

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2021
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 1-35730

STELLUS CAPITAL INVESTMENT CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or other Jurisdiction of
Incorporation or Organization)

46-0937320
(I.R.S. Employer
Identification No.)

4400 Post Oak Parkway, Suite 2200
Houston, Texas 77027
(Address of Principal Executive Offices) (Zip Code)
(713) 292-5400
(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 each exchange on which registered
Common Stock, par value \$0.001 per share	SCM	New York Stock Exchange

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 and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

The number of shares of the issuer's Common Stock, \$0.001 par value per share, outstanding as of May 6, 2021 was 19,486,003.

STELLUS CAPITAL INVESTMENT CORPORATION

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PART I — FINANCIAL INFORMATION

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$719,546,960 and \$658,628,966, respectively)	\$ 714,464,472	\$ 653,424,495
Cash and cash equivalents	30,449,635	18,477,602
Receivable for sales and repayments of investments	210,442	215,929
Interest receivable	2,152,217	2,189,448
Other receivables	25,495	25,495
Deferred offering costs	—	90,000
Prepaid expenses	456,315	487,188
Total Assets	\$ 747,758,576	\$ 674,910,157
LIABILITIES		
Notes payable	\$ 97,765,674	\$ 48,307,518
Credit facility payable	163,342,988	171,728,405
SBA-guaranteed debentures	205,285,585	173,167,496
Dividends payable	1,623,187	—
Management fees payable	1,963,861	2,825,322
Income incentive fees payable	122,499	681,660
Capital gains incentive fees payable	604,302	521,021
Interest payable	1,825,427	2,144,085
Unearned revenue	475,222	523,424
Administrative services payable	389,005	391,491
Deferred tax liability	527,394	359,590
Income tax payable	92,726	724,765
Other accrued expenses and liabilities	311,821	174,731
Total Liabilities	\$ 474,329,691	\$ 401,549,508
Commitments and contingencies (Note 7)		
Net Assets	\$ 273,428,885	\$ 273,360,649
NET ASSETS		
Common stock, par value \$0.001 per share (100,000,000 shares authorized; 19,486,003 issued and outstanding for both periods)	\$ 19,486	\$ 19,486
Paid-in capital	276,026,667	276,026,667
Accumulated undistributed deficit	(2,617,268)	(2,685,504)
Net Assets	\$ 273,428,885	\$ 273,360,649
Total Liabilities and Net Assets	\$ 747,758,576	\$ 674,910,157
Net Asset Value Per Share	\$ 14.03	\$ 14.03

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended March 31, 2021	For the three months ended March 31, 2020
INVESTMENT INCOME		
Interest income	\$ 13,512,777	\$ 14,849,588
Other income	475,087	411,457
Total Investment Income	\$ 13,987,864	\$ 15,261,045
OPERATING EXPENSES		
Management fees	\$ 2,963,861	\$ 2,719,054
Valuation fees	128,353	109,833
Administrative services expenses	453,389	466,935
Income incentive fees	—	1,339,637
Capital gains incentive fees (reversal)	83,281	(880,913)
Professional fees	268,965	386,714
Directors' fees	91,500	132,250
Insurance expense	117,507	93,071
Interest expense and other fees	4,323,478	4,292,204
Income tax expense	239,981	196,795
Other general and administrative expenses	256,918	166,003
Total Operating Expenses	\$ 8,927,233	\$ 9,021,583
Net Investment Income	\$ 5,060,631	\$ 6,239,462
Net realized gain on non-controlled, non-affiliated investments	\$ 462,228	\$ 1,296,793
Loss on debt extinguishment	\$ (539,250)	\$ —
Net change in unrealized appreciation (depreciation) on non-controlled, non-affiliated investments	\$ 121,983	\$ (51,504,946)
(Provision) benefit for taxes on net unrealized gain on investments	\$ (167,804)	\$ 28,959
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 4,937,788	\$ (43,939,732)
Net Investment Income Per Share	\$ 0.26	\$ 0.32
Net Increase (Decrease) in Net Assets Resulting from Operations Per Share	\$ 0.25	\$ (2.26)
Weighted Average Shares of Common Stock Outstanding	19,486,003	19,429,480
Distributions Per Share	\$ 0.25	\$ 0.34

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the three months ended March 31, 2021	For the three months ended March 31, 2020
Increase (Decrease) in Net Assets Resulting from Operations		
Net investment income	\$ 5,060,631	\$ 6,239,462
Net realized gain on non-controlled, non-affiliated investments	462,228	1,296,793
Loss on debt extinguishment	(539,250)	—
Net change in unrealized appreciation (depreciation) on non-controlled, non-affiliated investments	121,983	(51,504,946)
(Provision) benefit for taxes on unrealized appreciation on investments	(167,804)	28,959
Net Increase (Decrease) in Net Assets Resulting from Operations	<u>\$ 4,937,788</u>	<u>\$ (43,939,732)</u>
Stockholder Distributions From:		
Net investment income	\$ (4,869,552)	\$ (6,619,297)
Total Distributions	<u>\$ (4,869,552)</u>	<u>\$ (6,619,297)</u>
Capital Share Transactions		
Issuance of common stock	\$ —	\$ 4,930,467
Sales load	—	(5,681)
Offering costs	—	(18,169)
Partial share transactions	—	(96)
Net Increase in Net Assets Resulting From Capital Share Transactions	<u>\$ —</u>	<u>\$ 4,906,521</u>
Total Increase (Decrease) in Net Assets	<u>\$ 68,236</u>	<u>\$ (45,652,508)</u>
Net Assets at Beginning of Period	<u>\$ 273,360,649</u>	<u>\$ 270,571,173</u>
Net Assets at End of Period	<u>\$ 273,428,885</u>	<u>\$ 224,918,665</u>

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the three months ended March 31, 2021	For the three months ended March 31, 2020
Cash flows from operating activities		
Net increase (decrease) in net assets resulting from operations	\$ 4,937,788	\$ (43,939,732)
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash used in operating activities:		
Purchases of investments	(93,290,837)	(61,533,313)
Proceeds from sales and repayments of investments	33,473,269	31,763,595
Net change in unrealized (appreciation) depreciation on investments	(121,983)	51,504,946
Increase in investments due to PIK	(118,329)	(537,284)
Amortization of premium and accretion of discount, net	(521,051)	(538,019)
Deferred tax provision (benefit)	167,804	(28,959)
Amortization of loan structure fees	114,583	149,978
Amortization of deferred financing costs	122,460	82,874
Amortization of loan fees on SBA-guaranteed debentures	233,814	171,275
Net realized gain on investments	(455,560)	(1,296,793)
Loss on debt extinguishment	539,250	—
Changes in other assets and liabilities		
(Decrease) increase in interest receivable	37,231	(1,058,214)
Decrease in prepaid expenses	30,873	43,923
(Decrease) increase in management fees payable	(861,461)	23,274
Decrease in incentive fees payable	(559,161)	(126,396)
Increase (decrease) in capital gains incentive fees payable	83,281	(880,913)
(Decrease) increase in administrative services payable	(2,486)	18,949
Decrease in interest payable	(318,658)	(1,405,298)
(Decrease) increase in unearned revenue	(48,202)	154,391
Decrease in income tax payable	(632,039)	(747,600)
Increase in other accrued expenses and liabilities	137,090	295,218
Net Cash Used in Operating Activities	\$ (57,052,324)	\$ (27,884,098)
Cash flows from Financing Activities		
Proceeds from the issuance of common stock	\$ —	\$ 4,794,995
Sales load for commons stock issued	—	(5,681)
Offering costs paid for common stock issued	—	(18,169)
Stockholder distributions paid	(3,246,365)	(6,445,020)
Repayment of Notes Payable	(48,875,000)	—
Proceeds from issuance of Notes	100,000,000	—
Financing costs from bond issuance	(2,238,553)	—
Proceeds from SBA Debentures	33,500,000	—
Financing costs paid on SBA Debentures	(1,615,725)	—
Borrowings under Credit Facility	113,300,000	74,450,000
Repayments of Credit Facility	(121,800,000)	(26,000,000)
Partial Share Redemption	—	(96)
Net Cash Provided by Financing Activities	\$ 69,024,357	\$ 46,776,029
Net Increase in Cash and Cash Equivalents	\$ 11,972,033	\$ 18,891,931
Cash and cash equivalents balance at beginning of period	18,477,602	16,133,315
Cash and Cash Equivalents Balance at End of Period	<u>\$ 30,449,635</u>	<u>\$ 35,025,246</u>
Supplemental and Non-Cash Activities		
Cash paid for interest expense	\$ 4,166,438	\$ 5,291,684
Excise tax paid	870,000	940,000
Shares issued pursuant to Dividend Reinvestment Plan	—	135,472
Increase in distribution payable	1,623,187	38,805
Decrease in deferred offering costs for Notes Payable offering	(90,000)	—
Gain on conversion of equity investment	6,668	—

Stellus Capital Investment Corporation

Consolidated Schedule of Investments

March 31, 2021

(unaudited)

Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
Non-controlled, non-affiliated investments	(2)(9)												
Adams Publishing Group, LLC									Greenville, TN				
Term Loan			1M						Media: Advertising, Printing & Publishing	\$ 4,802,580	4,778,041	4,802,580	1.76%
Delayed Draw Term Loan	(35)	First Lien	L+7.00%	1.75%	8.75%		8/3/2018	6/30/2023		\$ 157,202	157,202	157,202	0.06%
Total	(35)	First Lien	L+7.00%	1.75%	8.75%		8/3/2018	6/30/2023		\$ 4,959,782	\$ 4,935,243	\$ 4,959,782	1.82%
Advanced Barrier Extrusions, LLC									Rhineland, WI				
Term Loan (SBIC)			1M						Containers, Packaging & Glass	\$ 17,456,250	17,121,650	17,107,123	6.26%
GP ABX Holdings Partnership, L.P. Common Stock	(2)(35)	First Lien	L+6.50%	1.00%	7.50%		11/30/2020	11/30/2026		644,737 units	700,000	820,000	0.30%
Total	(4)	Equity					8/8/2018			\$ 17,821,650	\$ 17,821,650	\$ 17,927,123	6.56%
Anne Lewis Strategies, LLC									Washington, DC				
Term Loan (SBIC II)	(20)		3M						Services: Business	\$ 11,500,000	11,273,049	11,273,049	4.12%
SG AL Investment, LLC Common Units	(9)(35)	First Lien	L+6.75%	1.00%	7.75%		3/5/2021	3/5/2026					
Total	(4)	Equity					3/5/2021			1,000 units	1,000,000	1,000,000	0.37%
APE Holdings, LLC									Deer Park, TX				
Class A Common Units									Chemicals, Plastics, & Rubber	375,000 units	375,000	70,000	0.03%
Total	(4)	Equity					9/5/2014						
Atmosphere Aggregator Holdings II, LP									Atlanta, GA				
Common Units									Services: Business	254,250 units	0	1,440,000	0.53%
Stratose Aggregator Holdings, LP Common Units	(4)	Equity					1/26/2016			750,000 units	0	4,240,000	1.55%
Total	(4)	Equity					6/30/2015				\$ 0	\$ 5,680,000	2.08%
ASC Communications, LLC									Chicago, IL				
Term Loan (SBIC)	(17)		1M						Healthcare & Pharmaceuticals	\$ 3,950,617	3,938,765	3,812,346	1.39%
Term Loan	(2)(35)	First Lien	L+5.00%	1.00%	6.00%		6/29/2017	6/29/2023					
ASC Communications Holdings, LLC Class A Preferred Units (SBIC)	(35)	First Lien	L+5.00%	1.00%	6.00%		2/4/2019	6/29/2023		\$ 6,716,049	6,669,813	6,480,988	2.37%
Total	(2)(4)	Equity					6/29/2017			73,529 shares	48,148	370,000	0.14%
BW DME Acquisition, LLC									Tempe, AZ				
Term Loan (SBIC)	(2)(13)		3M						Healthcare & Pharmaceuticals	\$ 16,695,804	16,524,685	16,695,804	6.11%
BW DME Holdings, LLC, Term Loan	(22)	First Lien	L+6.00%	1.00%	8.57%		8/24/2017	8/24/2022					
BW DME Holdings, LLC Class A-1 Preferred Units	(6)	Unsecured	17.50%			17.50%	6/1/2018	6/30/2020		\$ 407,938	407,938	407,938	0.15%
BW DME Holdings, LLC Class A-2 Preferred Units	(4)	Equity					8/24/2017			1,000,000 shares	1,000,000	1,690,000	0.62%
Total	(4)	Equity					1/26/2018			937,261 shares	937,261	1,590,000	0.58%
										\$ 18,869,884	\$ 20,383,742	\$ 20,383,742	7.46%

Stellus Capital Investment Corporation

Consolidated Schedule of Investments

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(unaudited)

Café Valley, Inc.										Phoenix, AZ				
Term Loan										Beverage, Food, & Tobacco	\$ 16,033,333	15,800,550	15,632,500	5.72%
	(35)	First Lien	1M L+7.00%	1.25%	8.25%	8/28/2019	8/28/2024							
CF Topco LLC, Common Units	(4)	Equity				8/28/2019			9,160 shares		916,015	780,000		0.29%
Total											<u>\$ 16,716,565</u>	<u>\$ 16,412,500</u>		<u>6.01%</u>
CEATI International, Inc.										Montreal, Quebec				
Term Loan	(39)	First Lien	3M L+6.50%	1.00%	7.50%	2/19/2021	2/19/2026			Business	\$ 13,500,000	13,233,673	13,233,676	4.84%
CEATI Holdings, LP, Class A Units	(4)(5)	Equity				2/19/2021			250,000 shares		250,000	250,000		0.09%
Total											<u>\$ 13,483,673</u>	<u>\$ 13,483,676</u>		<u>4.93%</u>
Colford Capital Holdings, LLC										New York, NY				
Preferred Units	(4)(5)	Equity				8/20/2015			38,893 units	Finance	195,036	20,000		0.01%
CommentSold, LLC										Huntsville, AL				
Term Loan (SBIC)	(2)(35)	First Lien	1M+6.00%	1.00%	7.00%	11/20/2020	11/20/2026			High Tech Industries	\$ 12,468,750	12,230,520	12,281,719	4.49%
CompleteCase, LLC										Seattle, WA				
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.50%	1.00%	7.50%	12/21/2020	12/21/2025			Services: Consumer	\$ 11,449,565	11,229,989	11,163,326	4.08%
Revolver	(21)(35)	First Lien	3M L+6.50%	1.00%	7.50%	12/21/2020	12/21/2025				\$ 33,333	33,333	32,500	0.01%
CompleteCase Holdings, Inc. Class A Common Units (SBIC II)	(4)(9)	Equity				12/21/2020			417 units		5	0		0.00%
CompleteCase Holdings, Inc. Series A Preferred Units (SBIC II)	(4)(9)	Equity				12/21/2020			522 units		521,734	530,000		0.19%
Total											<u>\$ 11,785,061</u>	<u>\$ 11,725,826</u>		<u>4.28%</u>
Convergence Technologies, Inc.										Indianapolis, IN				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.50%	8.25%	8/31/2018	8/30/2024			Services: Business	\$ 6,964,286	6,876,265	6,923,548	2.53%
Term Loan	(35)	First Lien	3M L+6.75%	1.50%	8.25%	2/28/2019	8/30/2024				\$ 1,400,000	1,381,071	1,391,811	0.51%
Term Loan B (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.50%	8.25%	8/14/2020	8/30/2024				\$ 3,731,250	3,667,053	3,709,424	1.36%
Delayed Draw Term Loan	(35)	First Lien	3M L+6.75%	1.50%	8.25%	8/31/2018	8/30/2024				\$ 5,236,607	5,236,607	5,205,976	1.90%
Tailwind Core Investor, LLC Class A Preferred Units	(4)	Equity				8/31/2018			5,583 units		588,813	760,000		0.28%
Total											<u>\$ 17,749,809</u>	<u>\$ 17,990,759</u>		<u>6.58%</u>
Data Centrum Communications, Inc.										Montvale, NJ				
Term Loan	(35)	First Lien	3M L+7.50%	1.00%	8.50%	5/15/2019	5/15/2024			Media: Advertising, Printing & Publishing	\$ 15,965,625	15,753,687	15,167,344	5.55%
Health Monitor Holdings, LLC Series A Preferred Units	(4)	Equity				5/15/2019			1,000,000 shares		1,000,000	330,000		0.12%
Total											<u>\$ 16,753,687</u>	<u>\$ 15,497,344</u>		<u>5.67%</u>
Douglas Products Group, LP										Liberty, MO				
Class A Common Units	(4)	Equity				12/27/2018			322 shares	Chemicals, Plastics, & Rubber	139,656	850,000		0.31%
DRS Holdings III, Inc.										St. Louis, MO				
Term Loan	(35)	First Lien	1M L+5.75%	1.00%	6.75%	11/1/2019	11/1/2025			Consumer Goods: Durable	\$ 9,875,000	9,795,676	9,875,000	3.61%
DTE Enterprises, LLC										Roselle, IL				
Term Loan	(6)(35)	First Lien	6M L+8.50%	1.50%	9.50%	4/13/2018	4/13/2023			Energy: Oil & Gas	\$ 9,332,758	9,245,385	8,539,474	3.12%
DTE Holding Company, LLC Common Shares, Class A-2	(4)	Equity				4/13/2018			776,316 shares		466,204	220,000		0.08%

Stellus Capital Investment Corporation

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(unaudited)

DTE Holding Company, LLC Preferred Shares, Class AA Total	(4)	Equity				4/13/2018			723,684 shares	723,684	200,000	0.07%
										<u>\$ 10,435,273</u>	<u>\$ 8,959,474</u>	<u>3.27%</u>
Elliott Aviation, LLC												
Term Loan	(35)	First Lien	3M L+6.00%	1.75%	7.75%	1/31/2020	1/31/2025	Moline, IL Aerospace & Defense	\$ 18,309,375	18,015,707	17,943,188	6.56%
Revolver	(3)(35)	First Lien	3M L+6.00%	1.75%	7.75%	1/31/2020	1/31/2025		\$ 1,350,000	1,350,000	1,323,000	0.48%
SP EA Holdings, LLC Preferred Shares, Class A Total	(4)	Equity				1/31/2020			900,000 shares	900,000	510,000	0.19%
										<u>\$ 20,265,707</u>	<u>\$ 19,776,188</u>	<u>7.23%</u>
Empirix Holdings I, Inc.												
Common Shares, Class A Common Shares, Class B Total	(4)	Equity				11/1/2013		Billerica, MA Software	1,304 shares 1,317,406 shares	1,304,232	1,830,000	0.67%
	(4)	Equity				11/1/2013				13,174	20,000	0.01%
										<u>\$ 1,317,406</u>	<u>\$ 1,850,000</u>	<u>0.68%</u>
Energy Labs Holding Corp.												
Common Stock	(4)	Equity				9/29/2016		Houston, TX Energy: Oil & Gas	598 shares	598,182	820,000	0.30%
Exacta Land Surveyors, LLC												
Term Loan (SBIC)	(23)(25)	First Lien	3M L+5.75%	1.50%	7.25%	2/8/2019	2/8/2024	Cleveland, OH Services: Business	\$ 16,671,875	16,462,299	16,421,797	6.01%
SP ELS Holdings LLC, Class A Common Units Total	(4)	Equity				2/8/2019			1,069,143 shares	1,069,143	690,000	0.25%
										<u>\$ 17,531,442</u>	<u>\$ 17,111,797</u>	<u>6.26%</u>
EOS Fitness Holdings, LLC												
Preferred Units	(4)	Equity				12/30/2014		Phoenix, AZ Hotel, Gaming, & Leisure	118 shares	0	0	0.00%
Class B Common Units	(4)	Equity				12/30/2014			3,017 shares	0	0	0.00%
										<u>\$ 0</u>	<u>\$ 0</u>	<u>0.00%</u>
Fast Growing Trees, LLC												
Term Loan (SBIC)	(16)	First Lien	3M L+6.75%	1.00%	7.75%	2/5/2018	02/05/23	Fort Mill, SC Retail	\$ 14,992,490	14,866,242	14,992,490	5.48%
SP FGT Holdings, LLC, Class A Common Total	(4)	Equity				2/5/2018			1,000,000 shares	978,511	3,420,000	1.25%
										<u>\$ 15,844,753</u>	<u>\$ 18,412,490</u>	<u>6.73%</u>
FB Topco, Inc.												
Term Loan	(13)(22)	First Lien	6M L+6.35%	1.00%	9.52%	6/27/2018	4/24/2023	Camden, NJ Education	\$ 20,540,541	20,334,097	20,437,838	7.47%
Delayed Draw Term Loan	(13)(22)	First Lien	6M L+6.35%	1.00%	9.55%	6/27/2018	4/24/2023		\$ 1,126,213	1,126,213	1,120,582	0.41%
										<u>\$ 21,460,310</u>	<u>\$ 21,558,420</u>	<u>7.88%</u>
GK Holdings, Inc.												
Term Loan	(33)(35)	Second Lien	3M L+10.25%	1.00%	0.00%	1/30/2015	1/20/2022	Cary, NC Education	\$ 5,000,000	4,983,748	2,900,000	1.06%
General LED OPCO, LLC												
Term Loan	(40)	Second Lien	3M L+9.00%	1.50%	0.00%	5/1/2018	11/1/2023	San Antonio, TX Services: Business	\$ 4,500,000	4,451,831	3,645,000	1.33%
GS HVAM Intermediate, LLC												
Term Loan	(35)	First Lien	1M L+5.75%	1.00%	6.75%	10/18/2019	10/2/2024	Carlsbad, CA Beverage, Food, & Tobacco	\$ 12,862,942	12,766,331	12,862,942	4.70%
Revolver	(34)(35)	First Lien	1M L+5.75%	1.00%	6.75%	10/18/2019	10/2/2024		\$ 1,007,576	1,007,576	1,007,576	0.37%
HV GS Acquisition, LP Class A Interests Total	(4)	Equity				6/29/2018			1,796 shares	1,618,844	1,990,000	0.73%
										<u>\$ 15,392,751</u>	<u>\$ 15,860,518</u>	<u>5.80%</u>

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Grupo HIMA San Pablo, Inc., et al													
Term Loan	(27)(35)	First Lien	3M L+7.00%	1.50%	0.00%	2/1/2013	1/31/2018	San Juan, PR Healthcare & Pharmaceuticals	\$ 4,503,720	4,503,720	2,341,935	0.86%	
Term Loan	(15)(27)	Second Lien	13.75%		0.00%	2/1/2013	7/31/2018		\$ 4,109,524	4,109,524	0	0.00%	
Total									\$ 8,613,244	\$ 2,341,935		0.86%	
I2P Holdings, LLC													
Series A Preferred	(4)	Equity				1/31/2018		Cleveland, OH Services: Business	750,000 shares	750,000	3,890,000	1.42%	
Ian, Evan & Alexander Corporation													
Term Loan (SBIC)	(2)(35)	First Lien	3M L+8.50%	1.00%	9.50%	7/31/2020	7/31/2025	Reston, VA Business	\$ 7,049,279	6,923,287	6,978,786	2.55%	
EC Defense Holdings, Class B Units (SBIC)	(2)(4)	Equity				7/31/2020			20,054 shares	500,000	670,000	0.25%	
Total									\$ 7,423,287	\$ 7,648,786		2.80%	
ICD Holdings, LLC													
Class A Preferred	(4)(5)	Equity				1/1/2018		San Francisco, CA	9,962 shares	464,616	2,320,000	0.85%	
Industry Dive, Inc.													
Term Loan (SBIC)	(2)(35)	First Lien	1M L+6.25%	1.00%	7.25%	7/17/2020	8/30/2024	Washington, D.C. Services: Business	\$ 6,998,213	6,878,131	6,928,231	2.53%	
Integrated Oncology Network, LLC													
Term Loan	(35)	First Lien	3M L+5.50%	1.50%	7.00%	7/17/2019	6/24/2024	Newport Beach, CA Healthcare & Pharmaceuticals	\$ 16,428,716	16,201,502	16,428,716	6.01%	
Revolver	(35)	First Lien	3M L+5.50%	1.50%	7.00%	7/17/2019	6/24/2024		\$ 553,517	553,517	553,517	0.20%	
Total									\$ 16,755,019	\$ 16,982,233		6.21%	
Interstate Waste Services, Inc.													
Common Units	(4)	Equity				10/30/2015		Amsterdam, OH Environmental Industries	21,925 shares	946,125	370,000	0.14%	
Intuitive Health, LLC													
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.00%	1.50%	7.50%	10/18/2019	10/18/2024	Plano, TX Healthcare & Pharmaceuticals	\$ 5,925,000	5,835,437	5,925,000	2.17%	
Term Loan	(35)	First Lien	3M L+6.00%	1.50%	7.50%	10/18/2019	10/18/2024		\$ 11,356,250	11,184,587	11,356,250	4.15%	
Legacy Parent, Inc. Class A Common Units	(4)	Equity				10/30/2020			58 shares	125,000	130,000		
Total									\$ 17,145,024	\$ 17,411,250		6.32%	
Invincible Boat Company, LLC													
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.50%	1.50%	8.00%	8/28/2019	8/28/2025	Opa Locka, FL Consumer Goods: Durable	\$ 5,469,818	5,384,170	5,469,818	2.00%	
Term Loan	(35)	First Lien	3M L+6.50%	1.50%	8.00%	8/28/2019	8/28/2025		\$ 5,925,636	5,779,075	5,925,636	2.17%	
Invincible Parent Holdco, LLC Class A Common Units	(4)	Equity				8/28/2019			1,000,000 shares	968,105	600,000	0.22%	
Total									\$ 12,131,350	\$ 11,995,454		4.39%	
J.R. Watkins, LLC													
Term Loan (SBIC)	(2)(6)	First Lien	10.00%		7.00%	12/22/2017	12/22/2022	San Francisco, CA Consumer Goods: non-durable	\$ 12,310,854	12,213,466	12,310,854	4.50%	
J.R. Watkins Holdings, Inc. Class A Preferred	(4)	Equity				12/22/2017			1,133 shares	1,132,576	730,000	0.27%	
Total									\$ 13,346,042	\$ 13,040,854		4.77%	

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Jurassic Acquisiton Corp.											Sparks, MD		
Term Loan	(12)	First Lien	3M L+5.50%	0.00%	5.70%	12/28/2018	11/15/2024	Metals & Mining Walnut Creek, CA	\$ 17,106,250	16,937,047	17,106,250	6.26%	
Kelleyamerit Holdings, Inc.													
Term Loan (SBIC)	(2)(13) (22)	First Lien	1M L+6.50%	1.00%	8.87%	12/24/2020	12/24/2025	Automotive	\$ 9,750,000	9,565,339	9,506,250	3.48%	
Term Loan	(13)(22)	First Lien	1M L+6.50%	1.00%	8.87%	12/24/2020	12/24/2025		\$ 1,500,000	1,471,591	1,462,500	0.53%	
Total										\$ 11,036,930	\$ 10,968,750	4.01%	
KidKraft, Inc.											Dallas, TX		
Term Loan	(38)	First Lien	3M L+5.00%	1.00%	6.00%	9/30/2016	8/15/2022	Consumer Goods: Durable	\$ 1,580,768	1,580,768	1,580,768	0.58%	
KidKraft Group Holdings, LLC Preferred B Units	(4)	Equity				4/3/2020		4,000,000 shares		4,000,000	4,000,000	1.46%	
Total										\$ 5,580,768	\$ 5,580,768	2.04%	
Lynx FBO Operating, LLC											Houston, TX		
Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%	9/30/2019	9/30/2024	Aerospace & Defense	\$ 13,588,942	13,385,564	13,588,942	4.97%	
Lynx FBO Investments, LLC Class A-1 Common Units	(4)	Equity				9/30/2019		4,288 shares		593,480	680,000	0.25%	
Total										\$ 13,979,044	\$ 14,268,942	5.22%	
Madison Logic, Inc.											New York, NY		
Term Loan (SBIC)	(2)(35)	First Lien	1M L+6.50%	1.00%	7.50%	2/4/2021	5/31/2023	Media: Broadcasting & Subscription	\$ 3,816,247	3,798,418	3,798,418	1.39%	
Madison Logic Holdings, Inc. Common Stock (SBIC)	(2)(4)	Equity				11/30/2016		5,000 shares		50,000	110,000	0.04%	
Madison Logic Holdings, Inc. Series A Preferred Stock (SBIC)	(2)(4)	Equity				11/30/2016		4,500 shares		450,000	980,000	0.36%	
Total										\$ 4,298,418	\$ 4,888,418	1.79%	
Mobile Acquisition Holdings, LP											Santa Clara, CA		
Class A Common Units	(4)	Equity				11/1/2016		Software	750 units	455,385	2,500,000	0.91%	
Munch's Supply, LLC											New Lenox, IL		
Term Loan	(35)	First Lien	3M L+6.25%	1.00%	7.25%	4/11/2019	4/11/2024	Capital Equipment	\$ 7,210,743	7,163,798	7,210,743	2.64%	
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.25%	1.00%	7.25%	3/31/2021	4/11/2024		\$ 4,000,000	3,920,000	4,000,000	1.46%	
Delayed Draw Term Loan	(35)	First Lien	3M L+6.25%	1.00%	7.25%	4/11/2019	4/11/2024		\$ 2,158,590	2,128,324	2,158,590	0.79%	
Cool Supply Holdings, LLC Class A Common Units	(4)	Equity				4/11/2019		500,000 units		496,362	620,000	0.23%	
Total										\$ 13,708,484	\$ 13,989,333	5.12%	
Naumann/Hobbs Material Handling Corporation II, Inc.											Phoenix, AZ		
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.25%	1.50%	7.75%	8/30/2019	8/30/2024	Services: Business	\$ 5,796,664	5,712,437	5,796,664	2.12%	
Term Loan	(35)	First Lien	3M L+6.25%	1.50%	7.75%	8/30/2019	8/30/2024		\$ 9,192,245	9,058,680	9,192,245	3.36%	
CGC NH, Inc. Common Units	(4)	Equity				8/30/2019		123 shares		440,758	580,000	0.21%	
Total										\$ 15,211,875	\$ 15,568,909	5.69%	
NGS US Finco, LLC											Bradford, PA		
Term Loan (SBIC)	(2)(35)	Second Lien	1M L+8.50%	1.00%	9.50%	10/1/2018	4/1/2026	Utilities: Oil & Gas	\$ 10,000,000	9,888,426	9,850,000	3.60%	
NS412, LLC											Dallas, TX		
Term Loan	(35)	Second Lien	3M L+8.50%	1.00%	9.50%	5/6/2019	11/6/2025	Services: Consumer	\$ 7,615,000	7,497,956	7,424,625	2.72%	

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NS Group Holding Company, LLC Class A Common Units	(4)	Equity				5/6/2019			750 shares	750,000	530,000	0.19%
Total										\$ 8,247,956	\$ 7,954,625	2.91%
NuMet Machining Techniques, LLC									Birmingham, UK			
Term Loan	(5)(35)	Second Lien	1M L+9.00%	2.00%	11.00%	11/5/2019	5/5/2026	Aerospace & Defense	\$ 12,675,000	12,467,955	11,977,875	4.38%
Bromford Industries Limited Term Loan	(5)(35)	Second Lien	1M L+9.00%	2.00%	11.00%	11/5/2019	5/5/2026		\$ 7,800,000	7,668,470	7,371,000	2.70%
Bromford Holdings, L.P. Class A Membership Units	(4)(5)	Equity				11/5/2019			866,629 shares	866,629	160,000	0.06%
Bromford Holdings, L.P. Class D Membership Units	(4)(5)	Equity				3/18/2021			280,078 shares	280,078	280,000	0.10%
Total										\$ 21,283,132	\$ 19,788,875	7.24%
NuSource Financial, LLC									Eden Prairie, MN			
Term Loan (SBIC II)	(9)(35)	First Lien	1M L+9.00%	1.00%	10.00%	1/29/2021	1/29/2026	Services: Business	\$ 11,250,000	11,030,757	11,030,757	4.03%
NuSource Financial Acquisition, Inc. (SBIC II)	(9)	Unsecured	13.75%		13.75%	1/29/2021	7/29/2026		\$ 4,750,000	4,656,923	4,657,431	1.70%
NuSource Holdings, Inc., Warrants (SBIC II)	(4)(9)	Equity				1/29/2021			54,966 shares	0	0	0.00%
Total										\$ 15,687,680	\$ 15,688,188	5.73%
Nutritional Medicinals, LLC	(24)								Centerville, OH			
Term Loan	(35)	First Lien	3M L+6.00%	1.00%	7.00%	11/15/2018	11/15/2023	Healthcare & Pharmaceuticals	\$ 13,231,701	13,080,454	13,231,701	4.84%
Functional Aggregator, LLC Common Units	(4)	Equity				11/15/2018			12,500 shares	1,250,000	1,290,000	0.47%
Total										\$ 14,330,454	\$ 14,521,701	5.31%
Onpoint Industrial Services, LLC									Deer Park, TX			
Term Loan (SBIC)	(2)(35)	First Lien	3M L+7.25%	1.00%	8.25%	3/15/2021	3/15/2026	Services: Business	\$ 10,500,000	10,292,747	10,292,747	3.76%
Onpoint Parent Holdings, LLC, Class A Units	(4)	Equity				3/15/2021			500,000 shares	500,000	500,000	0.18%
Total										\$ 10,792,747	\$ 10,792,747	3.94%
PCP MT Aggregator Holdings, L.P.									Oak Brook, IL			
Common LP Units	(4)	Equity				3/29/2019		Finance	750,000 shares	0	1,540,000	0.56%
PCS Software, Inc.									Shenandoah, Tx			
Term Loan (SBIC)	(2)(35)	First Lien	3M L+5.75%	1.50%	7.25%	7/1/2019	7/1/2024	Transportation & Logistics	\$ 1,953,460	1,926,154	1,953,460	0.71%
Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%	7/1/2019	7/1/2024		\$ 14,895,134	14,686,927	14,895,134	5.45%
Delayed Draw Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%	7/1/2019	7/1/2024		\$ 990,000	990,000	990,000	0.36%
Revolver	(11)	First Lien	3M L+5.75%	1.50%	7.25%	7/1/2019	7/1/2024		\$ 571,195	571,195	571,195	0.21%
PCS Software Holdings, LLC Class A Preferred Units	(4)	Equity				7/1/2019			325,000 shares	325,000	240,000	0.09%
PCS Software Holdings, LLC Class A-2 Preferred Units	(4)	Equity				11/12/2020			63,312 shares	63,312	50,000	0.02%
Total										\$ 18,562,588	\$ 18,699,789	6.84%
Pioneer Transformers, L.P.									Franklin, WI			
Term Loan (SBIC II)	(9)(35)	First Lien	6M L+6.00%	1.50%	7.50%	11/22/2019	8/16/2024	Capital Equipment	\$ 4,925,000	4,859,831	4,925,000	1.80%
Premiere Digital Services, Inc.									Los Angeles, CA			
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+5.50%	1.50%	8.16%	10/18/2018	10/18/2023	Media: Broadcasting & Subscription	\$ 9,992,518	9,821,561	9,992,518	3.65%
Term Loan	(13)(22)	First Lien	3M L+5.50%	1.50%	8.16%	10/18/2018	10/18/2023		\$ 2,428,772	2,388,477	2,428,772	0.89%
Premiere Digital Holdings, Inc., Common Stock	(4)	Equity				10/18/2018			5,000 shares	50,000	150,000	0.05%

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Premiere Digital Holdings, Inc., Preferred Stock	(4)	Equity				10/18/2018		4,500 shares		314,550	1,350,000	0.49%	
Total										\$ 12,574,588	\$ 13,921,290	5.08%	
Protect America, Inc.								Austin TX					
Term Loan (SBIC)	(2)(6)(26)(35)	Second Lien	3M L+7.75%	1.00%	0.00%	8/30/2017	10/30/2020	Services: Consumer	\$ 17,979,749	17,979,749	2,786,861	1.02%	
Sales Benchmark Index, LLC	(7)							Dallas, TX Services: Business	\$ 14,279,916	14,053,920	14,208,516	5.20%	
Term Loan SBI Holdings Investments, LLC Class A Preferred Units	(4)	Equity	3M L+6.00%	1.75%	7.75%	1/7/2020	1/7/2025			66,573 units	665,730	340,000	0.12%
Total										\$ 14,719,650	\$ 14,548,516	5.32%	
Skopos Financial, LLC								Irving, TX Finance					
Term Loan	(5)	Unsecured	12.00%		12.00%	1/31/2014	11/30/2023		\$ 14,000,000	14,000,000	13,510,000	4.94%	
Skopos Financial Group, LLC Series A Preferred Units	(4)(5)	Equity				1/31/2014				1,120,684 units	1,162,544	260,000	0.10%
Total										\$ 15,162,544	\$ 13,770,000	5.04%	
SQAD, LLC								Tarrytown, NY Media: Broadcasting & Subscription					
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.50%	1.00%	7.50%	12/22/2017	12/22/2022		\$ 14,295,094	14,265,052	14,295,094	5.23%	
SQAD Holdco, Inc. Preferred Shares, Series A (SBIC)	(2)(4)	Equity				10/31/2013				5,624 shares	156,001	880,000	0.32%
SQAD Holdco, Inc. Common Shares (SBIC)	(2)(4)	Equity				10/31/2013				5,800 shares	62,485	100,000	0.04%
Total										\$ 14,483,538	\$ 15,275,094	5.59%	
TAC LifePort Purchaser, LLC								Woodland, WA Aerospace & Defense					
Term Loan (SBIC II)	(9)(35)(35)(42)	First Lien	3M L+6.00%	1.00%	7.00%	3/1/2021	3/2/2026		\$ 10,787,208	10,574,382	10,574,382	3.87%	
Revolver		First Lien	3M L+6.00%	1.00%	7.00%	3/1/2021	3/2/2026		\$ 13,229	13,229	12,968	0.00%	
TAC LifePort Holdings, LLC Common Units	(4)	Equity				3/1/2021				500,000 shares	500,000	500,000	0.18%
Total										\$ 11,087,611	\$ 11,087,350	4.05%	
TechInsights, Inc.								Ottawa, Ontario High Tech Industries					
Term Loan	(5)(13)(22)	First Lien	3M L+6.00%	1.00%	8.33%	8/16/2017	10/2/2023		\$ 21,540,925	21,349,812	21,540,925	7.88%	
Time Manufacturing Acquisition, LLC								Waco, TX Capital Equipment					
Term Loan	(6)	Unsecured	11.50%		10.75%	0.75%	2/3/2017	8/3/2023	\$ 13,579,993	13,385,828	13,579,993	4.97%	
Time Manufacturing Investments, LLC Class A Common Units	(4)	Equity				2/3/2017				5,268 units	553,600	1,050,000	0.38%
Total										\$ 13,939,428	\$ 14,629,993	5.35%	
TFH Reliability, LLC								Houston, TX Chemicals, Plastics, & Rubber					
Term Loan (SBIC)	(2)(35)	Second Lien	3M L+10.75%	0.80%	11.55%	10/21/2016	9/30/2023		\$ 5,875,000	5,843,524	5,728,125	2.09%	
TFH Reliability Group, LLC Class A-1 Units	(4)	Equity				6/29/2020				27,129 shares	21,511	10,000	0.00%
TFH Reliability Group, LLC Class A Common Units	(4)	Equity				10/21/2016				250,000 shares	231,521	140,000	0.05%
Total										\$ 6,096,556	\$ 5,878,125	2.14%	
TradePending, LLC	(14)							Carrboro, NC					
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.25%	1.00%	7.25%	3/2/2021	3/2/2026	Software	\$ 10,000,000	9,802,687	9,802,687	3.59%	
TradePending Holdings, LLC Series A Units	(4)	Equity				3/2/2021				750,000 units	750,000	750,000	0.27%
Total										\$ 10,552,687	\$ 10,552,687	3.86%	

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U.S. Auto Sales, Inc. et al										Lawrenceville, GA					
USASF Blocker II, LLC Common Units	(4)(5)	Equity					6/8/2015		Finance	441 units	441,000	650,000	0.24%		
USASF Blocker III, LLC Series C Preferred Units	(4)(5)	Equity					2/13/2018			125 units	125,000	180,000	0.07%		
USASF Blocker IV, LLC Units	(4)(5)	Equity					5/27/2020			110 units	110,000	160,000	0.06%		
USASF Blocker LLC Common Units	(4)(5)	Equity					6/8/2015			9,000 units	9,000	10,000	0.00%		
Total											\$ 685,000	\$ 1,000,000	0.37%		
Venbrook Buyer, LLC										Los Angeles, CA					
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026	Services: Business	\$ 13,051,500	12,827,765	12,920,985	4.73%		
Term Loan	(35)	First Lien	3M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026		\$ 148,500	145,954	147,015	0.05%		
Revolver	(35)	First Lien	3M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026		\$ 2,222,222	2,222,222	2,200,000	0.80%		
Delayed Draw Term Loan	(19)(35)	First Lien	3M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026		\$ 1,330,000	1,317,212	1,316,700	0.48%		
Venbrook Holdings, LLC Common Units	(4)	Equity					3/13/2020			534,959 shares	531,463	670,000	0.25%		
Total											\$ 17,044,616	\$ 17,254,700	6.31%		
Vortex Companies, LLC										Houston, TX					
Term Loan (SBIC II)	(9)(35)	Second Lien	3M+9.50%	1.00%	10.50%		12/21/2020	6/21/2026	Environmental Industries	\$ 10,000,000	9,806,721	9,800,000	3.58%		
VRI Ultimate Holdings, LLC										Franklin, OH					
Class A Preferred Units	(4)	Equity					5/31/2017		Healthcare & Pharmaceuticals	326,797 shares	500,000	600,000	0.22%		
Whisps Acquisition Corp.										Elgin, IL					
Term Loan	(35)	First Lien	6M L+6.00%	1.00%	7.00%		4/26/2019	4/18/2025	Beverage, Food, & Tobacco	\$ 7,790,152	7,688,219	7,790,152	2.85%		
Whisps Holdings LP Class A Common Units	(4)	Equity					4/18/2019			500,000 shares	500,000	720,000	0.26%		
Total											\$ 8,188,219	\$ 8,510,152	3.11%		
Wise Parent Company, LLC										Salt Lake City, UT					
Membership Units	(4)	Equity					8/27/2018		Beverage, Food, & Tobacco	6 units	0	760,000	0.28%		
Total Non-controlled, non-affiliated investments													\$ 719,546,960	\$ 714,464,472	261.30%
Net Investments													\$ 719,546,960	\$ 714,464,472	261.30%
LIABILITIES IN EXCESS OF OTHER ASSETS														\$ (441,035,587)	(161.30)%
NET ASSETS														\$ 273,428,885	100.00%

- See Note 1 of the Notes to the Consolidated Financial Statements for a discussion of the methodologies used to value securities in the portfolio.
- Investments held by the SBIC subsidiary (as defined in Note 1), which include \$24,989,773 of cash and \$219,097,734 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility (as defined in Note 9). Stellus Capital Investment Corporation's (the "Company") obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries (as defined in Note 1).
- Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,350,000, with an interest rate of LIBOR plus 6.00% and a maturity of January 31, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- Security is non-income producing.
- The investment is not a "qualifying asset" under the Investment Company Act of 1940, as amended. The Company may not acquire any non-qualifying assets unless, at the time of the acquisition, qualifying assets represent at least 70% of the Company's total assets. Qualifying assets represent approximately 90% of the Company's total assets as of March 31, 2021.

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(unaudited)

- (6) Represents a PIK interest security. At the option of the issuer, interest can be paid in cash or cash and PIK interest. The percentage of PIK interest shown is the maximum PIK interest that can be elected by the issuer.
- (7) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,331,461, with an interest rate of LIBOR plus 6.00% and a maturity of January 7, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (8) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 6.00% and a maturity of November 20, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (9) Investments held by the SBIC II subsidiary (as defined in Note 1), which include \$2,751,072 of cash and \$90,688,122 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility. The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries.
- (10) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$909,091, with an interest rate of LIBOR plus 5.75% and a maturity of November 1, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (11) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$746,948, with an interest rate of LIBOR plus 5.75% and a maturity of July 1, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (12) These loans have LIBOR floors which are lower than the applicable LIBOR rates; therefore, the floors are not in effect.
- (13) These loans are last-out term loans with contractual rates higher than the applicable LIBOR rates; therefore, the floors are not in effect.
- (14) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 6.25% and a maturity of March 2, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (15) Investment has been on non-accrual since October 31, 2017.
- (16) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,000,000, with an interest rate of LIBOR plus 6.75% and a maturity of February 5, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.
- (17) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$666,667, with an interest rate of LIBOR plus 5.00% and a maturity of June 29, 2022. This investment is accruing an unused commitment fee of 0.50% per annum.
- (18) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$750,000, with an interest rate of LIBOR plus 7.50% and a maturity of April 13, 2023. The Company has full discretion to fund the revolver commitment.
- (19) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$3,111,111, with an interest rate of LIBOR plus 6.50% and a maturity of March 13, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (20) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 6.75% and a maturity of March 5, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (21) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$66,667 with an interest rate of LIBOR plus 6.50% and a maturity of December 21, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (22) This loan is a unitranche investment.
- (23) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,500,000 with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (24) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$2,000,000 with an interest rate of LIBOR plus 6.00% and a maturity of November 15, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.

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- (25) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$4,000,000, with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. The Company has full discretion to fund the delayed draw term loan commitment.
- (26) Investment has been on non-accrual since June 28, 2019.
- (27) Maturity date is under ongoing negotiations with portfolio company and other lenders.
- (28) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,420,455, with an interest rate of LIBOR plus 6.50% and a maturity of August 28, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (29) These loans are last-out term loans with contractual rates lower than the applicable LIBOR rates; therefore, the floors are in effect.
- (30) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$2,767,584, with an interest rate of LIBOR plus 5.50% and a maturity of June 24, 2024. This investment is accruing an unused commitment fee of 1.00% per annum.
- (31) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,875,000, with an interest rate of LIBOR plus 5.75% and a maturity of September 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (32) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,763,033, with an interest rate of LIBOR plus 6.25% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (33) Investment has been on non-accrual since January 1, 2020.
- (34) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,643,939, with an interest rate of LIBOR plus 5.75% and a maturity of October 2, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (35) These loans have LIBOR floors which are higher than the current applicable LIBOR rates; therefore, the floors are in effect.
- (36) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 8.50% and a maturity of July 31, 2025. This investment is accruing an unused commitment fee of 0.50% per annum. This undrawn revolver commitment is held by SBIC I.
- (37) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 6.75% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (38) Instrument was restructured into a first lien term loan and preferred equity on April 3, 2020.
- (39) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 6.50% and a maturity of February 19, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (40) Investment has been on non-accrual since December 31, 2020.
- (41) Investment has been on non-accrual since January 1, 2021.
- (42) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$86,771, with an interest rate of LIBOR plus 6.00% and a maturity of March 2, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.

Abbreviation Legend

PIK — Payment-In-Kind

L — LIBOR

Euro — Euro Dollar

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Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
Non-controlled, non-affiliated investments													
Adams Publishing Group, LLC													
									Greenville, TN				
Term Loan	(35)	First Lien	1M L+7.00%	1.75%	8.75%		8/3/2018	6/30/2023	Media: Advertising, Printing & Publishing	\$4,990,080	4,962,046	4,990,080	1.83%
Delayed Draw Term Loan	(35)	First Lien	1M L+7.00%	1.75%	8.75%		8/3/2018	6/30/2023		\$162,106	162,106	162,106	0.06%
Total											\$ 5,124,152	\$ 5,152,186	1.89%
Advanced Barrier Extrusions, LLC													
									Rhineland, WI				
Term Loan(SBIC)	(2)(35)	First Lien	1M L+6.50%	1.00%	7.50%		11/30/2020	11/30/2026	Containers, Packaging & Glass	\$17,500,000	17,153,813	17,150,000	6.27%
GP ABX Holdings Partnership, L.P. Common Stock	(4)	Equity					8/8/2018			644,737 units	700,000	740,000	0.27%
Total											\$ 17,853,813	\$ 17,890,000	6.54%
APE Holdings, LLC													
									Deer Park, TX				
Class A Common Units	(4)	Equity					9/5/2014		Chemicals, Plastics, & Rubber	375,000 units	375,000	80,000	0.03%
Atmosphere Aggregator Holdings II, LP													
									Atlanta, GA				
Common Units	(4)	Equity					1/26/2016		Services: Business	254,250 units	0	1,350,000	0.49%
Stratose Aggregator Holdings, LP Common Units	(4)	Equity					6/30/2015			750,000 units	0	3,970,000	1.45%
Total											\$ 0	\$ 5,320,000	1.94%
ASC Communications, LLC													
									Chicago, IL				
Term Loan (SBIC)	(2)(35)	First Lien	1M L+5.00%	1.00%	6.00%		6/29/2017	6/29/2023	Healthcare & Pharmaceuticals	\$4,058,642	4,044,314	3,896,296	1.43%
Term Loan	(35)	First Lien	1M L+5.00%	1.00%	6.00%		2/4/2019	6/29/2023		\$6,899,691	6,847,391	6,623,704	2.42%
ASC Communications Holdings, LLC Class A Preferred Units (SBIC)	(2)(4)	Equity					6/29/2017			73,529 shares	58,828	330,000	0.12%
Total											\$ 10,950,533	\$ 10,850,000	3.97%
BFC Solmetex, LLC													
									Nashville, TN				
Revolver	(35)	First Lien	3M L+8.50%	1.00%	9.50%		4/2/2018	9/26/2023	Environmental Industries	\$2,139,364	2,139,364	2,139,364	0.78%
Term Loan (SBIC)	(2)(35)	First Lien	3M L+8.50%	1.00%	9.50%		4/2/2018	9/26/2023		\$11,474,603	11,384,927	11,474,603	4.20%
Bonded Filter Co. LLC, Term Loan(SBIC)	(2)(35)	First Lien	3M L+8.50%	1.00%	9.50%		4/2/2018	9/26/2023		\$1,193,460	1,184,133	1,193,460	0.44%
Total											\$ 14,708,424	\$ 14,807,427	5.42%
BW DME Acquisition, LLC													
									Tempe, AZ				
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+6.00%	1.00%	8.58%		8/24/2017	8/24/2022	Healthcare & Pharmaceuticals	\$16,695,804	16,496,876	16,695,804	6.11%
BW DME Holdings, LLC, Term Loan	(6)	Unsecured	17.50%			17.50%	6/1/2018	6/30/2020		\$391,063	391,063	391,063	0.14%
BW DME Holdings, LLC Class A-1 Preferred Units	(4)	Equity					8/24/2017			1,000,000 shares	1,000,000	1,500,000	0.55%
BW DME Holdings, LLC Class A-2 Preferred Units	(4)	Equity					1/26/2018			937,261 shares	937,261	1,410,000	0.52%
Total											\$ 18,825,200	\$ 19,996,867	7.32%
Café Valley, Inc.													
									Phoenix, AZ				
Term Loan	(35)	First Lien	1M L+7.00%	1.25%	8.25%		8/28/2019	8/28/2024	Beverage, Food, & Tobacco	\$16,077,381	15,829,176	15,675,447	5.73%
CF Topco LLC, Common Units	(4)	Equity					8/28/2019			9,160 shares	916,015	720,000	0.26%
Total											\$ 16,745,191	\$ 16,395,447	5.99%
Colford Capital Holdings, LLC													
									New York, NY				
Preferred Units	(4)(5)	Equity					8/20/2015		Finance	38,893 units	195,036	20,000	0.01%
CommentSold, LLC													
									Huntsville, AL				
Term Loan (SBIC)	(2)(35)	First Lien	1M L+6.00%	1.00%	7.00%		11/20/2020	11/20/2026	High Tech Industries	\$12,500,000	12,252,768	12,252,768	4.48%

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Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
CompleteCase, LLC													
	(21)								Seattle, WA				
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.50%	1.00%	7.50%		12/21/2020	12/21/2025	Services: Consumer	\$ 11,478,261	11,248,696	11,248,696	4.11%
Revolver	(35)	First Lien	3M L+6.50%	1.00%	7.50%		12/21/2020	12/21/2025		\$ 33,333	33,333	32,667	0.01%
CompleteCase Holdings, Inc. Class A Common Units (SBIC II)	(4)(9)	Equity					12/21/2020			417 units	5	0	0.00%
CompleteCase Holdings, Inc. Series A Preferred Units (SBIC II)	(4)(9)	Equity					12/21/2020			522 units	521,734	520,000	0.19%
Total											\$ 11,803,768	\$ 11,801,363	4.31%
Convergence Technologies, Inc.													
									Indianapolis, IN				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.50%	8.25%		8/31/2018	8/30/2024	Services: Business	\$ 6,982,143	6,888,406	6,982,143	2.55%
Term Loan	(35)	First Lien	3M L+6.75%	1.50%	8.25%		2/28/2019	8/30/2024		\$ 1,403,571	1,383,414	1,403,571	0.51%
Term Loan B (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.50%	8.25%		8/14/2020	8/30/2024		\$ 3,740,625	3,672,274	3,740,625	1.37%
Delayed Draw Term Loan	(35)	First Lien	3M L+6.75%	1.50%	8.25%		8/31/2018	8/30/2024		\$ 5,250,000	5,250,000	5,250,000	1.92%
Tailwind Core Investor, LLC Class A Preferred Units	(4)	Equity					8/31/2018			5,282 units	547,795	650,000	0.24%
Total											\$ 17,741,889	\$ 18,026,339	6.59%
Data Centrum Communications, Inc.													
									Montvale, NJ				
Term Loan	(35)	First Lien	3M L+5.50%	1.00%	6.50%		5/15/2019	5/15/2024	Media: Advertising, Printing & Publishing	\$ 16,006,250	15,778,905	15,446,031	5.65%
Health Monitor Holdings, LLC Seires A Preferred Units	(4)	Equity					5/15/2019			1,000,000 shares	1,000,000	750,000	0.27%
Total											\$ 16,778,905	\$ 16,196,031	5.92%
Douglas Products Group, LP													
									Liberty, MO				
Class A Common Units	(4)	Equity					12/27/2018		Chemicals, Plastics, & Rubber	322 shares	139,656	820,000	0.30%
DRS Holdings III, Inc.													
	(10)								St. Louis, MO				
Term Loan	(35)	First Lien	1M L+5.75%	1.00%	6.75%		11/1/2019	11/1/2025	Consumer Goods: Durable	\$ 9,900,000	9,816,898	9,900,000	3.62%
DTE Enterprises, LLC													
	(18)								Roselle, IL				
Term Loan	(35)	First Lien	6M L+8.50%	1.50%	10.00%		4/13/2018	4/13/2023	Energy: Oil & Gas	\$ 9,323,691	9,226,943	8,531,177	3.12%
DTE Holding Company, LLC Common Shares, Class A-2	(4)	Equity					4/13/2018			776,316 shares	466,204	220,000	0.08%
DTE Holding Company, LLC Preferred Shares, Class AA	(4)	Equity					4/13/2018			723,684 shares	723,684	200,000	0.07%
Total											\$ 10,416,831	\$ 8,951,177	3.27%
Elliott Aviation, LLC													
									Moline, IL				
Term Loan	(35)	First Lien	3M L+6.00%	1.75%	7.75%		1/31/2020	1/31/2025	Aerospace & Defense	\$ 18,427,500	18,115,703	18,151,088	6.64%
Revolver	(3)(35)	First Lien	3M L+6.00%	1.75%	7.75%		1/31/2020	1/31/2025		\$ 450,000	450,000	443,250	0.16%
SP EA Holdings, LLC Preferred Shares, Class A	(4)	Equity					1/31/2020			900,000 shares	900,000	560,000	0.20%
Total											\$ 19,465,703	\$ 19,154,338	7.00%
Empirix Holdings I, Inc.													
									Billerica, MA				
Common Shares, Class A	(4)	Equity					11/1/2013		Software	1,304 shares	1,304,232	1,760,000	0.64%
Common Shares, Class B	(4)	Equity					11/1/2013			1,317,406 shares	13,174	20,000	0.01%
Total											\$ 1,317,406	\$ 1,780,000	0.65%
Energy Labs Holding Corp.													
									Houston, TX				
Common Stock	(4)	Equity					9/29/2016		Energy: Oil & Gas	598 shares	598,182	1,040,000	0.38%
Exacta Land Surveyors, LLC													
	(23)(25)								Cleveland, OH				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+5.75%	1.50%	7.25%		2/8/2019	2/8/2024	Services: Business	\$ 16,714,375	16,488,364	16,547,231	6.05%
SP ELS Holdings LLC, Class A Common Units	(4)	Equity					2/8/2019			1,069,143 shares	1,069,143	720,000	0.26%
Total											\$ 17,557,507	\$ 17,267,231	6.31%
EOS Fitness Holdings, LLC													
									Phoenix, AZ				
Preferred Units	(4)	Equity					12/30/2014		Hotel, Gaming, & Leisure	118 shares	0	10,000	0.00%
Class B Common Units	(4)	Equity					12/30/2014			3,017 shares	0	0	0.00%
Total											\$ 0	\$ 10,000	0.00%

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Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
Fast Growing													
Trees, LLC													
	(16)								Fort Mill, SC				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.75%	1.00%	7.75%		2/5/2018	02/05/23	Retail	\$ 14,992,490	14,850,620	14,992,490	5.48%
SP FGT Holdings, LLC, Class A Common	(4)	Equity					2/5/2018			1,000,000 shares	983,851	3,140,000	1.15%
Total											\$ 15,834,471	\$ 18,132,490	6.63%
FB Topco, Inc.													
Camden, NJ													
Term Loan	(13)(22)	First Lien	6M L+6.35%	1.00%	9.52%		6/27/2018	4/24/2023	Education	\$ 20,550,738	20,322,696	20,447,984	7.48%
Delayed Draw Term Loan	(13)(22)	First Lien	6M L+6.35%	1.00%	9.55%		6/27/2018	4/24/2023		\$ 1,126,758	1,126,758	1,121,124	0.41%
Total											\$ 21,449,454	\$ 21,569,108	7.89%
GK Holdings, Inc.													
Cary, NC													
Term Loan	(33)(35)	Second Lien	3M L+10.25%	1.00%	0.00%		1/30/2015	1/20/2022	Education	\$ 5,000,000	4,979,153	2,925,000	1.07%
General LED													
OPCO, LLC													
Term Loan	(35)	Second Lien	3M L+9.00%	1.50%	10.50%		5/1/2018	11/1/2023	San Antonio, TX Services: Business	\$ 4,500,000	4,447,700	3,690,000	1.35%
GS HVAM													
Intermediate, LLC													
	(34)								Carlsbad, CA				
Term Loan	(35)	First Lien	1M L+5.75%	1.00%	6.75%		10/18/2019	10/2/2024	Beverage, Food, & Tobacco	\$ 12,895,506	12,792,753	12,895,506	4.72%
HV GS Acquisition, LP Class A Interests	(4)	Equity					6/29/2018			1,796 shares	1,618,844	2,460,000	0.90%
Total											\$ 14,411,597	\$ 15,355,506	5.62%
Grupo HIMA San Pablo, Inc., et al													
San Juan, PR													
Term Loan	(27)(35)	First Lien	3M L+7.00%	1.50%	8.50%		2/1/2013	1/31/2018	Healthcare & Pharmaceuticals	\$ 4,503,720	4,503,720	2,589,639	0.95%
Term Loan	(15)(27)	Second Lien	13.75%		0.00%		2/1/2013	7/31/2018		\$ 4,109,524	4,109,524	0	0.00%
Total											\$ 8,613,244	\$ 2,589,639	0.95%
I2P Holdings, LLC													
Cleveland, OH													
Series A Preferred	(4)	Equity					1/31/2018		Services: Business	750,000 shares	750,000	3,160,000	1.16%
Ian, Evan & Alexander Corporation													
	(36)								Reston, VA				
Term Loan (SBIC)	(2)(35)	First Lien	3M L+8.50%	1.00%	9.50%		7/31/2020	7/31/2025	Services: Business	\$ 7,140,425	7,005,287	7,069,020	2.59%
EC Defense Holding, Class B Units (SBIC)	(2)(4)	Equity					7/31/2020			20,054 shares	500,000	690,000	0.25%
Total											\$ 7,505,287	\$ 7,759,020	2.84%
ICD Holdings, LLC													
San Francisco, CA													
Class A Preferred	(4)(5)	Equity					1/1/2018			9,962 shares	474,182	2,090,000	0.76%
Industry Dive, Inc.													
									Washington, D.C.				
Term Loan (SBIC)	(2)(35)	First Lien	1M L+6.75%	1.00%	7.75%		7/17/2020	8/30/2024	Services: Business	\$ 7,015,841	6,887,907	6,980,762	2.55%
Revolver	(35)(37)	First Lien	1M L+6.75%	1.00%	7.75%		7/17/2020	8/30/2024		\$ 50,000	50,000	49,750	0.02%
Total											\$ 6,937,907	\$ 7,030,512	2.57%
Integrated Oncology Network, LLC													
	(30)								Newport Beach, CA				
Term Loan	(35)	First Lien	3M L+5.50%	1.50%	7.00%		7/17/2019	6/24/2024	Healthcare & Pharmaceuticals	\$ 16,470,413	16,227,281	16,470,413	6.03%
Revolver	(35)	First Lien	3M L+5.50%	1.50%	7.00%		7/17/2019	6/24/2024		\$ 553,517	553,517	553,517	0.20%
Total											\$ 16,780,798	\$ 17,023,930	6.23%
Interstate Waste Services, Inc.													
Amsterdam, OH													
Common Units	(4)	Equity					10/30/2015		Environmental Industries	21,925 shares	946,125	370,000	0.14%
Intuitive Health, LLC													
									Plano, TX				
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.00%	1.50%	7.50%		10/18/2019	10/18/2024	Healthcare & Pharmaceuticals	\$ 5,940,000	5,844,850	5,940,000	2.17%
Term Loan	(35)	First Lien	3M L+6.00%	1.50%	7.50%		10/18/2019	10/18/2024		\$ 11,385,000	11,202,629	11,385,000	4.16%
Legacy Parent, Inc. Class A Common Units	(4)	Equity					10/30/2020			58 shares	125,000	130,000	
Total											\$ 17,172,479	\$ 17,455,000	6.33%
Invincible Boat Company, LLC													
	(28)								Opa Locka, FL				
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.50%	1.50%	8.00%		8/28/2019	8/28/2025	Consumer Goods: Durable	\$ 5,469,818	5,380,207	5,469,818	2.00%

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Investments	Footnotes	Security	Coupon	LIBOR floor	Cash	PIK	Investment Date	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value ⁽¹⁾	% of Net Assets
Term Loan	(35)	First Lien	3M L+6.50%	1.50%	8.00%		8/28/2019	8/28/2025		\$ 5,925,636	5,772,336	5,925,636	2.17%
Revolver	(35)	First Lien	3M L+6.50%	1.50%	8.00%		8/28/2019	8/28/2025		\$ 284,091	284,091	284,091	
Invincible Parent Holdco, LLC Class A Common Units	(4)	Equity					8/28/2019			1,000,000 shares	968,105	620,000	0.23%
Total											\$ 12,404,739	\$ 12,299,545	4.40%
J.R. Watkins, LLC													
Term Loan (SBIC)	(2)	First Lien	7.00%		7.00%		12/22/2017	12/22/2022	San Francisco, CA Consumer Goods: non-durable	\$ 12,250,000	12,139,807	12,250,000	4.48%
J.R. Watkins Holdings, Inc. Class A Preferred	(4)	Equity					12/22/2017			1,133 shares	1,132,576	680,000	0.25%
Total											\$ 13,272,383	\$ 12,930,000	4.73%
Jurassic Acquisiton Corp.													
Term Loan	(12)	First Lien	3M L+5.50%	0.00%	5.75%		12/28/2018	11/15/2024	Sparks, MD Metals & Mining	\$ 17,150,000	16,970,057	17,064,250	6.24%
Kelleyamerit Holdings, Inc.													
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+6.50%	1.00%	8.89%		12/24/2020	12/24/2025	Walnut Creek, CA Automotive	\$ 9,750,000	9,557,708	9,557,708	3.50%
Term Loan	(13)(22)	First Lien	3M L+6.50%	1.00%	8.89%		12/24/2020	12/24/2025		\$ 1,500,000	1,470,417	1,470,417	0.54%
Total											\$ 11,028,125	\$ 11,028,125	4.04%
KidKraft, Inc.													
Term Loan	(22)(29)	First Lien	3M L+5.00%	1.00%	6.00%		9/30/2016	8/15/2022	Dallas, TX Consumer Goods: Durable	\$ 1,580,487	1,580,487	1,580,487	0.58%
KidKraft Group Holdings, LLC Preferred B Units	(4)	Equity					4/3/2020			4,000,000 shares	4,000,000	4,000,000	1.46%
Total											\$ 5,580,487	\$ 5,580,487	2.04%
Lynx FBO Operating, LLC													
Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%		9/30/2019	9/30/2024	Houston, TX Aerospace & Defense	\$ 13,612,500	13,397,053	13,612,500	4.98%
Lynx FBO Investments, LLC Class A-1 Common Units	(4)	Equity					9/30/2019			4,288 shares	593,480	690,000	0.25%
Total											\$ 13,990,533	\$ 14,302,500	5.23%
Madison Logic, Inc.													
Term Loan (SBIC)	(2)(35)	First Lien	1M L+7.50%	0.50%	8.00%		11/30/2016	11/30/2021	New York, NY Media: Broadcasting & Subscription	\$ 4,323,985	4,314,586	4,323,985	1.58%
Madison Logic Holdings, Inc. Common Stock (SBIC)	(2)(4)	Equity					11/30/2016			5,000 shares	50,000	70,000	0.03%
Madison Logic Holdings, Inc. Series A Preferred Stock (SBIC)	(2)(4)	Equity					11/30/2016			4,500 shares	450,000	670,000	0.25%
Total											\$ 4,814,586	\$ 5,063,985	1.86%
Mobile Acquisition Holdings, LP													
Class A Common Units	(4)	Equity					11/1/2016		Santa Clara, CA Software	750 units	455,385	2,650,000	0.97%
Munch's Supply, LLC													
Term Loan	(35)	First Lien	3M L+6.25%	1.00%	7.25%		4/11/2019	4/11/2024	New Lenox, IL Capital Equipment	\$ 7,229,111	7,178,680	7,229,111	2.64%
Delayed Draw Term Loan	(20)(35)	First Lien	3M L+6.25%	1.00%	7.25%		4/11/2019	4/11/2024		\$ 649,111	640,345	649,111	0.24%
Cool Supply Holdings, LLC Class A Common Units	(4)	Equity					4/11/2019			500,000 units	496,362	710,000	0.26%
Total											\$ 8,315,387	\$ 8,588,222	3.14%
National Trench Safety, LLC, et al													
Term Loan (SBIC)	(2)	Second Lien	11.50%		11.50%		3/31/2017	3/31/2022	Houston, TX Construction & Building	\$ 10,000,000	9,946,055	10,000,000	3.66%
NTS Investors, LP Class A Common Units	(4)	Equity					3/31/2017			2,335 units	500,000	750,000	0.27%
Total											\$ 10,446,055	\$ 10,750,000	3.93%
Naumann/Hobbs Material Handling Corporation II, Inc.													
Term Loan (SBIC II)	(9)(35)	First Lien	3M L+6.25%	1.50%	7.75%		8/30/2019	8/30/2024	Phoenix, AZ Services: Business	\$ 5,817,693	5,727,857	5,817,693	2.13%
Term Loan	(35)	First Lien	3M L+6.25%	1.50%	7.75%		8/30/2019	8/30/2024		\$ 9,225,593	9,083,133	9,225,593	3.37%
CGC NH, Inc. Common Units	(4)	Equity					8/30/2019			123 shares	440,758	570,000	0.21%
Total											\$ 15,251,748	\$ 15,613,286	5.71%
NGS US Finco, LLC													
Term Loan (SBIC)	(2)(35)	Second Lien	1M L+8.50%	1.00%	9.50%		10/1/2018	4/1/2026	Bradford, PA Utilities: Oil & Gas	\$ 10,000,000	9,884,148	9,900,000	3.62%

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NS412, LLC													
Term Loan	(35)	Second Lien	3M L+8.50%	1.00%	9.50%		5/6/2019	11/6/2025	Dallas, TX Services: Consumer	\$ 7,615,000	7,492,970	7,462,700	2.73%
NS Group Holding Company, LLC Class A Common Units										750 shares	750,000	550,000	0.20%
Total											\$ 8,242,970	\$ 8,012,700	2.93%
NuMet Machining Techniques, LLC													
Term Loan	(5)(35)	Second Lien	3M L+9.00%	2.00%	11.00%		11/5/2019	5/5/2026	Birmingham, UK Aerospace & Defense	\$ 11,700,000	11,495,790	11,056,500	4.04%
Term Loan	(5)(35)	Second Lien	3M L+9.00%	2.00%	11.00%		11/5/2019	5/5/2026		\$ 7,800,000	7,663,860	7,371,000	2.70%
Total										1,000,000 shares	1,000,000	300,000	0.11%
											\$ 20,159,650	\$ 18,727,500	6.85%
Nutritional Medicals, LLC													
Term Loan	(35)	First Lien	3M L+6.00%	1.00%	7.00%		11/15/2018	11/15/2023	Centerville, OH Healthcare & Pharmaceuticals	\$ 13,270,451	13,106,025	13,270,451	4.85%
Total										12,500 shares	1,250,000	1,180,000	0.43%
											\$ 14,356,025	\$ 14,450,451	5.28%
PCP MT Aggregator Holdings, L.P.													
Common LP Units	(4)	Equity					3/29/2019		Oak Brook, IL Finance	750,000 shares	0	1,490,000	0.55%
PCS Software, Inc.													
Term Loan (SBIC)	(2)(35)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024	Shenandoah, TX Transportation & Logistics	\$ 1,970,000	1,940,669	1,970,000	0.72%
Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024		\$ 15,021,250	14,797,600	15,021,250	5.50%
Delayed Draw Term Loan	(35)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024		\$ 992,500	992,500	992,500	0.36%
Revolver	(35)(11)	First Lien	3M L+5.75%	1.50%	7.25%		7/1/2019	7/1/2024		\$ 571,195	571,195	571,195	0.21%
Total										325,000 shares	325,000	330,000	0.12%
										63,312 shares	63,312	60,000	0.02%
											\$ 18,690,276	\$ 18,944,945	6.93%
Pioneer Transformers, L.P.													
Term Loan (SBIC II)	(9)(35)	First Lien	6M L+6.00%	1.50%	7.50%		11/22/2019	8/16/2024	Franklin, WI Capital Equipment	\$ 4,937,500	4,868,043	4,937,500	1.81%
Premiere Digital Services, Inc.													
Term Loan (SBIC)	(2)(13)(22)	First Lien	3M L+5.50%	1.50%	8.24%		10/18/2018	10/18/2023	Los Angeles, CA Media: Broadcasting & Subscription	\$ 9,992,518	9,807,217	9,992,518	3.66%
Term Loan	(13)(22)	First Lien	3M L+5.50%	1.50%	8.24%		10/18/2018	10/18/2023		\$ 2,428,772	2,385,098	2,428,772	0.89%
Total										5,000 shares	50,000	150,000	0.05%
										4,500 shares	314,550	1,320,000	0.48%
											\$ 12,556,865	\$ 13,891,290	5.08%
Protect America, Inc.													
Term Loan (SBIC)	(2)(6)(26)(35)	Second Lien	3M L+7.75%	1.00%	0.00%		8/30/2017	10/30/2020	Austin TX Services: Consumer	\$ 17,979,749	17,979,749	2,786,861	1.02%
Sales Benchmark Index, LLC													
Term Loan	(35)	First Lien	3M L+6.00%	1.75%	7.75%		1/7/2020	1/7/2025	Dallas, TX Services: Business	\$ 14,315,976	14,076,964	14,315,976	5.24%
Total										66,573 units	665,730	590,000	0.22%
											\$ 14,742,694	\$ 14,905,976	5.46%
Skopos Financial, LLC													
Term Loan	(5)	Unsecured	12.00%		12.00%		1/31/2014	1/31/2021	Irving, TX Finance	\$ 15,500,000	15,500,000	14,415,000	5.27%
Total										1,120,684 units	1,162,544	320,000	0.12%
											\$ 16,662,544	\$ 14,735,000	5.39%
SQAD, LLC													
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.50%	1.00%	7.50%		12/22/2017	12/22/2022	Tarrytown, NY Media: Broadcasting & Subscription	\$ 14,333,594	14,299,486	14,333,594	5.24%
Total										5,624 shares	156,001	1,010,000	0.37%

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SQAD Holdco, Inc. Common Shares (SBIC)	(2)(4)	Equity					10/31/2013			5,800 shares	62,485	120,000	0.04%
Total											\$ 14,517,972	\$ 15,463,594	5.65%
TechInsights, Inc.													
Term Loan	(5)(13)(22)	First Lien	L+6.00%	1.00%	8.33%		8/16/2017	10/2/2023	Ottawa, Ontario High Tech Industries	\$ 21,540,925	21,318,659	21,540,925	7.88%
Time Manufacturing Acquisition, LLC													
Term Loan	(6)	Unsecured	11.50%		10.75%	0.75%	2/3/2017	8/3/2023	Waco, TX Capital Equipment	\$ 6,385,182	6,321,825	6,385,182	2.34%
Time Manufacturing Investments, LLC Class A Common Units	(4)	Equity					2/3/2017			5,000 units	500,000	770,000	0.28%
Total											\$ 6,821,825	\$ 7,155,182	2.62%
TFH Reliability, LLC													
Term Loan (SBIC)	(2)(35)	Second Lien	3M L+10.75%	0.80%	11.55%		10/21/2016	9/30/2023	Houston, TX Chemicals, Plastics, & Rubber	\$ 5,875,000	5,837,336	5,728,125	2.10%
TFH Reliability Group, LLC Class A-1 Units	(4)	Equity					6/29/2020			27,129 shares	21,511	10,000	0.00%
TFH Reliability Group, LLC Class A Common Units	(4)	Equity					10/21/2016			250,000 shares	231,521	170,000	0.06%
Total											\$ 6,090,368	\$ 5,908,125	2.16%
U.S. Auto Sales, Inc.													
USASF Blocker II, LLC Common	(4)(5)	Equity					6/8/2015		Lawrenceville, GA Finance	441 units	441,000	710,000	0.26%
USASF Blocker III, LLC Series C Preferred Units	(4)(5)	Equity					2/13/2018			125 units	125,000	200,000	0.07%
USASF Blocker IV, LLC Units	(4)(5)	Equity					5/27/2020			110 units	110,000	180,000	0.07%
USASF Blocker LLC Common Units	(4)(5)	Equity					6/8/2015			9,000 units	9,000	10,000	0.00%
Total											\$ 685,000	\$ 1,100,000	0.40%
Venbrook Buyer, LLC													
Term Loan (SBIC)	(2)(35)	First Lien	3M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026	Los Angeles, CA Services: Business	\$ 13,084,458	12,851,226	12,953,614	4.74%
Term Loan	(35)	First Lien	3M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026		\$ 148,875	146,221	147,386	0.05%
Revolver	(35)	First Lien	6M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026		\$ 2,222,222	2,222,222	2,200,000	0.80%
Delayed Draw Term Loan	(19)(35)	First Lien	1M L+6.50%	1.50%	8.00%		3/13/2020	3/13/2026		\$ 1,333,333	1,320,000	1,320,000	
Venbrook Holdings, LLC Common Units	(4)	Equity					3/13/2020			534,959 shares	531,463	480,000	0.18%
Total											\$ 17,071,132	\$ 17,101,000	5.77%
Vortex Companies, LLC													
Term Loan (SBIC II)	(9)(35)	Second Lien	3M L+9.50%	1.00%	10.50%		12/21/2020	6/21/2026	Houston, TX Environmental Industries	\$ 10,000,000	9,800,000	9,800,000	3.59%
VRI Ultimate Holdings, LLC													
Class A Preferred Units	(4)	Equity					5/31/2017		Franklin, OH Healthcare & Pharmaceuticals	326,797 shares	500,000	580,000	0.21%
Whisps Acquisiton Corp.													
Whisps Holding LP Class A Common Units	(4)	Equity					4/18/2019		Elgin, IL Beverage, Food, & Tobacco	500,000 shares	500,000	710,000	0.26%
Total											\$ 8,182,302	\$ 8,501,667	3.11%
Wise Parent Company, LLC													
Membership Units	(4)	Equity					8/27/2018		Salt Lake City, UT Beverage, Food, & Tobacco	6 units	0	760,000	0.28%
Total Non-controlled, non-affiliated investments											\$ 658,628,966	\$ 653,424,495	239.03%
Net Investments											\$ 658,628,966	\$ 653,424,495	239.03%
LIABILITIES IN EXCESS OF OTHER ASSETS													
												\$ (380,063,846)	(139.03)%
NET ASSETS												\$ 273,360,649	100.00%

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- (1) See Note 1 of the Notes to the Consolidated Financial Statements for a discussion of the methodologies used to value securities in the portfolio.
- (2) Investments held by the SBIC subsidiary (as defined in Note 1), which include \$14,750,888 of cash and \$228,144,990 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility (as defined in Note 9). Stellus Capital Investment Corporation's ("the Company") obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries (as defined in Note 1).
- (3) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$2,250,000, with an interest rate of LIBOR plus 6.00% and a maturity of January 31, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (4) Security is non-income producing.
- (5) The investment is not a "qualifying asset" under the Investment Company Act of 1940, as amended. The Company may not acquire any non-qualifying assets unless, at the time of the acquisition, qualifying assets represent at least 70% of the Company's total assets. Qualifying assets represent approximately 91% of the Company's total assets as of December 31, 2020.
- (6) Represents a PIK interest security. At the option of the issuer, interest can be paid in cash or cash and PIK interest. The percentage of PIK interest shown is the maximum PIK interest that can be elected by the issuer.
- (7) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,331,461, with an interest rate of LIBOR plus 6.00% and a maturity of January 7, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (8) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 6.00% and a maturity of November 20, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (9) Investments held by the SBIC II subsidiary (as defined in Note 1), which include \$2,653,295 of cash and \$43,391,392 of investments (at cost), are excluded from the obligations to the lenders of the Credit Facility. The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all investments and cash and cash equivalents, except for cash and investments held by the SBIC subsidiaries.
- (10) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$909,091, with an interest rate of LIBOR plus 5.75% and a maturity of November 1, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (11) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$746,948, with an interest rate of LIBOR plus 5.75% and a maturity of July 1, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (12) These loans have LIBOR floors which are lower than the applicable LIBOR rates; therefore, the floors are not in effect.
- (13) These loans are last-out term loans with contractual rates higher than the applicable LIBOR rates; therefore, the floors are not in effect.
- (14) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$3,328,652, with an interest rate of LIBOR plus 6.00% and a maturity of January 7, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (15) Investment has been on non-accrual since October 31, 2017.
- (16) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,000,000, with an interest rate of LIBOR plus 6.75% and a maturity of February 5, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.
- (17) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$666,667, with an interest rate of LIBOR plus 5.00% and a maturity of June 29, 2022. This investment is accruing an unused commitment fee of 0.50% per annum.
- (18) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$750,000, with an interest rate of LIBOR plus 7.50% and a maturity of April 13, 2023. The Company has full discretion to fund the revolver commitment.
- (19) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$3,111,111, with an interest rate of LIBOR plus 6.50% and a maturity of March 13, 2026. This investment is accruing an unused commitment fee of 0.50% per annum.
- (20) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$1,511,111, with an interest rate of LIBOR plus 6.25% and a maturity of April 11, 2024. This investment is accruing an unused commitment fee of 1.00% per annum

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- (21) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$66,667 with an interest rate of LIBOR plus 6.50% and a maturity of December 21, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (22) This loan is a unitranche investment.
- (23) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,500,000 with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (24) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$2,000,000 with an interest rate of LIBOR plus 6.00% and a maturity of November 15, 2023. This investment is accruing an unused commitment fee of 0.50% per annum.
- (25) Excluded from the investment is an undrawn delayed draw term commitment in an amount not to exceed \$4,000,000, with an interest rate of LIBOR plus 5.75% and a maturity of February 8, 2024. The Company has full discretion to fund the delayed draw term loan commitment.
- (26) Investment has been on non-accrual since June 28, 2019.
- (27) Maturity date is under ongoing negotiations with portfolio company and other lenders.
- (28) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,136,364, with an interest rate of LIBOR plus 6.50% and a maturity of August 28, 2025. This investment is accruing an unused commitment fee of 0.50% per annum.
- (29) These loans are last-out term loans with contractual rates lower than the applicable LIBOR rates; therefore, the floors are in effect.
- (30) Excluded from the investment is an undrawn delayed draw term loan commitment in an amount not to exceed \$2,767,584, with an interest rate of LIBOR plus 5.50% and a maturity of June 24, 2024. This investment is accruing an unused commitment fee of 1.00% per annum.
- (31) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,875,000, with an interest rate of LIBOR plus 5.75% and a maturity of September 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (32) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,763,033, with an interest rate of LIBOR plus 6.25% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (33) Investment has been on non-accrual since January 1, 2020.
- (34) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$2,651,515, with an interest rate of LIBOR plus 5.75% and a maturity of October 2, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (35) These loans have LIBOR Floors which are higher than the current applicable LIBOR rates; therefore, the floors are in effect.
- (36) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$100,000, with an interest rate of LIBOR plus 8.50% and a maturity of July 31, 2025. This investment is accruing an unused commitment fee of 0.50% per annum. This undrawn revolver commitment is held by SBIC I.
- (37) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$50,000, with an interest rate of LIBOR plus 6.75% and a maturity of August 30, 2024. This investment is accruing an unused commitment fee of 0.50% per annum.
- (38) Instrument was restructured into a first lien term loan and preferred equity on April 3, 2021.

Abbreviation Legend

PIK — Payment-In-Kind

L — LIBOR

Euro — Euro Dollar

STELLUS CAPITAL INVESTMENT CORPORATION

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(Unaudited)

NOTE 1 — NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Stellus Capital Investment Corporation (“we”, “us”, “our” and the “Company”) was formed as a Maryland corporation on May 18, 2012 (“Inception”) and is an externally managed, closed-end, non-diversified investment management company. The Company is applying the guidance of Accounting Standards Codification (“ASC”) Topic 946, *Financial Services Investment Companies*. 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”), and treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”), for U.S. federal income tax purposes. The Company’s investment activities are managed by our investment adviser, Stellus Capital Management, LLC (“Stellus Capital” or the “Advisor”).

As of March 31, 2021, the Company had issued a total of 19,486,003 shares and raised \$286,629,818 in gross proceeds since Inception, incurring \$9,127,228 in offering expenses and sales load fees for net proceeds from offerings of \$277,502,590. The Company’s shares are currently listed on the New York Stock Exchange under the symbol “SCM”. See Note 4 for further details.

The Company has established wholly owned subsidiaries: SCIC — Consolidated Blocker 1, Inc., SCIC — ICD Blocker 1, Inc., SCIC — Invincible Blocker 1, Inc., SCIC — FBO Blocker 1, Inc., SCIC — SKP Blocker 1, Inc., SCIC — APE Blocker 1, Inc., SCIC — Venbrook Blocker 1, Inc., SCIC — CC Blocker 1, Inc., SCIC — ERC Blocker 1, Inc., and SCIC — Hollander Blocker 1, Inc., which are structured as Delaware entities, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities) (collectively, the “Taxable Subsidiaries”). The Taxable Subsidiaries are consolidated for U.S. generally accepted accounting principles (“U.S. GAAP”) reporting purposes, and the portfolio investments held by them are included in the consolidated financial statements.

On June 14, 2013, the Company formed Stellus Capital SBIC, LP (the “SBIC subsidiary”), a Delaware limited partnership, and its general partner, Stellus Capital SBIC GP, LLC, a Delaware limited liability company, as wholly owned subsidiaries of the Company. On June 20, 2014, the SBIC subsidiary received a license from the U.S. Small Business Administration (“SBA”) to operate as a Small Business Investment Company (“SBIC”) under Section 301(c) of the Small Business Investment Company Act of 1958, as amended (the “SBIC Act”). The SBIC subsidiary and its general partner are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by it are included in the consolidated financial statements.

On November 29, 2018, the Company formed Stellus Capital SBIC II, LP (the “SBIC II subsidiary”), a Delaware limited partnership. On August 14, 2019, the SBIC II subsidiary received a license from the SBA to operate as an SBIC under Section 301(c) of the SBIC Act. The SBIC II subsidiary and its general partner, Stellus Capital SBIC GP, LLC, are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by it are included in the consolidated financial statements.

The SBIC licenses allow the SBIC subsidiary and SBIC II subsidiary (together, “the SBIC subsidiaries”) to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten-year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, will have a superior claim to the SBIC subsidiaries’ assets over the Company’s stockholders in the event the Company liquidates one or both of the SBIC subsidiaries or the SBA exercises its remedies under the SBA-guaranteed debentures issued by the SBIC subsidiaries upon an event of default. For the SBIC subsidiary, SBA regulations currently limit the amount that a single licensee may borrow to a maximum of \$150,000,000 when it has at least \$75,000,000 in regulatory capital, as such term is defined by the SBA, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For the SBIC II subsidiary, SBA regulations limit these amounts to \$175,000,000 of borrowings when it has at least \$87,500,000 of regulatory capital.

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As of both March 31, 2021 and December 31, 2020, the SBIC subsidiary had \$75,000,000 in regulatory capital. As of March 31, 2021 and December 31, 2020, the SBIC II subsidiary had \$60,000,000 and \$40,000,000 in regulatory capital, respectively.

As of both March 31, 2021 and December 31, 2020, the SBIC subsidiary had \$150,000,000 of SBA-guaranteed debentures outstanding. As of March 31, 2021 and December 31, 2020, the SBIC II subsidiary had \$60,000,000 and \$26,500,000 of SBA-guaranteed debentures outstanding, respectively. See footnote (2) of the Consolidated Schedule of Investments for additional information regarding the treatment of investments in the SBIC subsidiaries with respect to the Credit Facility (as defined in Note 9).

As a BDC, the Company is required to comply with certain regulatory requirements. On March 23, 2018, the Small Business Credit Availability Act (the "SBCAA") was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCAA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150% from 200% under certain circumstances.

On April 4, 2018, the Company's board of directors (the "Board"), including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. At the Company's 2018 annual meeting of stockholders, our stockholders also approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the asset coverage ratio test applicable to the Company was decreased from 200% to 150%, effective June 29, 2018. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing. As of March 31, 2021, our asset coverage ratio was 203%.

The Company's investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies. The Company seeks to achieve its investment objective by originating and investing primarily in private U.S. middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and unsecured debt financing, with corresponding equity co-investments. The Company sources investments primarily through the extensive network of relationships that the principals of Stellus Capital have developed with financial sponsor firms, financial institutions, middle-market companies, management teams and other professional intermediaries.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the U.S. ("U.S. GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, certain disclosures accompanying the annual financial statements prepared in accordance with U.S. GAAP are omitted. The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of the financial statements for the interim periods included herein. The results of operations for the three months ended March 31, 2021 and March 31, 2020 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2020.

In accordance with Regulation S-X under the Exchange Act, the Company does not consolidate portfolio company investments. The accounting records of the Company are maintained in U.S. dollars.

STELLUS CAPITAL INVESTMENT CORPORATION

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COVID-19 Developments

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. The COVID-19 pandemic has had a significant impact on the U.S. and global economy. Each portfolio company has been assessed on an individual basis to identify the impact of the COVID-19 pandemic on the valuation of our investments in such company. We believe that any such COVID-19 pandemic impacts have been reflected in the valuation of our investments.

The global impact of the outbreak continues to evolve, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of the COVID-19 pandemic, have created significant disruption in supply chains and economic activity. While several countries, as well as certain states in the United States, have begun to lift public health restrictions with the view to reopening their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. The Federal Food and Drug Administration authorized vaccines produced for emergency use starting in December 2020, and such vaccines have been distributed nationally; however, it remains unclear how quickly the vaccines will continue to be distributed nationwide and globally or when “herd immunity” will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. The delay in distributing the vaccines could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States and other major markets.

As COVID-19 continues to spread, the potential impacts, including a global, regional, or other economic recession, remain uncertain and difficult to assess. The extent of the impact of the COVID-19 pandemic on the financial performance of our current and future investments will depend on future developments, including the duration and spread of the virus, related advisories and restrictions, and the health of the financial markets and economy, all of which are highly uncertain and cannot be predicted. To the extent our portfolio companies are adversely impacted by the effects of the COVID-19 pandemic, it may have a material adverse impact on our future net investment income, the fair value of our portfolio investments and our financial condition.

Portfolio Investment Classification

The Company classifies its portfolio investments in accordance with the requirements of the 1940 Act as follows: (a) “Control Investments” are defined as investments in which the Company owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation, (b) “Affiliate Investments” are defined as investments in which the Company owns between 5% and 25% of the voting securities and does not have rights to maintain greater than 50% of the board representation, and (c) “Non-controlled, non-affiliate investments” are defined as investments that are neither Control Investments or Affiliate Investments.

Cash and Cash Equivalents

At March 31, 2021, cash balances totaling \$1,170,340 exceeded FDIC insurance protection levels of \$250,000 by \$920,340. In addition, at March 31, 2021, the Company held \$29,279,295 in cash equivalents, which are carried at cost, which approximates fair value. All of the Company’s cash deposits are held at large established high credit quality financial institutions and management believes that risk of loss associated with any uninsured balances is remote.

Cash consists of bank demand deposits. We deem certain U.S. Treasury Bills and other high-quality, short-term debt securities as cash equivalents.

Fair Value Measurements

We account for substantially all of our financial instruments at fair value in accordance with ASC Topic 820 — Fair Value Measurements and Disclosures (“ASC Topic 820”). ASC Topic 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. We believe that the carrying amounts of our financial instruments such as cash, receivables and payables approximate the fair value of these items due to the short maturity of these instruments. This is considered a Level 1 valuation technique. The carrying values of our Credit Facility and SBA-guaranteed debentures approximate fair value because the interest rates adjusts to the market interest rates (Level 3 input). The carrying value of our 2026 Notes approximates fair value. See Note 6 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

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The COVID-19 pandemic is an unprecedented circumstance that materially impacts the fair value of the Company's investments. As a result, the fair value of the Company's portfolio investments may be further negatively impacted after March 31, 2021, by circumstances and events that are not yet known.

The COVID-19 pandemic may impact the Company's portfolio companies' ability to pay their respective contractual obligations, including principal and interest due to the Company, and some portfolio companies may require interest or principal deferrals in order to fulfill short-term liquidity needs in response to COVID-19. The Company is working with each of its portfolio companies, as necessary, to help them access short-term liquidity through potential interest deferrals, funding on unused lines of credit, and other sources of liquidity. As of March 31, 2021, no such interest deferrals have been made.

Consolidation

As permitted under Regulation S-X under the Exchange Act and ASC Topic 946, we generally do not consolidate our investment in a portfolio company other than an investment company subsidiary. Accordingly, we consolidated the results of the SBIC subsidiaries and the Taxable Subsidiaries. All intercompany balances have been eliminated upon consolidation.

Use of Estimates

The preparation of the consolidated statement of assets and liabilities in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

Deferred Financing Costs

Deferred financing costs, prepaid loan fees on SBA-guaranteed debentures and prepaid loan structure fees consist of fees and expenses paid in connection with the closing and maintenance of our Credit Facility, 2022 Notes, 2026 Notes and SBA-guaranteed debentures and are capitalized at the time of payment. These costs are amortized using the straight line method over the term of the respective instrument and presented as an offset to the corresponding debt on the Consolidated Statement of Assets and Liabilities.

Offering Costs

Deferred offering costs consist of fees and expenses incurred in connection with the offer and sale of the Company's common stock, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement. These costs are capitalized when incurred and recognized as a reduction of offering proceeds when the offering is consummated and shown on the Consolidated Statement of Changes in Net Assets and Liabilities as a reduction to Paid-in-Capital.

Investments

As a BDC, the Company will generally invest in illiquid loans and securities including debt and equity securities of private middle-market companies. Under procedures established by our Board, the Company intends to value investments for which market quotations are readily available at such market quotations. The Company will obtain these market values from an independent pricing service or at the median between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available will be valued at fair value as determined in good faith by our Board. Such determination of fair values may involve subjective judgments and estimates. The Company also engages independent valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least twice annually.

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Investments purchased within approximately 90 days of the valuation date will typically be valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. With respect to unquoted securities, our Board will value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Board will use the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because the Company expects that there will not be a readily available market for many of the investments in our portfolio, the Company expects to value most of our portfolio investments at fair value as determined in good faith by the Board using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

In following these approaches, the types of factors that will be taken into account in fair value pricing investments will include, as relevant, but not be limited to:

- available current market data, including relevant and applicable market trading and transaction comparables;
- applicable market yields and multiples;
- security covenants;
- call protection provisions;
- information rights;
- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments, its earnings and discounted cash flows and the markets in which it does business;
- comparisons of financial ratios of peer companies that are public;
- comparable merger and acquisition transactions; and
- the principal market and enterprise values.

Revenue Recognition

We record interest income on an accrual basis to the extent such interest is deemed collectible. Payment-in-kind ("PIK") interest, represents contractual interest accrued and added to the loan balance that generally becomes due at maturity. We will not accrue any form of interest on loans and debt securities if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. Upon the prepayment of a loan or debt security, any unamortized loan origination fee is recorded as interest income. We record prepayment premiums on loans and debt securities as other income. Dividend income, if any, will be recognized on the declaration date.

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A presentation of the interest income we have received from portfolio companies for the quarters ended March 31, 2021 and 2020 is as follows:

	For the three months ended	
	March 31, 2021	March 31, 2020
Loan interest	\$ 12,650,928	\$ 13,433,074
PIK income	118,329	537,284
Fee amortization income ⁽¹⁾	577,254	629,718
Fee income acceleration ⁽²⁾	166,266	249,512
Total Interest Income	\$ 13,512,777	\$ 14,849,588

(1) Includes amortization of upfront fees on unfunded commitments.

(2) Unamortized loan origination fees recognized upon realization.

To maintain our treatment as a RIC, substantially all of this income must be paid to stockholders in the form of distributions, even if we have not collected any cash.

Management considers portfolio specific circumstances as well as other economic factors in determining collectability. As of March 31, 2021, we had five loans on non-accrual status, which represented approximately 5.3% of our loan portfolio at cost and 1.8% at fair value. As of December 31, 2020, we had three loans on non-accrual status, which represented approximately 4.3% of our loan portfolio at cost and 1.0% at fair value. As of March 31, 2021 and December 31, 2020, \$8,196,386 and \$7,057,415 of income from investments on non-accrual has not been accrued. If a loan or debt security's status significantly improves regarding the debtor's ability to service the debt or other obligations, or if a loan or debt security is sold or written off, we remove it from non-accrual status.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

We measure realized gains or losses by the difference between the net proceeds from the repayment, sale or disposition and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Investment Transaction Costs

Costs that are material associated with an investment transaction, including legal expenses, are included in the cost basis of purchases and deducted from the proceeds of sales unless such costs are reimbursed by the borrower.

Receivables and Payables for Unsettled Securities Transaction

The Company records all investments on a trade date basis.

U.S. Federal Income Taxes

The Company has elected to be treated as a RIC under Subchapter M of the Code, and operates in a manner so as to qualify annually for the tax treatment applicable to RICs. To qualify for tax treatment as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. So long as the Company maintains its status as a RIC, it generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that it distributes at least annually to its stockholders as dividends. Rather, any tax liability related to income earned by the Company represents obligations of the Company's investors and will not be reflected in the consolidated financial statements of the Company.

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To avoid a 4% U.S. federal excise tax on undistributed earnings, the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the one-year period ending December 31 (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no U.S. federal income tax or the Excise Tax Avoidance Requirement. For this purpose, however, any net ordinary income or capital gain net income retained by us that is subject to corporate income tax for the tax year ending in that calendar year will be considered to have been distributed by year end (or earlier if estimated taxes are paid). The Company, at its discretion, may choose not to distribute all of its taxable income for the calendar year and pay a non-deductible 4% excise tax on this income. If the Company chooses to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned. Included in income tax expense for the three months ended March 31, 2021 is an increase of the estimated excise tax accrued relating to the year ended December 31, 2020 of \$41,316, as well as a 2021 quarterly estimate of \$196,645. Included in income tax expense for the three months ended March 31, 2020 is an increase of the estimated excise tax accrued relating to the year ended December 31, 2019 of \$40,000, as well as a 2020 quarterly estimate of \$150,000.

The Company evaluates tax positions taken or expected to be taken while preparing its tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions deemed to meet a “more-likely-than-not” threshold would be recorded as a tax benefit or expense in the applicable period.

As of March 31, 2021 and December 31, 2020, the Company had not recorded a liability for any unrecognized tax positions. Management’s evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. The Company’s policy is to include interest and penalties related to income taxes, if applicable, in general and administrative expenses. Any expenses for the three months ended March 31, 2021 and 2020 were de minimis.

The Taxable Subsidiaries are direct wholly-owned subsidiaries of the Company that have elected to be taxable entities. The Taxable Subsidiaries permit the Company to hold equity investments in portfolio companies that are “pass through” entities for U.S. federal income tax purposes and continue to comply with the “source-of-income” requirements contained in RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with the Company for U.S. Federal income tax purposes and may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in the Company’s consolidated financial statements.

The Taxable Subsidiaries use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the temporary differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Taxable income generally excludes net unrealized appreciation or depreciation, as investment gains or losses are not included in taxable income until they are realized.

For the three months ended March 31, 2021 and 2020, the Company recorded deferred income tax (provision) benefit of (\$167,804) and \$28,959, respectively, related to the Taxable Subsidiaries. In addition, as of March 31, 2021 and December 31, 2020, the Company had a deferred tax liability of \$527,394 and \$359,590, respectively.

Earnings per Share

Basic per share calculations are computed utilizing the weighted average number of shares of common stock outstanding for the period. The Company has no common stock equivalents. As a result, there is no difference between diluted earnings per share and basic per share amounts.

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Paid In Capital

The Company records the proceeds from the sale of its common stock on a net basis to (i) capital stock and (ii) paid in capital in excess of par value, excluding all commissions and marketing support fees.

Distributable Earnings (Accumulated Undistributed Deficit)

The components that make up distributable earnings (accumulated undistributed deficit) on the Statement of Assets and Liabilities as of March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021	December 31, 2020
Accumulated net realized loss from investments, net of cumulative dividends of \$24,557,535 for both periods	\$ (16,465,391)	\$ (16,388,369)
Net unrealized depreciation on non-controlled non-affiliated investments and cash equivalents, net of provision for taxes of \$527,394 and \$359,590, respectively	(5,609,882)	(5,564,061)
Accumulated undistributed net investment income	19,458,005	19,266,926
Accumulated undistributed deficit	<u>\$ (2,617,268)</u>	<u>\$ (2,685,504)</u>

Recently Issued Accounting Standards

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-04, Reference Rate Reform. 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 standard is effective as of March 12, 2020 through December 31, 2022. Management is currently evaluating the impact of the optional guidance on the Company’s consolidated financial statements and disclosures. The Company did not utilize the optional expedients and exceptions provided by ASU 2020-04 during the quarter ended March 31, 2021.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. We believe the impact of the recently issued standards and any that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

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NOTE 2 — RELATED PARTY ARRANGEMENTS

Investment Advisory Agreement

The Company has entered into an investment advisory agreement with Stellus Capital pursuant to which Stellus Capital serves as its investment adviser. Pursuant to this agreement, the Company has agreed to pay to Stellus Capital an annual base management fee of 1.75% of gross assets, including assets purchased with borrowed funds or other forms of leverage and excluding cash and cash equivalents, and an incentive fee.

For the three months ended March 31, 2021 and 2020, the Company recorded an expense for base management fees of \$2,963,861 and \$2,719,054, respectively. As of March 31, 2021 and December 31, 2020, \$1,963,861 and \$2,825,322, respectively, were payable to Stellus Capital.

The incentive fee has two components, the investment income incentive fee and the capital gains incentive fee, as follows:

Investment Income Incentive Fee

The investment income component (“Investment Income Incentive Fee”) is calculated, and payable to the Advisor, quarterly in arrears based on the Company’s pre-incentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The pre-incentive fee net investment income excludes items classified below the Net Investment Income line including realized and unrealized gains and losses, loss on debt extinguishment, and other capital transactions. The pre-incentive fee net investment income, which is expressed as a rate of return on the value of the Company’s net assets attributable to the Company’s common stock, for the immediately preceding calendar quarter, will have a 2.0% (which is 8.0% annualized) hurdle rate (also referred to as the “Hurdle”). Pre-incentive fee net investment income means interest income, dividend income and any other income accrued during the calendar quarter, minus the Company’s operating expenses for the quarter 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. The Advisor receives no incentive fee for any calendar quarter in which the Company’s pre-incentive fee net investment income does not exceed the Hurdle. Subject to the cumulative total return requirement described below, the Advisor receives 100% of the Company’s pre-incentive fee net investment income for any calendar quarter with respect to that portion of the pre-incentive net investment income for such quarter, if any, that exceeds the Hurdle but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the “Catch-up”) and 20.0% of the Company’s pre-incentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets.

The foregoing Investment Income Incentive Fee is subject to a total return requirement, which provides that no Investment Income Incentive Fee in respect of the Company’s pre-incentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative Investment Income Incentive Fees accrued and/or paid for the 11 preceding quarters. In other words, any Investment Income Incentive Fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which the Company’s pre-incentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the Catch-up, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the “cumulative net increase in net assets resulting from operations” is the amount, if positive, of the sum of pre-incentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation of the Company for the then current and 11 preceding calendar quarters. In addition, the Advisor is not paid the portion of such Investment Income Incentive Fee that is attributable to deferred interest until the Company actually receives such interest in cash.

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For the three months ended March 31, 2021 and March 31, 2020, the Company incurred \$0 and \$1,339,637, respectively, of Investment Income Incentive Fees. As of March 31, 2021 and December 31, 2020, \$122,499 and \$681,660, respectively, of such Investment Income Incentive Fees were payable to the Advisor, of which \$0 and \$559,161, respectively, are currently payable (as explained below). As of both March 31, 2021 and December 31, 2020, \$122,499 of Investment Income Incentive Fees incurred but not paid by the Company were generated from deferred interest (i.e. PIK, certain discount accretion and deferred interest) and are not payable until such amounts are received by the Company in cash.

Capital Gains Incentive Fee

The Company also pays the Advisor an incentive fee based on capital gains (the “Capital Gains Incentive Fee”). The Capital Gains Incentive Fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment management agreement, as of the termination date). The Capital Gains Incentive Fee is equal to 20.0% of the Company’s cumulative aggregate realized capital gains from Inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid Capital Gain Incentive Fees is subtracted from such Capital Gain Incentive Fees when the Capital Gains Incentive Fee is calculated.

U.S. GAAP requires that the Capital Gains Incentive Fee accrual considers the cumulative aggregate realized gains and losses and unrealized capital appreciation or depreciation of investments or other financial instruments in the calculation, as an incentive fee would be payable if such realized gains and losses and unrealized capital appreciation or depreciation were realized, even though such realized gains and losses and unrealized capital appreciation or depreciation is not permitted to be considered in calculating the Capital Gains Incentive Fee actually payable under the investment advisory agreement. There can be no assurance that unrealized appreciation or depreciation will be realized in the future. Accordingly, such fees, as calculated and accrued, may not necessarily be payable under the investment advisory agreement, and may never be paid based upon the computation of incentive fees in subsequent periods. For the three months ended March 31, 2021 and 2020, the Company incurred (reversed) \$83,281 and (\$880,913), respectively, related to the Capital Gains Incentive Fee. As of March 31, 2021 and December 31, 2020, \$604,302 and \$521,021, respectively, of Capital Gains Incentive Fees were accrued but not currently payable to the Advisor.

The following tables summarize the components of the incentive fees discussed above:

	Three Months Ended March 31	
	2021	2020
Investment income incentive fees incurred	\$ —	\$ 1,339,637
Capital gains incentive fee incurred (reversed)	83,281	(880,913)
Incentive Fee Expense	\$ 83,281	\$ 458,724

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	March 31, 2021	December 31, 2020
Investment Income Incentive Fee Currently Payable	\$ —	\$ 559,161
Investment Income Incentive Fee Deferred	122,499	122,499
Capital Gains Incentive Fee Deferred	604,302	521,021
Incentive Fee Payable	<u>\$ 726,801</u>	<u>\$ 1,202,681</u>

Director Fees

For the three months ended March 31, 2021 and 2020, the Company recorded an expense relating to director fees of \$91,500 and \$132,250. As of both March 31, 2021 and December 31, 2020, no director fees were payable to the Company's directors.

Co-Investment Pursuant to SEC Order

On October 23, 2013, the Company received an exemptive order (the "Prior Order") from the SEC to co-invest with private funds managed by Stellus Capital where doing so is consistent with the Company's investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). On December 18, 2018, the Company received a new exemptive order (the "Order") that supersedes the Prior Order and permits the Company greater flexibility to enter into co-investment transactions. The Order expands on the Prior Order and allows the Company to co-invest with additional types of private funds, other BDCs, and registered investment companies managed by Stellus Capital or an adviser that is controlled, controlling, or under common control with Stellus Capital, subject to the conditions included therein. Pursuant to the Order, a "required majority" (as defined in Section 57(o) of the 1940 Act) of the Company's independent directors must make certain conclusions in connection with a co-investment transaction, including (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to the Company and its stockholders and do not involve overreaching of the Company or its stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of the Company's stockholders and is consistent with its investment objectives and strategies. The Company co-invests, subject to the conditions in the Order, with private credit funds managed by Stellus Capital that have an investment strategy that is similar or identical to the Company's investment strategy, and the Company may co-invest with other BDCs and registered investment companies managed by Stellus Capital or an adviser that is controlled, controlling, or under common control with Stellus Capital in the future. The Company believes that such co-investments may afford it additional investment opportunities and an ability to achieve greater diversification.

Administrative Agent

The Company serves as the administrative agent on certain investment transactions, including co-investments with its affiliates under the Order. As of both March 31, 2021 and December 31, 2020, there was no cash due to other investment funds related to interest paid by a borrower to the Company as administrative agent. Any such amount would be included in "Other Accrued Expenses and Liabilities" on the Consolidated Statement of Assets and Liabilities.

License Agreement

The Company has entered into a license agreement with Stellus Capital pursuant to which Stellus Capital has agreed to grant the Company a non-exclusive, royalty-free license to use the name "Stellus Capital." Under this agreement, the Company has a right to use the "Stellus Capital" name for so long as Stellus Capital or one of its affiliates remains its investment adviser. Other than with respect to this limited license, the Company has no legal right to the "Stellus Capital" name. This license agreement will remain in effect for so long as the investment advisory agreement with Stellus Capital is in effect.

Administration Agreement

The Company has entered into an administration agreement with Stellus Capital pursuant to which Stellus Capital will furnish the Company with office facilities and equipment and will provide the Company with the clerical, bookkeeping, recordkeeping and other administrative services necessary to conduct day-to-day operations. Under this administration agreement, Stellus Capital will perform, or oversee the performance of, its required administrative services, which include, among other things, being responsible for the financial records which the Company is required to maintain and preparing reports to its stockholders and reports filed with the SEC.

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For the three months ended March 31, 2021 and 2020, the Company recorded expenses of \$381,050 and \$399,599, respectively, relating to the administration agreement. As of March 31, 2021 and December 31, 2020, \$381,050 and \$381,690, respectively, remained payable to Stellus Capital under the administration agreement.

Indemnifications

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations under the investment advisory agreement, Stellus Capital and its officers, managers, partners, agents, employees, controlling persons and members, and any other person or entity affiliated with it, are entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Stellus Capital's services under the investment advisory agreement or otherwise as our investment adviser.

The Company has also entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Company's directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Company shall indemnify the director who is a party to the agreement (an "Indemnitee"), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Company.

NOTE 3 — DISTRIBUTIONS

Distributions are generally declared by the Company's Board each calendar quarter and recognized as distribution liabilities on the ex-dividend date. The Company intends to distribute net realized gains (*i.e.*, net capital gains in excess of net capital losses), if any, at least annually. The stockholder distributions, if any, will be determined by the Board. Any distribution to stockholders will be declared out of assets legally available for distribution. The Company has declared distributions of \$11.16 per share on its common stock from Inception through March 31, 2021.

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The following table reflects the Company's distributions declared and paid or to be paid on its common stock since Inception:

Date Declared	Record Date	Payment Date	Per Share ⁽¹⁾
Fiscal 2012			\$ 0.18
Fiscal 2013			\$ 1.36
Fiscal 2014			\$ 1.42
Fiscal 2015			\$ 1.36
Fiscal 2016	Various		\$ 1.36
Fiscal 2017			\$ 1.36
Fiscal 2018			\$ 1.36
Fiscal 2019			\$ 1.36
Fiscal 2020			\$ 1.15
Fiscal 2021			
January 15, 2021	January 29, 2021	February 16, 2021	\$ 0.0833
January 15, 2021	February 26, 2021	March 15, 2021	\$ 0.0833
January 15, 2021	March 31, 2021	April 15, 2021	\$ 0.0833
Total			\$ 11.16

(1) Distributions for fiscal years 2012 through 2020 are shown in aggregate amounts

The Company has adopted an "opt out" dividend reinvestment plan ("DRIP") pursuant to which a stockholder whose shares are held in his own name will receive distributions in shares of the Company's common stock under the Company's DRIP unless it elects to receive distributions in cash. Stockholders whose shares are held in the name of a broker or the nominee of a broker may have distributions reinvested only if such service is provided by the broker or the nominee, or if the broker of the nominee permits participation in the Company's DRIP.

Although distributions paid in the form of additional shares of the Company's common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in the Company's DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. Any distributions reinvested through the issuance of shares through the Company's DRIP will increase the Company's gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital. The Company issued 0 and 9,910 shares through the DRIP during the three months ended March 31, 2021 and 2020, respectively.

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NOTE 4 — EQUITY OFFERINGS AND RELATED EXPENSES

The table below illustrates the number of common stock shares the Company issued since Inception through various equity offerings and pursuant to the Company's DRIP.

Issuance of Common Stock	Number of Shares	Gross Proceeds ⁽¹⁾⁽²⁾	Underwriting fees	Offering Expenses	Net Proceeds ⁽³⁾	Average Offering Price
Year ended December 31, 2012	12,035,023	\$ 180,522,093	\$ 4,959,720	\$ 835,500	\$ 174,726,873	\$ 14.90
Year ended December 31, 2013	63,998	899,964	—	—	899,964	14.06
Year ended December 31, 2014	380,936	5,485,780	75,510	29,904	5,380,366	14.47
Year ended December 31, 2017	3,465,922	48,741,406	1,358,880	307,021	47,075,505	14.06
Year ended December 31, 2018	7,931	93,737	—	—	93,737	11.85
Year ended December 31, 2019	3,177,936	45,862,995	1,015,127	521,715	44,326,153	14.43
Year ended December 31, 2020	354,257	5,023,843	5,681	18,169	4,999,993	14.18
Total	<u>19,486,003</u>	<u>\$ 286,629,818</u>	<u>\$ 7,414,918</u>	<u>\$ 1,712,309</u>	<u>\$ 277,502,591</u>	

- (1) Net of fractional share transactions. Such share redemptions impacted gross proceeds by \$(96), \$1,435, \$(1,051), \$(142), \$(31) and \$(29) in 2020, 2019, 2018, 2017, 2016 and 2015, respectively.
- (2) Includes common shares issued under the DRIP of \$0 during the three months ended March 31, 2021, \$228,943 for the year ended December 31, 2020, \$0 for the year ended December 31, 2019, \$94,788 during the year ended December 31, 2018, \$0 for the years ended 2017, 2016 and 2015, and \$398,505, \$930,385, \$113,000 for the years ended 2014, 2013, and 2012, respectively.
- (3) Net Proceeds per this equity table will differ from the Statement of Assets and Liabilities as of March 31, 2021 and December 31, 2020 in the amount of \$1,456,437, which represents a tax reclassification of stockholders' equity in accordance with U.S. GAAP. This reclassification reduces paid-in capital and increases distributable earnings (reducing the accumulated undistributed deficit).

The Company did not issue any shares during the three months ended March 31, 2021.

During the three months ending March 31, 2020, the Company issued 332,591 shares under the At-the-Market ("ATM") Program, for gross proceeds of \$4,794,995 and underwriting and other expenses of \$23,850. The average per share offering price of shares issued in the ATM Program during the three months ended March 31, 2020 was \$14.42.

The Company issued 0 and 9,910 shares, respectively, of common stock through the DRIP for the three months ended March 31, 2021 and 2020, respectively.

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NOTE 5 — NET INCREASE (DECREASE) IN NET ASSETS PER COMMON SHARE

The following information sets forth the computation of net increase (decrease) in net assets resulting from operations per common share for the three months ended March 31, 2021 and March 31, 2020.

	Three Months Ended	
	March 31, 2021	March 31, 2020
Net increase (decrease) in net assets resulting from operations	\$ 4,937,788	\$ (43,939,732)
Weighted average common shares	19,486,003	19,429,480
Net increase (decrease) in net assets from operations per share	\$ 0.25	\$ (2.26)

NOTE 6 — PORTFOLIO INVESTMENTS AND FAIR VALUE

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Company discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not considered to be active or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by management.

The Company considers whether the volume and level of activity for the asset or liability have significantly decreased and identifies transactions that are not orderly in determining fair value. Accordingly, if the Company determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Valuation techniques such as an income approach might be appropriate to supplement or replace a market approach in those circumstances.

At March 31, 2021, the Company had investments in 70 portfolio companies. The total fair value and cost of the investments were \$714,464,472 and \$719,546,960, respectively. The composition of our investments as of March 31, 2021 is as follows:

	Cost	Fair Value
Senior Secured – First Lien ⁽¹⁾	\$ 564,962,894	\$ 564,335,624
Senior Secured – Second Lien	84,697,904	61,483,486
Unsecured Debt	32,450,689	32,155,362
Equity	37,435,473	56,490,000
Total Investments	\$ 719,546,960	\$ 714,464,472

(1) Includes unitranche investments, which account for 11.9% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with the second lien and subordinated loans to the extent we invest in the “last-out” tranche.

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At December 31, 2020, the Company had investments in 66 portfolio companies. The total cost and fair value of the investments were \$658,628,966 and \$653,424,495 respectively. The composition of our investments as of December 31, 2020 was as follows:

	<u>Cost</u>	<u>Fair Value</u>
Senior Secured – First Lien ⁽¹⁾	\$ 508,060,059	\$ 508,673,064
Senior Secured – Second Lien	93,636,285	70,720,186
Unsecured Debt	22,212,888	21,191,245
Equity	34,719,734	52,840,000
Total Investments	<u>\$ 658,628,966</u>	<u>\$ 653,424,495</u>

(1) Includes unitranche investments, which account for 13.0% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with the second lien and subordinated loans to the extent we invest in the “last-out” tranche.

The Company’s investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms and conditions of the underlying loan agreements. As of March 31, 2021 and December 31, 2020, the Company had 22 and 19 of such investments with aggregate unfunded commitments of \$22,838,727 and \$28,865,204, respectively. The Company maintains sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded commitments should the need arise.

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The aggregate gross unrealized appreciation and depreciation and the aggregate cost and fair value of the Company's portfolio company securities as March 31, 2021 and December 31, 2020 were as follows:

	2021	2020
Aggregate cost of portfolio company securities	\$ 719,546,960	\$ 658,628,966
Gross unrealized appreciation of portfolio company securities	29,436,962	28,143,621
Gross unrealized depreciation of portfolio company securities	(34,519,450)	(33,348,092)
Aggregate fair value of portfolio company securities	<u>\$ 714,464,472</u>	<u>\$ 653,424,495</u>

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of March 31, 2021 are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured – First Lien	\$ —	\$ —	\$ 564,335,624	\$ 564,335,624
Senior Secured – Second Lien	—	—	61,483,486	61,483,486
Unsecured Debt	—	—	32,155,362	32,155,362
Equity	—	—	56,490,000	56,490,000
Total Investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 714,464,472</u>	<u>\$ 714,464,472</u>

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of December 31, 2020 are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured – First Lien	\$ —	\$ —	\$ 508,673,064	\$ 508,673,064
Senior Secured – Second Lien	—	—	70,720,186	70,720,186
Unsecured Debt	—	—	21,191,245	21,191,245
Equity	—	—	52,840,000	52,840,000
Total Investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 653,424,495</u>	<u>\$ 653,424,495</u>

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The aggregate values of Level 3 portfolio investments changed during the three months ended March 31, 2021 are as follows:

	Senior Secured Loans-First Lien	Senior Secured Loans-Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	\$ 508,673,064	\$ 70,720,186	\$ 21,191,245	\$ 52,840,000	\$ 653,424,495
Purchases of investments	77,378,347	965,250	11,705,915	3,374,696	93,424,208
Payment-in-kind interest	101,454	—	16,875	—	118,329
Sales and Redemptions	(21,030,424)	(9,956,212)	(1,500,000)	(1,098,375)	(33,585,011)
Realized Gains	—	—	—	439,417	439,417
Change in unrealized (depreciation) appreciation included in earnings ⁽¹⁾	(1,240,279)	(298,317)	726,317	934,262	121,983
Amortization of premium and accretion of discount, net	453,462	52,579	15,010	—	521,051
Fair value at end of period	<u>\$ 564,335,624</u>	<u>\$ 61,483,486</u>	<u>\$ 32,155,362</u>	<u>\$ 56,490,000</u>	<u>\$ 714,464,472</u>

(1) Includes reversal of positions during the three months ended March 31, 2021.

There were no Level 3 transfers during the three months ended March 31, 2020.

The aggregate values of Level 3 portfolio investments changed during the year ended December 31, 2020 are as follows:

	Senior Secured Loans-First Lien	Senior Secured Loans-Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	\$ 455,169,878	\$ 111,961,013	\$ 22,137,186	\$ 39,680,000	\$ 628,948,077
Purchases of investments	139,571,726	9,800,000	—	8,135,439	157,507,165
Payment-in-kind interest	80,487	506,754	77,751	—	664,992
Sales and Redemptions	(85,804,667)	(43,642,752)	—	(4,801,419)	(134,248,838)
Realized (Losses) Gains	(8,599,062)	(4,003,655)	(163,423)	2,665,177	(10,100,963)
Change in unrealized appreciation (depreciation) included in earnings ⁽¹⁾	6,550,721	(4,276,940)	(879,310)	7,160,803	8,555,274
Amortization of premium and accretion of discount, net	1,703,981	375,766	19,041	—	2,098,788
Fair value at end of period	<u>\$ 508,673,064</u>	<u>\$ 70,720,186</u>	<u>\$ 21,191,245</u>	<u>\$ 52,840,000</u>	<u>\$ 653,424,495</u>

(1) Includes reversal of positions during the twelve months ended December 31, 2020.

There were no Level 3 transfers during the twelve months ended December 31, 2020.

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The following is a summary of geographical concentration of our investment portfolio as of March 31, 2021:

	Cost	Fair Value	% of Total Investments
Texas	\$ 157,437,788	\$ 140,656,616	19.69%
California	87,069,947	92,848,345	13.00%
Illinois	63,254,406	63,438,481	8.88%
Arizona	50,798,324	52,365,151	7.33%
New Jersey	38,213,997	37,055,764	5.19%
Ohio	34,058,021	36,493,498	5.11%
Canada	34,833,488	35,024,601	4.90%
Wisconsin	22,681,481	22,852,123	3.20%
Washington	22,872,672	22,813,176	3.19%
New York	18,976,992	20,183,512	2.82%
United Kingdom	21,283,132	19,788,875	2.77%
Washington, D.C.	19,151,180	19,201,280	2.69%
South Carolina	15,844,753	18,412,490	2.58%
Indiana	17,749,809	17,990,759	2.52%
Maryland	16,937,047	17,106,250	2.39%
Minnesota	15,687,680	15,688,188	2.20%
North Carolina	15,536,435	13,452,687	1.88%
Alabama	12,230,520	12,281,719	1.72%
Florida	12,131,350	11,995,454	1.68%
Missouri	9,935,332	10,725,000	1.50%
Pennsylvania	9,888,426	9,850,000	1.38%
Virginia	7,423,287	7,648,786	1.07%
Georgia	685,000	6,680,000	0.93%
Tennessee	4,935,243	4,959,782	0.69%
Puerto Rico	8,613,244	2,341,935	0.33%
Massachusetts	1,317,406	1,850,000	0.26%
Utah	—	760,000	0.11%
	<u>\$ 719,546,960</u>	<u>\$ 714,464,472</u>	<u>100.00%</u>

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The following is a summary of geographical concentration of our investment portfolio as of December 31, 2020:

	Cost	Fair Value	% of Total Investments at fair value
Texas	\$ 151,640,862	\$ 135,146,776	20.68%
California	86,050,467	92,069,851	14.09%
Illinois	57,330,756	57,535,404	8.81%
Arizona	50,822,139	52,015,600	7.96%
New Jersey	38,228,359	37,765,139	5.78%
Ohio	34,109,657	35,827,682	5.48%
Wisconsin	22,721,856	22,827,500	3.49%
Canada	21,318,659	21,540,925	3.30%
New York	19,527,594	20,547,579	3.14%
Tennessee	19,832,576	19,959,613	3.05%
United Kingdom	20,159,650	18,727,500	2.87%
South Carolina	15,834,471	18,132,490	2.77%
Indiana	17,741,889	18,026,339	2.76%
Maryland	16,970,057	17,064,250	2.61%
Florida	12,404,739	12,299,545	1.88%
Alabama	12,252,768	12,252,768	1.88%
Washington	11,803,768	11,801,363	1.81%
Missouri	9,956,554	10,720,000	1.64%
Pennsylvania	9,884,148	9,900,000	1.52%
Virginia	7,505,287	7,759,020	1.19%
Washington, D.C.	6,937,907	7,030,512	1.08%
Georgia	685,000	6,420,000	0.98%
North Carolina	4,979,153	2,925,000	0.45%
Puerto Rico	8,613,244	2,589,639	0.40%
Massachusetts	1,317,406	1,780,000	0.27%
Utah	-	760,000	0.12%
	<u>\$ 658,628,966</u>	<u>\$ 653,424,495</u>	<u>100.00%</u>

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Unaudited)

The following is a summary of industry concentration of our investment portfolio as of March 31, 2021:

	Cost	Fair Value	% of Total Investments
Services: Business	\$ 153,997,793	\$ 162,504,358	22.74%
Healthcare & Pharmaceuticals	86,870,351	82,904,195	11.60%
Aerospace & Defense	66,615,494	64,921,355	9.09%
Beverage, Food, & Tobacco	40,297,535	41,543,170	5.81%
Media: Broadcasting & Subscription	31,356,544	34,084,802	4.77%
High Tech Industries	33,580,332	33,822,644	4.73%
Capital Equipment	32,507,740	33,544,326	4.70%
Consumer Goods: Durable	27,507,794	27,451,222	3.84%
Education	26,444,058	24,458,420	3.42%
Services: Consumer	38,012,766	22,467,312	3.14%
Media: Advertising, Printing & Publishing	21,688,930	20,457,126	2.86%
Transportation & Logistics	18,562,588	18,699,789	2.62%
Finance	16,507,196	18,650,000	2.61%
Retail	15,844,753	18,412,490	2.58%
Containers, Packaging, & Glass	17,821,650	17,927,123	2.51%
Metals & Mining	16,937,047	17,106,250	2.39%
Software	12,325,478	14,902,687	2.09%
Consumer goods: non-durable	13,346,042	13,040,854	1.83%
Automotive	11,036,930	10,968,750	1.54%
Environmental Industries	10,752,846	10,170,000	1.42%
Utilities: Oil & Gas	9,888,426	9,850,000	1.38%
Energy: Oil & Gas	11,033,455	9,779,474	1.37%
Chemicals, Plastics, & Rubber	6,611,212	6,798,125	0.95%
	<u>\$ 719,546,960</u>	<u>\$ 714,464,472</u>	<u>100.00%</u>

STELLUS CAPITAL INVESTMENT CORPORATION

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March 31, 2021

(Unaudited)

The following is a summary of industry concentration of our investment portfolio as of December 31, 2020:

	Cost	Fair Value	% of Total Investments at fair value
Services: Business	\$ 102,005,864	\$ 109,873,364	16.82%
Healthcare & Pharmaceuticals	87,198,279	82,945,887	12.69%
Aerospace & Defense	53,615,886	52,184,338	7.99%
Beverage, Food, & Tobacco	39,339,090	41,012,620	6.28%
Media: Broadcasting & Subscription	31,889,423	34,418,869	5.27%
High Tech Industries	33,571,427	33,793,693	5.17%
Consumer Goods: Durable	27,802,124	27,780,032	4.25%
Environmental Industries	25,454,549	24,977,427	3.82%
Education	26,428,607	24,494,108	3.75%
Services: Consumer	38,026,487	22,600,924	3.46%
Media: Advertising, Printing & Publishing	21,903,057	21,348,217	3.27%
Capital Equipment	20,005,255	20,680,904	3.17%
Finance	18,016,762	19,435,000	2.97%
Transportation & Logistics	18,690,276	18,944,945	2.90%
Retail	15,834,471	18,132,490	2.77%
Containers, Packaging, & Glass	17,853,813	17,890,000	2.74%
Metals & Mining	16,970,057	17,064,250	2.61%
Consumer goods: non-durable	13,272,383	12,930,000	1.98%
Automotive	11,028,125	11,028,125	1.69%
Construction & Building	10,446,055	10,750,000	1.65%
Energy: Oil & Gas	11,015,013	9,991,177	1.53%
Utilities: Oil & Gas	9,884,148	9,900,000	1.52%
Chemicals, Plastics, & Rubber	6,605,024	6,808,125	1.04%
Software	1,772,791	4,430,000	0.68%
Hotel, Gaming, & Leisure	-	10,000	0.00%
	<u>\$ 658,628,966</u>	<u>\$ 653,424,495</u>	<u>100.00%</u>

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

The following provides quantitative information about Level 3 fair value measurements as of March 31, 2021:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) (1) (3)
First lien debt	\$ 564,335,624	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates Market multiples	-3.96% to 1.64% (-0.36%) -2.76% to 0.68% (-1.15%) 7x to 24x (13x) ⁽⁴⁾
Second lien debt	\$ 61,483,486	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates Market multiples	-3.27% to 2.27% (-0.04%) -2.05% to 0.68% (-0.73%) 8x to 14x (11x) ⁽⁴⁾
Unsecured debt	\$ 32,155,362	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates Market multiples	-0.43% to 0.16% (-0.21) -1.78% to -1.57% (-1.65%) 1x to 24x (8x) ⁽⁴⁾
Equity investments	\$ 56,490,000	Market approach ⁽⁵⁾	Underwriting multiple/ EBITDA Multiple	2x to 24x (12x)
Total Long Term Level 3 Investments	\$ 714,464,472			

(1) Weighted average based on fair value as of March 31, 2021.

(2) Included but not limited to (a) the market approach which is used to determine sufficient enterprise value, and (b) the income approach which is based on discounting future cash flows using an appropriate market yield.

(3) The Company calculates the price of the loan by discounting future cash flows, which include forecasted future LIBOR rates based on the published forward LIBOR curve at the valuation date, using an appropriate yield calculated as of the valuation date. This yield is calculated based on the loan's yield at the original investment and is adjusted as of the valuation date based on: changes in comparable credit spreads, changes in risk free interest rates (per swap rates), and changes in credit quality (via an estimated shadow rating). Significant movements in any of these factors could result in a significantly lower or higher fair value measurement. As an example, the "Range (Average)" for second lien debt instruments in the table above indicates that the change in the HY spreads between the date a loan closed and the valuation date ranged from -3.27% (-327 basis points) to 2.27% (227 basis points). The average of all changes was -0.04% (-4 basis points).

(4) Median of LTM (last twelve months) EBITDA multiples of comparable companies.

(5) The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple (the "Multiple"). Significant increases (decreases) in the Multiple in isolation could result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market approach, the Company considers current market trading and/or transaction multiple, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Unaudited)

The following provides quantitative information about Level 3 fair value measurements as of December 31, 2020:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) ⁽¹⁾⁽³⁾
First lien debt	\$ 508,673,064	Income/Market ⁽²⁾ approach	HY credit spreads, Risk free rates Market multiples	-3.78% to 1.84% (-0.15%) -2.95% to 0.14% (-1.68%) 7x to 48x (13x) ⁽⁴⁾
Second lien debt	\$ 70,720,186	Income/Market ⁽²⁾ approach	HY credit spreads, Risk free rates Market multiples	-1.71% to 3.83% (0.54%) -2.65% to 0.08% (-1.44%) 8x to 14x (11x) ⁽⁴⁾
Unsecured debt	\$ 21,191,245	Income/Market approach ⁽²⁾	HY credit spreads, Risk free rates Market multiples	-0.25% to 0.34% (-0.03%) -1.92% to -1.62% (-1.78%) 1x to 24x (6x) ⁽⁴⁾
Equity investments	\$ 52,840,000	Market approach ⁽⁵⁾	Underwriting multiple/ EBITDA Multiple	1x to 24x (12x)
Total Long Term Level 3 Investments	\$ 653,424,495			

(1) Weighted average based on fair value as of December 31, 2020.

(2) Inclusive of but not limited to (a) the market approach which is used to determine sufficient enterprise value, and (b) the income approach which is based on discounting future cash flows using an appropriate market yield.

(3) The Company calculates the price of the loan by discounting future cash flows, which include forecasted future LIBOR rates based on the published forward LIBOR curve at the valuation date, using an appropriate yield calculated as of the valuation date. This yield is calculated based on the loan's yield at the original investment and is adjusted as of the valuation date based on: changes in comparable credit spreads, changes in risk free interest rates (per swap rates), and changes in credit quality (via an estimated shadow rating). Significant movements in any of these factors would result in a significantly lower or higher fair value measurement. As an example, the "Range (Average)" for a first lien debt instruments in the table above indicates that the change in the HY spreads between the date a loan closed and the valuation date ranged from -3.78% (-378 basis points) to 1.84% (184 basis points). The average of all changes was -0.15%.

(4) Median of LTM (last twelve months) EBITDA multiples of comparable companies.

(5) The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple (the "Multiple"). Significant increases (decreases) in the Multiple in isolation would result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market approach, the Company considers current market trading and/or transaction multiple, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

The Company is currently not subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we 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 business, financial condition or results of operations.

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

As of March 31, 2021, the Company had \$22,838,727 of unfunded commitments to provide debt financing to 22 existing portfolio companies. As of December 31, 2020, the Company had \$28,865,202 of unfunded commitments to provide debt to 19 existing portfolio companies. As of March 31, 2021, the Company had sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded loan commitments should the need arise.

NOTE 8 — FINANCIAL HIGHLIGHTS

	For the three months ended March 31, 2021 (unaudited)	For the three months ended March 31, 2020 (unaudited)
Per Share Data: ⁽¹⁾		
Net asset value at beginning of period	\$ 14.03	\$ 14.14
Net investment income	0.26	0.32
Change in unrealized appreciation (depreciation)	0.01	(2.65)
Net realized gain	0.02	0.07
Loss on debt extinguishment	(0.03)	—
Provision for taxes on unrealized appreciation on investments	(0.01)	—
Total from operations	\$ 0.25	\$ (2.26)
Stockholder distributions from:		
Net investment income	(0.25)	(0.34)
Other ⁽⁶⁾	—	0.01
Net asset value at end of period	\$ 14.03	\$ 11.55
Per share market value at end of period	\$ 12.70	\$ 7.29
Total return based on market value ⁽²⁾	19.1%	(47.8)%
Weighted average shares outstanding	19,486,003	19,429,480

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Unaudited)

	For the three months ended March 31, 2021 (unaudited)	For the three months ended March 31, 2020 (unaudited)
Ratio/Supplemental Data:		
Net assets at end of period	\$ 273,428,885	\$ 224,918,665
Weighted Average net assets	\$ 273,361,407	\$ 270,069,497
Annualized ratio of gross operating expenses to net assets ⁽⁵⁾	13.31%	13.39%
Annualized ratio of interest expense and other fees to net assets	6.41%	6.37%
Annualized ratio of net investment income to net assets ⁽⁵⁾	7.45%	9.28%
Portfolio Turnover ⁽³⁾	4.91%	5.14%
Notes payable	\$ 100,000,000	\$ 48,875,000
Credit Facility payable	\$ 165,500,000	\$ 210,000,000
SBA Debentures	\$ 210,000,000	\$ 161,000,000
Asset coverage ratio ⁽⁴⁾	2.03x	1.87x

- (1) Financial highlights are based on weighted average shares outstanding as of period end.
- (2) Total return on market value is based on the change in market price per share since the end of the prior year and assumes enrollment in the Company's DRIP. The total returns are not annualized.
- (3) Portfolio turnover is calculated as the lesser of purchases or paydowns divided by average portfolio balance and is not annualized.
- (4) Asset coverage ratio is equal to total assets less all liabilities and indebtedness not represented by senior securities over the aggregate amount of the senior securities. SBA-guaranteed debentures deducted from the numerator and excluded from the denominator.
- (5) These ratios include the impact of the (provision) benefit for income taxes related to unrealized gain or loss movements on investments in Taxable Subsidiaries of (\$167,804) and \$28,959, respectively, for the three months ended March 31, 2021 and March 31, 2020, which are not reflected in net investment income, gross operating expenses or net operating expenses. The impact of the provision (benefit) for income taxes related to unrealized gain or loss on investments to net assets for both the three months ended March 31, 2021 and 2020 is 0.25% and (0.04)%, respectively.
- (6) Includes the impact of different share amounts as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of the end of the period.

NOTE 9 — CREDIT FACILITY

On October 11, 2017, the Company entered into a senior secured revolving credit agreement, as amended, dated as of October 10, 2017, that was amended and restated on September 18, 2020 with ZB, N.A., dba Amegy Bank and various other lenders (the "Credit Facility"). The Company entered the Credit Facility, as amended and restated, provides for borrowings up to a maximum of \$230,000,000 on a committed basis with an accordion feature that allows the Company to increase the aggregate commitments up to \$280,000,000, subject to new or existing lenders agreeing to participate in the increase and other customary conditions.

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

Borrowings under the Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) LIBOR plus 2.50% (or 2.75% during certain periods in which the Company's asset coverage ratio is equal to or below 1.90 to 1.00) with a 0.25% LIBOR floor, or (ii) 1.50% (or 1.75% during certain periods in which the Company's asset coverage ratio is equal to or below 1.90 to 1.00) plus an alternate base rate based on the highest of the prime rate (subject to a 3% floor), Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. The Company pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable monthly or quarterly in arrears. The commitment to fund the revolver expires on September 18, 2024, after which the Company may no longer borrow under the Credit Facility and must begin repaying principal equal to 1/12 of the aggregate amount outstanding under the Credit Facility. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on September 18, 2025.

The Company's obligations to the lenders are secured by a first priority security interest in its portfolio of securities and cash not held at the SBIC subsidiaries and excluding short term investments. The Credit Facility contains certain covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least \$10,000,000, including cash, liquid investments and undrawn availability, (ii) maintaining an asset coverage ratio of at least 1.67 to 1.0, and (iii) maintaining a minimum stockholder's equity. As of March 31, 2021 and December 31, 2020, the Company was in compliance with these covenants.

As of March 31, 2021 and December 31, 2020, \$165,500,000 and \$174,000,000, respectively, was outstanding under the Credit Facility. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. The fair value of the Credit Facility is determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. The Company has incurred costs of \$3,641,549 in connection with the current Credit Facility, which are being amortized over the life of the facility. Additionally, \$341,979 of costs from a prior credit facility will continue to be amortized over the remaining life of the Credit Facility. As of March 31, 2021 and December 31, 2020, \$2,157,012 and \$2,271,595 of such prepaid loan structure fees and administration fees had yet to be amortized, respectively. These prepaid loan fees are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Unaudited)

The following is a summary of the Credit Facility, net of prepaid loan structure fees:

	March 31, 2021	December 31, 2020
Credit Facility payable	\$ 165,500,000	\$ 174,000,000
Prepaid loan structure fees	2,157,012	2,271,595
Credit facility payable, net of prepaid loan structure fees	<u>\$ 163,342,988</u>	<u>\$ 171,728,405</u>

Interest is paid monthly or quarterly in arrears. The following table summarizes the interest expense and amortized loan fees on the Credit Facility for the three months ended March 31, 2021 and 2020:

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 973,901	\$ 1,786,470
Loan fee amortization	117,701	142,967
Commitment fees on unused portion	116,274	55,654
Administration fees	1,724	8,702
Total interest and financing expenses	<u>\$ 1,209,600</u>	<u>\$ 1,993,793</u>
Weighted average interest rate	2.8%	4.1%
Effective interest rate (including fee amortization)	3.5%	4.5%
Average debt outstanding	\$ 140,666,667	\$ 175,812,088
Cash paid for interest and unused fees	\$ 1,005,853	\$ 1,929,892

NOTE 10 — SBA-GUARANTEED DEBENTURES

Due to the SBIC subsidiaries' status as licensed SBICs, the Company has the ability to issue debentures guaranteed by the SBA at favorable interest rates. Under the regulations applicable to SBIC funds, a single licensee can have outstanding debentures guaranteed by the SBA subject to a regulatory leverage limit, up to two times the amount of "regulatory capital", as such term is defined by the SBA. As of both March 31, 2021 and December 31, 2020, the SBIC subsidiary had \$75,000,000 in regulatory capital, as such term is defined by the SBA, and \$150,000,000 of SBA-guaranteed debentures outstanding.

As of March 31, 2021 and December 31, 2020, the SBIC II subsidiary had \$60,000,000 and \$40,000,000 in regulatory capital and \$60,000,000 and \$26,500,000 of SBA-guaranteed debentures outstanding, respectively.

On August 12, 2014, the Company obtained exemptive relief from the SEC to permit it to exclude the debt of the SBIC subsidiaries guaranteed by the SBA from its asset coverage test under the 1940 Act. The exemptive relief provides the Company with increased flexibility under the asset coverage test by permitting it to borrow up to \$325,000,000 more than it would otherwise be able to absent the receipt of this exemptive relief.

On a stand-alone basis, the SBIC subsidiaries held \$295,105,243 and \$277,440,338 in assets at March 31, 2021 and December 31, 2020, respectively, which accounted for approximately 39.5% and 41.1% of the Company's total consolidated assets, respectively.

Debentures guaranteed by the SBA have fixed interest rates that equal prevailing 10-year U.S. Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity, but may be pre-paid at any time with no prepayment penalty. SBA-guaranteed debentures drawn before October 1, 2019 incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. SBA-guaranteed debentures drawn after October 1, 2019 incur upfront fees of 3.435%, which consists of a 1.00% commitment fee and a 2.435% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. Once pooled, which occurs in March and September of each applicable year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

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(Unaudited)

The following table summarizes the SBIC subsidiaries' aggregate SBA-guaranteed debentures as of March 31, 2021:

Issuance Date	Licensee	Maturity Date	Debenture Amount	Interest Rate	SBA Annual Charge
October 14, 2014	SBIC I	March 1, 2025	\$ 6,500,000	2.52%	0.36%
October 17, 2014	SBIC I	March 1, 2025	6,500,000	2.52%	0.36%
December 24, 2014	SBIC I	March 1, 2025	3,250,000	2.52%	0.36%
June 29, 2015	SBIC I	September 1, 2025	9,750,000	2.83%	0.36%
October 22, 2015	SBIC I	March 1, 2026	6,500,000	2.51%	0.36%
October 22, 2015	SBIC I	March 1, 2026	1,500,000	2.51%	0.74%
November 10, 2015	SBIC I	March 1, 2026	8,800,000	2.51%	0.74%
November 18, 2015	SBIC I	March 1, 2026	1,500,000	2.51%	0.74%
November 25, 2015	SBIC I	March 1, 2026	8,800,000	2.51%	0.74%
December 16, 2015	SBIC I	March 1, 2026	2,200,000	2.51%	0.74%
December 29, 2015	SBIC I	March 1, 2026	9,700,000	2.51%	0.74%
November 28, 2017	SBIC I	March 1, 2028	25,000,000	3.19%	0.22%
April 27, 2018	SBIC I	September 1, 2028	40,000,000	3.55%	0.22%
July 30, 2018	SBIC I	September 1, 2028	17,500,000	3.55%	0.22%
September 25, 2018	SBIC I	March 1, 2029	2,500,000	3.11%	0.22%
October 17, 2019	SBIC II	March 1, 2030	6,000,000	2.08%	0.09%
November 15, 2019	SBIC II	March 1, 2030	5,000,000	2.08%	0.09%
December 17, 2020	SBIC II	March 1, 2031	9,000,000	1.67%	0.09%
December 17, 2020	SBIC II	March 1, 2031	6,500,000	1.67%	0.27%
February 16, 2021	SBIC II	March 1, 2031	1,000,000	1.67%	0.27%
February 16, 2021	SBIC II	March 1, 2031	3,125,000	1.67%	0.27%
February 16, 2021	SBIC II	March 1, 2031	3,125,000	1.67%	0.27%
February 16, 2021	SBIC II	March 1, 2031	3,125,000	1.67%	0.27%
February 16, 2021	SBIC II	March 1, 2031	3,125,000	1.67%	0.27%
February 27, 2021	SBIC II	March 1, 2031	10,000,000	1.67%	0.27%
March 2, 2021	SBIC II	March 1, 2031	10,000,000	1.67%	0.27%
Total SBA-guaranteed debentures			\$ 210,000,000		

As of March 31, 2021 and December 31, 2020, the carrying amount of the SBA-guaranteed debentures approximated their fair value. The fair values of the SBA-guaranteed debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA-guaranteed debentures are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At March 31, 2021 and December 31, 2020, the SBA-guaranteed debentures would be deemed to be Level 3, as defined in Note 6.

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(Unaudited)

As of March 31, 2021, the Company has incurred \$7,798,500 in financing costs related to the SBA-guaranteed debentures since receiving its licenses, which were recorded as prepaid loan fees. As of March 31, 2021 and December 31, 2020, \$4,714,415 and \$3,332,504 of prepaid financing costs had yet to be amortized, respectively. These prepaid loan fees are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following is a summary of the SBA-guaranteed debentures, net of prepaid loan fees:

	March 31, 2021	December 31, 2020
SBA debentures payable	\$ 210,000,000	\$ 176,500,000
Prepaid loan fees	4,714,415	3,332,504
SBA Debentures, net of prepaid loan fees	<u>\$ 205,285,585</u>	<u>\$ 173,167,496</u>

The following table summarizes the interest expense and amortized fees on the SBA-guaranteed debentures for the three ended March 31, 2021 and 2020:

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 1,385,834	\$ 1,341,683
Debenture fee amortization	233,813	171,275
Total interest and financing expenses	<u>\$ 1,619,647</u>	<u>\$ 1,512,958</u>
Weighted average interest rate	3.0%	3.3%
Effective interest rate (including fee amortization)	3.5%	3.8%
Average debt outstanding	\$ 190,211,111	\$ 161,000,000
Cash paid for interest	\$ 2,706,619	\$ 2,659,213

NOTE 11 — NOTES

On August 21, 2017, the Company issued \$42,500,000 in aggregate principal amount of 5.75% fixed-rate notes due September 15, 2022 (the “2022 Notes”). On September 8, 2017, the Company issued an additional \$6,375,000 in aggregate principal amount of the 2022 Notes pursuant to a full exercise of the underwriters’ overallotment option. On January 13, 2021, the Company caused notices to be issued to the holders of its 2022 Notes regarding the Company’s exercise of its option to redeem all of the issued and outstanding 2022 Notes, pursuant to the Second Supplemental Indenture dated as of August 21, 2017, between the Company and U.S. Bank National Association, as trustee. The Company redeemed all \$48,875,000 in aggregate principal amount of the 2022 Notes on February 12, 2021. The 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon through the redemption date. As a result of the redemption, the Company recognized a loss on debt extinguishment of \$539,250 due to the write off of the remaining deferred financing costs on the 2022 Notes. This loss is included in the Consolidated Statement of Operations for the three months ended March 31, 2021.

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Unaudited)

The following table summarizes the interest expense and deferred financing costs on the 2022 Notes for the three months ended March 31, 2021 and 2020:

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 320,063	\$ 702,578
Deferred financing costs	28,232	82,874
Administration fees	9,000	—
Total interest and financing expenses	\$ 357,295	\$ 785,452
Loss on debt extinguishment ⁽¹⁾	539,250	
Weighted average interest rate ⁽²⁾	5.7%	5.8%
Effective interest rate (including fee amortization) ⁽²⁾	6.4%	6.4%
Average debt outstanding ⁽³⁾	\$ 48,875,000	\$ 48,875,000
Cash paid for interest	\$ 453,966	\$ 702,578

(1) The loss on debt extinguishment is not included in interest expense or net investment income

(2) Excludes the loss on debt extinguishment

(3) For the three months ended March 31, 2021, the average is calculated for the period January 1, 2021 through February 12, 2021; the repayment date of the 2022 Notes

On January 14, 2021, the Company issued \$100,000,000 in aggregate principal amount of 4.875% fixed-rate notes due 2026 (the “2026 Notes”). The 2026 Notes will mature on March 30, 2026, and may be redeemed in whole or in part at any time or from time to time at our option on or after December 31, 2025 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest on the 2026 Notes is payable semi-annually beginning September 30, 2021.

The Company used the net proceeds from the 2026 Notes offering to fully redeem the 2022 Notes and repay a portion of the amount outstanding under the Credit Facility. As of March 31, 2021, the aggregate carrying amount of the 2026 Notes was approximately \$100,000,000.

Prior to their redemption on February 12, 2021, the 2022 Notes were listed on New York Stock Exchange under the trading symbol “SCA”. As of December 31, 2020, the fair value of the 2022 Notes was \$49,168,250. The 2026 Notes are institutional, non-traded notes. As these notes were recently issued, the 2026 Notes are carried at cost, which approximates fair value.

In connection with the issuance and maintenance of the 2026 Notes, the Company incurred \$2,328,553 of fees which are being amortized over the term of the 2026 Notes, of which \$2,234,326 remains to be amortized as of March 31, 2021. These financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

STELLUS CAPITAL INVESTMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Unaudited)

The following table summarizes the interest expense and deferred financing costs on the 2026 Notes for the three months ended March 31, 2021:

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 1,042,708	\$ —
Deferred financing costs	94,228	—
Total interest and financing expenses	\$ 1,136,936	\$ —
Weighted average interest rate	4.9%	—%
Effective interest rate (including fee amortization)	5.4%	—%
Average debt outstanding ⁽¹⁾	\$ 100,000,000	\$ —
Cash paid for interest	\$ —	\$ —

(1) Calculated for the period from January 14, 2021, the date of the 2026 Notes offering, through March 31, 2021.

The following is a summary of the 2026 Notes Payable, net of deferred financing costs:

	March 31, 2021	December 31, 2020
Notes payable	\$ 100,000,000	\$ —
Deferred financing costs	2,234,326	—
Notes payable, net of deferred financing costs	\$ 97,765,674	\$ —

The indenture and supplements thereto relating to the 2026 Notes contain certain covenants, including but not limited to (i) a requirement that the Company comply with the asset coverage requirements of the 1940 Act or any successor provisions, and (ii) a requirement to provide financial information to the holders of the notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Exchange Act. As of March 31, 2021, the Company was in compliance with these covenants.

NOTE 12 — SUBSEQUENT EVENTS

Investment Portfolio

On April 22, 2021, the Company received full repayment on the unsecured term loan of Skopos Financial, LLC for total proceeds of \$14,000,000.

On April 26, 2021, the Company invested \$10,811,966 in the first lien term loan and committed \$100,000 in both the unfunded revolver and delayed draw term loan of an HVAC and plumbing designer, installer, and service provider for new/existing DCs, fulfillment sortation facilities, and warehouses.

On April 28, 2021, the Company invested \$7,500,000 in the first lien term loan and committed \$2,000,000 in the unfunded revolver of Unicat Catalyst, LLC, a global formulator and distributor of heterogeneous, consumable catalyst products primarily serving the refinery, petrochemical, and other end markets. Additionally, we invested \$750,000 in the equity of the company.

Credit Facility

The outstanding balance under the Credit Facility as of May 6, 2021 was \$186,000,000.

STELLUS CAPITAL INVESTMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021
(Unaudited)

SBA-guaranteed Debentures

The total balance of SBA-guaranteed debentures outstanding as of May 6, 2021 was \$220,000,000.

SBIC II Subsidiary

On April 13, 2021, the Company contributed \$15,000,000 to the SBIC II subsidiary, bringing total contributed capital to the SBIC II subsidiary to \$50,000,000.

Dividend Declared

On April 19, 2021, the Board declared a regular monthly dividend for each of April 2021, May 2021 and June 2021 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount per Share
4/19/2021	4/29/2021	4/30/2021	5/14/2021	\$ 0.0833
4/19/2021	5/27/2021	5/28/2021	6/15/2021	\$ 0.0833
4/19/2021	6/29/2021	6/30/2021	7/15/2021	\$ 0.0833

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

Forward-Looking Statements

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, related to the current COVID-19 pandemic and otherwise, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the effect of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- actual and potential conflicts of interest with Stellus Capital;
- the dependence of our future success on the general economy and its effect on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- the use of borrowed money to finance a portion of our investments;
- the adequacy of our financing sources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies and the impact of the;
- the ability of Stellus Capital to locate suitable investments for us and to monitor and administer our investments;
- the ability of Stellus Capital to attract and retain highly talented professionals;
- our ability to maintain our qualification as a RIC and as a BDC; and
- the effect of future changes in laws or regulations (including the interpretation of these laws and regulations by regulatory authorities) and conditions in our operating areas, particularly with respect to business development companies or RICs.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include the words 'may,' 'might,' 'will,' 'intend,' 'should,' 'could,' 'can,' 'would,' 'expect,' 'believe,' 'estimate,' 'anticipate,' 'predict,' 'potential,' 'plan' or similar words.

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. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law or SEC rule or regulation. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Overview

We were organized as a Maryland corporation on May 18, 2012, and formally commenced operations on November 7, 2012. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies.

We are an externally managed, non-diversified, closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. Our investment activities are managed by our investment adviser, Stellus Capital.

As a BDC, we are required to comply with certain regulatory requirements. For instance, as a BDC, we may not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets. Qualifying assets include investments in "eligible portfolio companies." Under the relevant SEC rules, the term "eligible portfolio company" includes all private operating companies, operating companies whose securities are not listed on a national securities exchange, and certain public operating companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million, in each case organized and with their principal of business in the United States.

We have elected to be treated for U.S. federal tax purposes as a RIC under Subchapter M of the Code. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. As of March 31, 2021, we were in compliance with the RIC requirements. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any income we distribute to our stockholders.

On March 23, 2018, the Small Business Credit Availability Act (the "SBCAA") was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCAA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150% from 200% under certain circumstances.

On April 4, 2018, the Board, including a "required majority" (as such term is defined in Section 57(o) of the Investment Company Act of 1940, as amended (the "1940 Act")) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. At our 2018 annual meeting of stockholders our stockholders also approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the asset coverage ratio applicable to us was decreased from 200% to 150%, effective June 28, 2019. As of March 31, 2021, our asset coverage ratio was 203%. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

COVID-19 Developments

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. The COVID-19 pandemic has had a significant impact on the U.S. and global economy. Each portfolio company has been assessed on an individual basis to identify the impact of the COVID-19 pandemic on the valuation of our investments in such company. We believe that any such COVID-19 pandemic impacts have been reflected in the valuation of our investments.

The global impact of the outbreak continues to evolve, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of the COVID-19 pandemic, have created significant disruption in supply chains and economic activity. While several countries, as well as certain states in the United States, have begun to lift public health restrictions with the view to reopening their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. The Federal Food and Drug Administration authorized vaccines produced for emergency use starting in December 2020, and such vaccines have been distributed nationally; however, it remains unclear how quickly the vaccines will continue to be distributed nationwide and globally or when "herd immunity" will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. The delay in distributing the vaccines could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the United States and other major markets.

As COVID-19 continues to spread, the potential impacts, including a global, regional, or other economic recession, remain uncertain and difficult to assess. The extent of the impact of the COVID-19 pandemic on the financial performance of our current and future investments will depend on future developments, including the duration and spread of the virus, related advisories and restrictions, and the health of the financial markets and economy, all of which are highly uncertain and cannot be predicted. To the extent our portfolio companies are adversely impacted by the effects of the COVID-19 pandemic, it may have a material adverse impact on our future net investment income, the fair value of our portfolio investments and our financial condition.

Economic outlook

The Federal Food and Drug Administration authorized vaccines produced for emergency use starting in December 2020, it remains unclear how quickly the vaccines will be distributed nationwide and globally or when "herd immunity" will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. The delay in distributing the vaccines could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period. The COVID-19 pandemic could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The COVID-19 pandemic presents material uncertainty and risks with respect to the underlying value of our portfolio companies and with respect to our business, financial condition, results of operations, and cash flows, such as the potential negative impact to financing arrangements, increased costs of operations, changes in law and/or regulation, and uncertainty regarding government and regulatory policy.

Operations

The partners and employees of Stellus Capital, our advisor, have been primarily operating remotely since March 16, 2020 without disruption to Stellus Capital's operations and such partners and employees are prepared to continue working remotely as long as is necessary for the health and safety of all personnel.

Our COVID-19 response

Since the onset of the COVID-19 pandemic, we have been in regular contact with all of our portfolio companies and their sponsors to assess, among other things, their ability to function in the new environment. Discussions have addressed the portfolio companies' liquidity position, expected covenant compliance, and the health of their workforce and customers.

Financial impact

We will continue to closely monitor the financial condition of our portfolio companies as part of our efforts to mitigate the impact of the COVID-19 pandemic. Historical information may be relatively less significant.

Portfolio Composition and Investment Activity

Portfolio Composition

We originate and invest primarily in privately-held middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien (including unitranche), second lien, and unsecured debt financing, often times with a corresponding equity investment.

As of March 31, 2021, we had \$714.5 million (at fair value) invested in 70 portfolio companies. As of March 31, 2021, our portfolio included approximately 79% of first lien debt, 9% of second lien debt, 4% of unsecured debt and 8% of equity investments at fair value. The composition of our investments at cost and fair value as of March 31, 2021 was as follows:

	Cost	Fair Value
Senior Secured – First Lien ⁽¹⁾	\$ 564,962,894	\$ 564,335,624
Senior Secured – Second Lien	84,697,904	61,483,486
Unsecured Debt	32,450,689	32,155,362
Equity	37,435,473	56,490,000
Total Investments	\$ 719,546,960	\$ 714,464,472

(1) Includes unitranche investments, which account for 11.9% of our portfolio at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with second lien and subordinated loans to the extent we invest in the "last-out" tranche.

As of December 31, 2020, we had \$653.4 million (at fair value) invested in 66 portfolio companies. As of December 31, 2020, our portfolio included approximately 78% of first lien debt, 11% of second lien debt, 3% of unsecured debt and 8% of equity investments at fair value. The composition of our investments at cost and fair value as of December 31, 2020 was as follows:

	<u>Cost</u>	<u>Fair Value</u>
Senior Secured – First Lien ⁽¹⁾	\$ 508,060,059	\$ 508,673,064
Senior Secured – Second Lien	93,636,285	70,720,186
Unsecured Debt	22,212,888	21,191,245
Equity	34,719,734	52,840,000
Total Investments	\$ 658,628,966	\$ 653,424,495

(1) Includes unitranche investments, which account for 13.0% of our portfolio at December 31, 2020 at fair value. Unitranche structures may combine characteristics of first lien senior secured as well as second lien and/or subordinated loans and our unitranche loans will expose us to the risks associated with second lien and subordinated loans to the extent we invest in the “last-out” tranche.

Our investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require us to provide funding when requested by portfolio companies in accordance with the terms and conditions of the underlying loan agreements. As of March 31, 2021 and December 31, 2020, we had unfunded commitments of \$22.8 million and \$28.9 million, respectively, to provide debt financing for 22 and 19 portfolio companies, respectively. As of March 31, 2021, we had sufficient liquidity (through cash on hand and available borrowings under the Credit Facility) to fund such unfunded commitments should the need arise.

The following is a summary of geographical concentration of our investment portfolio as of March 31, 2021:

	Cost	Fair Value	% of Total Investments
Texas	\$ 157,437,788	\$ 140,656,616	19.69%
California	87,069,947	92,848,345	13.00%
Illinois	63,254,406	63,438,481	8.88%
Arizona	50,798,324	52,365,151	7.33%
New Jersey	38,213,997	37,055,764	5.19%
Ohio	34,058,021	36,493,498	5.11%
Canada	34,833,488	35,024,601	4.90%
Wisconsin	22,681,481	22,852,123	3.20%
Washington	22,872,672	22,813,176	3.19%
New York	18,976,992	20,183,512	2.82%
United Kingdom	21,283,132	19,788,875	2.77%
Washington, D.C.	19,151,180	19,201,280	2.69%
South Carolina	15,844,753	18,412,490	2.58%
Indiana	17,749,809	17,990,759	2.52%
Maryland	16,937,047	17,106,250	2.39%
Minnesota	15,687,680	15,688,188	2.20%
North Carolina	15,536,435	13,452,687	1.88%
Alabama	12,230,520	12,281,719	1.72%
Florida	12,131,350	11,995,454	1.68%
Missouri	9,935,332	10,725,000	1.50%
Pennsylvania	9,888,426	9,850,000	1.38%
Virginia	7,423,287	7,648,786	1.07%
Georgia	685,000	6,680,000	0.93%
Tennessee	4,935,243	4,959,782	0.69%
Puerto Rico	8,613,244	2,341,935	0.33%
Massachusetts	1,317,406	1,850,000	0.26%
Utah	-	760,000	0.11%
	<u>\$ 719,546,960</u>	<u>\$ 714,464,472</u>	<u>100.00%</u>

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2020:

	Cost	Fair Value	% of Total Investments at fair value
Texas	\$ 151,640,862	\$ 135,146,776	20.68%
California	86,050,467	92,069,851	14.09%
Illinois	57,330,756	57,535,404	8.81%
Arizona	50,822,139	52,015,600	7.96%
New Jersey	38,228,359	37,765,139	5.78%
Ohio	34,109,657	35,827,682	5.48%
Wisconsin	22,721,856	22,827,500	3.49%
Canada	21,318,659	21,540,925	3.30%
New York	19,527,594	20,547,579	3.14%
Tennessee	19,832,576	19,959,613	3.05%
United Kingdom	20,159,650	18,727,500	2.87%
South Carolina	15,834,471	18,132,490	2.77%
Indiana	17,741,889	18,026,339	2.76%
Maryland	16,970,057	17,064,250	2.61%
Florida	12,404,739	12,299,545	1.88%
Alabama	12,252,768	12,252,768	1.88%
Washington	11,803,768	11,801,363	1.81%
Missouri	9,956,554	10,720,000	1.64%
Pennsylvania	9,884,148	9,900,000	1.52%
Virginia	7,505,287	7,759,020	1.19%
Washington, D.C.	6,937,907	7,030,512	1.08%
Georgia	685,000	6,420,000	0.98%
North Carolina	4,979,153	2,925,000	0.45%
Puerto Rico	8,613,244	2,589,639	0.40%
Massachusetts	1,317,406	1,780,000	0.27%
Utah	—	760,000	0.12%
	<u>\$ 658,628,966</u>	<u>\$ 653,424,495</u>	<u>100.00%</u>

The following is a summary of industry concentration of our investment portfolio as of March 31, 2021:

	Cost	Fair Value	% of Total Investments
Services: Business	\$ 153,997,793	\$ 162,504,358	22.74%
Healthcare & Pharmaceuticals	86,870,351	82,904,195	11.60%
Aerospace & Defense	66,615,494	64,921,355	9.09%
Beverage, Food, & Tobacco	40,297,535	41,543,170	5.81%
Media: Broadcasting & Subscription	31,356,544	34,084,802	4.77%
High Tech Industries	33,580,332	33,822,644	4.73%
Capital Equipment	32,507,740	33,544,326	4.70%
Consumer Goods: Durable	27,507,794	27,451,222	3.84%
Education	26,444,058	24,458,420	3.42%
Services: Consumer	38,012,766	22,467,312	3.14%
Media: Advertising, Printing & Publishing	21,688,930	20,457,126	2.86%
Transportation & Logistics	18,562,588	18,699,789	2.62%
Finance	16,507,196	18,650,000	2.61%
Retail	15,844,753	18,412,490	2.58%
Containers, Packaging, & Glass	17,821,650	17,927,123	2.51%
Metals & Mining	16,937,047	17,106,250	2.39%
Software	12,325,478	14,902,687	2.09%
Consumer goods: non-durable	13,346,042	13,040,854	1.83%
Automotive	11,036,930	10,968,750	1.54%
Environmental Industries	10,752,846	10,170,000	1.42%
Utilities: Oil & Gas	9,888,426	9,850,000	1.38%
Energy: Oil & Gas	11,033,455	9,779,474	1.37%
Chemicals, Plastics, & Rubber	6,611,212	6,798,125	0.95%
	<u>719,546,960</u>	<u>714,464,472</u>	<u>100.00%</u>

The following is a summary of industry concentration of our investment portfolio as of December 31, 2020:

	Cost	Fair Value	% of Total Investments at fair value
Services: Business	\$ 102,005,864	\$ 109,873,364	16.82%
Healthcare & Pharmaceuticals	87,198,279	82,945,887	12.69%
Aerospace & Defense	53,615,886	52,184,338	7.99%
Beverage, Food, & Tobacco	39,339,090	41,012,620	6.28%
Media: Broadcasting & Subscription	31,889,423	34,418,869	5.27%
High Tech Industries	33,571,427	33,793,693	5.17%
Consumer Goods: Durable	27,802,124	27,780,032	4.25%
Environmental Industries	25,454,549	24,977,427	3.82%
Education	26,428,607	24,494,108	3.75%
Services: Consumer	38,026,487	22,600,924	3.46%
Media: Advertising, Printing & Publishing	21,903,057	21,348,217	3.27%
Capital Equipment	20,005,255	20,680,904	3.17%
Finance	18,016,762	19,435,000	2.97%
Transportation & Logistics	18,690,276	18,944,945	2.90%
Retail	15,834,471	18,132,490	2.77%
Containers, Packaging, & Glass	17,853,813	17,890,000	2.74%
Metals & Mining	16,970,057	17,064,250	2.61%
Consumer goods: non-durable	13,272,383	12,930,000	1.98%
Automotive	11,028,125	11,028,125	1.69%
Construction & Building	10,446,055	10,750,000	1.65%
Energy: Oil & Gas	11,015,013	9,991,177	1.53%
Utilities: Oil & Gas	9,884,148	9,900,000	1.52%
Chemicals, Plastics, & Rubber	6,605,024	6,808,125	1.04%
Software	1,772,791	4,430,000	0.68%
Hotel, Gaming, & Leisure	-	10,000	0.00%
	<u>\$ 658,628,966</u>	<u>\$ 653,424,495</u>	<u>100.00%</u>

At March 31, 2021, our average portfolio company investment at amortized cost and fair value was approximately \$10.3 million and \$10.2 million, respectively, and our largest portfolio company investment at amortized cost and fair value was \$21.5 million and \$21.6 million, respectively. At December 31, 2020, our average portfolio company investment at amortized cost and fair value was approximately \$10.0 million and \$9.9 million, respectively, and our largest portfolio company investment at amortized cost and fair value was approximately \$21.4 million and \$21.6 million, respectively.

At March 31, 2021, 93% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 7% bore interest at fixed rates. At December 31, 2020, 93% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 7% bore interest at fixed rates.

The weighted average yield on all of our debt investments as of both March 31, 2021 and December 31, 2020 was 8.3%. The weighted average yield on all of our investments, including non-income producing equity positions, investments as of March 31, 2021 and December 31, 2020 was approximately 7.8% and 7.9%, respectively. The weighted average yield was computed using the effective interest rates for all of our debt investments, including accretion of original issue discount. The weighted average yield of our debt investments is not the same as a return on investment for our stockholder, but, rather relates to a portion of our investment portfolio and is calculated before the payment of all of our and our subsidiaries' fees and expenses.

As of March 31, 2021 and December 31, 2020, we had cash and cash equivalents of \$30.4 million and \$18.5 million, respectively.

Investment Activity

During the three months ended March 31, 2021, we made an aggregate of \$93.4 million (net of fees) of investments in three new portfolio company and eleven existing portfolio companies. During the three months ended March 31, 2021, we received an aggregate of \$33.6 million in proceeds from repayments of our investments.

Our level of investment activity can vary substantially from period to period depending on many factors, including the amount of debt and equity capital required by middle-market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

Asset Quality

In addition to various risk management and monitoring tools, Stellus Capital uses an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in our investment portfolio. This investment rating system uses a five-level numeric scale. The following is a description of the conditions associated with each investment category:

- Investment Category 1 is used for investments that are performing above expectations, and whose risks remain favorable compared to the expected risk at the time of the original investment.
- Investment Category 2 is used for investments that are performing within expectations and whose risks remain neutral compared to the expected risk at the time of the original investment. All new loans are initially rated 2.
- Investment Category 3 is used for investments that are performing below expectations and that require closer monitoring, but where no loss of return or principal is expected. Portfolio companies with a rating of 3 may be out of compliance with financial covenants.
- Investment Category 4 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are often in work out. Investments with a rating of 4 are those for which some loss of return but no loss of principal is expected.
- Investment Category 5 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are almost always in work out. Investments with a rating of 5 are those for which some loss of return and principal is expected.

Investment Category	As of March 31, 2021 (dollars in millions)			As of December 31, 2020 (dollars in millions)		
	Fair Value	% of Total Portfolio	Number of Portfolio Companies	Fair Value	% of Total Portfolio	Number of Portfolio Companies
1	\$ 119.4	17%	14	\$ 87.3	14%	12
2	538.8	75%	48	496.5	76%	45
3	44.6	6%	4	61.3	9%	6
4	3.6	1%	1	—	—%	—
5	8.1	1%	3	8.3	1%	3
Total	\$ 714.5	100%	70	\$ 653.4	100%	66

Loans and Debt Securities on Non-Accrual Status

We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. As of March 31, 2021, we had five loans on non-accrual status, which represented approximately 5.3% of our loan portfolio at cost and 1.8% at fair value. As of December 31, 2020, we had three loans on non-accrual status, which represented approximately 4.3% of our loan portfolio at cost and 1.0% at fair value. As of March 31, 2021 and December 31, 2020, \$8.2 million and \$7.1 million of income from investments on non-accrual has not been accrued, respectively.

Results of Operations

An important measure of our financial performance is net increase (decrease) in net assets resulting from operations, which includes net investment income (loss), net realized gain (loss) and net unrealized appreciation (depreciation). Net investment income (loss) is the difference between our income from interest, dividends, fees and other investment income and our operating expenses including interest on borrowed funds. Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost. Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

Comparison of the three months ended March 31, 2021 and 2020

Revenues

We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments typically have a term of five to seven years and bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly. Payments of principal on our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt investments may pay interest in-kind, or PIK interest. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments. We expect that the total dollar amount of interest and any dividend income that we earn will increase as the size of our investment portfolio increases. In addition, we may generate revenue in the form of prepayment fees, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

The following shows the breakdown of investment income for the three months ended March 31, 2021 and 2020 (in millions).

	Three months ended March 31, 2021	Three months ended March 31, 2020
Interest income ⁽¹⁾	\$ 13.4	\$ 14.4
PIK Interest	0.1	0.5
Miscellaneous fees ⁽¹⁾	0.5	0.4
Total	<u>\$ 14.0</u>	<u>\$ 15.3</u>

⁽¹⁾ For the three months ended March 31, 2021, we recognized \$0.3 million of non-recurring income related to early repayments and amendments to specific loan positions. For the three months ended March 31, 2020, we recognized \$0.9 million of non-recurring income related to early repayments, amendments to specific loan positions and the recognition of previously reserved income from a prior period.

The decrease in interest income from the respective periods was due to a decrease in the underlying rates used to price our loan portfolio over the period, as well as the recognition of previously reserved interest during the three months ending March 31, 2020.

Expenses

Our primary operating expenses include the payment of fees to Stellus Capital under the investment advisory agreement, our allocable portion of overhead expenses under the administration agreement and other operating costs described below. We bear all other out-of-pocket costs and expenses of our operations and transactions, which may include:

- organization and offering expenses;
- Expenses incurred in valuing our assets and calculating our net asset value (including the cost and expenses of any independent valuation firm);
- fees and expenses incurred by Stellus Capital or payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;
- interest payable on debt, if any, incurred to finance our investments and expenses related to unsuccessful portfolio acquisition efforts;
- offerings of our common stock and other securities;

- base management and incentive fees;
- administration fees and expenses, if any, payable under the administration agreement (including our allocable portion of Stellus Capital's overhead in performing its obligations under the administration agreement, including rent and the allocable portion of the cost of our chief compliance officer, chief financial officer and their respective staffs);
- transfer agent and custodial fees and expenses;
- U.S. federal and state registration fees;
- all costs of registration and listing our securities on any securities exchange;
- U.S. federal, state and local taxes;
- independent directors' fees and expenses;
- costs of preparing and filing reports or other documents required by the SEC or other regulators;
- costs of any reports, proxy statements or other notices to stockholders, including printing costs;
- costs associated with individual or group stockholders;
- costs and fees associated with any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- direct costs and expenses of administration and operation, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs; and
- all other expenses incurred by us or Stellus Capital in connection with administering our business.

The following shows the breakdown of operating expenses for the three months ended March 31, 2021 and 2020 (in millions).

	Three months ended March 31, 2021	Three months ended March 31, 2020
Operating Expenses		
Management fees	\$ 3.0	\$ 2.7
Valuation Fees	0.1	0.1
Administrative services expenses	0.5	0.5
Income incentive fee expense	—	1.3
Capital gain incentive fee expense	0.1	(0.9)
Professional fees	0.3	0.4
Directors' fees	0.1	0.1
Insurance expense	0.1	0.1
Interest expense and other fees	4.3	4.3
Income tax expense	0.2	0.2
Other general and administrative	0.3	0.2
Total Operating Expenses	\$ 8.9	\$ 9.0

The decrease in operating expenses for the respective periods was primarily due to lower income incentive fees, as a result of pre-incentive fee net investment income being lower than the hurdle rate, mainly due to lower LIBOR rates over the period. See Note 2 for further discussion on incentive fees. The decrease was offset by an increase in our capital gains incentive fees.

Net Investment Income

For the three months ended March 31, 2021, net investment income was \$5.1 million, or \$0.26 per common share (based on 19,486,003 weighted-average common shares outstanding at March 31, 2021).

For the three months ended March 31, 2020, net investment income was \$6.2 million, or \$0.32 per common share (based on 19,429,480 weighted-average common shares outstanding at March 31, 2020).

The decrease in net investment income over the respective periods was due to lower investment income as a result of lower LIBOR rates over the period, as well as previously reserved income from prior periods recognized during the three months ended March 31, 2020.

Net Realized Gains and Losses

We measure realized gains or losses by the difference between the net proceeds from the repayment, sale or disposition and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized.

Repayments of investments and amortization of other investments for the three months ended March 31, 2021 totaled \$33.5 million and net realized gain totaled \$0.5 million.

Repayments of investments and amortization of other investments for the three months ended March 31, 2020 totaled \$31.8 million and net realized gain totaled \$1.3 million.

Net Change in Unrealized Appreciation/(Depreciation) of Investments

Net change in unrealized appreciation (depreciation) primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded appreciation or depreciation when gains or losses are realized.

Net change in unrealized appreciation (depreciation) on investments and cash equivalents for the three months ended March 31, 2021 and 2020 totaled \$0.1 million and (\$51.5) million, respectively.

The change in unrealized appreciation over the respective periods was due to a reversal of unrealized depreciation recorded during the three months ended March 31, 2020, primarily from the negative economic impact caused by the onset of the COVID-19 pandemic. We believe that any such COVID-19 pandemic impacts have been reflected in the valuation of our investments.

Provision for Taxes on Unrealized Appreciation on Investments

We have direct wholly owned subsidiaries that have elected to be taxable entities (the "Taxable Subsidiaries"). The Taxable Subsidiaries permit us to hold equity investments in portfolio companies which are "pass through" entities for U.S. federal income tax purposes and continue to comply with the "source income" requirements contained in RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with us for U.S. federal income tax purposes and may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in our consolidated financial statements. For the three months ended March 31, 2021 and 2020, we recognized a (provision) benefit for income tax on unrealized investments of (\$168) thousand and \$29 thousand for the Taxable Subsidiaries, respectively. As of March 31, 2021 and December 31, 2020, there was \$527.4 thousand and \$359.6 thousand of deferred tax liability on the Consolidated Statement of Assets and Liabilities.

Net Increase in Net Assets Resulting from Operations

For the three months ended March 31, 2021, net decrease in net assets resulting from operations totaled \$4.9 million, or \$0.25 per common share (based on 19,486,003 weighted-average common shares outstanding at March 31, 2021).

For the three months ended March 31, 2020, net increase in net assets resulting from operations totaled (\$43.9) million, or (\$2.26) per common share (based on 19,429,480 weighted-average common shares outstanding at March 31, 2020).

The increase in the net increase (decrease) in net assets between the respective periods was due to a reversal of unrealized depreciation during the three months ended March 31, 2020, primarily from the negative economic impact caused by the onset of the COVID-19 pandemic.

Financial condition, liquidity and capital resources

Cash Flows from Operating and Financing Activities

Our operating activities used net cash of \$57.1 million for the three months ended March 31, 2021, primarily in connection with the purchase and origination of new portfolio investments, some of which was offset by the sales and repayments on our investments. Our financing activities for the three months ended March 31, 2021 provided cash of \$69.0 million due to the issuance of our 4.875% fixed-rate notes due 2026 (the “2026 Notes”) offset by the repayment of our 5.75% fixed-rate notes due 2022 (the “2022 Notes”) and net repayments on our Credit Facility.

Our operating activities used net cash of \$27.9 million for the three months ended March 31, 2020, primarily in connection with the purchase and origination of new portfolio investments, some of which was offset by the sales and repayments on our investments. Our financing activities for the three months ended March 31, 2020 provided cash of \$46.8 million due to borrowings under our Credit Facility.

Liquidity and Capital Resources

Our liquidity and capital resources are derived from the Credit Facility, the 2022 Notes, 2026 Notes, SBA-guaranteed debentures and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from turnover within our portfolio and from public and private offerings of securities to finance our investment activities.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future public and private equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell our common stock at a price below net asset value per share unless our stockholders approve such a sale and our Board of directors makes certain determinations in connection therewith. A proposal, approved by our stockholders at our 2020 annual stockholders meeting, authorizes us to sell up to 25% of our outstanding common shares at a price equal to or below the then current net asset value per share in one or more offerings. This authorization will expire on June 25, 2021, the one-year anniversary of our 2020 annual stockholders meeting. We would need similar future approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval. In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, over the aggregate amount of the senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 150% effective June 29, 2018 (at least 200% prior to June 29, 2018). This requirement limits the amount that we may borrow. We have received exemptive relief from the SEC to permit us to exclude the debt of Stellus Capital SBIC, LP (“SBIC subsidiary”) and Stellus Capital SBIC II, LP (“SBIC II subsidiary”) (together, “the SBIC subsidiaries”) guaranteed by the Small Business Administration (“SBA”) from the definition of senior securities in the asset coverage test under the 1940 Act. We were in compliance with the asset coverage ratios at all times. As of March 31, 2021 and December 31, 2020, our asset coverage ratio was 203% and 223%, respectively. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing. As of March 31, 2021 and December 31, 2020, we had cash and cash equivalents of \$30.4 million and \$18.5 million, respectively. Cash held within the SBIC subsidiaries is generally restricted to the origination of new SBIC-eligible loans and the payment of SBA debentures, related interest expense and fund-expenses. Distributions from positive retained earnings available for distribution are made to the BDC as provided in the SBICs’ limited partnership agreements.

Credit Facility

On October 11, 2017, we entered a senior secured revolving credit agreement, dated as of October 10, 2017, as amended, that was amended and restated on September 18, 2020 with ZB, N.A., dba Amegy Bank and various other lenders (the “Credit Facility”).

On October 11, 2017, the Company entered the Credit Facility, as amended and restated, provides for borrowings up to a maximum of \$230.0 million on a committed basis with an accordion feature that allows us to increase the aggregate commitments up to \$280.0 million, subject to new or existing lenders agreeing to participate in the increase and other customary conditions.

Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) LIBOR plus 2.50% (or 2.75% during certain periods in which our asset coverage ratio is equal to or below 1.90 to 1.00) with a 0.25% LIBOR floor, or (ii) 1.50% (or 1.75% during certain periods in which our asset coverage ratio is equal to or below 1.90 to 1.00) plus an alternate base rate based on the highest of the Prime Rate (subject to a 3% floor), Federal Funds Rate plus 0.5% or one month LIBOR plus 1.0%. We pay unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Interest is payable monthly or quarterly in arrears. The commitment to fund the revolver expires on September 18, 2024, after which we may no longer borrow under the Credit Facility and must begin repaying principal equal to 1/12 of the aggregate amount outstanding under the Credit Facility. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on September 18, 2025.

Our obligations to the lenders are secured by a first priority security interest in our portfolio of securities and cash not held at the SBIC subsidiaries, but excluding short term investments. The Credit Facility contains certain covenants, including but not limited to: (i) maintaining a minimum liquidity test of at least \$10.0 million, including cash, liquid investments and undrawn availability, (ii) maintaining an asset coverage ratio of at least 1.67 to 1.0, and (iii) maintaining a minimum stockholder's equity, and (iv) maintaining a minimum interest coverage ratio of at least 2.00 to 1.00. As of March 31, 2021, we were in compliance with these covenants.

As of March 31, 2021 and December 31, 2020, \$165.5 million and \$174.0 million, respectively, was outstanding under the Credit Facility. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. The fair values of the Credit Facility is determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. We incurred costs of \$3.6 million in connection with the current Credit Facility, which are being amortized over the life of the facility. Additionally, \$0.3 million of costs from a prior credit facility will continue to be amortized over the remaining life of the Credit Facility. As of March 31, 2021 and December 31, 2020, \$2.1 million and \$2.3 million of such prepaid loan structure fees and administration fees had yet to be amortized, respectively. These prepaid loan fees are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

Interest is payable monthly or quarterly in arrears. The following table summarizes the interest expense and amortized loan fees on the Credit Facility for the three months ended March 31, 2021 and 2020 (in millions):

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 1.0	\$ 1.8
Loan fee amortization	0.1	0.1
Commitment fees on unused portion	0.1	0.1
Total interest and financing expenses	<u>\$ 1.2</u>	<u>\$ 2.0</u>
Weighted average interest rate	2.8%	4.1%
Effective interest rate (including fee amortization)	3.5%	4.5%
Average debt outstanding	\$ 140.7	\$ 175.8
Cash paid for interest and unused fees	\$ 1.0	\$ 1.9

SBA-Guaranteed Debentures

Due to the SBIC subsidiaries' status as licensed SBICs, we have the ability to issue debentures guaranteed by the SBA at favorable interest rates ("SBA-guaranteed debentures"). Under the regulations applicable to SBIC funds, a single licensee can have outstanding SBA-guaranteed debentures, subject to a regulatory leverage limit, up to two times the amount of regulatory capital. As of both March 31, 2021 and December 31, 2020, the SBIC subsidiary had \$75.0 million in "regulatory capital", as such term is defined by the SBA and \$150.0 million of SBA-guaranteed debentures outstanding.

As of both March 31, 2021 and December 31, 2020, the SBIC II subsidiary had \$60.0 million and \$40.0 million in regulatory capital and \$60.0 million and \$26.5 million of SBA-guaranteed debentures outstanding, respectively.

On August 12, 2014, we obtained exemptive relief from the SEC to permit us to exclude the debt of the SBIC subsidiaries guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. The exemptive relief provides us with increased flexibility under the 200% asset coverage test by permitting us to borrow up to \$325.0 million more than we would otherwise be able to absent the receipt of this exemptive relief.

On a stand-alone basis, the SBIC subsidiaries held \$295.1 million and \$277.3 million in assets at March 31, 2021 and December 31, 2020, respectively, which accounted for approximately 39.5% and 41.1% of our total consolidated assets, respectively.

SBA-guaranteed debentures have fixed interest rates that equal prevailing 10-year U.S. Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity but may be pre-paid at any time with no prepayment penalty. SBA-guaranteed debentures drawn before October 1, 2019 incurred upfront fees of 3.425%, which consisted of a 1.00% commitment fee and a 2.425% issuance discount, which are being amortized over the life of the SBA-guaranteed debentures. SBA-guaranteed debentures drawn after October 1, 2019 incur upfront fees of 3.435%, which consists of a 1.00% commitment fee and a 2.435% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. Once pooled, which occurs in March and September of each applicable year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

As of March 31, 2021 and December 31, 2020, the carrying amount of the SBA-guaranteed debentures approximated their fair value. The fair values of the SBA-guaranteed debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA-guaranteed debentures is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At March 31, 2021 and December 31, 2020 the SBA-guaranteed debentures would be deemed to be Level 3, as defined in Note 6.

As of March 31, 2021, we have incurred \$7.8 million in financing costs related to the SBA-guaranteed debentures since the SBIC subsidiaries received their licenses, which were recorded as prepaid loan fees. As of March 31, 2021 and December 31, 2020, \$4.7 and \$3.3 million of prepaid financing costs had yet to be amortized, respectively. These prepaid loan fees are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following table summarizes the interest expense and amortized fees on the SBA-guaranteed debentures for the three months ended March 31, 2021 and 2020 (dollars in millions):

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 1.4	\$ 1.3
Debenture fee amortization	0.2	0.2
Total interest and financing expenses	\$ 1.6	\$ 1.5
Weighted average interest rate	3.0%	3.3%
Effective interest rate (including fee amortization)	3.5%	3.8%
Average debt outstanding	\$ 190.2	\$ 161.0
Cash paid for interest	\$ 2.7	\$ 2.7

Notes Offering

On August 21, 2017, we issued \$42.5 million in aggregate principal amount of 5.75% fixed-rate notes due September 15, 2022 (the “2022 Notes”). On September 8, 2017, we issued an additional \$6.38 million in aggregate principal amount of the 2022 Notes pursuant to a full exercise of the underwriters’ overallotment option. On January 13, 2021, we caused notices to be issued to the holders of its 2022 Notes regarding the Company’s exercise of its option to redeem all of the issued and outstanding 2022 Notes, pursuant to the Second Supplemental Indenture dated as of August 21, 2017, between the Company and U.S. Bank National Association, as trustee. We redeemed all \$48.875 million in aggregate principal amount of the 2022 Notes on February 12, 2021. The 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon through the redemption date. As a result of the redemption, we recognized a loss on debt extinguishment of \$0.5 million due to the write off of the remaining deferred financing costs on the 2022 Notes. This loss is included in the Consolidated Statement of Operations for the three months ended March 31, 2021.

The following table summarizes the interest expense and deferred financing costs on the 2022 Notes for the three ended March 31, 2021 and 2020:

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 0.3	\$ 0.7
Deferred financing costs	0.1	0.1
Total interest and financing expenses	\$ 0.4	\$ 0.8
Loss on extinguishment of debt ⁽¹⁾	0.5	—
Weighted average interest rate ⁽²⁾	5.7%	5.8%
Effective interest rate (including fee amortization) ⁽²⁾	6.4%	6.4%
Average debt outstanding ⁽³⁾	\$ 48.9	\$ 48.9
Cash paid for interest	\$ 0.5	\$ 0.7

- (1) The loss on debt extinguishment is not included in interest expense or net investment income
- (2) Excludes the loss on debt extinguishment
- (3) For the three months ended March 31, 2021, the average is calculated for the period January 1, 2021 through February 12, 2021; the repayment date of the 2022 Notes

On January 14, 2021, we issued \$100.0 million in aggregate principal amount of 4.875% fixed-rate notes due 2026 (the “2026 Notes”). The 2026 Notes will mature on March 30, 2026, and may be redeemed in whole or in part at any time or from time to time at our option on or after December 31, 2025 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest is payable semi-annually beginning September 30, 2021

We used the net proceeds from this offering to fully redeem the 2022 Notes and repay a portion of the amount outstanding under the Credit Facility. As of March 31, 2021 and December 31, 2020, the aggregate carrying amount of the 2026 Notes were approximately \$100.0 million and \$0.

Prior to their redemption on February 12, 2021, the 2022 Notes were listed on New York Stock Exchange under the trading symbol “SCA”. As of December 31, 2020, the fair value of the 2022 Notes was \$49.2 million. The carrying value of the 2026 Notes approximates fair value.

In connection with the issuance of the 2026 Notes, we have incurred \$2.3 million of fees which are being amortized over the term of the 2026 Notes, of which \$2.2 million remains to be amortized as of March 31, 2021. These financing costs are presented on the consolidated statement of assets and liabilities as a deduction from the debt liability.

The following table summarizes the interest expense and deferred financing costs on the 2026 Notes for the three and three months ended March 31, 2021 and 2020 (dollars in millions):

	For the three months ended	
	March 31, 2021	March 31, 2020
Interest expense	\$ 1.0	\$ —
Deferred financing costs	0.1	—
Total interest and financing expenses	\$ 1.1	\$ —
Weighted average interest rate	4.9%	—%
Effective interest rate (including fee amortization)	5.4%	—%
Average debt outstanding	\$ 100.0	\$ —
Cash paid for interest	\$ —	\$ —

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of March 31, 2021 and December 31, 2020, our off-balance sheet arrangements consisted of \$22.8 million and \$28.9 million, respectively, of unfunded commitments to provide debt financing to 22 and 19 of our portfolio companies, respectively. As of March 31, 2021, we had sufficient liquidity to fund such unfunded commitments (through cash on hand and available borrowings under the Credit Facility) should the need arise.

Regulated Investment Company Status and Dividends

We have elected to be treated as a RIC under Subchapter M of the Code. So long as we maintain our qualification as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders as dividends on a timely basis.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation until realized. Distributions declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income or the distribution of prior year taxable income carried forward into and distributed in the current year. Distributions also may include returns of capital.

To qualify for RIC tax treatment, we must, among other things, distribute, with respect to each taxable year, at least 90% of our investment company net taxable income (i.e., our net ordinary income and our realized net short-term capital gains in excess of realized net long-term capital losses, if any). If we maintain our qualification as a RIC, we must also satisfy certain distribution requirements each calendar year in order to avoid a federal excise tax on our undistributed earnings of a RIC. As of December 31, 2020, we had \$21,051,549 of undistributed taxable income that will be carried forward toward distributions paid during the year ending December 31, 2021.

We intend to distribute to our stockholders between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, the covenants contained in the Credit Facility may prohibit us from making distributions to our stockholders, and, as a result, could hinder our ability to satisfy the distribution requirement. In addition, we may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our dividends for that fiscal year, a portion of those dividend distributions may be deemed a return of capital to our stockholders.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage test for borrowings applicable to us as a business development company under the 1940 Act and due to provisions in Credit Facility. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

In accordance with certain applicable U.S. Treasury regulations and private letter rulings issued by the Internal Revenue Service (the "IRS"), a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash.

If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with these U.S. Treasury regulations or private letter rulings. However, we continue to monitor the Company's liquidity position and the overall economy and will continue to assess whether it would be in our and our shareholders' best interest to take advantage of the IRS rulings.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements contained herein for a description of recent accounting pronouncements, if any, including the expected dates of adoption and the anticipated impact on the financial statements.

Critical Accounting Policies

See Note 1 to the consolidated financial statements contained herein for a description of critical accounting policies.

Subsequent Events

Investment Portfolio

On April 22, 2021, we received full repayment on the unsecured term loan of Skopos Financial, LLC for total proceeds of \$14.0 million.

On April 26, 2021, we invested \$10.8 million in the first lien term loan and committed \$0.1 million in both the unfunded revolver and delayed draw term loan of an HVAC and plumbing designer, installer, and service provider for new/existing DCs, fulfilment sortation facilities, and warehouses.

On April 28, 2021, we invested \$7.5 million in the first lien term loan and committed \$2.0 million in the unfunded revolver of Unicat Catalyst, LLC, a global formulator and distributor of heterogeneous, consumable catalyst products primarily serving the refinery, petrochemical, and other end markets. Additionally, we invested \$0.8 million in the equity of the company.

Credit Facility

The outstanding balance under the Credit Facility as of May 6, 2021 was \$186.0 million.

SBA-guaranteed Debentures

The total balance of SBA-guaranteed debentures outstanding as of May 6, 2021 was \$220.0 million.

SBIC II Subsidiary

On April 13, 2021, we contributed \$15.0 million to the SBIC II subsidiary, bringing total contributed capital to the SBIC II subsidiary to \$50.0 million.

Dividend Declared

On April 19, 2021, our Board declared a regular monthly dividend for each of April 2021, May 2021 and June 2021 as follows:

Declared	Ex-Dividend Date	Record Date	Payment Date	Amount per Share
4/19/2021	4/29/2021	4/30/2021	5/14/2021	\$ 0.0833
4/19/2021	5/27/2021	5/28/2021	6/15/2021	\$ 0.0833
4/19/2021	6/29/2021	6/30/2021	7/15/2021	\$ 0.0833

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. At both March 31, 2021 and December 31, 2020, 93% of the loans in our portfolio bore interest at floating rates. These floating rate loans typically bear interest in reference to LIBOR, which are indexed to 30-day or 90-day LIBOR rates, subject to an interest rate floor. As of March 31, 2021 and December 31, 2020, the weighted average interest rate floor on our floating rate loans was 1.19% and 1.21%, respectively.

Assuming that the Statement of Assets and Liabilities as of March 31, 2021 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annual impact on net income of changes in interest rates:

Change in Basis Points ⁽²⁾	(\$ in millions)		
	Interest Income	Interest Expense ⁽³⁾	Net Interest Income ⁽¹⁾
Up 200 basis points	\$ 6.8	\$ (3.3)	\$ 3.5
Up 150 basis points	3.8	(2.5)	1.3
Up 100 basis points	1.5	(1.7)	(0.2)
Up 50 basis points	0.5	(0.8)	(0.3)
Down 25 basis points	0.0	0.0	0.0

(1)Excludes the impact of incentive fees based on pre-incentive fee net investment income. See Note 2 for more information on the incentive fee.

(2)The three month LIBOR rate at March 31, 2021 was 19 basis points. This table assumes LIBOR would not fall below zero.

(3)Includes the impact of the 25 bps LIBOR floor in place on the Credit Facility.

Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate. We may hedge against interest 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 the benefits of lower interest rates with respect to our portfolio of investments. For the three months ended March 31, 2021 and 2020, we did not engage in hedging activities.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of various members of management, including its Chief Executive Officer and its Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting

The Company's management did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2021 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or our subsidiaries. From time to time, we 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 in the information provided under the heading “Risk Factors” in our Annual Report on Form 10-K as of December 31, 2020 other than as provided below. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially affect our business, financial condition and/or operating results.

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

No shares were issued under the distribution reinvestment program (“DRIP”) during the three months ended March 31, 2021. During the three months ended March 31, 2020, the Company issued 9,910 shares of common stock under the DRIP. This issuance was not subject to the registration requirements of the Securities Act. The aggregate value of the shares of our common stock issued under the DRIP for the three months ended March 31, 2020 was approximately \$135,472.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. EXHIBITS.

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits filed with the SEC:

Exhibit Number	Description
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: May 6, 2021

STELLUS CAPITAL INVESTMENT CORPORATION

By: /s/ Robert T. Ladd

Name: Robert T. Ladd

Title: Chief Executive Officer and President

By: /s/ W. Todd Huskinson

Name: W. Todd Huskinson

Title: Chief Financial Officer

I, Robert T. Ladd, Chief Executive Officer of Stellus Capital Investment Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stellus Capital Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 6th day of May 2021.

By: /s/ Robert T. Ladd

Robert T. Ladd
Chief Executive Officer

I, W. Todd Huskinson, Chief Financial Officer of Stellus Capital Investment Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stellus Capital Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 6th day of May 2021.

By: /s/ W. Todd Huskinson
W. Todd Huskinson
Chief Financial Officer

Certification of Chief Executive Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with this Quarterly report on Form 10-Q (the "Report") of Stellus Capital Investment Corporation (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Robert T. Ladd, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Robert T. Ladd

Name: Robert T. Ladd

Date: May 6, 2021

Certification of Chief Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with this Quarterly report on Form 10-Q (the "Report") of Stellus Capital Investment Corporation (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, W. Todd Huskinson, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ W. Todd Huskinson

Name: W. Todd Huskinson

Date: May 6, 2021
