



Company: AFC Gamma, Inc.
Industry: Cannabis Investments
Price (10/02/2023 close): US\$ 11.22/share

Nasdaq: AFCG
URL: <https://afcgamma.com/>
Market Cap: ~US\$ 250 million

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AFC Gamma, Inc. ("AFCG") is a real estate investment trust ("REIT") with a US\$ ~400 million loan portfolio concentrated amongst multi-state cannabis operators collateralized by cultivation facilities, cannabis licenses & real estate. AFCG attracted conservative investor interest using a mid-teens yield shareholder dividends.

AFCG is 100% externally managed by AFC Management ("AFCM"), a related party privately owned by AFCG's largest shareholder, CEO & Chairman Leonard M. Tannenbaum ("Tannenbaum").

We think that AFCG materially overstated AFCG's investment income and understated portfolio losses in order to pay out exorbitant fees to Tannenbaum's AFCM at the expense of AFCG shareholders.

- **Non-Cash Payment-In-Kind Revenues:** PIK interest was substituted for cash in order to artificially inflate AFCG net income. In the past 3 years, AFCG increasingly recorded payment-in-kind interest income ("PIK interest") instead of collecting cash interest payments from its loan portfolio borrowers. In 2022, AFCG's non-cash PIK interest was 10% of net income. As of 2Q'23, PIK interest accounted for 37% of AFCG net income.
- **Delayed Investment Losses:** AFCG was slow to recognize losses to one of its largest credit facility (~20% loan portfolio) in order to maintain inflated asset valuations and exorbitant cash fees paid to Tannenbaum's AFCM. AFCG recklessly lent out capital in an effort to grow management fees paid to AFCM, which led to poor underwriting and poor investments.
- **Exorbitant Cash Fees to AFCM:** In past three years since AFCG acquired its initial loan portfolio from Tannenbaum, AFCG paid AFCM \$US 54.5 million in compensation and expense reimbursement for a concentrated US\$ ~400 million loan portfolio. In 2022, AFCM was paid annual fees and expenses of US\$ 19.7 million, equal to 5.3% of loans under management. In the first 6 months of 2023, AFCG paid fees and expenses of US\$ 9 million to AFCM, equal to 4.9% of loans outstanding.

We question the authenticity of AFCG's purported cash balance. On December 30, 2021, AFCG borrowed US\$ 60 million from Tannenbaum which was repaid two (2) business days later on January 3, 2022. On December 28, 2022, AFCG borrowed \$60.0 million only to be repaid four (4) business days later on January 3, 2023. Why would AFCG take sizeable short-term loans for less than a week at CYE its first two years in a row as a public company?!?

Other red flags exist. AFCG misled investors about the independence of its board of directors, audit, and valuation committee members. In 2018 the SEC found Tannenbaum guilty of misleading investors using a similar scam which resulted in substantial losses for shareholders.

AFCG's dividends exceeded cash from operations since inception. AFCG has not repurchased shares despite trading at a discount to book value. In 1H'23, AFCG repurchased 10% of its 2027 Senior Notes at a 22% discount to par value which to us suggests a significantly lower price for AFCG's common equity.

We expect a decline in AFCG net asset values and a lower shareholder dividend from insufficient cash from operations and rising credit losses. We are short AFCG and think that its stock price is going significantly lower...

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NON-CASH PAYMENT-IN-KIND REVENUES

PIK interest was substituted for cash in order to artificially inflate AFCG net income and assets while maintaining exorbitant cash fees paid to AFCM.

AFCG told investors to expect ~90% of AFCG's revenues from cash receipts. AFCG's 2022 10-K disclosed its principal cash interest rate at 14.1% versus PIK of 1.5% (~90% = $14.1/(14.1+1.5)$).¹

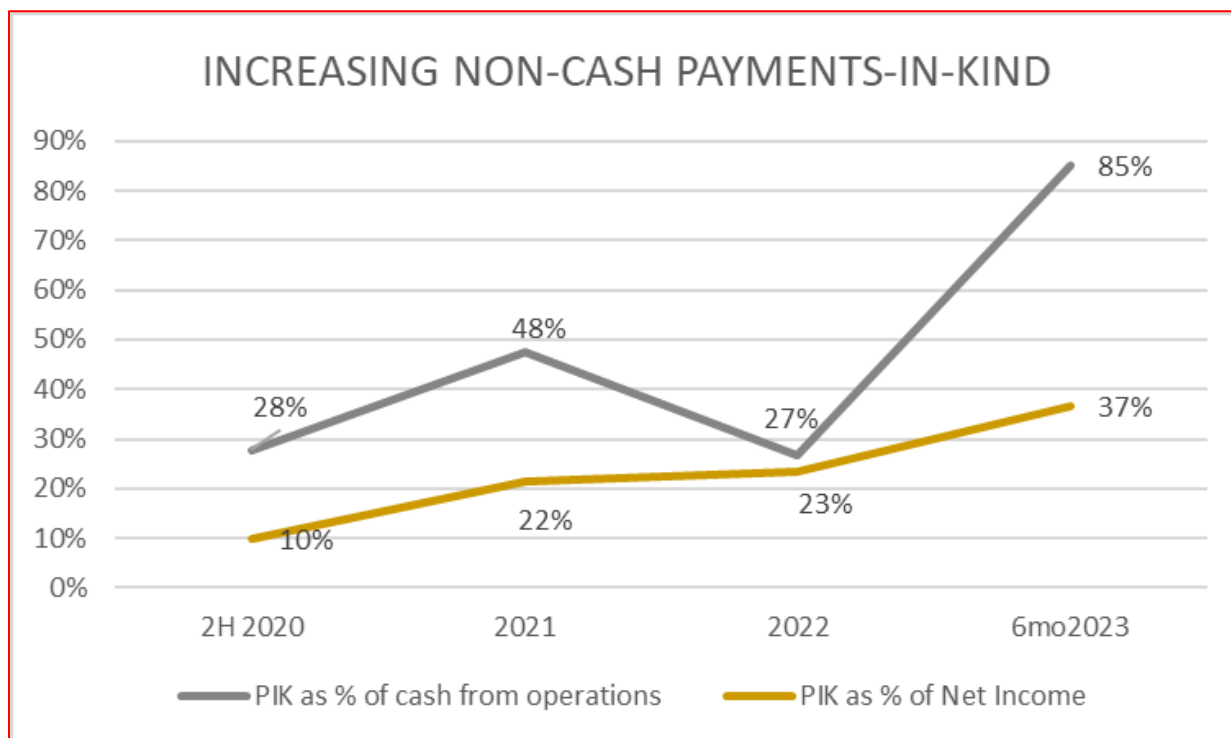
In 1H'23, however, instead of collecting cash interest expenses as revenues, AFCG accrued PIK interest to outstanding loan balances, making a substantial portion of its revenues non-cash PIK instead of cash receipts.

AFCG changed the terms of its underlying loans to include more PIK interest which artificially inflated AFCG net income by overstating revenues and understating losses.

AFCG included PIK interest in taxable income which increased the dividend paid to shareholders even though AFCG had not yet collected the cash.

PIK interest equaled 85% of AFCG's cash from operations and 37% of net income as of 1H'23, up from 28% and 10% as of 2H'20, respectively.

To us, AFCG's artificially inflated net income in order to overpay Tannenbaum's AFCM.



	2H 2020	2021	2022	6mo 2023
net income	4,313,632	21,000,497	35,932,397	22,160,607
Payment-in-kind interest	(422,408)	(4,534,370)	(8,369,127)	(8,109,786)
Net cash provided by (used in) operating activities	1,518,856	9,538,562	31,321,973	9,528,462
PIK as % of cash from operations	28%	48%	27%	85%
PIK as % of Net Income	10%	22%	23%	37%

Source: SEC Filings

¹<https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182252323000006/afc-20221231.htm>

DELAYED INVESTMENT LOSSES

AFCG allowed borrowers to substitute cash interest for PIK interest to avoid loan default.

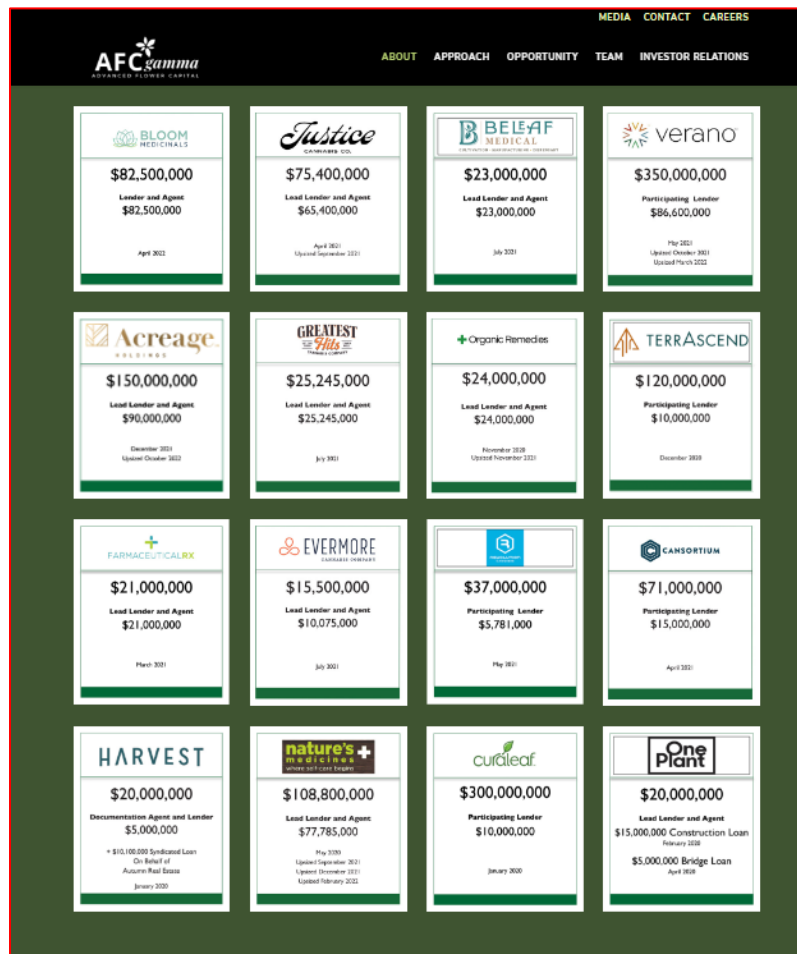
AFCG did not adjust its loan investment carrying values despite non-accrual status, resulting in higher net income and higher purported equity, resulting in higher fees paid to AFCM.

AFCG's 2Q'23 balance sheet maintained par valuations for nearly all investments which equated to higher fees paid to AFCM.

Ultimately we believe that AFCG made poor investments because business quality was not primary to the scheme. Instead, AFCG looked for ways to allocate capital to justify fees paid to Tannenbaum's private external manager, AFCM.

AFCG's loan portfolio is highly concentrated. As of CYE'22, AFCG had loans to 12 different borrowers, and AFCG's top 4 borrowers represented ~71% of AFCG's loan principal balance.² As of June 30, 2023, AFCG's top four borrowers represented ~75% of aggregate outstanding principal balances.³

AFCG historically listed its investments on its website.



Source: <https://afcgamma.com/>

<https://web.archive.org/web/20221206165809/https://afcgamma.com/>

<https://secureservercdn.net/166.62.106.54/ck9.343.myftpupload.com/wp-content/uploads/2022/10/AFC-Fact-Sheet-10.26.22.pdf>

² <https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182252323000006/afcg-20221231.htm>

³ <https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182252323000024/afcg-20230630.htm>

In its most recent prospectus, AFCG disclosed “Additional Bring Down Comfort Letters” which included audited financial statements for AFCG’s top 4 borrowers. One top 4 borrower is the Subsidiary of Private Company G, JG HoldCo LLC, a.k.a Justice Cannabis Co. (“Justice”). AFCG invested ~US\$ 75 million into Justice, ~20% of AFCG’s outstanding loan portfolio as of CYE’22.⁴

AFCG’s 2Q2023 10-Q: “(7)As amended, 75.0% of Subsidiary of Private Company G’s monthly cash interest was paid in kind from December 1, 2022 to May 1, 2023... As of June 1, 2023, Subsidiary of Private Company G was placed on non-accrual status with an outstanding principal amount of approximately \$79.0 million with a related current expected credit loss reserve recorded of approximately \$8.3 million.”⁵

Evidence suggests that AFCG could have placed Justice into non-accrual status much earlier. AFCG’s prospectus included financial statements for Justice’s parent, JG HoldCo LLC, which revealed significant historical operating losses in 2020. Instead, AFCG made multiple subsequent investments into Justice and modified its repayments from cash to PIK in December 2022.

In our opinion, lending US\$ 75 million to a business with US\$ 36 million in assets, negative book value, \$US 17 million in annual sales, US\$ 6 million in annual gross profit, and US\$ 7 million in losses is a bad investment idea.

Despite non-accrual status of a top 4 investment, AFCG did not increase its current expected credit losses on its 2Q’23 10-Q balance sheet.

As of June 30, 2023, AFCG reported US\$ 369 million in loan investments, net of expected credit losses of US\$ 13 million. In 1H’23, AFCG recorded less than US\$ 2 million in unrealized losses and less than US\$ 1 million in provisions for credit losses.⁶

We think AFCG’s actual investment losses are significantly higher evidenced by operating businesses laden with operating losses and tax liabilities.

JG HoldCo LLC and Related Entities Consolidated and Combined Balance Sheet December 31, 2020	
Assets	
Current assets	
Cash and cash equivalents	\$ 893,615
Accounts receivable, net of allowance of \$16,593	489,789
Other receivables	9,609
Accrued rental income	84,794
Inventory	2,827,916
Prepaid expenses	1,075,590
Total current assets	5,381,313
Property and equipment	
Property and equipment, net of accumulated depreciation of \$1,266,077	28,628,124
Other assets	
Other intangible assets	120,360
Related party receivables	1,921,513
Security deposits	113,609
Deposit – long-term investment	25,000
Deferred tax asset, net	388,550
Total other assets	2,569,032
Total assets	\$36,578,469

JG HoldCo LLC and Related Entities Consolidated and Combined Statement of Operations Year Ended December 31, 2020	
Net sales	\$17,112,696
Costs of goods sold	11,167,505
Gross profit	5,945,191
Operating expenses	
General and administrative expenses	9,583,607
Total operating expenses	9,583,607
Other income (expense)	
Interest income	579
Interest expense	(1,958,990)
Rental income	31,670
Loss on disposal of fixed asset	(584,662)
Other income	240,672
Total other expense	(2,270,731)
Income tax expense	1,387,765
Net loss	(7,296,912)
Less net loss attributable to noncontrolling interests	(157,359)
Loss attributable to JG HoldCo LLC and Related Entities	\$ (7,139,553)

Source: https://www.sec.gov/Archives/edgar/data/1822523/000114036122000864/my20001242x11_424b4.htm

Another significant investment of US\$ ~80 million was made into Private Company A, Devi Holdings, Inc. Nature’s Medicine (“Nature’s Medicine”).⁷

Nature’s Medicine financial statements revealed a cash burning business in need of external financing.

⁴ https://www.sec.gov/Archives/edgar/data/1822523/000114036122000135/my20001242x5_ex1-1.htm

⁵ https://www.sec.gov/Archives/edgar/data/1822523/000114036122000864/my20001242x11_424b4.htm

⁶ <https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182252323000024/afc-g-20230630.htm>

⁷ <https://www.newcannabisventures.com/tag/devi-holdings/>

DEVI HOLDINGS, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (Amounts expressed in thousands of United States dollars, except share data)		
	For the year ended December 31,	
	2020	2019
Revenue, net of discounts	\$ 76,340	\$ 45,182
Cost of goods sold	(36,744)	(18,946)
Gross profit	<u>39,596</u>	<u>26,236</u>
Operating expenses		
General and administrative	23,500	21,077
Selling and marketing	1,812	1,206
Share-based compensation	10,986	—
Depreciation	<u>1,158</u>	<u>1,050</u>
Total operating expenses	<u>37,456</u>	<u>23,333</u>
Operating income	2,140	2,903
Other (expense) income		
Loss on disposal of assets	(120)	(6)
Income (loss) from equity method investments	3,274	(675)
Other income	96	79
Interest income	156	207
Interest expense	(5,249)	(1,708)
Amortization of debt costs related to related party PIK loan	<u>(3,325)</u>	<u>—</u>
Income (loss) before taxes and non controlling interest	(3,028)	800
Income taxes	<u>(11,198)</u>	<u>(7,674)</u>
Loss from continued operations before non controlling interest	(14,226)	(6,874)
Net loss from discontinued operations, net of tax	<u>(374)</u>	<u>(801)</u>
Net loss before non controlling interest	(14,600)	(7,675)
Net income attributed to non controlling interest	<u>9,047</u>	<u>10,312</u>
Net loss attributed to Devi Holdings, Inc.	<u>\$(23,647)</u>	<u>\$(17,987)</u>

DEVI HOLDINGS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts expressed in thousands of United States dollars, except share data)		
	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	\$(14,600)	\$ (7,675)
Net loss from discontinued operations, net of tax	374	801
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	1,669	1,050
Amortization of debt issuance cost related to related party PIK I	3,325	468
Amortization of right-of-use assets	644	290
Change in investment	(3,274)	675
Loss on disposal of property, plant and equipment, net	154	56
Provision for bad debts	5	200
Share-based compensation	10,987	—
Changes in operating assets and liabilities		
Accounts receivable	437	(553)
Prepays and other current assets	(924)	(1,073)
Inventory	(4,681)	(374)
Accounts payable and accrued liability and other liabilities	3,232	4,347
Operating lease liability	<u>(301)</u>	<u>(173)</u>
NET CASH PROVIDED IN CONTINUING OPERATING	(2,953)	(1,961)
NET CASH PROVIDED (USED) IN DISCONTINUED	<u>115</u>	<u>4</u>
NET CASH PROVIDED IN OPERATING ACTIVITIES	(2,838)	(1,957)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of business, net of cash acquired	(2,042)	(3,790)
Purchase of property, plant and equipment	(19,223)	(18,239)
Purchase of intangible asset	—	(1,050)
Issuance of notes receivable	—	(951)
Distributions from equity method investments	2,813	—
Net cash used in investing activities from discontinued operations	<u>(12)</u>	<u>(433)</u>
NET CASH USED IN INVESTING ACTIVITIES	(18,464)	(24,463)

Source: https://www.sec.gov/Archives/edgar/data/1822523/000114036122000864/nv20001242x11_424b4.htm

Verano Holdings Corp. (“Verano”) (CSE: VRNO) (OTCQX: VRNOF) (<https://www.verano.com/>) stock price is down since January 2022.

Acreage Holdings, Inc. (“Acreage”) (CSE: ACRG.A.U, ACRG.B.U) (OTCQX: ACRHF, ACRDF) (<https://www.acreageholdings.com/>) stock price is down since December 2021.

Curaleaf Holdings, Inc. (“Curaleaf”) (CSE: CURA) (OTCQX: CURLF) (<https://curaleaf.com/>) stock price is down since January 2020.

TerrAscend Corp. (“TerrAscend”) (TSX: TSND) (OTCQX: TSNDF) (<https://terrascend.com/>) stock price is down since December 2020.

2022	Acreage ("ACRHF")	Curaleaf ("CURLF")	Terrascend ("TSNDF")
Total Revenues	237.1	1,336.3	247.8
Gross Profit	101.7	579.0	101.5
Total Net Income	(139.9)	(155.1)	(32.2)
Cash & Equivalents	24.1	163.2	29.8
Total Assets	360.6	3,397.9	701.6
Total Liabilities	320.4	1,997.1	380.4
Accumulated Deficit	(699.1)	(859.6)	(618.3)
Total Equity	40.2	1,400.8	321.2

Source: SEC Filings



Source: Bloomberg

EXORBITANT FEES PAID TO AFCM MANAGEMENT

We think that AFCG artificially inflated net income and understated investment losses to overpay Tannenbaum's AFCM.

AFCM's investment management contract with AFCG included two primary mechanisms for compensation along with significant a expense reimbursement budget. Firstly, AFCM's base management fee was calculated as a % of AFCG Equity. Secondly, AFCM's incentive compensation as a % of AFCG Net Income.

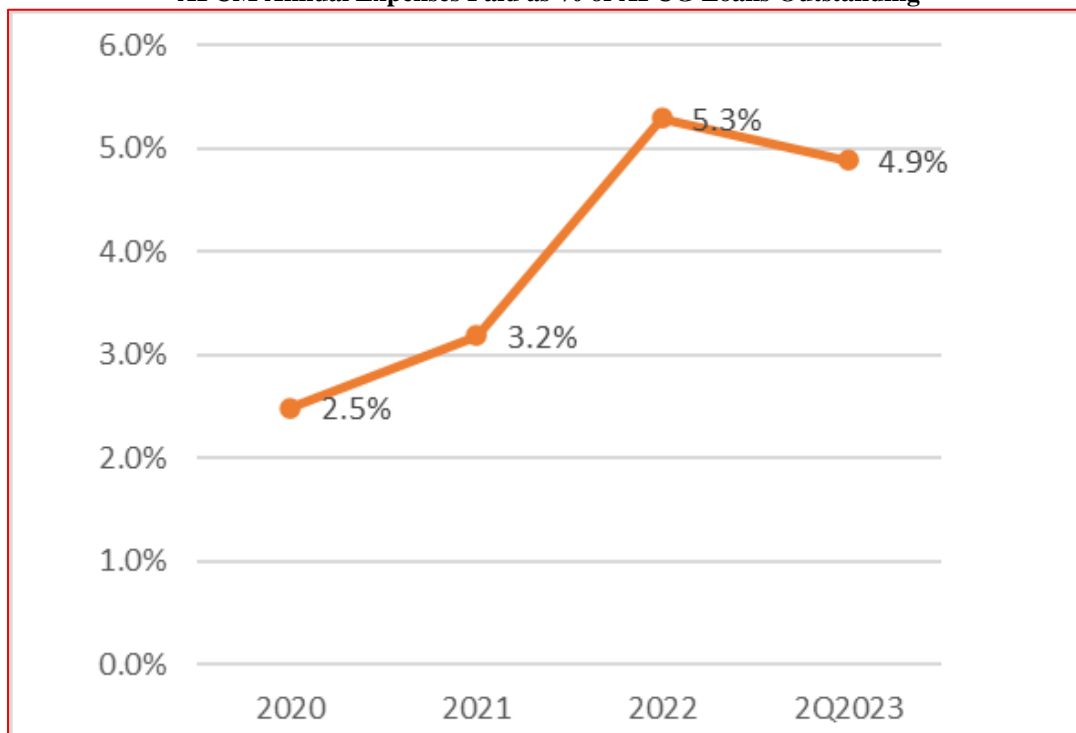
In addition, AFCM received expense reimbursement, agency commissions on AFCG invested capital, co-invested principal in certain select AFCG investments, and has a termination fee equal to three times the sum of previous twelve month fees paid.⁸

In the five months ending CYE'20, total cash expenses paid to AFCM was US\$ 1 million. For the past twelve months, cash fees averaged US\$ ~1.5 million per month.⁹

In the three years ending June 30, 2023, AFCG paid AFCM a total of US\$ 40.4 million in fees and reimbursed expenses.

As of 2Q'23, AFCG paid ~5% of its loan balance annually to AFCM.¹⁰

AFCM Annual Expenses Paid as % of AFCG Loans Outstanding



	2020	2021	2022	2Q2023
Loans Outstanding	83,338,485	334,358,845	373,085,739	368,604,018
fees and expenses paid to AFCM	2,071,598	10,640,586	19,741,562	18,001,882
as %	2.5%	3.2%	5.3%	4.9%

Source: AFCG SEC Filings

⁸ <https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182252323000006/afcg-20221231.htm>

⁹ https://www.sec.gov/Archives/edgar/data/1822523/000114036121009356/nt10017017x22_424b4.htm

¹⁰ <https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182252323000024/afcg-20230630.htm>

SIMILAR FIFTH STREET SCHEME RINSE AND REPEAT

Predating AFCG, Tannenbaum operated a similar scheme that artificially inflated net income and assets.

In 2015, the SEC alleged violations regarding asset valuations at Fifth Street Finance Corporation using Fifth Street Management LLC (“Fifth Street”).

On December 3, 2018, the SEC found that Tannenbaum’s Fifth Street materially overstated assets and net income.

The debacle culminated in a host of lawsuits against Tannenbaum as well as an SEC investigation.

Using insurance money, Fifth Street settled the lawsuits out of court.

Fifth Street was eventually dissolved and remaining assets from both companies were sold to Oaktree Capital Management (FSAM liquidation financials).¹¹

Investment Adviser Settles Charges Related to Expense Misallocation and Valuation Review Failures

ADMINISTRATIVE PROCEEDING

File No. 3-18909

December 3, 2018

The Securities and Exchange Commission announced today that Fifth Street Management LLC, formerly an SEC-registered investment adviser based in Greenwich, Connecticut, has agreed to settle charges relating to the misallocation of certain expenses to its business development company clients and failing to reasonably conduct the quality control reviews of its business development company clients’ quarterly valuation models, causing one client to materially overstate its net income.

According to the SEC’s Order, Fifth Street Management LLC improperly allocated to its clients \$1,327,405 in rent, other overhead, and compensation expenses that Fifth Street Management LLC should have paid. Fifth Street Management LLC also failed to conduct in a reasonable manner the reviews of its clients’ quarterly valuation models, resulting in one client overvaluing two portfolio companies. This caused the client’s financial statements for the periods ended March 31, June 30, and September 30, 2014, to materially misstate net income and earnings per share. While the March 31 and June 30, 2014 materially misstated financial statements were outstanding, the client issued overvalued shares to the public.

The SEC’s Order finds that Fifth Street Management LLC violated the antifraud and policies and procedures provisions of Sections 204A, 206(2), 206(4), and 207 of the Advisers Act and Rules 206(4)-7(a) and 206(4)-8(a)(2), thereunder. The SEC’s Order further finds that Fifth Street Management caused a client’s violation of the antifraud provision Section 17(a)(2) of the Securities Act of 1933, and caused its clients’ violations of the reporting, books and records, and internal controls provisions of Securities and Exchange Act of 1934 and the Investment Company Act of 1940. The Commission ordered Fifth Street Management LLC to cease-and-desist from committing or causing any violations of the aforementioned provisions. The Commission also censured Fifth Street Management LLC and ordered it to pay disgorgement in the amount of \$1,999,115, prejudgment interest in the amount of \$334,545, and a civil money penalty of \$1,650,000. Finally, the SEC’s Order created a Fair Fund pursuant to the Sarbanes-Oxley Act of 2002 for the disgorgement, prejudgment interest, and penalty.

Source: <https://www.sec.gov/enforce/33-10581-s>

Court Order: <https://www.sec.gov/files/litigation/admin/2018/33-10581.pdf>

¹¹ <http://www.fifthstreetfinance.com/wp-content/uploads/FIFTH-STREET-ASSET-MANAGEMENT-INC-Financial-Statement-FYE-12-11-2020.pdf>

<http://www.fifthstreetfinance.com/wp-content/uploads/FIFTH-STREET-ASSET-MANAGEMENT-INC-Financial-Statement-FYE-12-31-2019.pdf>

<http://www.fifthstreetfinance.com/wp-content/uploads/FIFTH-STREET-ASSET-MANAGEMENT-INC-Financial-Statement-FYE-12-31-2018.pdf>

“INDEPENDENT” DIRECTORS ARE FIFTH STREET CRONIES

Evidence shows that AFCG’s Board of Directors and AFCM’s Investment Committee include many loyal lieutenants from Tannenbaum’s previous Fifth Street scheme.

*“Our Board has determined that **Mr. Harrison, Mr. Frank, Mr. Tzur, Mr. Levy and Ms. Bond meet the independence standards** as set forth by the rules, regulations and listing standards of the Nasdaq Stock Market and the applicable rules of the SEC.”¹²*

Alexander Frank (“**Frank**”) is listed as an AFCG independent director and is the Chairman of AFCG’s Audit & Valuations Committees.

Frank was the Chief Operating Officer and Chief Financial Officer of Fifth Street from the time of its initial public offering in 2014 to its sale to Oaktree in 2017.

Frank was mentioned as a co-defendant in a lawsuit brought by the SEC against Tannenbaum for his role in Fifth Street.¹³

Thomas Harrison (“**Harrison**”) is listed as an AFCG independent director, Chair of AFCG’s compensation committee, and a member of AFCG’s Audit & Valuation committees.

Harrison is also a lead director of Fifth Street.¹⁴

Jodi Hanson Bond (“**Bond**”) is listed as an AFCG independent director.

Bond served as a director at Fifth Street since 2017.¹⁵

AFCM’s Investment Committee is comprised of Leonard Tannenbaum, Bernard Berman (“**Berman**”), Robyn Tannenbaum (“**Robyn**”), and (previously) Jonathan Kalikow.

Berman is the President and Authorized signatory for AFCG counterparties.

Berman was the Chairman of Fifth Street.¹⁶

Robyn was investor relations for Fifth Street before becoming Leonard M. Tannenbaum’s third wife.

Robyn is now a primary scheme cohort as the second-largest shareholder of AFCM.

Jonathan Kalikow resigned from AFCG and AFCM on September 11, 2023.¹⁷

To us, the evidence clearly shows that AFCM’s board and AFCG’s investment committee are comprised of cohorts from Tannenbaum’s previous Fifth Street scheme.

¹² https://www.sec.gov/Archives/edgar/data/1822523/000114036120029565/nt10017017x2_s11.htm

¹³ https://www.sec.gov/Archives/edgar/data/1822523/000114036123016214/my20007151x1_def14a.htm

¹⁴ https://www.sec.gov/Archives/edgar/data/1822523/000114036123016214/my20007151x1_def14a.htm

¹⁵ <https://investors.afcgamma.com/corporate-governance/board-of-directors>

¹⁶ <https://www.bloomberg.com/press-releases/2017-04-05/fifth-street-finance-corp-announces-leadership-transition>

¹⁷ https://www.sec.gov/ix?doc=/Archives/edgar/data/1822523/000182912623006051/afcgammainc_8k.htm

ADDITIONAL FINANCIAL RED FLAGS

(1) Unsustainable Dividend

Since inception, AFCG's shareholder dividends paid exceeded AFCG's cash from operations.

On July 22, 2022 the SEC asked questions about AFCG's status as a REIT because its net income was derived from a non-cash source of income.

We note your disclosure on page F-11 that to maintain the Company's status as a REIT, payment-in-kind interest, a non-cash source of income, must be paid out to stockholders in the form of dividends for the year earned, even though the Company has not yet collected the cash. We further note your dividends paid to stockholders exceeded the net cash provided by operating activities. To the extent your dividends were not paid out of operating cash flows, please tell us what consideration you gave to disclosing the source of your dividend payments.

Source: <https://www.sec.gov/Archives/edgar/data/1822523/00000000022007693/filename1.pdf>

AFCG's response is that it relied on "an "original issue discount" ("*OID*") and interest reserves released into revenues recorded as a reduction in the loan funded in the investing section cash flows."¹⁸

The result is an arbitrary reduction in loan balance owed by a particular borrower to appease SEC reported dividend payout ratios. Reducing cash from investing to pay for dividends is not sustainable and further obfuscates the true operating performance of AFCG's investment portfolio.

(2) Questionable Cash Balance

Oddly, for two years in a row, AFCG took sizeable short-term loans in December only to be immediately repaid the first week of January the following calendar year.

On December 30, 2021, AFCG borrowed US\$ 60 million from Tannenbaum which was repaid two (2) business days later on January 3, 2022. On December 28, 2022, the Company drew \$60.0 million only to be repaid four (4) business days later on January 3, 2023.

Why would AFCG take sizeable short-term loans for less than a week at CYE its first two years in a row as a public company?!?

We suspect foul play and AFCG needed to reconcile its year end cash balance to appease its annual audit.

Since its IPO, AFCG used CohnReznich LLP as auditor. In June 2022, CohnReznich LLP was fined by the SEC for auditing deficiencies of a different client.¹⁹

(3) AFCG 2027 Senior Notes Valued at 77.5% of Par

During the six months ended June 30, 2023, AFCG repurchased \$10.0 million in principal amount of its 2027 Senior Notes at 77.4% of par value, plus accrued interest.²⁰

Why were the notes purchased at a 22% discount to par value? Who did AFCG repurchase the notes from? Were the 2027 Senior Notes offered to third parties or was AFCG the sole bidder? Regardless, the mark is an indication that AFCG's 2027 Senior Notes are valued at 22% below par.

Why buy AFCG's common equity if investors can buy 2027 Senior Notes for the same discount?

¹⁸ <https://www.sec.gov/Archives/edgar/data/1822523/000182912622014759/filename1.htm>

¹⁹ <https://www.sec.gov/news/press-release/2022-102>

²⁰ <https://www.sec.gov/ix?doc=/Archives/edgar/data/0001822523/000182252323000024/afcg-20230630.htm>

DISCLAIMER

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