,178)
Net decrease in net assets resulting from stockholder distributions	(907,232)	(940,946)
Capital share transactions		
Reinvestment of stockholder distributions	211,863	236,078
Net increase in net assets resulting from capital share transactions	211,863	236,078
Net increase in net assets	839,873	35,012
Net assets, at beginning of period	73,586,644	76,175,733
Net assets, at end of period	\$ 74,426,517	\$ 76,210,745
Capital share activity		
Shares outstanding, at beginning of period	8,078,627	8,396,435
Shares issued from reinvestment of stockholder distributions	23,540	25,768
Shares outstanding, at end of period	8,102,167	8,422,203

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 1,535,242	\$ 739,880
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized appreciation on investments	(577,587)	(181,105)
Net change in unrealized depreciation on obligations under participation agreements	(12,361)	(5,005)
Net realized gain on investments	(33,260)	—
Amortization and accretion of investment-related fees, net	(307,473)	(71,096)
Amortization of discount on debt issuance	87,602	33,000
Amortization of deferred financing costs	59,853	21,519
Paid-in-kind interest, net	—	(30,694)
Purchases of investments	(41,039,821)	(10,857,990)
Repayments and proceeds from sale of investments	15,404,965	4,045,158
Changes in operating assets and liabilities:		
Increase in interest receivable	(355,549)	(200,403)
(Increase) decrease in prepaid expenses and other assets	(346,428)	23,240
Increase in interest reserve and other deposits held on investments	58,753	783
Decrease in due to related party	(3,108,922)	—
(Decrease) increase in due to Adviser, net	(68,077)	96,743
Increase in accrued expenses	183,198	328,773
Increase in interest payable on unsecured notes payable	—	359,698
Increase (decrease) in interest payable from obligations under participation agreements	37,889	(3,069)
Increase in other liabilities	119,325	54,293
Net cash used in operating activities	(28,362,651)	(5,646,275)
Cash flows from financing activities:		
Proceeds from issuance of unsecured notes payable, net of discount	—	37,175,781
Proceeds from obligations under participation agreements	581,688	—
Proceeds from borrowings under term loan payable	19,000,000	—
Payments of stockholder distributions	(695,369)	(704,867)
Payments of financing costs	—	(782,026)
Payments for repurchases of common stock under stock repurchase plan	—	—
Net cash provided by financing activities	18,886,319	35,688,888
Net increase (decrease) in cash, cash equivalents and restricted cash	(9,476,332)	30,042,613
Cash, cash equivalents and restricted cash, at beginning of period	12,456,874	14,302,689
Cash, cash equivalents and restricted cash, at end of period (Note 2)	\$ 2,980,542	\$ 44,345,302
Supplemental disclosure of cash flow information:		
Interest paid on debt	\$ 941,722	\$ 141,194
Income taxes paid	\$ —	\$ —
Supplemental non-cash information:		
Reinvestment of stockholder distributions	\$ 211,863	\$ 236,079

See notes to unaudited consolidated financial statements.

Terra Income Fund 6, Inc.
Consolidated Schedule of Investments (Unaudited)
March 31, 2022

Portfolio Company ⁽¹⁾	Collateral Location	Property Type	Coupon Rate ⁽²⁾	Current Interest Rate	Exit Fee	Acquisition Date	Maturity Date	Principal	Amortized Cost	Fair Value ⁽³⁾	% of Net Assets ⁽⁴⁾
Loan investments — non-controlled											
Mezzanine loans:											
Dwight Mezz II, LLC	US - CA	Student housing	11.00%	11.00%	0.00%	5/11/2017	5/6/2027	\$ 3,000,000	\$ 3,000,000	\$ 3,001,886	4.0 %
Havemeyer TSM LLC ⁽⁵⁾⁽⁷⁾	US - NY	Mixed-use	15.00%	15.00%	1.00%	12/18/2020	12/1/2022	8,078,750	8,096,214	8,158,876	11.0 %
									<u>11,096,214</u>	<u>11,160,762</u>	<u>15.0 %</u>
Preferred equity investments:											
RS JZ Driggs, LLC ⁽⁶⁾⁽⁷⁾⁽⁸⁾	US - NY	Multifamily	12.25%	12.25%	1.00%	5/1/2018	1/1/2021	8,469,798	8,510,798	8,552,201	11.5 %
370 Lex Part Deux, LLC ⁽⁶⁾⁽⁷⁾	US - NY	Office	LIBOR + 8.25% (2.44% Floor)	10.69%	0.00%	12/17/2018	1/9/2023	21,204,069	21,151,365	20,592,325	27.7 %
Ann Street JV LLC	US - GA	Multifamily	14.00%	14.00%	1.00%	11/12/2021	6/7/2024	12,226,414	12,131,274	12,316,471	16.5 %
Asano Bankers Hill, LLC	US - CA	Mixed-use	SOFR + 15.00% (0.25% Floor)	15.25%	1.00%	2/2/2022	7/31/2024	15,424,422	15,291,738	15,532,098	20.9 %
									<u>57,085,175</u>	<u>56,993,095</u>	<u>76.6 %</u>
First mortgages:											
American Gilsonite Company	US - UT	Infrastructure	14.00%	14.00%	1.00%	8/31/2021	8/31/2023	21,250,000	21,161,313	21,423,996	28.8 %
Hillsborough Owners LLC ⁽⁹⁾⁽¹⁰⁾	US - NC	Mixed-use	LIBOR + 8.00% (0.25% Floor)	8.45%	1.00%	10/27/2021	11/1/2023	18,148,988	18,016,322	18,228,257	24.5 %
									<u>39,177,635</u>	<u>39,652,253</u>	<u>53.3 %</u>
Credit facility:											
William A. Shopoff & Cindy I. Shopoff ⁽⁶⁾⁽⁷⁾⁽¹²⁾	US - CA	Industrial	15.00%	15.00%	1.00%	10/4/2021	4/4/2023	13,237,500	13,137,371	13,351,308	17.9 %
Post Brothers Holdings LLC ⁽¹¹⁾⁽¹²⁾	N/A	N/A	15.00%	15.00%	4.60%-8.90%	3/29/2022	3/29/2025	15,000,000	15,000,000	15,478,888	20.8 %
									<u>28,137,371</u>	<u>28,830,196</u>	<u>38.7 %</u>
Total loan investments — non-controlled									<u>\$135,496,395</u>	<u>\$136,636,306</u>	<u>183.6 %</u>
Marketable securities — non-controlled ^{(13):}											
Common and preferred shares											
Nexpoint Real Estate Finance, Inc. - Series A Preferred Shares			REIT	8.5 %		7/30/2020	7/24/2025	14,115	\$ 331,987	\$ 356,404	0.5 %
Total marketable securities — non-controlled									<u>\$ 331,987</u>	<u>\$ 356,404</u>	<u>0.5 %</u>
Total investments — non-controlled									<u>\$ 135,828,382</u>	<u>\$ 136,992,710</u>	<u>184.1 %</u>

-
- (1) All of the Company's investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940 and the rules promulgated thereunder. All of the Company's borrowers are in the diversified real estate industry.
 - (2) Some of the Company's investments provide for coupon rate indexed to the London Interbank Offered Rate ("LIBOR") or Secured Overnight Financing Rate ("SOFR") and in both cases subject to a floor.
 - (3) Because there is no readily available market for these investments, these investments are valued using significant unobservable inputs under Level 3 of the fair value hierarchy and are approved in good faith by the Company's board of directors.
 - (4) Percentages are based on net assets of \$74.4 million as of March 31, 2022.
 - (5) Participation interest is with Mavik Real Estate Special Opportunities Fund REIT, LLC, a related-party real estate investment trust managed by an affiliate of the Company's sponsor. The Company is committed to fund up to \$8.5 million on this investment. As of March 31, 2022, the unfunded commitment was \$0.4 million.
 - (6) Participation interest is with Terra Property Trust, Inc., a related-party real estate investment trust managed by an affiliate of the Company's sponsor.
 - (7) The Company acquired these investments through participation agreements. See "*Participation Agreements*" in [Note 4](#) in the accompanying notes to the consolidated financial statements.
 - (8) This investment is currently in maturity default. The Company has exercised its rights and is facilitating the completion of construction of the underlying asset in anticipation of lease up and disposition of the asset.
 - (9) The loan participation from the Company does not qualify for sale accounting and therefore, this loan remains in the Consolidated Schedule of Investments. See "*Obligations under Participation Agreements*" in [Note 3](#) in the accompanying notes to the consolidated financial statements.
 - (10) The Company sold a portion of its interest in this investment to Terra Property Trust, Inc. pursuant to a participation agreement.
 - (11) On March 29, 2022, the Company purchased a portion of a unsecured corporate credit facility from Terra Property Trust, Inc. pursuant to a participation agreement ([Note 4](#)). The borrower is a multifamily operator in Philadelphia, PA.
 - (12) As of March 31, 2022, the facility was fully funded.
 - (13) From time to time, the Company may invest in debt and equity securities.

See notes to unaudited consolidated financial statements.

Terra Income Fund 6, Inc.
Consolidated Schedule of Investments
December 31, 2021

Portfolio Company ⁽¹⁾	Collateral Location	Property Type	Coupon Rate ⁽²⁾	Current Interest Rate	Exit Fee	Acquisition Date	Maturity Date	Principal	Amortized Cost	Fair Value ⁽³⁾	% of Net Assets ⁽⁴⁾
Loan investments — non-controlled											
Mezzanine loans:											
Dwight Mezz II, LLC	US - CA	Student housing	11.00%	11.00%	0.00%	5/11/2017	5/6/2027	\$ 3,000,000	\$ 3,000,000	\$ 3,000,730	4.1 %
Havemeyer TSM LLC ⁽⁵⁾⁽⁷⁾	US - NY	Mixed-use	15.00%	15.00%	1.00%	12/18/2020	12/1/2022	6,808,000	6,810,164	6,874,428	9.3 %
									<u>9,810,164</u>	<u>9,875,158</u>	<u>13.4 %</u>
Preferred equity investments:											
RS JZ Driggs, LLC ⁽⁶⁾⁽⁷⁾⁽⁸⁾	US - NY	Multifamily	12.25%	12.25%	1.00%	5/1/2018	1/1/2021	7,806,257	7,847,256	7,877,552	10.7 %
370 Lex Part Deux, LLC ⁽⁶⁾⁽⁷⁾	US - NY	Office	LIBOR + 8.25% (2.44% Floor)	10.69%	0.00%	12/17/2018	1/9/2023	21,004,423	21,002,365	20,250,306	27.5 %
Ann Street JV LLC	US - GA	Multifamily	14.00%	14.00%	1.00%	11/12/2021	6/7/2024	5,444,016	5,320,560	5,482,725	7.5 %
									<u>34,170,181</u>	<u>33,610,583</u>	<u>45.7 %</u>
First mortgages:											
American Gilsonite Company	US - UT	Infrastructure	14.00%	14.00%	1.00%	8/31/2021	8/31/2023	21,250,000	21,108,623	21,417,965	29.1 %
Hillsborough Owners LLC ⁽⁹⁾⁽¹⁰⁾	US - NC	Mixed-use	LIBOR + 8.00% (0.25% Floor)	8.25%	1.00%	10/27/2021	11/1/2023	16,210,029	16,026,455	16,279,593	22.1 %
									<u>37,135,078</u>	<u>37,697,558</u>	<u>51.2 %</u>
Credit facility:											
Post Brothers Holdings LLC ⁽¹¹⁾⁽¹²⁾⁽¹³⁾	N/A	N/A	15.00%	15.00%	1.00%	7/16/2021	7/16/2024	15,000,000	14,897,294	15,100,246	20.6 %
William A. Shopoff & Cindy I. Shopoff ⁽⁶⁾⁽⁷⁾⁽¹³⁾	US - CA	Industrial	15.00%	15.00%	1.00%	10/4/2021	4/4/2023	13,237,500	13,121,112	13,347,088	18.1 %
									<u>28,018,406</u>	<u>28,447,334</u>	<u>38.7 %</u>
Total loan investments — non-controlled									<u>\$109,133,829</u>	<u>\$109,630,633</u>	<u>149.0 %</u>
Portfolio Company ⁽¹⁾	Industry	Dividend Yield	Acquisition Date	Maturity Date	Shares	Cost	Fair Value	% of Net Assets ⁽⁴⁾			
Marketable securities — non-controlled ⁽¹⁴⁾:											
Common and preferred shares											
Nexpoint Real Estate Finance, Inc. - Series A Preferred Shares	REIT	8.5 %	7/30/2020	7/24/2025	33,560	\$ 789,335	\$ 879,272	1.2 %			
Total marketable securities — non-controlled							<u>\$ 789,335</u>	<u>\$ 879,272</u>	<u>1.2 %</u>		
Total investments — non-controlled							<u>\$ 109,923,164</u>	<u>\$ 110,509,905</u>	<u>150.2 %</u>		

- (1) All of the Company's investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940 and the rules promulgated thereunder. All of the Company's borrowers are in the diversified real estate industry.
- (2) Some of the Company's investments provide for coupon rate indexed to LIBOR or prime rate and in both cases subject to a floor.
- (3) Because there is no readily available market for these investments, these investments are valued using significant unobservable inputs under Level 3 of the fair value hierarchy and are approved in good faith by the Company's board of directors.
- (4) Percentages are based on net assets of \$73.6 million as of December 31, 2021.
- (5) Participation interest is with Mavik Real Estate Special Opportunities Fund REIT, LLC. The Company is committed to fund up to \$7.4 million on this investment. As of December 31, 2021, the unfunded commitment was \$0.6 million.
- (6) Participation interest is with Terra Property Trust, Inc., a related-party real estate investment trust managed by an affiliate of the Company's sponsor.
- (7) The Company acquired these investments through participation agreements. See "*Participation Agreements*" in [Note 4](#) in the accompanying notes to the consolidated financial statements.
- (8) This investment is currently in maturity default. The Company has exercised its rights and is facilitating the completion of construction of the underlying asset in anticipation of lease up and disposition of the asset.
- (9) The loan participation from the Company does not qualify for sale accounting and therefore, this loan remains in the Consolidated Schedule of Investments. See "*Obligations under Participation Agreements*" in [Note 3](#) in the accompanying notes to the consolidated financial statements.
- (10) The Company sold a portion of its interest in this investment to Terra Property Trust, Inc. pursuant to a participation agreement.
- (11) On July 16, 2021, the Company originated a \$15.0 million unsecured corporate credit facility. The borrower is a multifamily operator in Philadelphia, PA.
- (12) The borrower also pays a 1.0% fee on the unused portion of the credit facility.
- (13) As of December 31, 2021, the facility was fully funded.
- (14) From time to time, the Company may invest in debt and equity securities.

See notes to unaudited consolidated financial statements.

Terra Income Fund 6, Inc.

Notes to Consolidated 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 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 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” or the “Adviser”). During the offering period, which ended on April 20, 2018, the Company sold 8,878,606 shares of common stock, including shares purchased by Terra Capital Partners, LLC (“Terra Capital Partners”), 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 \$103.6 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 initially elected to be taxed for federal income tax purposes, and qualified annually thereafter, as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

On December 11, 2018, the Company’s board of directors (the “Board”) voted to approve a change in its fiscal year from September 30 to December 31 in connection with its plan to qualify as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under Subchapter M of the Code. The Board delegated to its management the authority to determine when such change in fiscal year would take effect. On December 31, 2018, the Company’s management determined to change its tax election from taxation as a RIC to taxation as a REIT under Subchapter M of the Code. The REIT tax election allows the Company to benefit from the preferential tax treatment afforded to both RICs and REITs, without the Company being subject to RIC-specific diversification restrictions. The Company elected to be taxed as a REIT under the Code commencing with its short taxable year beginning October 1, 2018 and ending December 31, 2018. Concurrent with the change in its tax election, the Company changed its fiscal year from September 30 to December 31 to satisfy the REIT requirement under 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, 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 previously retained Terra Capital Markets, LLC (“Terra Capital Markets”), an affiliate of Terra Income Advisors, to serve as the dealer manager of the Offering pursuant to the second amended and restated dealer manager agreement dated September 30, 2017 between the Company and Terra Capital Markets (the “Dealer Manager Agreement”). As the dealer manager, Terra Capital Markets was responsible for marketing the Company’s shares being offered pursuant to the Offering, which ended on April 20, 2018. On December 23, 2020, Terra Capital Markets assigned certain of its administrative functions and certain obligations under the Dealer Manager Agreement to the Company (see [Note 4](#)).

In February 2021, the Company issued \$38.4 million in aggregate principal amount of 7.00% fixed-rate notes due 2026, for net proceeds of \$37.2 million, after deducting underwriting commissions of \$1.2 million, see “*Unsecured Notes Payable*” in [Note 5](#) for more information.

On April 1, 2021, Mavik Capital Management, LP (“Mavik”), an entity controlled by Vikram S. Uppal, the Chief Executive Officer of the Company, completed a series of related transactions that resulted in all of the outstanding interests in Terra Capital Partners being acquired by Mavik for a combination of cash and interests in Mavik (the “Recapitalization”). Following the series of transactions described below, Terra Income Advisors is ultimately controlled by Mavik.

Prior to the Recapitalization, Terra Capital Partners was the immediate parent and managing member of Terra Income Advisors, and was ultimately controlled by Axar Real Estate Capital Group LLC (“Axar RE Manager”). In connection with the Recapitalization, Axar RE Manager assumed direct control of Terra Income Advisors by becoming its manager. Thus, the same parties that controlled Terra Income Advisors prior to the consummation of the Recapitalization maintained control of Terra Income Advisors, and by the terms of the Recapitalization continued to do so until a new investment advisory and administrative services agreement between the Company and Terra Income Advisors was approved by the affirmative vote of a majority of the outstanding shares of common stock entitled to vote at the 2021 annual meeting of stockholders of the Company on September 22, 2021. Subsequent to the approval of the new investment advisory agreement, Axar RE Manager ceased to be the manager of the Advisor and Terra Capital Partners again became the managing member of Terra Income Advisors.

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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; (ii) preferred equity real estate investments in U.S. companies qualifying as "eligible portfolio companies" under the 1940 Act; and (iii) any other investments that meet the investment objectives of the Company. The Company may also purchase select commercial real estate-related debt securities, such as commercial mortgage-backed securities or collateralized debt obligations. 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 the Company is able to command favorable terms for their disposition.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), and include the accounts of the Company and its consolidated subsidiaries. The accompanying interim consolidated 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") Accounting Standard Codification ("ASC") Topic 946, *Financial Services — Investment Companies*. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition as of and for the periods presented.

Consolidation: As provided under Regulation S-X and ASC Topic 946, the Company will generally not consolidate its investment in a company other than an investment company or controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the accounts of the Company's wholly-owned subsidiaries that meet the aforementioned criteria in its consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

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.

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."

The following table provides a reconciliation of cash, cash equivalents and restricted cash in the Company's statements of assets and liabilities to the total amount shown in its statements of cash flows:

	<u>March 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,697,171	\$ 43,745,204
Restricted cash	283,371	600,098
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 2,980,542</u>	<u>\$ 44,345,302</u>

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 consolidated 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 consolidated statements of operations. Loan origination fees and exit fees are capitalized and

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the Company then amortizes such amounts using the effective yield method as interest income over the life of the investment. Income accrual is generally suspended for investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of the Adviser, recovery of income and principal becomes doubtful. Interest is then recorded on the basis of cash received until accrual is resumed when the investment becomes contractually current and performance is demonstrated to be resumed. 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 may hold debt investments in its portfolio that contain paid-in-kind (“PIK”) interest provisions. 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: 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 consolidated statements of operations. Interest expense from obligations under participation agreement is reversed when recovery of interest income on the related loan becomes doubtful. 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, debt securities 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 loan 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. The fair value of the Company’s marketable securities is determined based on quoted prices in an active market and is classified as Level 1 of the fair value hierarchy.

Valuation of 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 obligations under participation agreements which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860, *Transfers and Servicing*. The Company employs the yield approach valuation methodology used for the real-estate related loan investments on its obligations under participation agreements.

Deferred Debt Issuance Costs: The Company records issue discounts and other financing costs related to its debt obligation as deferred debt issuance costs, which are presented as a direct deduction from the carrying value of the related debt liability. These expenses are deferred and amortized using the effective interest method over the stated maturity of the debt obligation.

Stockholder Dividends and Distributions: Dividends and distributions to stockholders, which are determined in accordance with federal income tax regulations, are recorded on the declaration 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

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annually. The Company adopted an “opt in” DRIP 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 have their cash distributions reinvested in additional shares of common stock, rather than receiving the cash distributions. Pursuant to the DRIP, shares are issued at a price equal to the Company’s most recently disclosed net asset value (“NAV”) per share of its common stock immediately prior to the applicable distribution payment date.

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.

Servicing Fee: The Company pays selected dealers a servicing fee at an annual rate of 0.75% of the most recently published NAV per share, excluding shares sold through the DRIP, in exchange for providing certain administrative support services (Note 4) to stockholders such as establishing and maintaining stockholder accounts, customer service support and assisting stockholders in changing account options, account designations and account addresses. The servicing fee is recorded as expense on the statements of operations in the period in which it was incurred.

Income Taxes: The Company elected to be taxed as a REIT under the Code commencing with its short taxable year beginning October 1, 2018 and ending December 31, 2018. In order to qualify as a REIT, the Company is required, among other things, to distribute dividends equal to at least 90% of its REIT net taxable income to the stockholders annually and meet certain tests regarding the nature of its income and assets. To the extent any of the Company’s taxable income was not previously distributed, the Company will make a dividend declaration pursuant to Section 858(a)(1) of the Code, allowing the Company to treat certain dividends that are to be distributed after the close of a taxable year as having been paid during the taxable year. As a REIT, the Company is not subject to U.S. federal income taxes on income and gains distributed to the stockholders as long as certain requirements are satisfied, principally relating to the nature of income and the level of distributions, as well as other factors. If the Company fails to qualify as a REIT in any taxable year and does not qualify for certain statutory relief provisions, the Company will be subject to U.S. federal and state income taxes at regular corporate rates beginning with the year in which it fails to qualify and may be precluded from being able to elect to be treated as a REIT for the Company’s four subsequent taxable years. For the three months ended March 31, 2022 and 2021, the Company satisfied all the requirements for a REIT.

The Company holds certain portfolio company investments through consolidated taxable REIT subsidiaries (“TRSs”). Such subsidiaries may be subject to U.S. federal and state corporate-level income taxes. These consolidated subsidiaries recognize deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between the tax basis of certain assets and liabilities and the reported amounts included in the accompanying consolidated statements of assets and liabilities using the applicable statutory tax rates in effect for the year in which any such temporary differences are expected to reverse.

The Company did not have any uncertain tax positions that met the recognition or measurement criteria under accounting for 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 March 31, 2022 and 2021, 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 2017-2020 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 consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of income, expenses and gains and losses during the reporting period. Actual results may ultimately differ from those estimates, and those differences could be material.

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The coronavirus (“COVID-19”) pandemic has had a significant impact on local, national and global economies and has resulted in a world-wide economic slowdown. However, after two years of the COVID-19 pandemic, the real estate market has started to recover from the dislocation it experienced. A strong pace of vaccination along with aggressive fiscal stimulus, has improved the outlook for the real estate market. The Company continues to closely monitor the impact of the COVID-19 pandemic on all aspects of its investments and operations. The Company believes the estimates and assumptions underlying its consolidated financial statements are reasonable and supportable based on the information available as of March 31, 2022; however, the extent to which the COVID-19 pandemic may impact the Company’s investments and operations going forward will depend on future developments, which are highly uncertain and cannot be predicted with confidence. These developments include the duration of the outbreak, the impact of the global vaccination effort, any new strains of the virus that are resistant to available vaccines, the impact of government stimulus, new information that may emerge concerning the severity of the COVID-19 pandemic, and actions taken by federal, state and local agencies as well as the general public to contain the COVID-19 pandemic or treat its impact, among others. Accordingly, any estimates and assumptions as of March 31, 2022 are inherently less certain than they would be absent the current and potential impacts of the COVID-19 pandemic.

The consolidated financial statements include loan investments at fair value of \$136.6 million and \$109.6 million at March 31, 2022 and December 31, 2021, respectively, and obligations under participation agreements at fair value of \$5.5 million and \$4.9 million at March 31, 2022 and December 31, 2021, 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: LIBOR is a benchmark interest rate referenced in a variety of agreements that are used by all types of entities. In July 2017, the U.K. Financial Conduct Authority, which regulates the LIBOR administrator, ICE Benchmark Administration Limited (“IBA”), announced that it would cease to compel banks to participate in setting LIBOR as a benchmark by the end of 2021, which has subsequently been delayed to June 30, 2023. In March 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-04, Reference Rate Reform (Topic 848) — Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”). The amendments in ASU 2020-04 provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848), which expanded the scope of Topic 848 to include derivative instruments impacted by discounting transition (“ASU 2021-01”). ASU 2020-04 and ASU 2021-01 are effective for all entities through December 31, 2022. The expedients and exceptions provided by the amendments do not apply to contract modifications and hedging relationships entered into or evaluated after December 31, 2022, except for hedging transactions as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. In the event LIBOR is unavailable, the Company’s investment documents provide for a substitute index, on a basis generally consistent with market practice, intended to put the Company in substantially the same economic position as LIBOR. As a result, the Company has not adopted the new ASUs and does not expect the reference rate reform and the adoption of ASU 2020-04 and ASU 2021-01 to have a material impact on its consolidated financial statements and disclosures.

Note 3. Investments and Fair Value

The following tables show the composition of the investment portfolio, at amortized cost and fair value at March 31, 2022 and December 31, 2021, respectively (with corresponding percentage of total portfolio investments):

	March 31, 2022			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Loans	\$ 69,600,647	51.2 %	\$ 70,502,708	51.4 %
Loans through participation interest (Note 4)	65,895,748	48.6 %	66,133,598	48.3 %
Marketable securities	331,987	0.2 %	356,404	0.3 %
Total	<u>\$ 135,828,382</u>	<u>100.0 %</u>	<u>\$ 136,992,710</u>	<u>100.0 %</u>

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	December 31, 2021			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Loans	\$ 60,352,932	54.9 %	\$ 61,281,259	55.4 %
Loans through participation interest (Note 4)	48,780,897	44.4 %	48,349,374	43.8 %
Marketable securities	789,335	0.7 %	879,272	0.8 %
Total	<u>\$ 109,923,164</u>	<u>100.0 %</u>	<u>\$ 110,509,905</u>	<u>100.0 %</u>

Obligations under Participation Agreements

The Company has elected the fair value option 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. 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 March 31, 2022 and December 31, 2021, obligations under participation agreements at fair value was \$5.5 million and \$4.9 million and the weighted average contractual interest rate on the obligations under participation agreements was 8.5% and 8.3%, respectively. For the three months ended March 31, 2022, the Company transferred \$0.6 million of investments to affiliates through participation agreements and did not make any repayments on obligations under participation agreements. For the three months ended March 31, 2021, the Company did not transfer any investments to affiliates through participation agreements and did not make any repayments on obligations under participation agreements.

Valuation Methodology

The fair value of the Company's investment in preferred stock and common stock within the marketable securities portfolio is determined based on quoted prices in an active market and is classified as Level 1 of the fair value hierarchy. Additionally, the fair value of the Company's unsecured notes payable is determined based on quoted price in an active market and is also classified as Level 1.

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, as 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, net operating income and debt service coverage ratio; construction progress reports and construction budget analysis; 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 and 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 metrics and other factors, including the input and recommendation provided by Terra Income Advisors, the valuation committee and any third-party valuation firm, if applicable.

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The following tables present fair value measurements of investments, by major class, as of March 31, 2022 and December 31, 2021, according to the fair value hierarchy:

	March 31, 2022			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Loans	\$ —	\$ —	\$ 70,502,708	\$ 70,502,708
Loans through participation interest	—	—	66,133,598	66,133,598
Marketable securities	356,404	—	—	356,404
Total Investments	\$ 356,404	\$ —	\$ 136,636,306	\$ 136,992,710
Obligations under participation agreements	\$ —	\$ —	\$ 5,468,476	\$ 5,468,476
	December 31, 2021			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Loans	\$ —	\$ —	\$ 61,281,259	\$ 61,281,259
Loans through participation interest	—	—	48,349,374	48,349,374
Marketable securities	879,272	—	—	879,272
Total Investments	\$ 879,272	\$ —	\$ 109,630,633	\$ 110,509,905
Obligations under participation agreements	\$ —	\$ —	\$ 4,883,877	\$ 4,883,877

Changes in the Company's Level 3 investments for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31, 2022			
	Loans	Loans Through Participation	Total Loan Investments	Obligations under Participation Agreements
Balance as of January 1, 2022	\$ 61,281,259	\$ 48,349,374	\$ 109,630,633	\$ 4,883,877
Purchases of investments	23,993,279	17,046,542	41,039,821	—
Repayments of investments	(15,000,000)	—	(15,000,000)	—
Net change in unrealized (depreciation) appreciation on investments	(26,266)	669,373	643,107	—
Amortization and accretion of investment-related fees, net	254,436	68,309	322,745	15,272
Proceeds from obligations under participation agreements	—	—	—	581,688
Net change in unrealized depreciation on obligations under participation agreements	—	—	—	(12,361)
Balance as of March 31, 2022	\$ 70,502,708	\$ 66,133,598	\$ 136,636,306	\$ 5,468,476
Net change in unrealized appreciation or 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 or depreciation on loan investments and obligations under participation agreements	\$ 176,687	\$ 669,370	\$ 846,057	\$ (12,361)

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	Three Months Ended March 31, 2021			
	Loans	Loans Through Participation	Total Loan Investments	Obligations under Participation Agreements
Balance as of January 1, 2021	\$ 20,209,473	\$ 45,963,805	\$ 66,173,278	\$ 4,293,971
Purchases of investments	—	877,274	877,274	—
Repayments of investments	—	(4,045,158)	(4,045,158)	—
Net change in unrealized (depreciation) appreciation on investments	(30,191)	4,768	(25,423)	—
PIK interest income, net	—	30,694	30,694	—
Amortization and accretion of investment-related fees, net	24,284	50,298	74,582	3,486
Amortization of discount and premium on investments, net	—	—	—	—
Proceeds from obligations under participation agreements	—	—	—	—
Net change in unrealized depreciation on obligations under participation agreements	—	—	—	(5,005)
Balance as of March 31, 2021	<u>\$ 20,203,566</u>	<u>\$ 42,881,681</u>	<u>\$ 63,085,247</u>	<u>\$ 4,292,452</u>
Net change in unrealized appreciation or 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 depreciation or appreciation on loan investments and obligations under participation agreements	\$ (30,191)	\$ 6,056	\$ (24,135)	\$ (5,005)

Transfers between levels, if any, are recognized at the beginning of the period in which transfers occur. For the three months ended March 31, 2022 and 2021, 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 March 31, 2022 and December 31, 2021. The table is not intended to be all-inclusive, but instead identifies the significant unobservable inputs relevant to the determination of fair values.

March 31, 2022						
Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input	Range		Weighted
				Minimum	Maximum	Average
Assets:						
Loans	\$ 70,502,708	Discounted cash flow	Discount rate	8.45 %	15.29 %	12.72 %
Loans through participation interest	66,133,598	Discounted cash flow	Discount rate	12.37 %	15.00 %	14.53 %
Total Level 3 Assets	<u>\$ 136,636,306</u>					
Liabilities:						
Obligations under participation agreements	<u>\$ 5,468,476</u>	Discounted cash flow	Discount rate	8.45 %	8.45 %	8.45 %
December 31, 2021						
Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input	Range		Weighted
				Minimum	Maximum	Average
Assets:						
Loans	\$ 61,281,259	Discounted cash flow	Discount rate	8.25 %	15.00 %	12.58 %
Loans through participation interest	48,349,374	Discounted cash flow	Discount rate	12.37 %	15.00 %	14.40 %
Total Level 3 Assets	<u>\$ 109,630,633</u>					
Liabilities:						
Obligations under participation agreements	<u>\$ 4,883,877</u>	Discounted cash flow	Discount rate	8.25 %	8.25 %	8.25 %

If the weighted average discount rate used to value the Company's investments were to increase, the fair value of the Company's investments would decrease. Conversely, if the weighted average discount rate used to value the Company's investments were to decrease, the fair value of Company's investments would increase.

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Financial Instruments Not Carried at Fair Value

The Company has not elected the fair value option for its unsecured notes payable and term loan payable ([Note 5](#)). The table below presents detailed information regarding the unsecured notes payable and term loan payable at March 31, 2022 and December 31, 2021:

	Level	March 31, 2022			December 31, 2021		
		Principal Balance	Carrying Value	Fair Value	Principal Balance	Carrying Value	Fair Value
Unsecured notes payable ⁽¹⁾⁽²⁾	1	\$38,375,000	\$36,590,589	\$38,989,000	\$38,375,000	\$36,497,612	\$39,403,450
Term loan payable ⁽³⁾⁽⁴⁾	3	24,000,000	23,224,642	24,000,000	5,000,000	4,170,164	5,000,000
		<u>\$62,375,000</u>	<u>\$59,815,231</u>	<u>\$62,989,000</u>	<u>\$43,375,000</u>	<u>\$40,667,776</u>	<u>\$44,403,450</u>

- (1) Carrying value is net of unamortized issue discount of \$1.0 million and \$1.0 million, and unamortized deferred financing costs of \$0.8 million and \$0.9 million as of March 31, 2022 and December 31, 2021, respectively.
- (2) Valuation falls under Level 1 of the fair value hierarchy, which is based on the trading price of \$25.40 and \$25.67 as of the close of business day on March 31, 2022 and December 31, 2021, respectively.
- (3) Carrying value is net of unamortized issue discount of \$0.5 million and \$0.6 million, and unamortized deferred financing costs of \$0.2 million and \$0.2 million as of March 31, 2022 and December 31, 2021, respectively.
- (4) Valuation falls under Level 3 of the fair value hierarchy, which is based on a discounted cash flow model with a discount rate of 5.625%.

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. Additionally, the Company paid Terra Capital Markets certain fees for providing certain administrative support services.

The following table presents a summary of such fees and reimbursements in accordance with the terms of the related agreements:

Amounts Included in the Statements of Operations	Three Months Ended March 31,	
	2022	2021
Base management fees	\$ 621,818	\$ 476,064
Incentive fees on capital gains ⁽¹⁾	124,641	37,222
Operating expense reimbursement to Adviser ⁽²⁾	300,190	255,212

- (1) Incentive fees on capital gains are based on 20% of net realized and unrealized capital gains. No incentive fees on capital gains are actually payable by the Company with respect to unrealized gains unless and until those gains are realized.
- (2) Amounts are primarily compensation for time spent supporting the Company's day-to-day operations.

Due to Related Party

As of March 31, 2022, there was no amount due to related party. As of December 31, 2021, amount due to a related party was \$3.1 million, primary related to reserve funding held by the Company on a loan originated by an affiliate. The reserve funding was transferred to the affiliate in February 2022.

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 Advisors under the guidance in ASC Topic 210, *Balance Sheet*. As such, the net amount is presented as Due to Adviser, net on the consolidated statements of assets and liabilities.

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The following table presents a summary of Due to Adviser, net as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Due to Adviser:		
Base management fee and expense reimbursement payable	\$ 548,162	\$ 551,330
Incentive fees on capital gains ⁽¹⁾	226,801	291,710
	<u>\$ 774,963</u>	<u>\$ 843,040</u>

(1) Incentive fees on capital gains are based on 20% of accumulated net realized and unrealized capital gains of December 31, 2021, respectively. As of March 31, 2022, the Company recognized a net realized and unrealized capital losses of \$1.1 million. As such, no incentive fees on capital gains were payable to the Adviser as of March 31, 2022. No incentive fees on capital gains are actually payable by the Company with respect to unrealized gains unless and until those gains are realized.

Management and Incentive Fee Compensation to Adviser

Pursuant to the Investment Advisory Agreement, 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 PIK 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's 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 unrealized capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

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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 Terra Income Advisors for (i) rent or depreciation, capital equipment or other costs of Terra Income Advisors's 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.

Servicing Plan

On September 30, 2017, the Board adopted the servicing plan (the "Servicing Plan"). Pursuant to the Servicing Plan, Terra Capital Markets was entitled to receive a servicing fee at an annual rate of 1.125% of the most recently published NAV per share of the Company's common stock, of which up to 0.75% is reallocated to selected dealers, in exchange for providing certain administrative support services. With respect to each share sold, excluding shares sold through the DRIP, the servicing fee is payable annually on the anniversary of the applicable month of purchase. The Servicing Plan will remain in effect for so long as such continuance is approved quarterly by the Board, including a majority of the directors who are not "interested persons" as defined in the 1940 Act and who have no direct or indirect financial interest in the operation of the Servicing Plan or in any agreements entered into in connection therewith. In addition, the Board will review all payments made pursuant to the Servicing Plan at least quarterly. The Company will no longer incur the annual servicing fee upon the earlier of (i) the aggregate underwriting compensation from all sources, including selling commissions, dealer manager fees, broker-dealer fees, and servicing fees would exceed 10% of the gross proceeds in the Offering, (ii) with respect to a specific share, the date that such share is redeemed or is no longer outstanding, and (iii) the date, if any, upon which a liquidity event occurs.

On December 23, 2020, Terra Capital Markets assigned to the Company certain of its administration support services and certain obligations under the Dealer Manager Agreement, including making future payments of the previously reallocated servicing fee under the Servicing Plan directly to selected dealers, effectively reducing the servicing fee to 0.75%.

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* ("ASC 860"), 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 (each, a "PA") as of March 31, 2022 and December 31, 2021. 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 each 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.

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	March 31, 2022			December 31, 2021		
	Participating Interests	Principal Balance	Fair Value	Participating Interests	Principal Balance	Fair Value
370 Lex Part Deux, LLC ⁽¹⁾	35.0 %	21,204,069	20,592,325	35.0 %	21,004,423	20,250,306
Havemeyer TSM LLC ⁽²⁾	23.0 %	8,078,750	8,158,876	23.0 %	6,808,000	6,874,428
Post Brothers Holdings LLC ⁽¹⁾⁽³⁾	71.4 %	15,000,000	15,478,888	— %	—	—
RS JZ Driggs, LLC ⁽¹⁾	50.0 %	8,469,798	8,552,201	50.0 %	7,806,257	7,877,552
William A. Shopoff & Cindy I. Shopoff ⁽¹⁾	53.0 %	13,237,500	13,351,308	53.0 %	13,237,500	13,347,088
Total		<u>\$65,990,117</u>	<u>\$66,133,598</u>		<u>\$48,856,180</u>	<u>\$48,349,374</u>

- (1) The loan is held in the name of Terra Property Trust, Inc., an affiliated entity managed by a subsidiary of Terra Capital Partners.
- (2) The loan is held in the name of Mavik Real Estate Special Opportunities Fund REIT, LLC.
- (3) In March 2022, the loan originated by the Company to this borrower was repaid in full. Subsequently, the Company acquired a portion of this loan through a participation agreement.

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 March 31, 2022 and December 31, 2021:

	March 31, 2022				
	Transfers treated as obligations under participation agreements				
	Principal	Fair Value	% Transferred	Principal	Fair Value
Hillsborough Owners LLC ⁽¹⁾	<u>\$ 18,148,988</u>	<u>\$ 18,228,257</u>	30.0 %	<u>\$ 5,444,696</u>	<u>\$ 5,468,476</u>

	December 31, 2021				
	Transfers treated as obligations under participation agreements				
	Principal	Fair Value	% Transferred	Principal	Fair Value
Hillsborough Owners LLC (1)	<u>\$ 16,210,029</u>	<u>\$ 16,279,593</u>	30.0 %	<u>\$ 4,863,009</u>	<u>\$ 4,883,877</u>

- (1) Participant is Terra Property Trust, Inc.

Co-investment

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. 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 Terra Secured Income Fund, LLC, 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, Terra Property Trust, Inc. 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.

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Note 5. Debt

Senior Unsecured Notes

On February 10, 2021, the Company issued \$34.8 million in aggregate principal amount of 7.00% fixed-rate notes due 2026, for net proceeds of \$33.7 million after deducting underwriting commissions of \$1.1 million. On February 26, 2021, the underwriters exercised the option to purchase an additional \$3.6 million of the notes for net proceeds of \$3.5 million, after deducting underwriting commissions of \$0.1 million. Interest on the notes is paid quarterly in arrears every March 30, June 30, September 30 and December 30, at a rate of 7.00% per year, beginning June 30, 2021. The notes mature on March 31, 2026. The notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after February 10, 2023. In connection with the issuance of the notes, the Company incurred deferred financing costs totaling \$1.0 million, to be amortized to interest expense over the term of the notes.

In accordance with the 1940 Act, the Company is allowed to borrow amounts such that its asset coverage, calculated pursuant to the 1940 Act, is at least 200% after such borrowing. Additionally, under the Indenture between the Company and the trustee, the Company is required to maintain a minimum asset coverage ratio of 200%. As of March 31, 2022 and December 31, 2021, the Company's asset coverage ratio was 206.0% and 247.0%, respectively. As such, the Company was in compliance with the asset coverage ratio requirement under the Indenture as well as the 1940 Act.

For the three months ended March 31, 2022 and 2021, the components of interest expense were as follows:

	Three Months Ended March 31,	
	2022	2021
Stated interest expense	\$ 671,562	\$ 359,698
Amortization of issue discount	50,850	33,000
Amortization of financing costs	42,127	21,519
Total interest expense	\$ 764,539	\$ 414,217
Weighted average debt outstanding	\$ 38,375,000	\$ 20,675,000
Cash paid for interest expense	\$ 671,562	\$ —
Stated interest rate	7.00 %	7.00 %
Effective interest rate ⁽¹⁾	7.63 %	7.63 %

(1) The effective interest rate of the debt component is equal to the stated interest rate plus the amortization of issue discount.

Term Loan

On April 9, 2021, the Company, as borrower, entered into a credit agreement (the "Credit Agreement") with Eagle Point Credit Management LLC, as the administrative agent and collateral agent ("Eagle Point"), and certain funds and accounts managed by Eagle Point, as lenders (in such capacity, collectively, the "Lenders"). The Credit Agreement provides for (i) a delayed draw term loan to the Company of \$25.0 million (the "Term Loan") and (ii) additional incremental loans in a minimum amount of \$1.0 million and multiples of \$0.5 million in excess thereof, which may be approved by a Lender in its sole discretion ("Incremental Loans," and together with the Term Loan, the "Loans").

The scheduled maturity date of the Loans is April 9, 2025. The Loans bear interest on the outstanding principal amount thereof at a rate equal to 5.625% per annum; provided that if at any time the Company is rated below investment grade, the interest rate shall increase to 6.625% until the rating is no longer below investment grade. In connection with the entry into the Credit Agreement, the Company also agreed to pay Eagle Point an upfront fee in an amount equal to 2.50% of the loan commitment amount on the initial borrowing date as described in the Credit Agreement. The Company also pays, with respect to any unused portion of the Term Loan, a commitment fee of 0.75% per annum.

In connection with entering into the Credit Agreement, the Company incurred deferred financing costs totaling \$0.3 million, to be amortized to interest expense over the term of the Term Loan. On August 31, 2021, the Company made an initial draw on the Term Loan of \$5.0 million and incurred an upfront fee of \$0.6 million, which was deducted from proceeds from borrowings under the Term Loan. The discount will be amortized to interest expense over the term of the Term Loan. For the three months ended March 31, 2022, the Company drew down an additional \$19.0 million on the Term loan. As of March 31, 2022 and December 31, 2021, the amount outstanding under the Term Loan was \$24.0 million and \$5.0 million, respectively. In April 2022, the Company drew down on the remaining \$1.0 million.

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The Company may prepay any Loan, in whole or in part, together with all accrued but unpaid interest thereon, upon at least 30 but not more than 60 days' prior notice to the Agent. If the Company elects to make such prepayments prior to October 9, 2023, the Company will also be required to pay a make whole premium, being the present value at such date of (1) the principal amount being prepaid of such Loan, plus (2) all remaining required interest payments due on the principal amount being prepaid of such Loan through the maturity date (excluding accrued but unpaid interest to the date on which the make whole premium becomes owed), computed using a discount rate equal to the applicable U.S. Treasury rate (as set forth in the Credit Agreement) plus 50 basis points, over (B) the principal amount being prepaid of such Loan; provided that the make whole premium may in no event be less than zero.

In connection with its entry into the Credit Agreement, the Company also entered into a security agreement (the "Security Agreement"), by and among the Company, as grantor, and Eagle Point, as administrative agent, for the benefit of the Lenders, their affiliates and Eagle Point as the secured parties thereunder. Pursuant to the Security Agreement, the Company pledged substantially all of its now owned and hereafter acquired property as security for the obligations of the Company under the Credit Agreement, subject to certain limitations and restrictions set forth in the Security Agreements.

The Credit Agreement contains customary representations, warranties, reporting requirements, borrowing conditions and affirmative, negative and financial covenants, including REIT status requirements and minimum asset coverage ratio requirements. As of March 31, 2022 and December 31, 2021, the Company was in compliance with these covenants. The Credit Agreement also includes usual and customary events of default and remedies for credit agreements of this nature. Events of default under the Credit Agreement include, but are not limited to: (i) the failure by the Company to make any payments when due under the Credit Agreement; (ii) the failure of the Company to perform or observe any term, covenant or agreement under the Credit Agreement or any other loan document, subject to applicable cure periods; (iii) an event of default on other material indebtedness of the Company; (iv) the bankruptcy or insolvency of the Company; and (v) judgments and attachments, with customary limits and grace periods, against the Company or its property. In addition, the Loans are subject to mandatory prepayment, at the option of each Lender, upon a change in control of the Company (as defined by the Credit Agreement).

For the three months ended March 31, 2022 and 2021, the components of interest expense were as follows:

	Three Months Ended March 31,	
	2022	2021
Stated interest expense	\$ 196,328	\$ —
Amortization of issue discount	36,752	—
Amortization of financing costs	17,726	—
Unused fee	20,698	—
Total interest expense	\$ 271,504	\$ —
Weighted average debt outstanding	\$ 14,172,222	\$ —
Cash paid for interest expense	\$ 217,026	\$ —
Stated interest rate	5.625 %	— %
Effective interest rate ⁽¹⁾	6.25 %	— %

(1) The effective interest rate of the debt component is equal to the stated interest rate plus the amortization of issue discount.

Note 6. Commitments and Contingencies

Impact of COVID-19

The full extent of the impact of the COVID-19 pandemic on the global economy generally, and the Company's business in particular, will depend on future developments, which are highly uncertain and cannot be predicted with confidence. As of March 31, 2022, no contingencies have been recorded on the Company's balance sheet as a result of the COVID-19 pandemic, however as the pandemic continues, it may have long-term impacts on the Company's financial condition, results of operations, and cash flows. Refer to [Note 2](#) for further discussion of the COVID-19 pandemic.

Funding Commitments

In the ordinary course of business, the Company may enter into future funding commitments, which are subject to the borrower meeting certain performance-related metrics that are monitored by the Company. As of March 31, 2022 and December 31, 2021, the Company had \$6.0 million and \$14.9 million of unfunded commitments, respectively. The Company

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maintained sufficient cash on hand to fund such unfunded commitments, including matching these commitments with principal repayments on outstanding loans.

Other

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.

Note 7. Income Taxes

The Company elected to be taxed as a REIT under the Code commencing with its short taxable year beginning October 1, 2018 and ending December 31, 2018. In order to qualify as a REIT, the Company is required, among other things, to distribute dividends equal to at least 90% of its REIT net taxable income to the stockholders annually and meet certain tests regarding the nature of its income and assets. 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 consolidated 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 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 increase in net assets resulting from operations to taxable income:

	Three Months Ended March 31,	
	2022	2021
Net increase in net assets resulting from operations	\$ 1,535,242	\$ 739,880
Net change in unrealized appreciation on investments	(577,587)	(181,105)
Net change in unrealized depreciation on obligations under participation agreements	(12,361)	(5,005)
Incentive fees on capital gains	124,641	37,222
Income tax expense	439,653	—
Other temporary differences ⁽¹⁾	(86,559)	(73,814)
Total taxable income ⁽²⁾	<u>\$ 1,423,029</u>	<u>\$ 517,178</u>

(1) Other temporary differences primarily related to capitalization and amortization of transaction-related fees.

(2) Amount for the three months ended March 31, 2022 included \$1.1 million of taxable income attributable to the TRS described below.

Taxable REIT Subsidiary

The Company holds certain portfolio company investments through consolidated taxable REIT subsidiaries. Such subsidiaries may be subject to U.S. federal and state corporate-level income taxes. These consolidated subsidiaries recognize deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between the tax basis of certain assets and liabilities and the reported amounts included in the accompanying consolidated statements of assets and liabilities using the applicable statutory tax rates in effect for the year in which any such temporary differences are expected to

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reverse. As of March 31, 2022 and December 31, 2021, the Company had one TRS which the Company formed to hold secured and unsecured credit facilities.

For the three months ended March 31, 2022, pre-tax income attributable to the TRS was \$1.4 million. Based on the effective income tax rate of 30.5%, the provision for income tax for the TRS was \$0.4 million. Additionally, for the three months ended March 31, 2022, the Company had temporary differences between the tax basis and book basis of certain assets and liabilities totaling \$0.4 million, resulting in a deferred tax liability, net of a deferred tax asset, and corresponding provision for deferred income tax of \$0.1 million. The Company has not provided a valuation allowance for the deferred tax asset because the Company expects the deferred tax asset to be realized in future periods. There was no such provision for income tax for the three months ended March 31, 2021 because the TRS was formed in the third quarter of 2021.

Source of Distribution

The following table reflects, for tax purposes, the estimated sources of the cash distributions that the Company has paid on its common stock:

Source of Distribution	Three Months Ended March 31,			
	2022		2021	
	Distribution Amount ⁽¹⁾	%	Distribution Amount ⁽¹⁾	%
Return of capital	\$ 341,094	37.6 %	\$ 423,768	45.0 %
Net investment income	566,138	62.4 %	517,178	55.0 %
Distributions on a tax basis:	\$ 907,232	100.0 %	\$ 940,946	100.0 %

(1) The Distribution Amount and Percentage reflected are estimated figures. The actual source of distributions is calculated in connection with the filing of the Company's tax return.

As of March 31, 2022 and 2021, the Company did not have differences between amortized cost basis and tax basis cost of investments.

Note 8. 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 each of the three months ended March 31, 2022 and 2021, the Company recorded \$0.03 million of directors' fees expense.

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 9. Capital

As of March 31, 2022, the Company had 8,102,167 shares of common stock outstanding.

Share Repurchase Program

The Company implemented a share repurchase program whereby every quarter the Company offers to repurchase up to 2.5% of the weighed-average number of shares outstanding in the prior calendar year at a price per share equal to the most recently disclosed NAV per share of its common stock immediately prior to the date of repurchase. The purpose of the share repurchase program is to provide stockholders with liquidity, because there is otherwise no public market for the Company's common stock. In addition, the Board may amend, suspend or terminate the share repurchase program upon 30 days' notice. On

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March 25, 2020, the Board unanimously approved the suspension of the operation of the share repurchase program, effective as of April 30, 2020. On May 11, 2021, the Board unanimously approved the resumption of the share repurchase program effective as of June 30, 2021. On March 30, 2022, the Board unanimously approved the suspension of the operation of the share repurchase program, effective as of April 30, 2022. The share repurchase program will remain suspended until such time as the Board approves its resumption.

The following table provides information with respect to the repurchases of the Company's common stock for the year ended December 31, 2021. There were no shares repurchased for the three months ended March 31, 2022.

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Maximum Number of Shares Allowed to be Repurchased
Year Ended December 31, 2021:			
Three Months Ended March 31, 2021	—	—	—
Three Months Ended June 30, 2021	682	\$ 9.07	—
Three Months Ended September 30, 2021 ⁽¹⁾⁽²⁾	209,978	\$ 9.03	207,656
Three Months Ended December 31, 2021 ⁽³⁾⁽⁴⁾	208,904	\$ 9.00	207,656

- (1) A total of 846,743 shares were validly tendered and not withdrawn, an amount that exceeded the maximum number of shares the Company offered to purchase. In accordance with the terms of the tender offer, the Company purchased on a pro rata basis a total of 207,646 shares validly tendered and not withdrawn. Approximately 24.5% of the number of shares tendered by each stockholder who participated in the tender offer was repurchased by the Company.
- (2) Subsequent to the close of the tender offer, the Company discovered an administrative error in which a tender request was not processed. The Company honored the tender request in October and accordingly another 2,332 shares were repurchased.
- (3) A total of 653,098 shares were validly tendered and not withdrawn, an amount that exceeded the maximum number of shares the Company offered to purchase. In accordance with the terms of the tender offer, the Company purchased on a pro rata basis a total of 207,652 shares validly tendered and not withdrawn. Approximately 31.8% of the number of shares tendered by each stockholder who participated in the tender offer was repurchased by us.
- (4) Subsequent to the close of the tender offer, the Company discovered an administrative error in which two tender requests were not processed. The Company honored the tender requests in January 2022 and accordingly another 1,252 shares were repurchased.

Note 10. Net Increase in Net Assets

Income per share is computed by dividing income 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 March 31, 2022 and December 31, 2021, there were no dilutive shares.

The following information sets forth the computation of the weighted average net increase in net assets per share from operations for the three months ended March 31, 2022 and 2021:

Basic	Three Months Ended March 31,	
	2022	2021
Net increase in net assets resulting from operations	\$ 1,535,242	\$ 739,880
Weighted average common shares outstanding	8,086,765	8,405,272
Net increase in net assets per share resulting from operations	\$ 0.19	\$ 0.09

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Note 11. Distributions

Distributions 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 March 31, 2022 and 2021:

Record Date	Payment Date	Per Share Per Day	Distributions Paid in Cash	Distributions Paid through the DRIP	Total Distributions Paid/Accrued
Three Months Ended March 31, 2022					
January 26, 2022	January 31, 2022	0.001247	238,677	\$ 73,512	\$ 312,189
February 23, 2022	February 28, 2022	0.001247	216,361	65,899	282,260
March 28, 2022	March 31, 2022	0.001247	240,331	72,452	312,783
			<u>\$ 695,369</u>	<u>\$ 211,863</u>	<u>\$ 907,232</u>

Record Date	Payment Date	Per Share Per Day	Distributions Paid in Cash	Distributions Paid through the DRIP	Total Distributions Paid/Accrued
Three Months Ended March 31, 2021					
January 28, 2021	January 31, 2021	\$ 0.001239	\$ 241,041	\$ 81,397	\$ 322,438
February 25, 2021	February 28, 2021	0.001239	219,664	73,721	293,385
March 26, 2021	March 31, 2021	0.001247	244,162	80,961	325,123
			<u>\$ 704,867</u>	<u>\$ 236,079</u>	<u>\$ 940,946</u>

Note 12. Financial Highlights

The following is a schedule of financial highlights for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Per share data:		
Net asset value at beginning of period	\$ 9.11	\$ 9.07
Results of operations ⁽¹⁾ :		
Net investment income	0.11	0.07
Net change in unrealized appreciation on investments	0.08	0.02
Net realized gain on investments	—	—
Net change in unrealized depreciation on obligations under participation agreements ⁽²⁾	—	—
Net increase in net assets resulting from operations	0.19	0.09
Stockholder distributions ⁽³⁾ :		
Distributions from return of capital	(0.04)	(0.05)
Distributions from net investment income	(0.07)	(0.06)
Net decrease in net assets resulting from stockholder distributions	(0.11)	(0.11)
Net asset value, end of period	<u>\$ 9.19</u>	<u>\$ 9.05</u>
Shares outstanding at end of period	8,102,167	8,422,203
Total return ⁽⁴⁾	2.14 %	1.00 %
Ratio/Supplemental data:		
Net assets, end of period	\$ 74,426,517	\$ 76,210,745
Ratio of net investment income to average net assets ⁽⁵⁾	5.51 %	3.10 %
Ratio of operating expenses to average net assets ⁽⁵⁾⁽⁶⁾⁽⁷⁾	17.15 %	9.46 %
Portfolio turnover	12.45 %	5.73 %

- (1) The per share data was derived by using the weighted average shares outstanding during the applicable period.
- (2) The impact on net asset value was approximately \$0.002 and \$0.001 for the three months ended March 31, 2022 and 2021, respectively.
- (3) The per share data for distributions reflects the actual amount of distributions declared per share during the period.
- (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. The total return does not consider the effect of any selling commissions or charges that may have been incurred in connection with the sale of shares of our common stock.
- (5) These ratios are calculated using annualized net investment income and operating expenses.
- (6) Excluding the (reversal on incentive fees) incentive fees on capital gains for the three months ended March 31, 2022 and 2021, the ratio of operating expenses to average net assets was 16.98% and 9.41%, respectively.
- (7) Excluding accrued incentive fees on capital gains and interest expense on debt, the ratio of operating expenses to average net assets was 10.6% for the three months ended March 31, 2022.

Note 13. Subsequent Events

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

On May 2, 2022, the Company, Terra Property Trust, Inc. ("Terra REIT"), Terra Merger Sub, LLC, a wholly owned subsidiary of Terra REIT ("Merger Sub"), Terra Income Advisors, LLC and Terra REIT Advisors, LLC, entered into an Agreement and Plan of Merger (the "Merger Agreement"). Pursuant to the Merger Agreement, the Company will be merged with and into Merger Sub, with Merger Sub surviving as a wholly owned subsidiary of Terra REIT, subject to the terms and conditions set forth in the Merger Agreement.

Under the terms of the Merger Agreement, each outstanding share of common stock of the Company will be automatically canceled and converted into the right to receive (i) 0.595 shares (as may be adjusted in accordance with the Merger Agreement) of the newly designated Class B common stock, par value \$0.01 per share, of Terra REIT ("Class B Common Stock") and (ii) cash in lieu of any fractional shares of Class B Common Stock otherwise issuable. Except with respect to conversion, the shares of Class B Common Stock issued in the merger will have dividend, distribution and other rights identical to those of the existing shares of common stock of Terra REIT. The shares of Class B Common Stock will automatically convert into an equal number of shares of Terra REIT's newly designated Class A common stock, par value \$0.01 per share ("Class A Common Stock"), on specified dates following any listing of shares of Class A Common Stock for trading on a national securities exchange, subject to certain conditions.

The transaction is expected to drive increased efficiency for the combined company while expanding the scale and diversification of its portfolio. In addition to enhancing access to capital markets and increasing liquidity options for current and future stockholders, the combination positions Terra REIT for long-term, sustainable growth and success.

Upon the closing of the merger, Terra REIT's existing stockholders are expected to own approximately 80.2% of the combined company's common stock, while former stockholders of the Company are expected to own approximately 19.8% of the combined company's common stock. In the event of a termination of the Merger Agreement under specified circumstances, the Company will be required to pay Terra REIT a termination fee of approximately \$2.6 million, with a lower fee of approximately \$1.1 million payable upon a termination by the Company to enter into a definitive agreement within 60 days of execution of the Merger Agreement with a person who submits a qualified acquisition proposal within 30 days of execution of the Merger Agreement.

The merger is expected to close during the third quarter of 2022, subject to the required approvals by the Company's stockholders and other customary closing conditions. There can be no assurances that the merger will close.

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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 consolidated 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;
- the potential negative impacts of the ongoing coronavirus (“COVID-19”) pandemic on the global economy and the impacts of COVID-19 on our financial condition, results of operations, liquidity and capital resources and business operations;
- actions that may be taken by governmental authorities to contain the ongoing COVID-19 pandemic or to treat its impact;
- 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 (“Terra Income Advisors”), our investment adviser; Terra Capital Partners, LLC (“Terra Capital Partners”), our sponsor; Terra REIT Advisors, LLC, a subsidiary of Terra Capital Partners; Terra Fund Advisors, LLC, an affiliate of Terra Capital Partners; Terra JV, LLC, Terra Secured Income Fund 5, LLC, Terra Secured Income Fund 5 International, Terra Income Fund International and Terra Secured Income Fund 7, LLC, (collectively, the “Terra Income Funds”); Terra Property Trust Inc (“Terra Property Trust”); Terra Offshore Funds REIT, LLC; Mavik Real Estate Special Opportunities Fund, LP; 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 real estate investment trust (“REIT”) 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 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, 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. Prior to June 24, 2015, we had no operations except for matters relating to our organization and registration. 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 previously elected to be taxed for federal income tax purposes, beginning with our taxable year ended September 30, 2015, and qualified annually thereafter, as a regulated investment company (“RIC”) under Subchapter M of the Code. On December 31, 2018, we announced our intention to change our tax election from taxation as a RIC to taxation as a REIT. The REIT tax election allows us to benefit from the preferential tax treatment afforded to RICs and REITs without us being subject to RIC-specific diversification restrictions. We elected to be taxed as a REIT under the Code commencing with our short taxable year beginning October 1, 2018 and ending December 31, 2018 and believe we have operated so as to qualify to be taxed as a REIT under Subchapter M of the Code. Concurrent with the change in tax election, we changed our fiscal year end from September 30 to December 31 to satisfy the REIT requirement.

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. We are also responsible for future payments of the servicing fee to selected dealers under the servicing plan (the “Servicing Plan”) as a result of the assignment of certain administrative functions and other obligations under the second amended and restated dealer manager agreement (the “Dealer Manager Agreement”) between the Company and Terra Capital Markets, LLC (“Terra Capital Markets”) and related selected dealer agreements to us. See “— *Investment Advisory Agreement and Servicing Plan*” below.

On April 1, 2021, Mavik Capital Management, LP (“Mavik”), an entity controlled by Vikram S. Uppal, our Chief Executive Officer, completed a series of related transactions that resulted in all of the outstanding interests in Terra Capital Partners being acquired by Mavik for a combination of cash and interests in Mavik (the “Recapitalization”). Following the series of transactions described below, Terra Income Advisors is ultimately controlled by Mavik.

Prior to the Recapitalization, Terra Capital Partners was the immediate parent and managing member of Terra Income Advisors, and was ultimately controlled by Axar Real Estate Capital Group LLC (the “Axar RE Manager”). In connection with the Recapitalization, Axar RE Manager assumed direct control of Terra Income Advisors by becoming its manager. Thus, the same parties that controlled Terra Income Advisors prior to the consummation of the Recapitalization maintained control of Terra Income Advisors, and by the terms of the Recapitalization continued to do so until a new investment advisory and administrative services agreement between us and Terra Income Advisors was approved by the affirmative vote of a majority of the outstanding shares of common stock entitled to vote at our 2021 annual meeting of stockholders on September 22, 2021. Subsequent to the approval of the Investment Advisory Agreement, Axar RE Manager ceased to be the manager of Terra Income Advisors and Terra Capital Partners again became the managing member of Terra Income Advisors.

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 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

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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.

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. Our distributions may exceed our earnings. Therefore, portions of the distributions that we make may represent a return of capital to investors for tax purposes, which will lower investors’ tax basis in their shares.

The COVID-19 pandemic has had a significant impact on local, national and global economies and has resulted in a world-wide economic slowdown. While certain economies have exhibited growth since 2020, the economic recovery will continue to be impacted by reductions and restrictions in economic activity resulting from increased COVID-19 cases. We continue to closely monitor the impact of the COVID-19 pandemic on all aspects of our investments and operations. The extent to which the COVID-19 pandemic may impact our investments and operations going forward will depend on future developments, which are highly uncertain and cannot be predicted with confidence. These developments include the duration of the outbreak, the impact of the global vaccination effort, new strains of the virus that are resistant to available vaccines, new information that may emerge concerning the severity of COVID-19, and actions taken by federal, state and local agencies as well as the general public to contain COVID-19 or treat its impact, among others.

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, all of which are recorded as interest income. As prepayment(s), partial or full, occurs on an investment, prepayment income is recognized. 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 on unsecured notes payable, interest expense from obligations under participation agreements, professional fees, payment of 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:

- 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;
- servicing fees;
- 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;

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- fees and expenses associated with independent audits and outside legal costs, including compliance with the Sarbanes-Oxley Act, 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's actual costs incurred in providing such services and (ii) the amount that our 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. Our 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, our Board considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, our 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 Loan 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.

	March 31, 2022					
	Gross Loan Investments		Transfers Treated as Obligations Under Participation Agreements		Net Loan Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair value
American Gilsonite Company	\$ 21,161,313	\$ 21,423,996	\$ —	\$ —	\$ 21,161,313	\$ 21,423,996
370 Lex Part Deux, LLC	21,151,365	20,592,325	—	—	21,151,365	20,592,325
Hillsborough Owners LLC	18,016,322	18,228,257	5,404,897	5,468,476	12,611,425	12,759,781
Asano Bankers Hill, LLC	15,291,738	15,532,098	—	—	15,291,738	15,532,098
Post Brothers Holdings, LLC	15,000,000	15,478,888	—	—	15,000,000	15,478,888
William A. Shopoff & Cindy I. Shopoff	13,137,371	13,351,308	—	—	13,121,112	13,347,088
Ann Street JV LLC	12,131,274	12,316,471	—	—	12,131,274	12,316,471
RS JZ Driggs, LLC	8,510,798	8,552,201	—	—	8,510,798	8,552,201
Havemeyer TSM LLC	8,096,214	8,158,876	—	—	8,096,214	8,158,876
Dwight Mezz II LLC	3,000,000	3,001,886	—	—	3,000,000	3,001,886
Total loan investments	135,496,395	136,636,306	5,404,897	5,468,476	130,075,239	131,163,610
Marketable securities	331,987	356,404	—	—	331,987	356,404
Total investments	<u>\$135,828,382</u>	<u>\$136,992,710</u>	<u>\$ 5,404,897</u>	<u>\$ 5,468,476</u>	<u>\$130,407,226</u>	<u>\$131,520,014</u>

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	December 31, 2021					
	Gross Loan Investments		Transfers Treated as Obligations Under Participation Agreements		Net Loan Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair value
American Gilsonite Company	\$ 21,108,623	\$ 21,417,965	\$ —	\$ —	\$ 21,108,623	\$ 21,417,965
370 Lex Part Deux, LLC	21,002,365	20,250,306	—	—	21,002,365	20,250,306
Hillsborough Owners LLC	16,026,455	16,279,593	4,807,937	4,883,877	11,218,518	11,395,716
Post Brothers Holdings, LLC	14,897,294	15,100,246	—	—	14,897,294	15,100,246
William A. Shopoff & Cindy I. Shopoff	13,121,112	13,347,088	—	—	13,121,112	13,347,088
RS JZ Driggs, LLC	7,847,256	7,877,552	—	—	7,847,256	7,877,552
Havemeyer TSM LLC	6,810,164	6,874,428	—	—	6,810,164	6,874,428
Ann Street JV LLC	5,320,560	5,482,725	—	—	5,320,560	5,482,725
Dwight Mezz II LLC	3,000,000	3,000,730	—	—	3,000,000	3,000,730
Total loan investments	109,133,829	109,630,633	4,807,937	4,883,877	104,325,892	104,746,756
Marketable securities	789,335	879,272	—	—	789,335	879,272
Total investments	<u>\$109,923,164</u>	<u>\$110,509,905</u>	<u>\$ 4,807,937</u>	<u>\$ 4,883,877</u>	<u>\$105,115,227</u>	<u>\$105,626,028</u>

	Three Months Ended March 31,			
	2022		2021	
	Weighted Average Principal Amount	Weighted Average Coupon Rate	Weighted Average Principal Amount	Weighted Average Coupon Rate
Gross loan investments	\$ 124,926,404	12.8%	\$ 64,473,542	10.9%
Obligations under participation agreements	(5,157,423)	8.3%	(4,250,000)	13.0%
Net loan investments	<u>\$ 119,768,981</u>	<u>13.0%</u>	<u>\$ 60,223,542</u>	<u>10.8%</u>

Our portfolio is concentrated in a limited number of industries and borrowers, and, as a result, a downturn in any particular industry or borrower in which we are heavily invested may significantly impact the aggregate returns we realize. If an industry in which we are heavily invested suffers from adverse business or economic conditions (as a result of the COVID-19 pandemic or otherwise), a material portion of our investment could be affected adversely, which, in turn, could adversely affect our financial position and results of operations. For example, as of March 31, 2022, our investments secured by multifamily and mixed-use properties represented approximately 48.8% and 56.3%, respectively, of our net assets. In addition, as of March 31, 2022, we held only ten loan investments and our largest loan investment represented approximately 28.8% of our net assets and our largest three loan investments represented approximately 81.0% of our net assets.

Portfolio Investment Activity

For the three months ended March 31, 2022 and 2021, we invested \$41.0 million and \$10.9 million in new and add-on investments, and had \$15.4 million and \$4.0 million of repayments, resulting in net investments of \$25.6 million and \$6.8 million, respectively.

Our portfolio composition, based on fair value at March 31, 2022 and December 31, 2021 was as follows:

	March 31, 2022			December 31, 2021		
	Investments at Fair Value	Percentage of Total Portfolio	Weighted Average Coupon Rate ⁽¹⁾	Investments at Fair Value	Percentage of Total Portfolio	Weighted Average Coupon Rate ⁽¹⁾
Loans	\$ 70,502,708	51.4 %	12.7 %	\$ 61,281,259	55.4 %	12.6 %
Loans through participation interest	66,133,598	48.3 %	13.3 %	48,349,374	43.8 %	12.7 %
Marketable securities	356,404	0.3 %	8.5 %	879,272	0.8 %	8.5 %
Total	<u>\$136,992,710</u>	<u>100.0 %</u>	<u>13.0 %</u>	<u>\$110,509,905</u>	<u>100.0 %</u>	<u>12.6 %</u>

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(1) Based upon the principal value of our investments.

The following table shows the portfolio composition by property type grouping based on fair value at March 31, 2022 and December 31, 2021:

	March 31, 2022		December 31, 2021	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Mixed use	\$ 41,919,231	30.7 %	\$ 23,154,021	21.0 %
Multifamily	36,347,560	26.5 %	28,460,523	25.7 %
Infrastructure	21,423,996	15.6 %	21,417,965	19.4 %
Office	20,592,325	15.0 %	20,250,306	18.3 %
Industrial	13,351,308	9.7 %	13,347,088	12.1 %
Student housing	3,001,886	2.2 %	3,000,730	2.7 %
Total loan investments	136,636,306	99.7 %	109,630,633	99.2 %
Marketable securities	356,404	0.3 %	879,272	0.8 %
Total investments	<u>\$ 136,992,710</u>	<u>100.0 %</u>	<u>\$ 110,509,905</u>	<u>100.0 %</u>

Senior Unsecured Notes

In February 2021, we issued \$38.4 million in aggregate principal amount of 7.00% fixed-rate notes due 2026, for net proceeds of \$37.2 million after deducting underwriting commissions of \$1.2 million. Interest on the notes is paid quarterly in arrears every March 30, June 30, September 30 and December 30, at a rate of 7.00% per year, beginning June 30, 2021. The notes mature on March 31, 2026. The notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 10, 2023.

Term Loan

In April 2021, we entered into a credit agreement with a lender to provide for a delayed draw term loan of \$25.0 million (the "Term Loan"). The Term Loan currently bears interest at a rate equal to 5.625% and matures on April 9, 2025. As of March 31, 2022, the amount outstanding under the Term Loan was \$24.0 million.

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 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 March 31, 2022 and December 31, 2021, obligations under participation agreements at fair value was \$5.5 million and \$4.9 million and the weighted average contractual interest rate on the obligations under participation agreements was 8.5% and 8.3%, respectively. For the three months ended March 31, 2022, we transferred \$0.6 million of investments to affiliates through participation agreements and did not make any repayments on obligations under participation agreements. For the three months ended March 31, 2021, we did not transfer any investments to affiliates through participation agreements and did not make any repayments on obligations under participation agreements.

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Operating results for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,		
	2022	2021	Change
Total investment income	\$ 4,135,775	\$ 2,358,972	\$ 1,776,803
Total operating expenses	2,784,088	1,805,202	978,886
Net investment income before income taxes	1,351,687	553,770	797,917
Income tax expense	439,653	—	439,653
Net investment income	912,034	553,770	358,264
Net change in unrealized appreciation on investments	577,587	181,105	396,482
Net realized gain on investments	33,260	—	33,260
Net change in unrealized depreciation on obligations under participation agreements	12,361	5,005	7,356
Net increase in net assets resulting from operations	<u>\$ 1,535,242</u>	<u>\$ 739,880</u>	<u>\$ 795,362</u>

Investment Income

The composition of our investment income for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,		
	2022	2021	Change
Interest income	\$ 4,087,414	\$ 2,138,391	\$ 1,949,023
Dividend and other income	48,361	220,581	(172,220)
Total investment income	<u>\$ 4,135,775</u>	<u>\$ 2,358,972</u>	<u>\$ 1,776,803</u>

Interest Income

For the three months ended March 31, 2022 as compared to the same period in 2021, interest income increased by \$1.9 million, primarily due to an increase of \$1.8 million on contractual interest income and an increase of \$0.2 million in the amortization of origination fee income. Contractual interest income increased as a result of an increase in the weighted average outstanding principal balance as well as an increase in the weighted average coupon rate on our investments. Amortization of origination fee income increased as a result of an early repayment of a loan, at which time we accelerated the amortization of origination fee income on the loan.

Dividend and Other Income

For the three months ended March 31, 2022 as compared to the same period in 2021, dividend and other income decreased by \$0.2 million, as a result of a decrease in the weighted average investment balance on marketable securities.

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Operating Expenses

The composition of our operating expenses for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,		
	2022	2021	Change
Base management fees	\$ 621,818	\$ 476,064	\$ 145,754
Incentive fees on capital gains	124,641	37,222	87,419
Operating expense reimbursement to Adviser	300,190	255,212	44,978
Servicing fees	118,974	125,339	(6,365)
Interest expense on unsecured notes payable	764,539	414,217	350,322
Professional fees	355,304	250,408	104,896
Interest expense from obligations under participation agreements	121,567	141,611	(20,044)
Interest expense on term loan	271,504	—	271,504
Directors' fees	30,126	33,125	(2,999)
Insurance expense	67,152	55,877	11,275
General and administrative expenses	8,273	16,127	(7,854)
Total operating expenses	<u>\$ 2,784,088</u>	<u>\$ 1,805,202</u>	<u>\$ 978,886</u>

For the three months ended March 31, 2022 as compared to the same period in 2021, total operating expenses increased by \$1.0 million. The reasons for the changes are stated below.

Base Management Fees

Under the Investment Advisory Agreement, we pay Terra Income Advisors a base management fee, which is calculated at an annual rate of 2.0% of our average gross assets.

For the three months ended March 31, 2022 as compared to the same period in 2021, base management fees increased by \$0.1 million, due to an increase in our gross assets resulting from an increase in funds under management.

Incentive Fees on Capital Gains

Under the Investment Advisory Agreement, we pay Terra Income Advisors an incentive fee on capital gains equal to 20.0% of our net realized and unrealized capital gains. No incentive fees on capital gains are actually payable by us with respect to unrealized gains until those gains are realized.

For the three months ended March 31, 2022 as compared to the same period in 2021, incentive fees on capital gains increased by \$0.1 million, as a result of an increase in the fair value of our investments.

Operating Expense Reimbursement to Adviser

Under the Investment Advisory Agreement, we reimburse Terra Income Advisors for operating expenses incurred in connection with administrative services provided to us, including compensation to administrative personnel.

For the three months ended March 31, 2022 as compared to the same period in 2021, operating expense reimbursement to Adviser increased by \$0.04 million, primarily due to an increase in our allocation ratio in relation to affiliated funds managed by Terra Income Advisors and its affiliates as a result of an increase in funds under management.

Interest Expense on Unsecured Notes Payable

In February 2021, we issued \$38.4 million in aggregate principal amount of 7.00% fixed-rate notes due 2026.

For the three months ended March 31, 2022 as compared to the same period in 2021, interest expense on unsecured notes payable increased by \$0.4 million, as a result of an increase in the weighted average principal amount outstanding.

Professional Fees

For the three months ended March 31, 2022 as compared to the same period in 2021, professional fees increased by \$0.1 million, primarily due to an increase in the costs of compliance.

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Interest Expense on Term Loan

In April 2021, we entered into a credit agreement with a lender to provide for a delayed draw term loan of \$25.0 million. The Term Loan currently bears interest at a rate equal to 5.625% and matures on April 9, 2025. We also pay, with respect to any unused portion of the Term Loan, a commitment fee of 0.75% per annum. As of March 31, 2022, the amount outstanding under the Term Loan was \$24.0 million.

For the three months ended March 31, 2022, interest expense on Term Loan was \$0.3 million. There was no interest expense on Term Loan for the three months ended March 31, 2021.

Income Tax Expense

During the third quarter of 2021, we formed a taxable REIT subsidiary (“TRS”) to hold two credit facilities. For the three months ended March 31, 2022, pre-tax income attributable to the TRS was \$1.4 million. Based on the effective income tax rate of 30.5%, provision for income tax for the TRS was \$0.4 million. There was no such provision for income tax for the three months ended March 31, 2021 because the TRS was formed in the third quarter of 2021.

Net Change in Unrealized Appreciation or Depreciation on Investments and Obligations under Participation Agreements

Net change in unrealized appreciation or depreciation 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 and obligations under participation agreements fluctuates over time, reflecting changes in the market yields for loans and debt investments, and any associated premium or discount and origination or exit fee are amortized down or accreted up to par value as each investment approaches maturity.

2022 — For the three months ended March 31, 2022, we recorded an increase in net change in unrealized appreciation on investments of \$0.6 million, as a result of new investments originated in the current period.

2021 — For the three months ended March 31, 2021, we recorded an increase in net change in unrealized appreciation on investments of \$0.2 million, primarily due to an increase in the trading price of the marketable securities that we invested in.

Net Realized Gain on Investments

For the three months ended March 31, 2022, we sold marketable securities and recognized a net gain on investments of \$0.03 million. There was no such gains recognized for the three months ended March 31, 2021.

Net Increase in Net Assets Resulting from Operations

For the three months ended March 31, 2022 and 2021, we recorded a net increase in net assets resulting from operations of \$1.5 million and \$0.7 million, respectively. Based on the weighted average shares of common stock outstanding, our per share net increase in net assets resulting from operations was \$0.19 and \$0.09, respectively.

Financial Condition, Liquidity and Capital Resources

We currently generate cash primarily 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.

Prior to investing in securities of portfolio companies, we invest the net proceeds from the offering of securities 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 BDC election.

We may borrow funds to make investments to the extent we determine that leveraging our portfolio would be appropriate. In February 2021, we issued \$38.4 million in aggregate principal amount of 7.00% fixed-rate notes due 2026, for net proceeds of \$37.2 million after deducting underwriting commissions of \$1.2 million. In April 2021, we entered into a credit agreement with a lender to provide for a delayed draw term loan of \$25.0 million. The Term Loan currently bears interest at a rate equal to 5.625% and matures on April 9, 2025. As of March 31, 2022, amount outstanding under the Term Loan was \$24.0 million. We drew down on the remaining \$1.0 million in April 2022.

Certain of our loans provide for commitments to fund the borrower at a future date. As of March 31, 2022, we had three loans with total funding commitments of \$44.5 million, of which we funded \$38.5 million. We expect to fund \$5.2 million of the unfunded commitments to borrowers during the next twelve months.

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Cash Flows for the Three Months Ended March 31, 2022

Operating Activities — For the three months ended March 31, 2022, net cash used in operating activities was \$28.4 million. The level of cash flows used in or provided by operating activities is affected by the timing of purchases, repayments and sales of portfolio investments, among other factors. Cash flows used in operating activities for the three March 31, 2022 were primarily related to purchases of investments of \$41.0 million, partially offset by repayments and proceeds from sale of investments of \$15.4 million and cash generated from operations of \$2.7 million.

Financing Activities — For the three months ended March 31, 2022, net cash provided by financing activities was \$18.9 million, primarily related to proceeds from borrowings under the Term Loan of \$19.0 million and proceeds from obligations under participation agreements of \$0.6 million, partially offset by distributions paid to stockholders of \$0.7 million.

Cash Flows for the Three Months Ended March 31, 2021

Operating Activities — For the three months ended March 31, 2021, net cash used in operating activities was \$5.6 million. The level of cash flows used in or provided by operating activities is affected by the timing of purchases, repayments and sales of portfolio investments, among other factors. Cash flows used in operating activities for the three months ended March 31, 2021 were primarily related to purchases of investments of \$10.9 million, partially offset by repayments and proceeds from sale of investments of \$4.0 million and cash generated from operations of \$1.2 million.

Financing Activities — For the three months ended March 31, 2021, net cash provided by financing activities was \$35.7 million, primarily related to proceeds from issuance of unsecured notes, net of discount, of \$37.2 million, partially offset by payment of financing costs related to the issuance of unsecured notes of \$0.8 million and distributions paid to stockholders of \$0.7 million.

Investment Advisory Agreement and Servicing Plan

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. 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.

On September 30, 2017, we adopted the Servicing Plan. Pursuant to the Servicing Plan, Terra Capital Markets was entitled to receive a servicing fee at an annual rate of 1.125% of the most recently published NAV per share of our common stock, of which up to 0.75% is reallocated to selected dealers, in exchange for providing certain administrative support services. With respect to each share sold, excluding shares sold through our distribution reinvestment plan, the servicing fee is payable annually on the anniversary of the applicable month of purchase. On December 23, 2020, Terra Capital Markets assigned to us certain of its administration support services and certain obligations under the Dealer Manager Agreement, including making future payments of the previously reallocated servicing fee under the Servicing Plan directly to selected dealers, effectively reducing the servicing fee to 0.75%. The Servicing Plan will remain in effect for so long as such continuance is approved quarterly by our Board, including a majority of our directors who are not “interested persons” as defined in the 1940 Act and who have no direct or indirect financial interest in the operation of the Servicing Plan or in any agreements entered into in connection therewith. In addition, our Board will review all payments made pursuant to the Servicing Plan at least quarterly. We will no longer incur the annual servicing fee upon the earlier of (i) the aggregate underwriting compensation from all sources, including selling commissions, dealer manager fees, broker-dealer fees, and servicing fees would exceed 10% of the gross proceeds in the Offering, (ii) with respect to a specific share, the date that such share is redeemed or is no longer outstanding, and (iii) the date, if any, upon which a liquidity event occurs.

The following table presents a summary of such fees and reimbursements in accordance with the terms of the related agreements:

	Three Months Ended March 31,	
	2022	2021
Base management fees	\$ 621,818	\$ 476,064
Incentive fees on capital gains	124,641	37,222
Operating expense reimbursement to Adviser	300,190	255,212
Servicing fees	118,974	125,339

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REIT Status and Distributions

We elected to be taxed as a REIT under the Code commencing with our short taxable year beginning October 1, 2018 and ending December 31, 2018, and we believe we have operated in such a manner to continue to be taxed as a REIT for federal income tax purposes. In order to qualify as a REIT, we are required, among other things, to distribute dividends equal to at least 90% of our REIT net taxable income to the stockholders annually and meet certain tests regarding the nature of our income and assets. 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 are also subject to nondeductible federal excise taxes if we do not distribute at least 85.0% of our ordinary income, 95.0% of our capital gain net income, if any, and any recognized and undistributed income from prior years on which we paid no federal income taxes. For the three months ended March 31, 2022 and 2021, we have made sufficient distributions to our stockholders to qualify to be taxed as a REIT and to preclude the imposition of either U.S. federal corporate income or excise taxation.

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. 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, borrowings, net investment income from operations, capital gain proceeds from the sale of assets, non-capital gain 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 consolidated financial statements are prepared in conformity with United States generally accepted accounting principles ("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 consolidated 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 consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing the consolidated 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 consolidated 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

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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, debt securities 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.

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 loan investments that will be held in the investment portfolio to fall into Level 3 of the fair value hierarchy. The fair value of our investment in marketable securities is determined based on quoted prices in an active market and is classified as Level 1 of the fair value hierarchy.

Valuation of Obligations under Participation Agreements

We have elected the fair value option under Accounting Standard Codification (“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, *Transfers and Servicing*. We employ the yield approach valuation methodology used for the real-estate related loan investments on our obligations under participation agreements.

Federal Income Taxes

We elected to be taxed as a REIT under the Code commencing with our short taxable year beginning October 1, 2018 and ending December 31, 2018. In order to qualify as a REIT, we are required, among other things, to distribute at least 90% of our REIT net taxable income to our stockholders and to meet certain tests regarding the nature of our income and assets.

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. For the three months ended March 31, 2022 and 2021, we did not incur any interest or penalties.

We hold certain portfolio company investments through consolidated taxable REIT subsidiaries. Such subsidiaries may be subject to U.S. federal and state corporate-level income taxes. These consolidated subsidiaries recognize deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences between the tax basis of certain assets and liabilities and the reported amounts included in the accompanying consolidated statements of assets and liabilities using the applicable statutory tax rates in effect for the year in which any such temporary differences are expected to reverse.

Related Party Transactions

Compensation of Terra Income Advisors

Pursuant to the Investment Advisory Agreement, we pay Terra Income Advisors a base management fee and an incentive fee.

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’s 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’s 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.

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 the Terra Income Funds, Terra Property Trust, Inc., Terra Property Trust 2, Inc. 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, 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.

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 the market interest rates will not have a material adverse effect on our net investment income.

As of March 31, 2022, we had two investments with a net principal balance of \$39.4 million that provides for interest income indexed to the London Interbank Offered Rate (“LIBOR”) and is subject to a LIBOR floor. A decrease of 1% in LIBOR would have no impact on our annual interest income because the interest rates are protected by a floor in the respective loan agreements. An increase of 1% in LIBOR would increase our annual interest income by \$0.2 million. Additionally, as of March 31, 2022, we had one investment with a net principal balance of \$15.4 million that provides for interest income indexed to the Secured Overnight Financing Rate (“SOFR”) and is subject to a SOFR floor. A decrease of 1% in SOFR would have a minimal impact on our annual interest income because the interest rate is protected by a floor in the loan agreement. An increase of 1% in SOFR would increase our annual interest income by \$0.2 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 March 31, 2022 and 2021, we did not engage in interest rate hedging activities.

In addition, we may have risks regarding portfolio valuation. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Valuation of Investments.”

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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 March 31, 2022. 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 December 31, 2021.

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.

Not applicable.

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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.

Exhibit No.	Description and Method of Filing
3.1	<u>Articles of Amendment and Restatement of Terra Income Fund 6, Inc. (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).</u>
3.2	<u>Articles of Amendment to the Articles of Amendment and Restatement of Terra Income Fund 6, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on May 1, 2019).</u>
3.3	<u>Amended and Restated Bylaws of Terra Income Fund 6, Inc. (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).</u>
4.1	<u>Form of Subscription Agreement (incorporated by reference to Appendix A to the Final Prospectus dated February 2, 2018, filed with the SEC on February 2, 2018).</u>
4.2	<u>Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K filed with the SEC on November 16, 2018)</u>
4.3	<u>Indenture, dated February 10, 2021, by and between Terra Income Fund 6, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on February 10, 2021).</u>
4.4	<u>First Supplemental Indenture, dated February 10, 2021, by and between Terra Income Fund 6, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on February 10, 2021).</u>
4.5	<u>Form of Global Note representing the Notes (included in Exhibit 4.4).</u>
31.1*	<u>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.</u>
31.2*	<u>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.</u>
32.1*	<u>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.</u>

* Filed herewith.

SIGNATURES

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

Date: May 6, 2022

TERRA INCOME FUND 6, INC.

By: /s/ Vikram S. Uppal

Vikram S. Uppal

Chairman of the Board, Chief Executive Officer
and President

(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)