Risk Factors Comparison 2024-03-07 to 2023-03-07 Form: 10-K

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Our business and our ability to execute our strategy are subject to many risks. Before making a decision to invest in our common stock, you should carefully consider all of the risks and uncertainties described in the risks set forth below. These risks include, but are not limited to, the following: • We were recently formed and have limited operating history, and may not be able to successfully operate our business, integrate new assets and / or manage our growth or to generate sufficient revenue to make or sustain distributions to our shareholders. • Competition for the capital that we provide may reduce the return of our loans, which could adversely affect our operating results and financial condition. • Our growth and success depends on our external manager, its key personnel and investment professionals, and its ability to make loans on favorable terms that satisfy our investment strategy and otherwise generate attractive risk- adjusted returns; thus, we may experience losses if our external manager overestimates projected yields or incorrectly prices the risks of our loans or if there are any adverse changes in our relationship with our Manager. • Lending to companies operating in the cannabis industry which involves significant risks, including the risk of strict enforcement of federal cannabis laws against our borrowers, our borrowers' inability to renew or otherwise maintain their licenses or other requisite authorizations for their cannabis operations, and lack of liquidity for such loans. • Our ability to grow or maintain our business depends in part on state laws pertaining to the cannabis industry. New laws that are adverse to our borrowers may be enacted, and current favorable state or national laws or enforcement guidelines relating to cultivation, production and distribution of cannabis may be modified or eliminated in the future, which would impede our ability to grow our business under our current business plan and could materially adversely affect our business. • As a debt investor, we are often not in a position to exert influence on borrowers, and the shareholders and management of such companies may make decisions that could decrease the value of loans made to such borrower. • Our growth depends on external sources of capital, which may not be available on favorable terms or at all. • Interest rate fluctuations could increase our financing costs, which could lead to a significant decrease in our results of operations, cash flows and the market value of our loans. • Maintenance of our exemption from registration under the Investment Company Act may impose significant limits on our operation, and failure to maintain our exempt status under the Investment Company Act could have an adverse effect on our financial results. • Failure to qualify as a REIT for U. S. federal income tax purposes would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our shareholders. • We may incur significant debt, and our governing documents and current credit facility contain no limit on the amount of debt we may incur. • We may in the future pay distributions from sources other than our cash flow from operations, including borrowings, offering proceeds or the sale of assets, which means we will have less funds available for investments or less income- producing assets and your overall return may be reduced. If any of the factors enumerated above or in " Risk Factors " occurs, our business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment. Set forth below are the risks that we believe are material to our business. Any of these risks could significantly and adversely affect our business, financial condition and results of operations. You should carefully consider the risks described below, together with the other information included in this Annual Report ~~on Form 10- K~~, including the information contained under the caption " **Special Note Regarding** Forward- Looking Statements ". Risks Related to Our Business and Growth Strategy We were recently formed and have limited operating history, and may not be able to operate our business successfully or to generate sufficient revenue to make or sustain distributions to our shareholders. We were formed on July 6, 2020, began operations on July 31, 2020, and have limited operating history. As of December 31, ~~2022~~ **2023**, our portfolio consisted of loans to 12 different borrowers (such portfolio, our ' ' Existing Portfolio''). We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives and that the value of your investment could decline substantially. We cannot assure you that we will be able to operate our business successfully or profitably, or implement our operating policies. Our ability to provide attractive returns to our shareholders is dependent on our ability both to generate sufficient cash flow to pay our investors attractive distributions and to achieve capital appreciation, and we cannot assure you that we will be able to do either. There can be no assurance that we will be able to generate sufficient revenue from operations to pay our operating expenses and make or sustain distributions to shareholders. Our limited resources may also materially and adversely impact our ability to successfully implement our business plan. The results of our operations and the implementation of our business plan depend on several factors, including the availability of opportunities to make loans, the availability of adequate equity and debt financing, the performance of the commercial real estate sector (which are described below under " – Risks Related to the Commercial Real Estate Sector "), the federal and state regulatory environment relating to the cannabis industry (which are described below under " – Risks Related to the Cannabis Industry and Related Regulations "), conditions in the financial markets and economic conditions. ~~Competition for the capital that we provide may reduce the return of our loans, which could adversely affect our operating results and financial condition.~~ We compete as an institutional lender to commercial real estate owners, operators and related businesses, with a specialization in debt financing to cannabis industry operators in states that have legalized medical and / or adult- use cannabis. An increasing number of competitors have recently entered the marketplace, and these competitors may prevent us from making attractive loans on favorable terms. We expect over time that the increasing number of competitors will likely result in yields that are lower than our current yields. Our competitors may have greater resources than we do and may be able to compete more effectively as a capital provider. In particular, larger companies may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Additionally, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans, deploy more aggressive pricing and establish more relationships than us. Our competitors may also adopt loan structures similar to ours, which would decrease our competitive advantage in offering flexible loan terms. In addition, due to a number of factors (including but not limited to potentially greater clarity and / or unification of the laws and regulations governing cannabis by states and the federal government including through federal legislation **or rescheduling** or descheduling of cannabis, which may, in turn, encourage additional federally- chartered banks to provide their services to cannabis- related businesses), the number of entities and the amount of funds competing to provide suitable capital may increase, resulting in loans with terms less favorable to us. Moreover, we strategically benefit from the cannabis industry' s currently constrained access to U. S. capital markets and if such access is broadened, including if the New York Stock Exchange (the " NYSE ") and / or the Nasdaq Stock Market were to permit the listing of plant- touching cannabis companies in the U. S., the demand among U. S. cannabis companies for private equity investments and debt financings, including our target loans, may materially decrease and could result in our competing with financial institutions that we otherwise would not. Any of the foregoing may lead to a decrease in our profitability, and you may experience a lower return on your investment. Increased competition in providing capital may also preclude us from making those loans that would generate attractive returns to us. If we are unable to successfully integrate new assets and manage our growth, our results of operations and financial condition may suffer. We may in the future significantly increase the size and / or change the mix of our portfolio of assets. We may be unable to successfully and efficiently integrate new assets into our existing portfolio or otherwise effectively manage our assets or our growth effectively. In addition, increases in our portfolio of assets and / or changes in the mix of our assets may place significant demands on our Manager' s administrative, operational, asset management, financial and other resources. Any failure to manage increases in size effectively could adversely affect our results of operations and financial condition. We will allocate our cash on hand and the proceeds of our financing activities without input from our shareholders. While we intend to use our cash on hand and the proceeds from our financing activities to originate and participate in commercial loans and other debt investments to companies operating in the cannabis industry, as well as equity interest in real estate investment trusts, in each case, that are consistent with our investment strategy, our shareholders will not be able to evaluate the exact manner in which our cash or the proceeds from our financing activities will be invested in the future or the economic merit of our future loans and other debt investments. As a result, we may use our cash on hand and / or the proceeds from our financing activities to invest in loans with which our shareholders may not agree. Additionally, our loans will be selected by our Manager with input from the members of the Investment Committee, and our shareholders will not have input into such investment decisions. Both of these factors will increase the uncertainty, and thus the risk, of investing in our securities. The failure of our Manager to apply our cash and / or the proceeds of our financing activities effectively or to find loans that meet our loan criteria in sufficient time or on acceptable terms could result in unfavorable returns, could cause a material adverse effect on our business, financial condition, liquidity, results of operations and ability to make distributions to our shareholders, and could cause the value of our securities to decline. Pending application of our cash on hand and the proceeds of any financing activities, we may invest such cash and proceeds in interest- bearing, short- term investments, including money market accounts or funds, commercial mortgage- backed securities, corporate bonds, certain debt securities (including seller notes), equity interests of real estate investment trusts and other investments, which are consistent with our intention to qualify as a REIT and to maintain our exemption from registration under the Investment Company Act. These investments would be expected to provide a lower net return than we seek to achieve from investment in our target loans and investments. We expect to reallocate any such investments into our target portfolio within specified time frames, subject to the availability of appropriate investment opportunities. Our Manager intends to conduct due diligence with respect to each investment and suitable investment opportunities may not be immediately available. Even if opportunities are available, there can be no assurance that our Manager' s due diligence processes will uncover all relevant facts or that any investment will be successful. We cannot assure you that (i) we will be able to enter into definitive agreements to invest in any new loans or other investments that meet our investment objectives, (ii) we will be successful in consummating any investment opportunities we identify or (iii) any of the investment we may make using our cash on hand and proceeds of any financing activities will yield attractive risk- adjusted returns. Our inability to do any of the foregoing likely would materially and adversely affect our business and our ability to make distributions to our shareholders. Our loans' lack of liquidity may adversely affect our business. Our Existing Portfolio includes, and our future loans will likely include, loans to private companies, which are less liquid than publicly traded securities. Certain of our target investments such as secured loans are also particularly illiquid due to a variety of factors, which may include a short life, potential unsuitability for securitization and greater difficulty of recovery in the event of a default or insolvency by the company to which we have provided a loan. The illiquidity of our loans may make it difficult for us to sell such loans if the need or desire arises. Further, applicable laws and regulations restricting the ownership and transferability of loans to regulated cannabis companies in conjunction with many parties not wishing to invest in cannabis businesses as a result of cannabis being federally illegal may make it difficult for us to sell or transfer such loans to third parties. In addition, many of the loans we make, to the extent they constitute securities, will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. As a result, we may be unable to dispose of such loans in a timely manner or at all. If we are required and able to liquidate all or a portion of our portfolio quickly, we could realize significantly less value than that which we had previously recorded for our loans and we cannot assure you that we will be able to sell our assets at a profit in the future. Further, we may face other restrictions on our ability to liquidate a loan in a company to the extent that we or our Manager have or could be attributed as having material, non- public information regarding such company. Our ability to vary our portfolio in response to changes in economic, regulatory and other conditions or changes in our strategic plan may therefore be relatively limited, which could adversely affect our results of operations and financial condition. Our Existing Portfolio is, and our future portfolio may be, concentrated in a limited number of loans, which subjects us to an increased risk of significant loss if any asset declines in value or if a particular borrower fails to perform as expected. Our Existing Portfolio is, and our future loans may be, concentrated in a limited number of loans in a limited number of sectors. The cannabis industry is experiencing significant consolidation, which we expect to increase, among cannabis operators and certain of our borrowers may combine, increasing the concentration of our borrower portfolio with those consolidated operators. If a significant loan to one or more companies fails to perform as expected, such a failure could have a material adverse effect on our business, financial condition and operating results, and the magnitude of such effect could be more significant than if we had further diversified our portfolio. A consequence of this limited number of loans is that the aggregate returns we realize may be significantly adversely affected if a small number of loans perform poorly, if we need to write down the value of any one loan, if a loan is repaid prior to maturity and we are not able to promptly redeploy the proceeds and / or if an issuer is unable to obtain and maintain commercial success. While we intend to diversify our portfolio of loans as we deem prudent, we do not have fixed guidelines for diversification. As a result, our portfolio could be concentrated in relatively few loans and in a limited number of borrowers. Our portfolio of loans is, and in the future may be, concentrated in certain property types or in particular industries, such as cannabis or commercial real estate **(until the anticipated Spin- Off effective date)** , that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. Economic and business downturns relating generally to such region or type of asset may result in defaults on a number of our loans within a short time period, which may reduce our net income and the value of our common stock and accordingly reduce our ability to pay dividends to our shareholders. Declining real estate values may reduce the level of new mortgage and other real estate- related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the value of real estate weakens and / or the interest rates at which loans can be profitably made increases. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, forbearance, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate / acquire / sell loans, which could have a material adverse effect on our business, financial condition and operating results. We may lend to multiple borrowers that share a common sponsor. We do not have a limit on the amount that can be held by multiple borrowers that share the same sponsor. We may face greater credit risk to the extent a large portion of our portfolio is concentrated in loans to multiple borrowers that share the same sponsor. Our Existing Portfolio contains loans to companies with operations that are geographically concentrated in Arizona, Connecticut, Georgia, Illinois, Iowa, Maine, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, Ohio and Pennsylvania, and we will be subject to social, political and economic risks of doing business in those states and any other state in which we in the future have lending exposure. Our Existing Portfolio contains loans to companies with operations that are geographically concentrated in Arizona, Connecticut, Georgia, Illinois, Iowa, Maine, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, Ohio and Pennsylvania. Circumstances and developments related to operations in these markets that could negatively affect our business, financial condition, liquidity and results of operations include, but are not limited to, the following factors: • the development and growth of applicable state cannabis markets (for example, the increase in additional dispensaries in certain states have diluted the value of the pre- existing dispensaries); • the responsibility of complying with multiple and likely conflicting state and federal laws, including with respect to retail sale, distribution, cultivation and manufacturing of cannabis, licensing, banking, and insurance; • unexpected changes in regulatory requirements and other laws, in particular licensing requirements; • difficulties and costs of managing operations in certain locations; • potentially adverse tax consequences; • the impact of national, regional or state specific business cycles and economic instability; and • access to capital may be more restricted, or unavailable on favorable terms or at all in certain locations. Loans to relatively new and / or small companies and companies operating in the cannabis industry generally involve significant risks. We primarily provide loans to established companies operating in the cannabis industry, but because the cannabis industry is relatively new and rapidly evolving, some of our loans may be with relatively new and / or small companies. Loans to relatively new and / or small companies and companies operating in the cannabis industry generally involve a number of significant risks, including, but not limited to, the following: • these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral securing our loan, a reduction in the likelihood of us realizing a return on our loan or the need to recognize a partial or complete loss on our loan; • they typically have shorter operating histories, narrower product lines and smaller market shares than larger and more established businesses, which tend to render them more vulnerable to competitors' actions and market conditions (including conditions in the cannabis industry), as well as general economic downturns; • they typically depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse effect on such borrower and, in turn, on us; • there are a limited number of management teams in the cannabis industry that have U. S. public company experience. As a result, the management team of a borrower may not be familiar with U. S. securities laws and may have to expend time and resources becoming familiar with such laws; • there is generally less public information about these companies. Unless publicly traded, these companies and their financial information are generally not subject to the regulations that govern public companies, and we may be unable to uncover all material information about these companies, which may prevent us from making a fully informed lending decision and cause us to lose money on our loans; • they generally have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; • there is generally less market forecast information about the cannabis industry, making it difficult for our borrowers to forecast demand. If the market does not develop as a borrower expects, it could have a material adverse effect on its business; • we, our executive officers and directors and our Manager may, in the ordinary course of business, be named as defendants in litigation arising from our loans to such borrowers and may, as a result, incur significant costs and expenses in connection with such litigation and / or related indemnification obligations; • changes in laws and regulations, as well as their interpretations, may have a disproportionate adverse effect on their business, financial structure or prospects compared to those of larger and more established companies; and • they may have difficulty accessing capital from other providers on favorable terms or at all. For example, the loan parties to the Public Company A loans previously defaulted on certain covenants under the applicable agreements governing their real estate loan and equipment loan in which we have a participation. These defaults resulted from, among other things, the loan parties' failure to timely pay taxes due, incurrence of mechanic' s liens and tax liens on assets, failure to notify the lenders of such failure to pay and incurrence of liens, failure to make certain principal and interest payments and pay certain fees, failure to make payment obligations owed to third party creditors and failure to enter into specified debt restructuring transactions. Such defaults were unrelated to the COVID- 19 pandemic. Since October 2020, the lenders under the Public Company A real estate loan and equipment loan have, subject to certain terms and conditions, granted a number of forbearances and entered into several modification agreements with Public Company A and the other loan parties. Under our participation agreements with the lenders of the Public Company A loans, the lenders must seek our consent in connection with any modifications to the terms of the Public Company A loans or any forbearance agreements. ~~As of June 2022, subject to certain terms and conditions, the lenders under the Public Company A loans have agreed to forbear from exercising their respective rights and remedies with respect to several specified events of default under the applicable Public Company A loan documents until the earlier of January 31, 2026 (as to the real estate loan) or March 31, 2025 (as to the equipment loan) and any new event of default thereunder. As Public Company A has had difficulty meeting its obligations and accessing additional capital, the lender under the Public Company A real estate loan has agreed to a number of amendments of the real estate loan, subject to certain terms and conditions, including among other things, (i) advancing additional subordinated loans, (ii) capitalizing certain accrued interest, (iii) splitting the various loans advanced into four separate loans with different payment priorities, (iv) amending the interest rates and maturity dates with respect to the four separate loans (provided, that, the loans in which we have a participation accrue interest at a rate per annum equal to 15. 0 %, with 7. 5 % payable in cash and 7. 5 % payable in kind, and have a maturity date of September 30, 2023, and (v) adding and modifying exit fees and interest reserve accounts. In addition, in June 2022, two- thirds of our participation in the Public Company A real estate loan was repaid and we agreed to payment subordination of our remaining participation. Similarly, the lender under the Public Company A equipment loan has agreed to a number of amendments to the equipment loan, subject to certain terms and conditions, including among other things, (i) amending the monthly amortization schedule, (ii) releasing a certain guarantor, (iii) adding a certain parent guarantor, and (vi) extending the term of the master lease to March 31, 2025. See " Management' s Discussion and Analysis of Financial Condition and Results of Operation — Updates to Our Loan Portfolio During 2022. "~~ The loan parties to the Public Company A loans are currently in default under both the real estate loan documents and the equipment loan documents, including for failure to timely make certain principal and interest payments thereunder. The lenders are in discussions with Public Company A regarding additional modifications to the Public Company A loans. In October 2022, the parent company of Public Company A, which is also a guarantor of the Public Company A loans, along with its Canadian subsidiaries (" Public Company A Affiliates "), filed for bankruptcy protection under the Companies' Creditors Arrangement Act in Canada. ~~The Public Company A Affiliates are in the process of restructuring their operations.~~ As of October 1, 2022, we placed our loan participations involving Public Company A on **non-** ~~nonaccrual~~ --- **accrual** status. During the ~~fourth quarter of~~ **year ended December 31,** ~~2022~~ **2023** , **the credit facility with Public Company A matured without repayment. The agent on the credit facility has placed the borrower in default, and** we recorded ~~an~~ **a** ~~unrealized~~ -- **realized** loss of approximately $ **(** 1. 2 **)** million relating to the Public Company A real estate loan held at fair value and ~~a current expected credit loss reserve of approximately $ 1. 1 million relating to~~ the Public Company A equipment loan receivable held at carrying value ~~. None~~ **has an outstanding principal amount** of **approximately $ 2. 0 million as of December 31, 2023** ~~our other borrowers are currently in default under their respective loan agreements with us~~ . We may need to foreclose on loans that are in default, which could result in losses. We may find it necessary to foreclose on loans that are in default. Foreclosure processes are often lengthy and expensive. Results of foreclosure processes may be uncertain, as claims may be asserted by the relevant borrower or by other creditors or investors in such borrower that interfere with enforcement of our rights, such as claims that challenge the validity or enforceability of our loan or the priority or perfection of our security interests. Our borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no merit, in an effort to prolong the foreclosure action and seek to force us into a modification or buy- out of our loan for less than we are owed. Additionally, the transfer of certain collateral to us may be limited or prohibited by applicable laws and regulations. See " The loans that are in our Existing Portfolio or that we expect to make in the future may be secured by properties, that are, and will be, subject to extensive regulations, such that if such collateral was foreclosed upon those regulations may result in significant costs and materially and adversely affect our business, financial condition, liquidity and results of operations. " For transferable collateral, foreclosure or other remedies available may be subject to certain laws and regulations, including the need for regulatory disclosure and / or approval of such transfer. If federal law were to change to permit cannabis companies to seek federal bankruptcy protection, the applicable borrower could file for bankruptcy, which would have the effect of staying the foreclosure actions and delaying the foreclosure processes and potentially result in reductions or discharges of debt owed to us. Foreclosure may create a negative public perception of the collateral property, resulting in a diminution of its value. Even if we are successful in foreclosing on collateral property securing our loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our loan. Any costs or delays involved in the foreclosure or a liquidation of the underlying property will reduce the net proceeds realized and, thus, increase the potential for loss. In the event a borrower defaults on any of its obligations to us and such debt obligations are equitized, we do not intend to directly hold such equity interests, which may result in additional losses on our loans in such entity. We will not own real estate as long as it is used in the commercial sale of cannabis due to current statutory prohibitions and exchange listing standards, which may delay or limit our remedies in the event that any of our borrowers default under the terms of their loans with us. Although we have the contractual ability to foreclose on, and take title to, the collateral securing our loans upon a default by the borrower, we will not take title to and own such real estate collateral as long as it is used in cannabis-related operations due to current statutory prohibitions, including Section 856 of the CSA, which relates to the management or control of properties that are used for the manufacturing, distributing or using of any controlled substances. Until that law changes, taking title to real estate used in cannabis- related activities or owning equity in cannabis- related businesses would also violate Nasdaq listing requirements. These restrictions related to real property used in cannabis- related operations may cause significant delays or difficulties in deriving value from those properties. In addition, any alternative uses of cannabis- related properties may be limited due to the specialized nature of the facilities or may be less profitable than the cannabis- related operations, which would adversely affect the value of the collateral securing our loans and could result in the sale of such property at a loss. Because the sale of collateral may be forced upon the borrower at such point when time may be of the essence, and the assets may be made available to a limited number of potential purchasers, particularly in those limited- license states in which we focus, the sales prices may be less than the prices obtained with more time in a larger market. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions to our shareholders. The properties securing our loans may be subject to contingent or unknown liabilities that could adversely affect the value of these properties, and as a result, our loans.