

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 September 30, 2024
- or
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-41472

MILL CITY VENTURES III, LTD.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

90-0316651

(I.R.S. Employer Identification No.)

1907 Wayzata Blvd, #205, Wayzata, Minnesota

(Address of principal executive offices)

55391

(Zip Code)

(952) 479-1923

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☒

Emerging growth company

☐

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

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

As of November 15, 2024, Mill City Ventures III, Ltd. had 6,385,255 shares of common stock, and no other classes of capital stock, outstanding.

**MILL CITY VENTURES III, LTD.**  
**Index to Form 10-Q**  
**for the Quarter Ended September 30, 2024**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**MILL CITY VENTURES III, LTD.  
CONDENSED BALANCE SHEETS**

	<b>September 30, 2024 (unaudited)</b>	<b>December 31, 2023</b>
<b>ASSETS</b>		
Investments, at fair value:	\$ 16,208,065	\$ 17,284,676
Non-control/non-affiliate investments (cost: \$17,208,066 and \$18,577,481 respectively)		
Cash	3,132,877	376,024
Note receivable	—	250,000
Prepaid expenses	67,637	165,301
Interest and dividend receivables	152,500	264,413
Right-of-use lease asset	—	9,283
Deferred taxes	779,000	757,000
<b>Total Assets</b>	<b>\$ 20,340,079</b>	<b>\$ 19,106,697</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 111,178	\$ 71,702
Deferred interest income	62,000	—
Accrued payroll liabilities	7,716	435,449
Operating lease liability	—	9,283
Accrued income tax	310,100	—
<b>Total Liabilities</b>	<b>490,994</b>	<b>516,434</b>
<b>SHAREHOLDERS EQUITY (NET ASSETS)</b>		
Common stock, par value \$0.001 per share (111,111,111 authorized; 6,385,255 outstanding)	6,385	6,385
Additional paid-in capital	15,473,121	15,473,121
Additional paid-in capital - stock options	1,460,209	1,460,209
Accumulated deficit	(1,159,665)	(1,159,665)
Accumulated undistributed investment loss	(224,819)	(1,052,183)
Accumulated undistributed net realized gains on investment transactions	5,293,855	5,155,200
Net unrealized depreciation in value of investments	(1,000,001)	(1,292,804)
<b>Total Shareholders' Equity (Net Assets)</b>	<b>19,849,085</b>	<b>18,590,263</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 20,340,079</b>	<b>\$ 19,106,697</b>
<b>Net Asset Value Per Common Share</b>	<b>\$ 3.11</b>	<b>\$ 2.91</b>

See accompanying Notes to Financial Statements

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**MILL CITY VENTURES III, LTD.**  
**CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<b>Investment Income</b>				
Interest income	\$ 711,022	\$ 725,158	\$ 2,432,318	\$ 2,496,688
<b>Total Investment Income</b>	711,022	725,158	2,432,318	2,496,688
<b>Operating Expenses</b>				
Professional fees	190,369	184,008	502,838	601,184
Payroll	148,072	141,040	444,997	1,418,640
Insurance	24,694	26,452	76,186	79,974
Occupancy	11,126	14,890	31,348	55,005
Director's fees	30,000	30,000	90,000	592,968
Interest expense	—	—	320	78,000
Other general and administrative	15,586	24,983	33,304	57,464
<b>Total Operating Expenses</b>	419,847	421,373	1,178,993	2,883,235
<b>Net Investment Gain (Loss)</b>	291,175	303,785	1,253,325	\$ (386,547)
<b>Realized and Unrealized Gain (Loss) on Investments</b>				
Net realized gain (loss) on investments	(232,585)	—	138,655	(558,629)
Net change in unrealized appreciation (depreciation) on investments	530,693	2,175	292,803	629,491
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	298,108	2,175	431,458	70,862
<b>Net Increase (Decrease) in Net Assets Resulting from Operations Before Taxes</b>	\$ 589,283	\$ 305,960	\$ 1,684,783	\$ (315,685)
<b>Provision for (Benefit from) Income Taxes</b>	125,500	(63,600)	425,961	(37,922)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	\$ 463,783	\$ 369,560	\$ 1,258,822	(277,763)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations per share:</b>				
Basic	\$ 0.07	\$ 0.06	\$ 0.20	\$ (0.04)
Diluted	\$ 0.07	\$ 0.06	\$ 0.19	\$ (0.04)
Weighted-average number of common shares outstanding - basic	6,385,255	6,241,777	6,385,255	6,204,303
Weighted-average number of common shares outstanding - diluted	6,501,823	6,358,345	6,501,823	6,204,303

See accompanying Notes to Financial Statements

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**MILL CITY VENTURES III, LTD.  
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**

Three Months Ended September 30, 2024	Common Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Accumulated Undistributed Net Investment Loss	Accumulated Undistributed Net Realized Gain (Loss) on Investments Transactions	Net Unrealized Appreciation (Depreciation) in value of Investments	Total Shareholders' Equity
Balance as of June 30, 2024	6,385,255	\$ 6,385	\$16,933,330	\$ (1,159,665)	\$ (390,494)	\$ 5,526,440	\$ (1,530,694)	\$ 19,385,302
Undistributed net investment gain		—	—	—	165,675	—	—	165,675
Undistributed net realized loss on investment transactions		—	—	—	—	(232,585)	—	(232,585)
Appreciation in value of investments		—	—	—	—	—	530,693	530,693
Balance as of September 30, 2024	6,385,255	\$ 6,385	\$16,933,330	\$ (1,159,665)	\$ (224,819)	\$ 5,293,855	\$ (1,000,001)	\$ 19,849,085

Three Months Ended September 30, 2023	Common Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Accumulated Undistributed Net Investment Loss	Accumulated Undistributed Net Realized Gain on Investments Transactions	Net Unrealized Appreciation in value of Investments	Total Shareholders' Equity
Balance as of June 30, 2023	6,185,255	\$ 12,215	\$16,503,500	\$ (1,159,665)	\$ (1,802,749)	\$ 5,155,200	\$ (24,055)	\$ 18,684,446
Exercise of stock options	200,000	200	423,800	—	—	—	—	424,000
Undistributed net investment gain		—	—	—	367,385	—	—	367,385
Appreciation in value of investments		—	—	—	—	—	2,175	2,175
Balance as of September 30, 2023	6,385,255	\$ 12,415	\$16,927,300	\$ (1,159,665)	\$ (1,435,364)	\$ 5,155,200	\$ (21,880)	\$ 19,478,006

Nine Months Ended September 30, 2024	Common Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Accumulated Undistributed Net Investment Gain (Loss)	Accumulated Undistributed Net Realized Gain on Investments Transactions	Net Unrealized Appreciation (Depreciation) in value of Investments	Total Shareholders' Equity
Balance as of December 31, 2023	6,385,255	\$ 6,385	\$16,933,330	\$ (1,159,665)	\$ (1,052,183)	\$ 5,155,200	\$ (1,292,804)	\$ 18,590,263

Undistributed net investment gain		—	—	—	827,364	—	—	827,364
Undistributed net realized gain on investment transactions		—	—	—	—	138,655	—	138,655
Appreciation in value of investments		—	—	—	—	—	292,803	292,803
Balance as of September 30, 2024	6,385,255	\$ 6,385	\$16,933,330	\$ (1,159,665)	\$ (224,819)	\$ 5,293,855	\$ (1,000,001)	\$ 19,849,085

Nine Months Ended September 30, 2023	Common Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Accumulated Undistributed Net Investment Loss	Accumulated Undistributed Net Realized Gain on Investments Transactions	Net Unrealized Appreciation (Depreciation) in value of Investments	Total Shareholders' Equity
Balance as of December 31, 2022	6,185,255	\$ 12,215	\$15,043,291	\$ (1,159,665)	\$ (1,086,739)	\$ 5,713,829	\$ (651,371)	\$ 17,871,560
Issuance of stock options		—	1,460,209	—	—	—	—	1,460,209
Exercise of stock options	200,000	200	423,800	—	—	—	—	424,000
Net investment loss, net of tax benefit of \$139,300		—	—	—	(348,625)	—	—	(348,625)
Undistributed net realized loss on investment transactions		—	—	—	—	(558,629)	—	(558,629)
Appreciation in value of investments		—	—	—	—	—	629,491	629,491
Balance as of September 30, 2023	6,385,255	\$ 12,415	\$16,927,300	\$ (1,159,665)	\$ (1,435,364)	\$ 5,155,200	\$ (21,880)	\$ 19,478,006

See accompanying Notes to Financial Statements

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**MILL CITY VENTURES III, LTD.  
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Nine Months Ended	
	September 30, 2024	September 30, 2023
<b>Cash flows from operating activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 1,258,822	\$ (277,763)
<b>Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:</b>		
Net change in unrealized (appreciation) depreciation on investments	(292,803)	(629,491)
Net realized (gain) loss on investments	(138,655)	558,629
Purchases of investments	(5,106,503)	(11,900,500)
Proceeds from sales of investments	6,614,573	11,124,193
Issuance of stock options	—	1,460,209
Deferred income taxes	(22,000)	(196,000)
<b>Changes in operating assets and liabilities:</b>		
Prepaid expenses and other assets	356,947	2,700
Interest and dividends receivable	111,913	31,674
Accounts payable and other liabilities	(397,541)	(654,278)
Accrued income taxes	310,100	—
Deferred interest income	62,000	(70,154)
<b>Net cash provided (used) in operating activities</b>	<b>2,756,853</b>	<b>(550,781)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from stock option exercise	—	424,000
Proceeds from line of credit	—	2,750,000
Repayments on line of credit	—	(2,750,000)
<b>Net cash provided by financing activities</b>	<b>—</b>	<b>424,000</b>
<b>Net increase (decrease) in cash</b>	<b>2,756,853</b>	<b>(126,781)</b>
Cash, beginning of period	376,024	1,089,641
Cash, end of period	\$ 3,132,877	\$ 962,860
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 320	\$ 78,000

See accompanying Notes to Financial Statements







MILL CITY VENTURES III, LTD.  
CONDENSED SCHEDULE OF INVESTMENTS (UNAUDITED)  
SEPTEMBER 30, 2024

<u>Investment / Industry</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of Net Assets</u>
<b>Short-Term Non-banking Loans</b>			
<b>Business Services - 15% secured loans</b>			
Mustang Litigation Funding	\$ 10,000,000	\$ 10,037,732	50.57%
<b>Consumer - 15% secured loans</b>	500,000	502,375	2.53%
<b>Consumer - 36% secured loans</b>			
Enchant Christmas LLC	2,000,000	2,003,915	10.10%
<b>Real Estate - 12% secured loans</b>			
Alatus Development Corp	2,000,000	2,017,583	10.16%
<b>Real Estate - 24% secured loans</b>			
Coventry Holdings LLC	1,150,000	1,154,217	5.81%
<b>Total Short-Term Non-Banking Loans</b>	<u>15,650,000</u>	<u>15,715,822</u>	<u>73.36%</u>
<b>Preferred Stock</b>			
<b>Consumer</b>			
Wisdom Gaming, Inc	900,000	-	0.00%
<b>Information Technology</b>	150,000	-	0.00%
<b>Total Preferred Stock</b>	<u>1,050,000</u>	<u>-</u>	<u>0.00%</u>
<b>Common Stock</b>			
<b>Consumer</b>	3,911	3,735	0.02%
<b>Financial</b>	494,155	488,508	2.46%
<b>Total Common Stock</b>	<u>498,066</u>	<u>492,243</u>	<u>2.48%</u>
<b>Other Equity</b>			
<b>Financial</b>	10,000	-	0.00%
<b>Total Investments</b>	<u>\$ 17,208,066</u>	<u>\$ 16,208,065</u>	<u>75.84%</u>
<b>Total Cash and cash equivalents</b>	3,132,877	3,132,877	15.78%
<b>Total Investments and Cash</b>	<u>\$ 20,340,943</u>	<u>\$ 19,340,942</u>	<u>91.62%</u>

See accompanying Notes to the Financial Statements

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MILL CITY VENTURES III, LTD.  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 2023

<u>Investment / Industry</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of Net Assets</u>
<b>Short-Term Non-banking Loans</b>			
<b>Business Services - 15% secured loans</b>			
Mustang Litigation Funding	\$ 10,000,000	\$ 10,069,354	54.16%
<b>Consumer - 23% secured loans</b>			
Intelligent Mapping, LLC	2,900,000	2,906,464	15.63%
<b>Financial - 12% secured loans</b>	500,000	-	0.00%
<b>Information Technology - 15% convertible note</b>	212,500	213,501	1.15%
<b>Real Estate - 18% secured loans</b>	745,000	760,119	4.09%
Tailwind, LLC	1,000,000	1,001,954	5.39%
<b>Real Estate - 12% secured loans</b>			
Alatus Development Corp	2,000,000	2,010,374	10.81%
<b>Total Short-Term Non-Banking Loans</b>	<u>17,357,500</u>	<u>16,961,766</u>	<u>91.23%</u>
<b>Preferred Stock</b>			
<b>Consumer</b>			
Wisdom Gaming, Inc	900,000	265,000	1.43%
<b>Information Technology</b>	<u>150,000</u>	<u>-</u>	<u>0.00%</u>
<b>Total Preferred Stock</b>	<u>1,050,000</u>	<u>265,000</u>	<u>1.43%</u>
<b>Common Stock</b>			
<b>Consumer</b>	<u>159,302</u>	<u>47,910</u>	<u>0.26%</u>
<b>Warrants</b>			
<b>Healthcare</b>	<u>679</u>	<u>—</u>	<u>0.00%</u>
<b>Other Equity</b>			
<b>Financial</b>	<u>10,000</u>	<u>10,000</u>	<u>0.05%</u>
<b>Total Investments</b>	<u>\$ 18,577,481</u>	<u>\$ 17,284,676</u>	<u>92.97%</u>
<b>Total Cash</b>	376,024	376,024	2.02%
<b>Total Investments and Cash</b>	<u>\$ 18,953,505</u>	<u>\$ 17,660,700</u>	<u>94.99%</u>

See accompanying Notes to the Financial Statements

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**NOTE 1 – ORGANIZATION**

In this report, we generally refer to Mill City Ventures III, Ltd. in the first person “we.” On occasion, we refer to our company in the third person as “Mill City

Ventures" or the "Company." The Company follows accounting and reporting guidance in Accounting Standards ("ASC") 946.

We were incorporated in Minnesota in January 2006. Until December 13, 2012, we were a development-stage company that focused on promoting and placing a proprietary poker game online and into casinos and entertainment facilities nationwide. In 2013, we elected to become a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). We operated as a BDC until we withdrew our BDC election at the end of December 2019. Since that time, we have remained a public reporting company filing periodic reports with the SEC. We engage in the business of providing short-term specialty finance solutions, typically in the form of short-term loans, primarily to small businesses, both private and public, and high-net-worth individuals. To avoid regulation under the 1940 Act, we generally seek to structure our investments so they do not constitute "securities" for purposes of federal securities laws, and we monitor our investments as a whole to ensure that no more than 40% of our total assets consist of "investment securities" as defined under the 1940 Act.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation:** The accompanying unaudited financial statements include the accounts of the Company and have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, as permitted by Article 10, the unaudited financial statements do not include all of the information required by accounting principles generally accepted in the United States ("U.S. GAAP"). The balance sheet at December 31, 2023 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP. In the opinion of management, all adjustments which are of a normal recurring nature and necessary for a fair presentation have been reflected in the financial statements. These unaudited condensed financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2023 and the related footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results to be expected during the remainder of the current year or for any future period.

**Use of estimates:** The preparation of financial statements in conformity with GAAP requires management and our independent board members to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. For more information, see the "Valuation of portfolio investments" caption below, and "Note 4 – Fair Value of Financial Instruments" below. The Company presents its financial statements as an investment company following accounting and reporting guidance in ASC 946.

**Cash and cash equivalents:** Cash represents cash on hand and demand deposits held at financial institutions. Cash equivalents include short-term, highly liquid investments of sufficient credit quality that are readily convertible to known amounts of cash and have original maturities of three months or less. Cash equivalents are carried at cost, plus accrued interest, which approximates fair value. Cash equivalents are held to meet short-term liquidity requirements, rather than for investment purposes. Cash and cash equivalents are held at major financial institutions and are subject to credit risk to the extent those balances exceed applicable Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) limitations.

**Valuation of portfolio investments:** We carry our investments in accordance with ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"), issued by the Financial Accounting Standards Board ("FASB"), which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Fair value is generally based on quoted market prices provided by independent pricing services, broker or dealer quotations, or alternative price sources. In the absence of quoted market prices, broker or dealer quotations, or alternative price sources, investments are measured at fair value as determined by our Board of Directors, based on, among other things, the input of our executive management, the Audit Committee of our Board of Directors, and any independent third-party valuation experts that may be engaged by management to assist in the valuation of our portfolio investments, but in all cases consistent with our written valuation policies and procedures.

Due to the inherent uncertainties of valuation, certain estimated fair values may differ significantly from the values that would have been realized had a ready market for these investments existed, and these differences could be material. In addition, such investments are generally less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

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Accounting guidance establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Observable inputs must be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability based upon the best information available. Assets and liabilities measured at fair value are to be categorized into one of the three hierarchy levels based on the relative observability of inputs used in the valuation. The three levels are defined as follows:

- **Level 1:** Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Observable inputs based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.
- **Level 3:** Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

**Our valuation policy and procedures:** Under our valuation policies and procedures, we evaluate the source of inputs, including any markets in which our investments are trading, and then apply the resulting information in determining fair value. For our Level 1 investment assets, our valuation policy generally requires us to use a market approach, considering the last quoted closing price of a security we own that is listed on a securities exchange, and in a case where a security we own is listed on an over-the-counter market, to average the last quoted bid and ask price on the most active market on which the security is quoted. In the case of traded debt securities the prices for which are not readily available, we may value those securities using a discounted cash flows approach, at their weighted-average yield to maturity.

The estimated fair value of our Level 3 investment assets is determined on a quarterly basis by our Board of Directors. In general, we value our Level 3 equity investments at cost unless circumstances warrant a different approach. Examples of these circumstances includes a situation in which a portfolio company has engaged in a subsequent financing of more than a *de minimis* size involving sophisticated investors (in which case we may use the price involved in that financing as a determinative input absent other known factors), or when a portfolio company is engaged in the process of a transaction that we determine is reasonably likely to occur (in which case we may use the price involved in the pending transaction as a determinative input absent other known factors). Other facts and circumstances that may serve as an input supporting a change in the valuation of our Level 3 equity investments include (i) a third-party valuation conducted by an independent and qualified professional, (ii) changes in the performance of long-term financial prospects of the portfolio company, (iii) a subsequent financing that changes the distribution rights associated with the equity security we hold, or (iv) sale transactions involving comparable companies, but only if further supported by a third-party valuation conducted by an independent and qualified professional.

When valuing preferred equity investments, we generally view intrinsic value as a key input. Intrinsic value means the value of any conversion feature (if the preferred investment is convertible) or the value of any liquidation or other preference. Discounts to intrinsic value may be applied in cases where the issuer's financial condition is impaired or, in cases where intrinsic value relating to a conversion is determined to be a key input, to account for resale restrictions applicable to the securities issuable upon conversion.

When valuing warrants, our valuation policy and procedures indicate that value will generally be the difference between the closing price of the underlying equity security and the exercise price, after applying an appropriate discount for restriction, if applicable, in situations where the underlying security is marketable. If the underlying security is not marketable, then intrinsic value will be considered consistent with the principles described above. Generally, "out-of-the-money" warrants will be valued at cost or zero.

For non-traded (Level 3) debt instruments with a residual maturity less than or equal to 60 days, we will generally value such instruments based on a discounted cash flows approach, considering the straight-line amortized face value of the debt unless justification for impairment exists. For level 3 non-banking loans with a maturity in excess of 60 days, fair value is determined based on the initial purchase price and adjusted as necessary to reflect any changes in the financial strength of the creditor and changes in interest rates in the high-yield credit markets.

On a quarterly basis, our management provides members of our Board of Directors with recommendations, if any, to change any existing valuations of our portfolio investments or hierarchy levels for purposes of determining the fair value of such investments based upon the foregoing. In such a case, the Board of Directors would then discuss these materials and, consistent with the policies and approaches outlined above, makes final determinations respecting the valuation and hierarchy levels of our portfolio investments.

We made no changes to our valuation policy and procedures during the reporting period.

***Income taxes:***

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying amount and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.



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We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event we were to determine we would be able to realize our deferred income tax assets in the future in excess of their recorded amount, we would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

We file income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months. Our evaluation was performed for the tax years ended December 31, 2020 through 2023, which are the tax years that remain subject to examination by major tax jurisdictions as of September 30, 2024.

**Revenue recognition:** Realized gains or losses on the sale of investments are calculated using the specific investment method.

Interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on an accrual basis. Discounts from and premiums to par value on securities purchased are accreted or amortized, as applicable, into interest income over the life of the related security using the effective-yield method. The amortized cost of investments represents the original cost, adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more, or when there is reasonable doubt that principal or interest will be collected in full. Loan origination fees are recognized when loans are issued. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past-due principal and interest is paid and, in management's judgment, are likely to remain current. We may make exceptions to the policy described above if a loan has sufficient collateral value and is in the process of collection.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

Certain investments may have contractual payment-in-kind ("PIK") interest or dividends. PIK represents accrued interest or accumulated dividends that are added to the loan principal or stated value of the investment on the respective interest- or dividend-payment dates rather than being paid in cash, and generally becomes due at maturity or upon being repurchased by the issuer. PIK interest or dividends is recorded as interest or dividend income, as applicable. If at any point we believe that PIK interest or dividends is not expected to be realized, the PIK-generating investment will be placed on non-accrual status. Accrued PIK interest or dividends are generally reversed through interest or dividend income, respectively, when an investment is placed on non-accrual status.

**Allocation of net gains and losses:** All income, gains, losses, deductions and credits for any investment are allocated in a manner proportionate to the shares owned.

**Stock-based compensation:** The Company's stock-based compensation consists of stock options issued to certain employees and directors of the Company. The Company recognizes compensation expense based on an estimated grant date fair value using the Black Scholes option-pricing method. If the factors change and different assumptions are used, the Company's stock-based compensation expense could be materially different in the future. The Company recognizes stock-based compensation expense for these options on a straight-line basis over the requisite service period. The Company has elected to account for forfeitures as they occur.

**Management and service fees:**

We do not incur expenses related to management and service fees. Our executive management team manages our investments as part of their employment responsibilities.

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### NOTE 3 – INVESTMENTS

The following table shows the composition of our investment portfolio by major class, at amortized cost and fair value, as of September 30, 2024 (together with the corresponding percentage of the fair value of our total portfolio of investments):

	As of September 30, 2024			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	\$ 15,650,000	90.9%	\$ 15,715,822	97.0%
Preferred Stock	1,050,000	6.1	—	—
Common Stock	498,066	2.9	492,243	3.0
Other Equity	10,000	0.1	—	—
Total	\$ 17,208,066	100.0%	\$ 16,208,065	100.0%

The following table shows the composition of our investment portfolio by major class, at amortized cost and fair value, as of December 31, 2023 (together with the corresponding percentage of the fair value of our total investments):

	As of December 31, 2023			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	\$ 17,357,500	93.4%	\$ 16,961,766	98.1%
Preferred Stock	1,050,000	5.6	265,000	1.5
Common Stock	159,302	0.9	47,910	0.3
Warrants	679	—	—	—

Other Equity	10,000	0.1	10,000	0.1
Total	<u>\$ 18,577,481</u>	<u>100.0%</u>	<u>\$ 17,284,676</u>	<u>100.0%</u>

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of September 30, 2024:

	<b>As of September 30, 2024</b>	
	<b>Investments at Fair Value</b>	<b>Percentage of Fair Value</b>
Business Services	\$ 10,037,732	61.9%
Consumer	2,510,025	15.5
Financial	488,508	3.0
Information Technology	—	—
Real Estate	3,171,800	19.6
Total	<u>\$ 16,208,065</u>	<u>100.0%</u>

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of December 31, 2023:

	<b>As of December 31, 2023</b>	
	<b>Investments at Fair Value</b>	<b>Percentage of Fair Value</b>
Business Services	\$ 10,069,354	58.3%
Consumer	3,219,374	18.6
Financial	10,000	0.1
Information Technology	213,501	1.2
Real Estate	3,772,447	21.8
Total	<u>\$ 17,284,676</u>	<u>100.0%</u>

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#### NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

**Level 3 valuation information:** Due to the inherent uncertainty in the valuation process, the estimate of the fair value of our investments portfolio as of September 30, 2024 may differ materially from values that would have been used had a readily available market for the investments existed.

The following table presents the fair value measurements of our portfolio investments by major class, as of September 30, 2024, according to the fair value hierarchy:

	As of September 30, 2024			
	Level 1	Level 2	Level 3	Total
Short-term Non-banking Loans	\$ —	\$ —	\$ 15,715,822	\$ 15,715,822
Preferred Stock	—	—	—	—
Common Stock	492,243	—	—	492,243
Other Equity	—	—	—	—
Total	\$ 492,243	\$ —	\$ 15,715,822	\$ 16,208,065

The following table presents the fair value measurements of our investment portfolio by major class, as of December 31, 2023, according to the fair value hierarchy:

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Short-term Non-banking Loans	\$ —	\$ —	\$ 16,961,766	\$ 16,961,766
Preferred Stock	—	—	265,000	265,000
Common Stock	47,910	—	—	47,910
Other Equity	—	—	10,000	10,000
Total	\$ 47,910	\$ —	\$ 17,236,766	\$ 17,284,676

The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the nine months ended September 30, 2024:

	For the nine months ended September 30, 2024		
	ST Non-banking Loans	Preferred Stock	Other Equity
Balance as of January 1, 2024	\$ 16,961,766	\$ 265,000	\$ 10,000
Net change in unrealized appreciation	461,556	(265,000)	(10,000)
Purchases and other adjustments to cost	4,123,438	—	—
Sales and redemptions	(5,570,000)	—	—
Net realized loss	(100,000)	—	—
Transfers out of level 3	(160,938)	—	—
Balance as of September 30, 2024	\$ 15,715,822	\$ —	\$ —

The net change in unrealized depreciation for the nine months ended September 30, 2024 attributable to Level 3 portfolio investments still held as of September 30, 2024 is \$209,178.

The following table lists our Level 3 investments held as of September 30, 2024 and the unobservable inputs used to determine their valuation:

Security Type	9/30/24 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	\$ 15,715,822	discounted cash flow	determining private company interest rate based on changes in market rates of instruments with comparable creditworthiness	12-36%
Other Equity	—	last secured funding known by company	economic changes since last funding	
Preferred Stock	—	last funding secured by company	economic changes since last funding	
	\$ 15,715,822			

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The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the year ended December 31, 2023:

	For the year ended December 31, 2023		
	ST Non-banking Loans	Preferred Stock	Other Equity
Balance as of January 1, 2023	\$ 15,285,932	\$ 1,200,000	\$ 222,500
Net change in unrealized depreciation	(195,041)	(935,000)	600,000
Purchases and other adjustments to cost	12,900,500	—	—
Realized gain (loss)	—	—	(600,000)
Transfers between level 3 and level 1	(11,029,625)	—	(212,500)
Balance as of December 31, 2023	\$ 16,961,766	\$ 265,000	\$ 10,000

The net change in unrealized depreciation for the year ended December 31, 2023 attributable to Level 3 portfolio investments still held as of December 31, 2023 was \$1,126.877.

The following table lists our Level 3 investments held as of December 31, 2023 and the unobservable inputs used to determine their valuation:

Security Type	12/31/23 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	\$ 16,961,766	discounted cash flow	determining private company interest rate based on changes in market rates of instruments with comparable creditworthiness	12-23%
Other Equity	10,000	last secured funding known by company		
Preferred Stock	265,000	last funding secured by company	economic changes since last funding	
	\$ 17,236,766			

## NOTE 5 – RELATED-PARTY TRANSACTIONS

We maintain a conflicts of interest and related-party transactions policy requiring (i) certain disclosures be made to our Board of Directors in relation to situations where officers, directors, significant shareholders, or any of their affiliates may enter into transactions with us, and (ii) certain disclosures appear in the reports we prepare and file with the SEC. In this regard, during the period covered by this report we entered into, or remained a party to, the following related-party transactions:

- We held a promissory note with two shareholders in the principal amount of \$ 250,000. The promissory note bore interest payable monthly at the rate of 10% per annum. The note was secured by the debtors' pledge to us of 277,778 shares of common stock. The note was paid in full including all accrued interest on September 26, 2024.
- As disclosed in Note 7, a component of our now terminated loan agreement is with a director of our Company.

## NOTE 6 – INCOME TAXES

We are a C-Corporation for tax purposes and have booked an income tax provision for the periods described below. Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate.

As of September 30, 2024 and December 31, 2023, we have a deferred tax asset of \$ 779,000 and \$757,000, respectively. As of September 30, 2024, our net deferred tax asset consists of foreign tax credit carryforwards, unrealized investment gain/loss, non-qualified stock option expenses, acquisition costs, depreciable assets, and right of use assets. Our determination of the realizable deferred tax assets and liabilities requires the exercise of significant judgment, based in part on business plans and expectations about future outcomes.



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As of September 30, 2024 and December 31, 2023 we had accrued income taxes of \$ 310,100 and prepaid income taxes \$131,500, respectively. We recorded a provision for income taxes of \$426,000 (27 percent effective tax rate) and a benefit from income taxes of \$ 38,000 (27 percent effective tax rate) during the nine months ended September 30, 2024 and September 30, 2023, respectively.

**NOTE 7 – LINE OF CREDIT**

The Company had a Loan and Security Agreement (the "Loan Agreement") with a third party and director (collectively, the Lenders). Under the Loan Agreement, the Lenders made available to us a \$5 million revolving line of credit for us to use in the ordinary course of our short-term specialty finance business, of which our director was required to fund one half of the amount. Amounts drawn under the Loan Agreement accrue interest at the per annum rate of 8%, through January 3, 2027, subject to early termination provisions at the Lender's right at any time after January 3, 2023. Our obligations under the Loan Agreement were secured by a grant of a collateral security interest in substantially all of our assets.

At December 31, 2023, the balance outstanding on the line was \$0. In January 2024, we terminated the Loan Agreement. Any applicable fees related to early termination of the Agreement were waived.

**NOTE 8 – STOCK-BASED COMPENSATION**

Our 2022 Stock Incentive Plan authorized the issuance of incentives relating to 900,000 shares of common stock. As of September 30, 2024, incentives relating to the issuance of 870,000 shares have been issued under the Plan, leaving 30,000 shares available for issuance.

The following table summarizes the activity for all stock options outstanding for the nine months ended September 30, 2024:

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	670,000	\$ 2.11
Granted	—	—
Exercised	—	—
Forfeited	—	—
Balance at September 30, 2024	670,000	\$ 2.11
Options exercisable at September 30:	670,000	\$ 2.11

The following table summarizes additional information about stock options outstanding and exercisable at September 30, 2024:

Options Outstanding				Options Exercisable		
Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
670,000	8.17	\$ 2.11	\$ 96,900	670,000	\$ 2.11	\$ 96,900

We recognized stock-based compensation expense for stock options of \$ 0 and \$1,460,209 for the nine months ended September 30, 2024 and 2023, respectively.

#### NOTE 9 – SHAREHOLDERS' EQUITY

At September 30, 2024, we had 6,385,255 shares of common stock issued and outstanding.

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In connection with the 2022 public offering, we issued a five-year warrant to the underwriter. The warrant allows the underwriter to purchase up to 75,000 common shares at \$5.00 per share. This warrant is exercisable after 180 days, and expires on August 8, 2027. This warrant is equity-classified and the fair value was \$201,173 on the offering date.

**NOTE 10 – PER-SHARE INFORMATION**

Basic net gain (loss) per common share is computed by dividing net increase in net assets resulting from operations by the weighted-average number of common shares outstanding during the period. Diluted net gain (loss) per common share is computed by dividing net increase in net assets resulting from operations by the weighted-average number of dilutive common shares outstanding during the period calculated using the Treasury Stock method. The Treasury Stock method assumes that the proceeds received upon exercise of stock options are used to repurchase stock at the average market price during the period, thereby increasing the number of shares to be added in computing diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net gain (loss) per common share is set forth below:

	For the Three Months Ended September 30,			
	2024		2023	
	Basic	Diluted	Basic	Diluted
Numerator: Net increase in net assets resulting from operations	\$ 463,783	\$ 463,783	\$ 369,560	\$ 369,560
Denominator: Weighted-average number of common shares outstanding	6,385,255	6,501,823	6,241,777	6,358,345
Basic and diluted net gain per common share	\$ 0.07	\$ 0.07	\$ 0.06	\$ 0.06

  

	For the Nine Months Ended September 30,			
	2024		2023	
	Basic	Diluted	Basic	Diluted
Numerator: Net increase (decrease) in net assets resulting from operations	\$ 1,258,822	\$ 1,258,822	\$ (277,763)	\$ (277,763)
Denominator: Weighted-average number of common shares outstanding	6,385,255	6,501,823	6,204,303	6,204,303
Basic and diluted net gain (loss) per common share	\$ 0.20	\$ 0.19	\$ (0.04)	\$ (0.04)

## NOTE 11 – FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the nine months ended September 30, 2024 through 2020:

	Nine Months Ended September 30,				
	2024	2023	2022	2021	2020
<b>Per Share Data <sup>(1)</sup></b>					
Net asset value at beginning of period	\$ 2.91	2.89	2.80	2.43	2.05
Net investment income (loss)	0.20	(0.06)	0.18	0.20	0.05
Net realized and unrealized gains (losses)	0.07	0.01	0.02	0.54	0.14
Provision for (benefit from) income taxes	(0.07)	0.01	(0.05)	(0.20)	0.00
Issuance of stock options	0.00	0.24	0.00	0.00	0.00
Issuance of common stock	0.00	0.05	0.00	0.00	0.00
Stock-based compensation	0.00	0.00	0.05	0.00	0.00
Repurchase of common stock	0.00	0.00	0.00	0.00	0.05
Other changes in equity	0.00	(0.09)	0.02	0.00	0.00
Payment of common stock dividend	0.00	0.00	0.00	(0.23)	0.00
Net asset value at end of period	\$ 3.11	3.05	3.02	2.74	2.29
<b>Ratio / Supplemental Data</b>					
Per share market value of investments at end of period	\$ 2.54	2.75	2.92	2.30	1.71
Shares outstanding at end of period	6,385,255	6,385,255	6,185,255	4,795,739	4,754,104
Average weighted shares outstanding for the period - basic	6,385,255	6,204,303	5,045,830	4,795,075	4,836,170
Average weighted shares outstanding for the period - diluted	6,501,823	6,320,871	5,045,830	4,795,075	4,836,170
Net assets at end of period	\$ 19,849,085	—	18,658,595	13,140,835	10,805,062
Average net assets <sup>(2)</sup>	\$ 19,199,254	18,661,934	15,081,352	13,090,497	10,220,482
Total investment return (loss)	6.87%	(2.76)%	6.07%	22.22%	8.79%
Portfolio turnover rate <sup>(3)</sup>	26.60%	59.61%	66.81%	124.55%	18.18%
Ratio of operating expenses to average net assets <sup>(3)</sup>	(8.12)%	(20.10)%	(19.24)%	(10.31)%	(6.49)%
Ratio of net investment income (loss) to average net assets <sup>(3)</sup>	8.82%	(2.76)%	10.09%	9.87%	3.35%
Ratio of realized gains (losses) to average net assets <sup>(3)</sup>	0.97%	(3.98)%	1.18%	40.81%	7.06%

(1) Per-share data was derived using the ending number of shares outstanding for the period.

(2) Based on the monthly average of net assets as of the beginning and end of each period presented.

(3) Ratios are annualized.

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#### ITEM 1A. RISK FACTORS

The Company is updating its risk factors with the following risk factor disclosure:

***Our \$10 million loan to Mustang Funding is subordinated to senior lenders both in right of payment and in respect of our exercise of rights and remedies, with the result that our investment portfolio and related results of operations will, for the foreseeable future, be highly concentrated in and dependent upon the operational and financing success of Mustang Funding.***

On December 12, 2022, contemporaneously with our entry into a non-binding letter of intent with Mustang Funding, LLC ("Mustang") contemplating a combination or merger transaction, we entered into a lending agreement with Mustang pursuant to which we loaned Mustang the principal amount of \$5 million maturing in September 2023. Among other things, our related loan agreement with Mustang requires us to consent to any additional indebtedness Mustang may incur, subject to certain limitations and exceptions.

On December 28, 2022, we entered into a subordination agreement with Orion Pip LLC, as administrative and collateral agent for itself and other senior lenders under a senior secured lending agreement (collectively, the "Senior Lenders"), pursuant to which we subordinated our right to payment, subject to certain exceptions, and our right to exercise rights and remedies, to Mustang's prior repayment in full of amounts owing to the Senior Lenders. The subordination agreement prohibits the Senior Lenders or Mustang from extending the stated maturity of amounts owing under the senior secured lending agreement beyond December 2026. We have been advised that the Senior Lenders are owed \$15.675 million in principal amount under the senior secured lending agreement.

In June, August and September 2023, we advanced additional principal to Mustang as we continued working with them on a potential definitive merger agreement and related deliverables. These additional principal advances resulted in aggregate loan principal of \$10 million. In connection with these advances, the maturity date of our loan was extended to June 2024. In April 2024, we agreed to a final extension of the maturity date to the earlier of December 31, 2024, or 90 days after the termination of negotiations for our combination transaction with Mustang.

On August 20, 2024, we terminated the non-binding letter of intent with Mustang. As a result, amounts owing under our \$10 million loan to Mustang were to mature on November 18, 2024. Nevertheless, the subordination agreement with the Senior Lenders effectively means that, unless Mustang has free cash flow from operations or other sources of cash permitted under the subordination agreement, we will likely be unable to collect the principal amount until the Senior Lenders are repaid.

Presently and for the foreseeable future, we expect that we will receive interest payments as required by our loan agreement with Mustang. The per annum rate of interest for our loan to Mustang is 15%, subject to automatic increase to 25% in the event of a default by Mustang in the payment of interest or principal as required under the loan agreement. Because of this and for other reasons, we presently expect that Mustang may approach us to formalize one or more extensions of our maturity date. We do not expect, however, to consent to any proposal by Mustang to incur additional senior indebtedness not permitted by the agreements to which we are party; and in the event that such indebtedness is incurred in violation of those agreements, we would expect to pursue all legal and equitable remedies available to us.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. In addition, unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior year. Our MD&A is presented in seven sections:

- Overview
- Portfolio and Investment Activity
- Results of Operations
- Financial Condition
- Critical Accounting Estimates
- Off-Balance Sheet Arrangements
- Forward Looking Statements

### OVERVIEW

Mill City Ventures III, Ltd. was incorporated in the State of Minnesota on January 10, 2006. In this report, we generally refer to Mill City Ventures III, Ltd. in the first person "we." On occasion, we refer to our company in the third person as "Mill City Ventures" or the "company."

We are engaged in the business of providing short-term non-bank lending and specialty finance solutions to companies and individuals, generally on a secured basis. The loans we provide typically have maturities that are nine months or shorter, highly illiquid, and ordinarily involve a pledge of collateral or, in the case of loans made to companies, personal guarantees by the principals of the borrower. Our loans may be made for real estate acquisitions, renovation and sale, or other projects relating to real estate, title loans, inventory needs, inventory financing, solve for short-term liquidity needs, or for other similar purposes. We intend to remain opportunistic, however, and may occasionally engage in transactions that involve our acquisition of other rights (such as stock, warrants or other equity-linked investments) or that are structured differently or uniquely. Our business objective is to generate revenues from the interest and fees we charge, and capital appreciation from any related investments we make.

Our principal sources of income are interest and fees associated with our loans such as origination fees, closing fees or exit fees. In connection with the short-term non-bank specialty finance loans we provide, we may receive reimbursement of legal costs associated with loan documentation. We occasionally derive income from dividends paid on equity securities we hold from time to time, or from the sale of our equity securities. Our statement of operations also reflect increases and decreases in the carrying value of our assets and investments (i.e., unrealized appreciation and depreciation). Our principal expenses relate to operating expenses, the largest components of which are generally professional fees, payroll, occupancy, and insurance expenses.

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2023, as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited. In addition, the following discussion of our results of operations and financial condition should be read in the context of this overview.

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**PORTFOLIO AND INVESTMENT ACTIVITY**

During the nine months ended September 30, 2024, we made \$5,106,503 of investment purchases and had \$6,614,573 of redemptions and repayments, resulting in net investments at amortized cost of \$17,208,066 at the end of the period.

During the nine months ended September 30, 2023, we made \$11,900,500 of investment purchases and had \$11,124,193 of redemptions and repayments, resulting in net investments at amortized cost of \$17,577,481 at the end of that period.

Our portfolio composition by major class, based on fair value at September 30, 2024, was as follows:

	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	\$ 15,715,822	97.0%
Common Stock	492,243	3.0
Total	\$ 16,208,065	100.0%

**RESULTS OF OPERATIONS**

Our operating results for the three and nine months ended September 30, 2024 and September 30, 2023 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Investment Income:	\$ 711,022	\$ 725,158	\$ 2,432,318	\$ 2,496,688
Operating Expenses:	(419,847)	(421,373)	(1,178,993)	(2,883,235)
Net Investment Gain (Loss)	\$ 291,175	\$ 303,785	\$ 1,253,325	\$ (386,547)

**Investment Income**

We generate revenue primarily in the form of interest income derived from the short-term non-banking loans we provide, together with fees we charge in connection with those loans, such as commitment, origination, structuring, diligence, or consulting fees. Any such fees will be recognized as earned. In some cases, the interest payable to us on the short-term loans we provide may accrue or be paid in the form of additional debt. The principal amount of the debt instruments, together with any accrued but unpaid interest thereon, will generally become due at the maturity date of those debt instruments. On occasion, we may also generate revenue from dividends and capital gains on equity investments we make, if any, or on warrants or other equity interests that we may acquire.

For the three and nine months ended September 30, 2024, our total investment income was 711,022 and \$2,432,318, respectively. For the three and nine months ended September 30, 2023 our total investment income was \$725,158 and \$2,496,688, respectively. Our loan portfolio generates interest income, with an average rate on the loans of 16.2%.

### ***Professional Fees***

For the three and nine months ended September 30, 2024, we had \$190,369 and \$502,838 professional fees expense, respectively. For the three and nine months ended September 30, 2023, we had \$184,008 and \$601,184 professional fees expense, respectively. The decrease is due to the decrease in loan activity during the current year.

### ***Payroll and Directors Fees***

For the three and nine months ended September 30, 2024, we had \$148,072 and \$444,997 of payroll expense, respectively, and we had \$30,000 and \$90,000 of directors fees, respectively. For the three and nine months ended September 30, 2023, we had \$141,040 and \$1,418,640 of payroll expense, respectively, and we had \$30,000 and \$592,968 of directors fees, respectively. The increase in 2023 over 2024 is due to a stock option issuance recognized in January 2023.



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***Interest Expense***

For the three and nine months ended September 30, 2024, we had \$0 and \$320 of interest expense, respectively. For the three and nine months ended September 30, 2023, we had \$0 and \$78,000 of interest expense, respectively. The decrease is due to the termination of the line of credit agreement in January 2024.

***Net Realized Gain (Loss) from Investments***

For the three and nine months ended September 30, 2024, we had \$5,152,682 and \$6,614,573, respectively, of sales of investments resulting in \$232,585 of realized losses and \$138,655 of realized gains, respectively. For the three and nine months ended September 30, 2023, we had \$0 and \$94,569, respectively, of sales of investments resulting in \$0 and \$558,629 of realized losses, respectively.

***Net Change in Unrealized Appreciation (Depreciation) on Investments***

For the three and nine months ended September 30, 2024, our investments had \$530,693 and \$292,803 of unrealized appreciation, respectively. For the three and nine months ended September 30, 2023, our investments had \$2,175 and \$629,491 of unrealized appreciation, respectively.

#### ***Changes in Net Assets from Operations***

For the three and nine months ended September 30, 2024, we recorded a net increase in net assets from operations of \$463,783 and \$1,258,822, respectively. Based on the weighted-average number of shares of common stock outstanding for the three and nine months ended September 30, 2024, our per-share net increase in net assets from operations was \$0.07 and \$0.20, respectively, before dilution, and \$0.07 and \$0.19, respectively, after dilution. For the three and nine months ended September 30, 2023, we recorded a net increase in net assets from operations of \$369,560 and a net decrease in net assets from operations of \$277,763, respectively. Based on the weighted-average number of shares of common stock outstanding for the three and nine months ended September 30, 2023, our per-share net increase in net assets from operations was \$0.06 and our per share net decrease in net assets from operations was \$0.04, respectively.

#### ***Cash Flows for the Nine Months Ended September 30, 2024 and 2023***

The level of cash flows used in or provided by operating activities is affected primarily by our provision of short-term loans, purchases of other investments, redemptions and repayments of our loans or investments, and other related factors. For the nine months ended September 30, 2024, net cash provided in operating activities was \$2,756,853. Cash flows provided in operating activities for the nine months ended September 30, 2024 were primarily related to the funding of our short-term loans and purchases of investments aggregating \$5,106,503, offset mostly by redemptions and repayments of short-term loans and investments totaling \$6,614,573. For the nine months ended September 30, 2023, net cash used in operating activities was \$550,781. Cash flows used in operating activities for the nine months ended September 30, 2023 were primarily related to the funding of our short-term loans and purchases of investments aggregating \$11,900,500, offset mostly by redemptions and repayments of short-term loans and investments totaling \$11,124,193.

#### **FINANCIAL CONDITION**

As of September 30, 2024, we had cash and cash equivalents of \$3,132,877, an increase of \$2,756,853 from December 31, 2023. The primary use of our existing funds and any funds raised in the future is expected to be for our investments in portfolio companies or for other general corporate purposes, including paying for operating expenses or debt service to the extent we borrow or issue senior securities. Pending investment in portfolio companies, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to collectively as "temporary investments."

#### **CRITICAL ACCOUNTING ESTIMATES**

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Critical accounting policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods.

In preparing the financial statements, management will make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. In preparing the financial statements, management also will utilize available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results will almost certainly differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses. As our expected operating results occur, we will describe additional critical accounting policies in the notes to our financial statements. Our most critical accounting policies relate to the valuation of our portfolio investments, and revenue recognition. For more information, refer to our Annual Report on Form 10-K for the year ended December 31, 2023.

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#### OFF-BALANCE-SHEET ARRANGEMENTS

During the nine months ended September 30, 2024, we did not engage in any off-balance sheet arrangements as described in Item 303(a)(4) of Regulation S-K.

#### FORWARD-LOOKING STATEMENTS

Some of the statements made in this section of our report are forward-looking statements based on our management's current expectations for our company. These expectations involve assumptions and are subject to substantial risks and uncertainties that could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance, and can ordinarily be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Important assumptions include our ability to identify and consummate new investments, achieve certain margins and levels of profitability, the availability of any needed additional capital, and the ability to maintain compliance with regulations applicable to us. Some of the forward-looking statements contained in this report relate to, and are based on our current assumptions regarding, the following:

- our future operating results;
- the success of our investments;
- our relationships with third parties;
- the dependence of our success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, we receive from our investments.

The foregoing list is not exhaustive. For a more complete summary of the risks and uncertainties facing our company and its business and relating to our forward-looking statements, please refer to our Annual Report on Form 10-K filed on April 2, 2024 (related to our year ended December 31, 2023) and in particular the section thereof entitled "Risk Factors." Because of the significant uncertainties inherent in forward-looking statements pertaining to our company, the inclusion of those statements should not be regarded as a representation or warranty by us or any other person that our objectives, plans, expectations or projections that are contained in this filing will be achieved in any specified time frame, if ever. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this filing. The forward-looking statements made in this report relate only to events as of the date on which the statements are made, and are excluded from the safe harbor protection provided by Section 21E of the Securities Exchange Act of 1934.

#### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

As of September 30, 2024, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were not effective as of September 30, 2024 due to the material weakness in our internal control over financial reporting identified and disclosed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2023.

There were no significant changes in our internal controls over financial reporting that occurred during the fiscal quarter covered by this report that materially affected, or were reasonably likely to materially affect such controls.



**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#"><u>3.1</u></a>	<a href="#"><u>Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed January 23, 2013)</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Amended and Restated Bylaws of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 3.2 to the registrant's registration statement on Form 10-SB filed on January 29, 2008)</u></a>
<a href="#"><u>10.1*</u></a>	<a href="#"><u>Fourth Short-term Loan Agreement with Mustang Funding, LLC, dated September 29, 2023.</u></a>
<a href="#"><u>10.2*</u></a>	<a href="#"><u>Fourth Short-term Promissory Note issued by Mustang Funding, LLC in favor of Mill City Ventures III, Ltd, dated September 29, 2023 in original principal amount of \$10,000,000.</u></a>
<a href="#"><u>10.3*</u></a>	<a href="#"><u>Amendment No. 1 Fourth Short-term Loan Agreement and Fourth Short-term Promissory Note, dated April 29, 2024.</u></a>
<a href="#"><u>10.4*</u></a>	<a href="#"><u>Subordination and Intercreditor Agreement among Mill City Ventures III, Ltd, Mustang Funding, LLC, and Orion Pip LLC, dated December 28, 2022</u></a>
<a href="#"><u>31.1*</u></a>	<a href="#"><u>Section 302 Certification of the Chief Executive Officer.</u></a>
<a href="#"><u>31.2*</u></a>	<a href="#"><u>Section 302 Certification of the Chief Financial Officer.</u></a>
<a href="#"><u>32.1*</u></a>	<a href="#"><u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>

\* Filed herewith

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#### SIGNATURES

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

MILL CITY VENTURES III, LTD.

Date: November 15, 2024

By: /s/ Douglas M. Polinsky  
DOUGLAS M. POLINSINKY  
Chief Executive Officer

Date: November 15, 2024

By: /s/ Joseph A. Geraci, II  
JOSEPH A. GERACI, II  
Chief Financial Officer

## FOURTH SHORT-TERM LOAN AGREEMENT

THIS FOURTH SHORT-TERM LOAN AGREEMENT (this "Agreement"), dated as of September 29, 2023, is made by and between Mustang Funding, LLC, a Delaware limited liability company ("Borrower"), and Mill City Ventures III, Ltd., a Minnesota corporation ("Lender").

## INTRODUCTION

Borrower is seeking a short-term loan to address certain short-term operating capital needs and to refinance the Existing Indebtedness. Lender desires to lend funds to Borrower on the terms and conditions set forth in this Agreement. Borrower and Lender intend that this Agreement supersedes the Existing Agreement in all respects. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in Schedule A attached to this Agreement and incorporated into this Agreement by this reference.

## AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the mutual promises set forth herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Short-Term Loan.

(a) Loan. Subject to the terms and conditions of this Agreement, Lender agrees to make the Loan to Borrower on the Closing Date in the aggregate principal amount of \$10,000,000, which comprises (i) \$8,000,000 of principal that refinances the Existing Indebtedness and (ii) \$2,000,000 of principal that is newly extended by Lender to Borrower pursuant to this Agreement (the "New Loan Amount"). The Loan shall be evidenced by, and be repayable in accordance with the terms of, this Agreement and a Promissory Note substantially in the form attached hereto as Exhibit A (the "Note").

(b) Funding and Use of Proceeds. On the Closing Date, the New Loan Amount, net of the fees referenced in Section 9(a) and payable to Lender through Lender's withholding of such amounts, shall be funded by Lender into an account of Borrower earlier designated in a writing delivered to Lender. Borrower will use the proceeds of the New Loan Amount solely to pay operational expenses in the ordinary course and fund investments in the ordinary course, together with such other purposes as Lender may in its discretion permit.

(c) Interest. Borrower shall pay interest to Lender on the outstanding balance of the Loan at the Loan Rate. All computations of interest shall be made by Lender on the basis of a 360-day year, in each case for the actual number of days occurring in the period for which such interest or fee is payable. In no event, however, will Lender charge interest at a rate exceeding the highest rate of interest permissible under any law that a court of competent jurisdiction shall, in a final and non-appealable determination, deem applicable.



Interest shall accrue on the principal balance of the Loan and be paid on a monthly basis in arrears, on or before the first Business Day of each calendar month after the Closing Date; and all then-accrued but unpaid interest shall be paid on the Maturity Date. If any interest accrues or remains payable after the Termination Date, then interest shall be paid upon demand made by Lender.

(d) Default Rate. Effective upon the occurrence of an Event of Default and so long as the same shall be continuing, the Loan Rate shall automatically be increased by ten percentage points *per annum* (10.0%) (such increased rate, the "Default Rate"). In the event that the Loan Rate or the Default Rate exceeds the highest rate of interest permissible under applicable law, then the Loan Rate and/or the Default Rate shall instead be the maximum amount as allowed by applicable law.

(e) Non-Business Days. If any interest or any other payment to Lender under or in connection with this Agreement becomes due and payable on a day other than a Business Day, then such payment date shall be extended to the next succeeding Business Day.

2. Conditions Precedent. Lender shall not be obligated to advance funds for the New Loan Amount or to perform any other action hereunder until, all in form and substance satisfactory to Lender and its counsel: (i) all Loan Documents have been executed and delivered by Borrower on or before the Closing Date; (ii) Lender shall have received a recent UCC, judgment, and tax lien search results with respect to Borrower from Borrower's jurisdiction of formation, indicating that Borrower has no material Liens outstanding (other than Liens on account of Borrower's senior lenders and other Permitted Encumbrances); (iii) all of Borrower's representations and warranties contained herein, and in any other documents relating in any way to the transactions contemplated hereby, shall be, shall have been, and shall remain true and accurate when made (unless made as of a specific date); and (iv) all obligations, covenants and agreements of Borrower required to be performed at or prior to the Closing Date, if any, shall have been performed, and all consents required for the consummation of the transactions contemplated hereunder shall have been obtained.

3. Representation, Warranties and Covenants. To induce Lender to enter into this Agreement and to make the Loan, Borrower hereby represents and warrants to Lender (each of which representations and warranties shall survive the execution and delivery of this Agreement), and promises to and agrees with Lender until the Termination Date, as follows:

(a) Existence; Compliance with Law. Borrower: (i) is, as of the Closing Date, and will continue to be (A) a limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (B) duly qualified to do business and in good standing in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect, and (C) in compliance with all Requirements of Law, except to the extent failure to comply therewith could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (ii) has and will continue to have (A) the requisite power and authority and the legal right to execute, deliver and perform its obligations under the Loan Documents, and to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease, and to conduct its business as now, heretofore or proposed to be conducted, and (B) all licenses, permits, franchises, rights, powers, consents or approvals from or by all Persons or Governmental Authorities having jurisdiction over such Borrower that are necessary or appropriate for the conduct of its business.



(b) Executive Offices; Business Names. (i) Borrower's name as it appears in official filings in the state of its organization, (ii) the type of entity of Borrower, (iii) the organizational identification number issued by Borrower's state of organization (or a statement that no such number has been issued), (iv) Borrower's state of organization or incorporation, and (v) the location of Borrower's chief executive office and other corporate offices, if any, are as set forth in Disclosure Schedule 3(b) and, except as set forth in such schedule, such locations have not changed during the prior 12 months.

(c) Power; Authorization; Enforceable Obligations. The execution, delivery and performance by Borrower of the Loan Documents, and the creation of all Liens provided for herein and therein: (i) are and will continue to be within Borrower's power and authority; (ii) have been and will continue to be duly authorized by all necessary or proper action; (iii) are not and will not be in violation of any Requirements of Law or, except as set forth in Disclosure Schedule 3(c), conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of Borrower, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Borrower debt or otherwise) or other understanding to which Borrower is a party or by which any property or asset of Borrower is bound or affected or any other Contractual Obligation of Borrower; (iv) do not and will not result in the creation or imposition of any Lien (other than Permitted Encumbrances); and (v) do not and will not require the consent or approval of any Governmental Authority or any other Person. As of the Closing Date, each Loan Document shall have been duly executed and delivered on behalf of Borrower, and each such Loan Document upon such execution and delivery shall be and will continue to be a legal, valid and binding obligation of Borrower, enforceable against it in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

(d) Financial Statements; Books and Records. All Financial Statements delivered to Lender are true, correct and complete and reflect fairly and accurately the financial condition of Borrower as of the date thereof in all material respects. Borrower shall keep adequate books and records with respect to any Collateral and its business activities in which proper entries, reflecting all financial transactions, and payments and credits received on, and all other dealings with, any Collateral, will be made in accordance with all Requirements of Law and on a basis consistent with the Financial Statements.

(e) No Material Adverse Change. Since December 31, 2022, no events have occurred that alone or in the aggregate have had or could reasonably be expected to have a Material Adverse Effect. Except as set forth in Disclosure Schedule 3(e), Borrower is not in default, and to Borrower's knowledge no third party is in default, under or with respect to any of its Contractual Obligations, that alone or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect.

(f) Real Estate: Property. The real estate listed in Disclosure Schedule 3(f) constitutes all of the real property owned, leased, or used by Borrower in its business, and Borrower. Borrower holds and will continue to hold good and marketable fee simple title to all of its owned real estate, and good and marketable title to all of its other properties and assets, and valid and insurable leasehold interests in all of its leases (both as lessor and lessee, sublessee or assignee), and none of the properties and assets of Borrower are or will be subject to any Liens other than except Permitted Encumbrances.

(g) Outstanding Indebtedness. All outstanding Indebtedness of Borrower as of the Closing Date, including a statement as to whether such Indebtedness is secured or unsecured and, if secured, what constitutes the collateral security therefor, is disclosed on Disclosure Schedule 3(g). Disclosure Schedule 3(g) also discloses all existing Liens on any assets of Borrower (all of which are "Permitted Encumbrances" as defined in Schedule A).

(h) Regulation and Legal Matters. Borrower is not subject to or regulated under any federal or state statute, rule or regulation that restricts or limits such Person's ability to incur Indebtedness, pledge its assets, or to perform its obligations under the Loan Documents. The making of the Loan, the application of the proceeds and repayment thereof, and the consummation of the transactions contemplated by the Loan Documents do not and will not violate any Requirements of Law applicable to Borrower or its business or assets. Borrower is not an "investment company" under the Investment Company Act of 1940.

(i) Taxes. All Tax returns, reports and statements required by any Governmental Authority to be filed by Borrower has, as of the Closing Date, been filed and will, until the Termination Date, be filed with the appropriate Governmental Authority. Proper and accurate amounts have been and will be withheld by Borrower from its employees for all periods in compliance with all Requirements of Law and such withholdings have and will be timely paid to the appropriate Governmental Authorities. Borrower is not liable for any Taxes of any other Person pursuant to any agreement.

(j) Litigation. No litigation is pending or, to the knowledge of Borrower, threatened by or against Borrower, any of its Affiliates, or against any of the properties or revenues of any of Borrower or its Affiliates (a) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby, (b) that could otherwise reasonably be expected to have a Material Adverse Effect, or that (c) alleges criminal misconduct on the part of Borrower or its Affiliates in connection with the business of Borrower. With respect to any litigation that Borrower has not disclosed to Lender as of the Closing Date, Borrower shall notify Lender promptly in writing upon learning of the existence, threat or commencement of any litigation against Borrower or any of their Affiliates, or any allegation of criminal misconduct against them.

(k) Conduct of Business. Borrower (a) shall conduct its business substantially as now conducted or as otherwise permitted hereunder, and (b) shall at all times maintain, preserve and protect any Collateral of Lender, and Borrower's other property, used or useful in the conduct of its business.





(l) Solvency. Borrower is solvent.

(m) Further Assurances. At any time and from time to time, upon the written request of Lender and at the sole expense of Borrower, Borrower shall promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Lender may reasonably deem desirable (a) to obtain the full benefits of this Agreement and the other Loan Documents, (b) to protect, preserve and maintain Lender's rights in any Collateral, or (c) to enable Lender to exercise all or any of the rights and powers herein granted.

(n) No Finder Fees. Borrower is not obligated for any finder's fee or commission in connection with the Loan contemplated under the Loan Documents.

(o) Full Disclosure. No information contained in any Loan Document, the Financial Statements or any written statement furnished by Borrower under or in connection with any Loan Document, or to induce Lender to execute the Loan Documents, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which they were made.

4. Representations of Lender. To induce Borrower to enter into this Agreement, Lender hereby represents and warrants to Borrower as follows:

(a) Authorization. Lender has full power and authority to enter into this Agreement. This Agreement and the other Loan Documents to which Lender is a party, when executed and delivered by Lender, will constitute the valid and legally binding obligations of Lender, enforceable in accordance with their terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(b) Status. Lender is making a short-term commercial loan to Borrower. Nevertheless, Lender represents that it is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933.

(c) Litigation Finance. Lender understands, acknowledges and agrees that litigation finance is a nascent and growing industry the treatment of which is unsettled under applicable laws and regulations, raising certain risks such as the following: (i) the enforceability of litigation finance contracts can be challenged under state laws, which vary by state; and (ii) authorities could unexpectedly view litigation finance contracts as securities or loans. Lender understands, acknowledges and agrees that any of the preceding risks could result in material, adverse impacts on Borrower's activities, decreasing its ability to repay the Loan.

5. Further Agreements and Covenants.

(a) Affirmative Covenants. Borrower shall:

(i) furnish to Lender as soon as available and in any event within 120 days after the Closing Date, the consolidated balance sheet of Borrower as of the end of the fiscal year ending December 31, 2022, and related consolidated statement of income for such fiscal year, prepared in accordance with GAAP and reviewed by independent public accountants;

(ii) furnish to Lender a reasonable time after request, the most recently prepared consolidated balance sheet of Borrower and related consolidated statement of income, prepared in accordance with GAAP;

(iii) do or cause to be done all things necessary to preserve, renew and maintain in full force and effect its legal existence and maintain good standing in its jurisdiction of formation, except where the failure to do so could not reasonably be expected to result in a Material Adverse Effect;

(iv) comply with all Requirements of Law, except where the failure to comply, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect;

(v) pay its Indebtedness and other obligations promptly and in accordance with their terms and pay and discharge promptly when due all Taxes imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default; provided that such payment and discharge shall not be required with respect to any such Tax so long as the failure to pay could not reasonably be expected to result in a Material Adverse Effect;

(vi) keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law; and

(vii) advise Lender promptly and in reasonable detail of: (A) any Lien, other than Permitted Encumbrances, attaching to or asserted against any Collateral; or (B) the occurrence of any Event of Default or other event that has had or could reasonably be expected to have a Material Adverse Effect; or (C) any other events or circumstances giving rise to an Event of Default hereunder, or that would constitute an Event of Default with the passage of time.



(b) Negative Covenants. Borrower shall not:

(i) wind up, liquidate or dissolve its affairs, enter into any transaction of merger or consolidation (or agree to do any of the foregoing at any future time) other than with the participation or consent of Lender, or sell, transfer, issue, convey, assign or otherwise dispose (including by license) of any of its material assets or properties;

(ii) authorize, declare or pay, directly or indirectly, any dividends or other distributions, except permitted tax distributions and guaranteed payments pursuant to IRC Section 707(c), in an aggregate amount exceeding \$500,000 per fiscal year;

(iii) enter into, directly or indirectly, any transaction or series of related transactions, whether or not in the ordinary course of business,

with any Affiliate of Borrower, other than (A) any transaction or series of related transactions in the ordinary course of business on terms and conditions at least as favorable to Borrower as would reasonably be obtained by Borrower at that time in a comparable arm's-length transaction with a person other than an Affiliate of Borrower; and (B) any existing arrangements as between or otherwise involving Mustang Creek Portfolio Management, LLC, as the same may be amended or modified from time to time upon reasonable advice of tax counsel;

(iv) cancel any debt owing to it;

(v) create, incur, assume or permit to exist any Indebtedness, except for: the Obligations; other Indebtedness existing as of the date of this Agreement and listed on Disclosure Schedule 3(g); any Indebtedness that both (A) is principally incurred as a result of refinancing Indebtedness existing as of the date of this Agreement and (B) could not reasonably be expected to result in a Material Adverse Effect; deferred Taxes; or Indebtedness resulting from Borrower entering into a revolving credit facility in an aggregate principal amount not to exceed \$10,000,000 (the "Revolver"); or

(vi) create or permit any Lien on any of its properties or assets, except for Permitted Encumbrances or any Lien in connection with the Revolver.

6. Security. Upon the making of the Loan, Borrower will be pledging no collateral or granting any security interest to Lender as security for the Obligations. Nevertheless, upon the request of Lender made at any time after (i) the termination of either the negotiations for the transaction contemplated in that certain letter of intent between the parties and dated as of December 5, 2022, or any definitive written agreement contemplating such transaction, or (ii) any Event of Default, Borrower will execute and deliver in favor of Lender a security agreement, in customary and negotiated form and substance prepared by Lender, granting Lender a security interest in substantially all of the assets of Borrower, subject, however, to (x) the Arena Subordination Agreement (as it may be amended from time to time) and (y) any standard subordination agreement that may be reasonably required by Borrower's senior lender(s); provided, however, that any such subordination agreement described in (y) must permit all payments to be made on account of the Obligations due and owing under the Loan Documents in the absence of an existing default with respect to the Indebtedness owing to such senior lender(s).

7. Events of Default and Remedies. The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an "Event of Default" hereunder which shall be deemed to be continuing until waived in writing by Lender or until cured by Borrower:

(i) Borrower shall fail to make any payment in respect of any Obligations when due and payable, after five days written notice from Lender to Borrower of the same and with no cure having been effected by Borrower within such five-day period;

(ii) Borrower shall fail or neglect to perform, keep or observe any of the covenants, promises, agreements, requirements, conditions or other terms or provisions contained in this Agreement or any of the other Loan Documents, after ten days written notice from Lender to Borrower of the same and with no cure having been effected by Borrower within such ten-day period;

(iii) an event of default shall occur under any Indebtedness of Borrower (other than this Agreement and the other Loan Documents), and such event of default involves the failure to make any required payment, whether of principal, interest or otherwise, and whether due by scheduled maturity, required prepayment, acceleration, demand or otherwise, in respect of such Indebtedness (other than the Obligations) and in an aggregate amount exceeding the Minimum Actionable Amount;

(iv) any representation or warranty in this Agreement or any other Loan Document, or in any written statement pursuant hereto or thereto, or in any report, financial statement (including the Financial Statements) or certificate made or delivered to Lender by Borrower shall be materially untrue or incorrect as of the date when made or deemed made;

(v) there shall be commenced against Borrower any litigation seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that remains unstayed or undismissed for 30 consecutive days; or Borrower shall have concealed, removed or permitted to be concealed or removed, any part of its property with intent to hinder, delay or defraud any of its creditors or made or suffered a transfer of any of its property or the incurring of an obligation that may be fraudulent under any bankruptcy, fraudulent transfer or other similar law; or

(vi) a case or proceeding shall have been commenced involuntarily against Borrower in a court having competent jurisdiction seeking a decree or order: (A) under the United States Bankruptcy Code or any other applicable federal, state or foreign bankruptcy or other similar law, and seeking either (1) the appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for such Person or of any substantial part of its properties, or (2) the reorganization or winding up or liquidation of the affairs of any such Person, and such case or proceeding shall remain undismissed or unstayed for 60 consecutive days or such court shall enter a decree or order granting the relief sought in such case or proceeding; or (B) invalidating or denying any Person's right, power, or competence to enter into or perform any of its obligations under any Loan Document or invalidating or denying the validity or enforceability of this Agreement or any other Loan Document or any action taken hereunder or thereunder; or

(vii) Borrower shall (A) commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it or seeking appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for it or any substantial part of its properties, (B) make a general assignment for the benefit of creditors, (C) consent to or take any action in furtherance of, or, indicating its consent to, approval of, or acquiescence in, any of the acts set forth in paragraphs (v) or (vi) of this Section or clauses (A) and (B) of this paragraph, or (D) shall admit in writing its inability to, or shall be generally unable to, pay its debts as such debts become due; or

(viii) a judgment or judgments for the payment of money in excess of the Minimum Actionable Amount in the aggregate shall be

rendered against Borrower, unless the same shall be (i) fully covered by insurance and the issuer(s) of the applicable policies shall have acknowledged full coverage in writing within 15 days of judgment, or (ii) vacated, stayed, bonded, paid or discharged within a period of 15 days from the date of such judgment.

(b) Remedies.

(i) If any Event of Default shall have occurred and be continuing, then Lender may, upon written notice to Borrower, take any one or more of the following actions: (A) declare all or any portion of the Obligations to be forthwith due and payable, whereupon such Obligations shall become and be due and payable; or (B) exercise any rights and remedies provided to Lender under the Loan Documents or at law or equity, including all remedies provided under the Code, if applicable; provided, however, that upon the occurrence of any Event of Default specified in Sections 7(a)(v), 7(a)(vi) or 7(a)(vii), the Obligations shall become immediately due and payable without presentment, protest, declaration, notice or demand by any Lender, all of which are hereby expressly waived by Borrower.

(ii) Without limiting the generality of the foregoing, Borrower expressly agrees that upon the occurrence of any Event of Default, Lender may collect, receive, assemble, process, appropriate and realize upon any Collateral, or any part thereof, and may forthwith sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Lender shall have the right upon any such public sale, to the extent permitted by law, to purchase for the benefit of Lender the whole or any part of said Collateral so sold. Such sales may be adjourned, or continued from time to time with or without notice. Lender shall have the right to conduct such sales on Borrower's premises or elsewhere and shall have the right to use any Borrower's premises without rent or other charge for such sales or other action with respect to any Collateral for such time as Lender deems necessary or advisable.

(iii) Upon the occurrence and during the continuance of an Event of Default and at Lender's request, Borrower agrees, to assemble any existing Collateral and make it available to Lender at places that Lender shall reasonably select, whether at its premises or elsewhere. Until Lender is able to effect a sale, lease, or other disposition of such Collateral, Lender shall have the right to complete, assemble, use or operate the Collateral or any part thereof, to the extent Lender deems appropriate, for the purpose of preserving such Collateral or its value or for any other purpose. Lender shall have no obligation to Borrower to maintain or preserve the rights of Borrower as against third parties with respect to any Collateral while such Collateral is in the possession of Lender. Lender may, if it so elects, seek the appointment of a receiver or keeper to take possession of any Collateral and to enforce any of Lender's remedies with respect thereto without prior notice or hearing. To the maximum extent permitted by applicable law, Borrower waives all claims, damages, and demands against Lender, its Affiliates, agents, and the officers and employees of any of them arising out of the repossession, retention or sale of any Collateral except such as are determined in a final judgment by a court of competent jurisdiction to have arisen solely out of the gross negligence or willful misconduct of such Person. Borrower agrees that ten days' prior notice by Lender to Borrower of the time and place of any public sale or of the time after which a private sale may take place is reasonable notification of such matters. Borrower shall remain liable for any deficiency if the proceeds of any sale or disposition of any Collateral are insufficient to pay all amounts to which Lender is entitled.

(iv) Lender's rights and remedies under this Agreement shall be cumulative and non-exclusive of any other rights and remedies that Lender may have under any Loan Document or at law or in equity. Recourse to any Collateral shall not be required. All provisions of this Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited, to the extent necessary, so that they do not render this Agreement invalid or unenforceable, in whole or in part.

8. Successors and Assigns. Each Loan Document shall be binding on and shall inure to the benefit of Borrower, Lender, and their respective successors



and assigns, except as otherwise provided herein or therein. Borrower may not assign, transfer, hypothecate, delegate or otherwise convey its rights, benefits, obligations or duties under any Loan Document without the prior express written consent of Lender. Any such purported conveyance by Borrower without the prior express written consent of Lender shall be void.

9. General Provisions.

(a) Fees. Borrower agrees to pay Lender's costs and expenses (including the fees and expenses of counsel) incurred in connection with the preparation, negotiation, execution and delivery of the Loan Documents in the amount of \$1,000, such amount to be withheld from the funding of the Loan in the manner contemplated in Section 1(b). In addition, Lender will charge a 2.0% closing fee on the New Loan Amount (i.e., \$40,000), with such amount to be withheld from the funding of the Loan in the manner contemplated in Section 1(b).

(b) Survival of Warranties. Unless otherwise set forth in this Agreement, the representations and warranties of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the closing under this Agreement, and shall in no way be affected by any investigation or knowledge of the subject matter thereof made by or on behalf of the parties.

(c) Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

(d) Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota, regardless of the laws that might otherwise govern under applicable principles of conflicts of law.

(e) Counterparts; Delivery. This Agreement may be executed and delivered by electronic signature (including PDF) and in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(f) Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt or: (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next business day (provided that if sent by electronic mail, then the sender shall not have received any notice of failure of transmission), (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to the respective parties at their address as set forth on the signature page, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this Section.

(g) Attorneys' Fees. If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of any of Loan Documents, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

(h) Amendments. Any term of this Agreement may be amended or terminated only pursuant to a written instrument signed by both parties.

(i) Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

(j) Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party under the Loan Documents, upon any breach or default of any other party under Loan Documents, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

(k) Entire Agreement. This Agreement (including the exhibits hereto), the Notes and the other Loan Documents together constitute the full and entire understanding and agreement between the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties are expressly canceled. This Agreement amends and supersedes the Existing Agreement in all respects.

(l) Rules of Construction. The title or captions of Sections and paragraphs of this Agreement shall not affect the interpretation of this Agreement. Furthermore, for purposes of this Agreement and the other Loan Documents, the following additional rules of construction shall apply, unless specifically indicated to the contrary: (a) wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural; (b) the term "or" is not exclusive; (c) the term "including" (or any form thereof) shall not be limiting or exclusive; (d) all references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; and (e) all references to any instruments or agreements, including references to any of the Loan Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

(m) Dispute Resolution. If the parties cannot reach a resolution for any dispute, claim or controversy arising in connection with or respecting this Agreement or any Loan Documents, including the existence, validity, interpretation, enforcement, breach or termination of any such Loan Documents, then such matter will be finally and exclusively referred to arbitration in accordance with this Section 9(m).

All disputes and claims shall be settled by arbitration in Minneapolis, Minnesota, before a single arbitrator, and such arbitration proceedings shall be conducted pursuant to the Commercial Rules of the American Arbitration Association in effect at the time of arbitration, except that the selection of the arbitrator shall be made by the parties to the dispute. If the parties cannot agree on an arbitrator within 20 days of the date on which such dispute or claim shall have been referred for arbitration, then each party shall name one independent and qualified arbitrator and the arbitrators so selected shall, within ten days thereafter, select a third independent and qualified who shall serve as the arbitrator. To be qualified under this section, an arbitrator must be a retired judge or a licensed attorney with at least 15 years of experience in commercial law.

The parties shall bear equally the fees and expenses of the arbitrator and arbitration (other than, subject to Section 9(g), the fees and expenses of their own counsel, advisors and experts). Each party will have discovery rights as provided by the Federal Rules of Civil Procedure within the limits imposed by the arbitrator; provided, however, that all such discovery will be commenced and concluded within 30 days of the selection of the arbitrator. The parties intend that any arbitration will be concluded as quickly as reasonably practicable. Once commenced, the hearing on the disputed matters will be held four days a week until concluded, with each hearing date to begin at 9:00 a.m. and to conclude at 5:00 p.m., Minneapolis time.

Any arbitral award rendered by the arbitrator shall be conclusive and binding on the parties and shall not be subject to appeal. The arbitrator will not have authority to award punitive damages. The parties hereby agree that the arbitral award may be entered and enforced against the parties in any court of competent jurisdiction. The arbitral award shall be accompanied by a written opinion of the arbitrator(s) giving the reasons for the award. The

arbitrator will use all reasonable efforts to issue the final written report containing the award or awards within a period of five business days after closure of the proceedings; however, failure of the arbitrator to meet the time limits of this section will not be a basis for challenging the award. The decision of the arbitrator shall be confidential unless such award must be enforced in a court of competent jurisdiction. The arbitrator(s) shall have the power and authority to issue declaratory judgments and to issue interim and permanent injunctive orders, as well as to award monetary damages. Nevertheless, and notwithstanding anything to the contrary herein, each party shall be entitled to seek and obtain equitable relief in any court of competent jurisdiction.

\* \* \* \* \*

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Short-Term Loan Agreement to be executed by their duly authorized representatives as of the date first written above.

**BORROWER:**  
MUSTANG FUNDING, LLC



By: /s/ James K. Beltz

Name: James K. Beltz

Title: President

Information for notices:

By mail:

701 Lake Street E.  
Suite 250  
Wayzata, MN 55391

By email:

[jimmy@mustangfunding.com](mailto:jimmy@mustangfunding.com);  
[kevin@mustangfunding.com](mailto:kevin@mustangfunding.com); and  
[peter@mustangfunding.com](mailto:peter@mustangfunding.com).

**LENDER:**

MILL CITY VENTURES III, LTD.

By: /s/ Joseph Geraci

Name: Joseph Geraci

Title: Chief Financial Officer

Information for notices:

By mail:

Attention: Joseph A. Geraci, II  
1907 Wayzata Boulevard  
Wayzata, MN 55391

By email:

[jg@millcityventures.com](mailto:jg@millcityventures.com);  
[dp@millcityventures.com](mailto:dp@millcityventures.com); and  
[pdchestovich@gmail.com](mailto:pdchestovich@gmail.com)

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## SCHEDULE A – DEFINITIONS

Capitalized terms used in this Agreement shall have (unless otherwise provided elsewhere in this Fourth Short-Term Loan Agreement) the following respective meanings:

"Affiliate" means, with respect to any Person: (a) each other Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, 10% or more of the voting capital stock having ordinary voting power for the election of directors of such Person; (b) each other Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person; or (c) each of such Person's officers, directors, joint venturers and partners. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" means this Fourth Short-Term Loan Agreement, including all appendices, exhibits or schedules attached or otherwise identified thereto, restatements and modifications and supplements thereto, and any appendices, exhibits or schedules to any of the foregoing, each as effect at the time such reference becomes operative.

"Arena Agreement" means that certain Senior Secured Credit and Guaranty Agreement by and among Borrower, Arena, *et alii*, and dated December 28, 2022.

"Arena Subordination Agreement" means that certain Subordination and Intercreditor Agreement by and among Lender, Orion Pip LLC, and Borrower and dated December 28, 2022, as amended.

"Business Day" means any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Closing Date" means September 28, 2023.

"Code" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Delaware; provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender's Lien on any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Delaware, then the term "Code" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions of this Agreement relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions; provided further, that to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different articles or divisions of the Code, the definition of such term contained in article or division 9 shall govern.

“Contractual Obligation” means, as to any Person, any provision of (i) any security issued by such Person or (ii) any written agreement, instrument, or other undertaking to which such Person is a party or by which it or any of its property is bound.

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"Existing Agreement" means that certain Third Short-Term Loan Agreement dated August 31, 2023, between Borrower and Lender.

"Existing Indebtedness" means that certain Indebtedness in a principal amount of \$8,000,000 evidenced by the Existing Note and Existing Agreement.

"Existing Note" means that certain Third Short-Term Promissory Note dated August 31, 2023, made by Borrower for the benefit of Lender. The Existing Note will be refinanced and of no further effect upon the execution of this Agreement and the Note.

"Event of Default" has the meaning assigned to it in Section 7.

"Financial Statements" means the consolidated income statement of Borrower as of the period ended September 30, 2022, and the consolidated balance sheet of Borrower as of September 30, 2022, prepared in accordance with GAAP consistently applied and provided to Lender on or about December 9, 2022.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Indebtedness" of any Person means: (a) all indebtedness of such Person for borrowed money or for the deferred or unpaid purchase price of property or services (including reimbursement and all other obligations with respect to surety bonds, letters of credit and bankers' acceptances, whether or not matured, but not including obligations to trade creditors incurred in the ordinary course of business and not more than 45 days past due); (b) all obligations evidenced by notes, bonds, debentures or similar instruments; (c) all indebtedness created or arising under any conditional sale or other title-retention agreements with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (d) all capital lease obligations; (e) all guarantees of Indebtedness of other Persons; (f) all Indebtedness referred to in clauses (a), (b), (c), (d) or (e) above that is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; (g) all liabilities under Title IV of the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time, and any regulations promulgated thereunder; and (h) the Obligations.

"Intellectual Property" means any and all licenses, patents, copyrights, trademarks, trade secrets and customer lists.

"IRC" and "IRS" mean respectively, the Internal Revenue Code of 1986 and the Internal Revenue Service, and any successors thereto.

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"Lien" means any mortgage, security deed or deed of trust, pledge, hypothecation, assignment, deposit arrangement, proxy, voting agreement, lien, charge, claim, security interest, security title, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Code or comparable law of any jurisdiction).

"Loan" means the aggregate of all monies loaned by Lender in connection with this Agreement as evidenced by the Note, and any renewals, extensions, revisions, modifications, replacements or substitutions therefor or thereof.

"Loan Documents" means this Agreement, the Note, any security agreement, and all other documents, instruments, certificates, and notices at any time delivered by any Person (other than Lender) in connection with any of the foregoing, and all amendments and restatements thereof.

"Loan Rate" means fifteen percent (15.0%) *per annum*.

"Material Adverse Effect" means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to or have a material adverse effect on (a) the business, assets, operations, financial condition or prospects of Borrower, (b) Borrower's ability to pay or perform the Obligations in accordance with the terms thereof, (c) any Collateral or Lender's Liens on the Collateral or the priority of any such Lien, or (d) Lender's rights and remedies under this Agreement or any other Loan Documents.

"Maturity Date" is the earlier of (i) the nine-month anniversary of the Closing Date, and (ii) 90 days after the termination of either the negotiations for the transaction contemplated in that certain letter of intent between the parties and dated as of December 5, 2022, or any definitive written agreement contemplating such transaction.

"Minimum Actionable Amount" means \$500,000.

"New Loan Amount" has the meaning assigned to it in Section 1(a).

"Note" means that certain Fourth Short-Term Promissory Note of Borrower, in favor of Lender, dated as of the Closing Date and substantially in the form attached hereto as Exhibit A.

"Obligations" means all loans, advances, debts, expense reimbursement, fees, liabilities, and obligations for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or amounts are liquidated or

determinable) owing by Borrower to Lender, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, whether arising under any of the Loan Documents or under any other agreement between Borrower and Lender, and all covenants and duties regarding such amounts. This term includes all principal, interest due in respect of the Loan (including interest accruing at the then-applicable rate provided in this Agreement after the maturity of the Loan and interest accruing at the then-applicable rate provided in this Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), fees, charges, expenses, attorneys' fees, and any other sum chargeable to Borrower under any of the Loan Documents.

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"Permitted Encumbrances" means the following encumbrances: (a) Liens for Taxes or assessments or other charges or levies, either not yet due or payable; (b) pledges or deposits securing obligations under worker's compensation, unemployment insurance, social security or public liability laws or similar legislation; (c) contracts (other than contracts for the payment of money) or leases to which Borrower is a party as lessee made in the ordinary course of business in an aggregate amount outstanding at any time not in excess of \$100,000; (d) deposits securing public or statutory obligations of Borrower; (e) inchoate and unperfected workers', mechanics', or similar liens arising in the ordinary course of business so long as such Liens attach only to Equipment, fixtures or real estate; (f) carriers', warehousemen's, suppliers' or other similar possessory liens arising in the ordinary course of business



and securing indebtedness not yet due and payable in an outstanding aggregate amount not in excess of \$100,000 at any time so long as such Liens attach only to inventory; (g) deposits of money securing, or in lieu of, surety, appeal or customs bonds in proceedings to which Borrower is a party; (h) zoning restrictions, easements, licenses, or other restrictions on the use of real property or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such real estate; (i) all of those Liens in existence on the Closing Date and disclosed on Disclosure Schedule 3(g); (j) Liens in favor of Lender securing the Obligations; and (k) the security interests filed in favor of Orion Pip, LLC, in its capacity as agent for certain lenders from time to time under the Arena Agreement. In addition Lender consents to Borrower incurring Indebtedness under the Arena Agreement.

“Person” means any individual, sole proprietorship, partnership, limited liability partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, entity or government (whether federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof), and shall include such Person’s successors and assigns.

“Real Property” has the meaning assigned to it in Section 3(f).

“Requirements of Law” means as to any Person, the articles of incorporation or certificate of incorporation (or articles of organization) and bylaws, shareholder agreement or other organizational or governing documents of such Person (such as an operating agreement), and any law, treaty, rule or regulation, decree, order or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Revolver” has the meaning assigned to it in Section 5(b)(v).

“Taxes” means taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on or measured by the net income of Lender.

“Termination Date” means the date on which all Obligations of Borrower under or in connection with this Agreement are indefeasibly paid in full, in cash, and Borrower shall have no further right to borrow any moneys or obtain other credit extensions or financial accommodations under this Agreement.

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## FOURTH SHORT-TERM PROMISSORY NOTE

Issuance Date: September 29, 2023

\$10,000,000

FOR VALUE RECEIVED, Mustang Funding, LLC, a Delaware limited liability company (" Maker"), hereby promises to pay to the order of Mill City Ventures III, Ltd., a Minnesota corporation or its successors or assigns (as applicable, the "Holder"), the principal amount of \$10,000,000 (USD), in satisfaction of a short-term loan made pursuant to that certain Fourth Short-Term Loan Agreement by and between Maker and Holder, dated of even date herewith (the "Loan Agreement"), on or prior to the Maturity Date in accordance with the terms hereof and the Loan Agreement. This Promissory Note is hereinafter referred to as the "Note." Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

**1. INTEREST AND PAYMENTS**

(a) Interest. The principal amount of this Note will bear simple interest (calculated in the manner provided in the Loan Agreement) at the rate of fifteen percent (15.0%) per *annum*, subject to increase as provided in the Loan Agreement. Interest will be payable in cash on a monthly basis in arrears on the second Business Day of each month, with the first interest payment due on October 3, 2023.

(b) Application of Payments. Except as may be required or permitted by the express terms of the Loan Agreement, all payments made in satisfaction of this Note shall be applied first to any costs payable under this Note or the Loan Agreement (or other Loan Documents), second to accrued but unpaid interest, and third to principal.

(c) Prepayment. Maker may at its option prepay all principal and interest owed under this Note, in whole or in part, at any time and from time to time, subject to the terms and conditions of the Loan Agreement.

**2. TRANSFER, EXCHANGE AND REPLACEMENT**

(a) Transfer or Exchange. Neither this Note nor its offer or sale have been or are registered under the provisions of the Securities Act of 1933 (the "Securities Act") or any state securities laws on account of a definitional exception applicable to short-term promissory notes or an exemption from such registration requirements. In any case, this Note may not be transferred unless in accordance with applicable law and unless: (1) the transferee is an "accredited investor" (as defined in Regulation D under the Securities Act) and/or (2) the Holder shall have delivered to Maker an opinion of counsel, reasonably satisfactory in form, scope and substance to Maker, to the effect that this Note may be sold or transferred without registration under the Securities Act pursuant to an exemption or definitional exception. Upon surrender of this Note for registration of transfer, or for exchange, to Maker at its principal office, Maker at its sole expense will execute and deliver in exchange therefor a new Note or Notes, as the case may be, as requested by the Holder or transferee, which aggregate principal amount is equal the unpaid principal amount of such Note, registered as such Holder or transferee may request. Maker shall be entitled to regard the registered Holder of this Note as the Holder of the Note so registered for all purposes until Maker or its agent, as applicable, is required to record a transfer of this Note on its register.

(b) Replacement. Upon notice to Maker of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of an indemnification undertaking by the Holder to Maker in a form reasonably acceptable to Maker and, in the case of mutilation, upon surrender and cancellation of the Note, Maker shall execute and deliver a new Note of like tenor and date and in substantially the same form as this Note.

### **3. DEFAULTS AND REMEDIES**

An Event of Default shall occur when and as provided in the Loan Agreement and, upon any such default, the Holder shall have the remedies described in the Loan Agreement.

### **4. AMENDMENT AND WAIVER**

The provisions of this Note may not be modified, amended or waived, and Maker may not take any action herein prohibited, or omit to perform any act herein required to be performed by it, without the prior written consent of the Holder.

### **5. MAKER'S WAIVER OF NOTICE**

To the extent permitted by law, Maker hereby waives demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note.

### **6. GOVERNING LAW**

This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the laws of the State of Delaware, without giving effect to provisions thereof regarding conflict of laws.

### **7. EXPENSES**

Maker agrees to pay and reimburse the Holder upon demand for all reasonable costs and expenses (including without limitation reasonable attorneys' fees and expenses) that the Holder may incur in enforcing its rights under this Note (including but not limited to costs of collection).

### **8. NO WAIVER OF ENFORCEMENT RIGHTS**

No failure or delay on the part of this Note in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

## 9. NOTICE

Notices shall be given at the address for Maker or Holder, as applicable, indicated in the Loan Agreement. Notice shall be deemed to have been given as described in the Loan Agreement.

\* \* \* \* \*

IN WITNESS WHEREOF, the undersigned has set his hand to this Short-Term Promissory Note as of the date first set forth above.

**MAKER:**

MUSTANG FUNDING, LLC

By: /s/ James K. Beltz

Name: James K. Beltz

Title: President

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**AMENDMENT NO. 1 TO  
FOURTH SHORT-TERM LOAN AGREEMENT AND  
FOURTH SHORT-TERM PROMISSORY NOTE**

THIS AMENDMENT NO. 1 TO FOURTH SHORT-TERM LOAN AGREEMENT AND FOURTH SHORT-TERM PROMISSORY NOTE (this "Amendment") is entered into by Mill City Ventures III, Ltd., a Minnesota corporation ("Lender") effective as of April 29, 2024 (the "Effective Date"), and Mustang Funding, LLC, a Delaware limited liability company ("Borrower"), for the purpose of amending that certain Fourth Short-Term Loan Agreement by and between Lender and Borrower and dated as of September 29, 2023 (the "Loan Agreement"), and associated Fourth Short-Term Promissory Note (the "Note") (capitalized terms not otherwise defined in this Amendment have the meanings given to them in the Loan Agreement).

NOW, THEREFORE, the parties hereby agree as follows:

1. Change in Definition of Maturity Date. The defined term "Maturity Date," which appears in the Loan Agreement (and is used in the Note), is hereby amended to read in its entirety as set forth below:

"Maturity Date" is the earlier of (i) December 31, 2024, or (ii) 90 days after the termination of either the negotiations for the transaction contemplated in that certain letter of intent between the parties and dated as of December 5, 2022, or any definitive written agreement contemplating such transaction.

2. Extension of Annual Financials Deadline. Section 5(a)(i) of the Loan Agreement is hereby amended to read in its entirety as set forth below:

(i) furnish to Lender as soon as available and in any event by May 31, 2024, the consolidated balance sheets of Borrower as of the end of each of the fiscal years ending December 31, 2022, and December 31, 2023, and related consolidated statements of income for each such fiscal year, prepared in accordance with GAAP and reviewed (or audited) by independent public accountants;

3. Waiver of Section 5(a)(i). Lender waives any previous and/or continuing violations of Section 5(a)(i) of the Loan Agreement by Borrower, as well as any Events of Default arising from or in connection with such violations, effective as of the Effective Date.

4. Extension Fee. In consideration of the extension of the Maturity Date, effected pursuant to the amendment to the definition of "Maturity Date" set forth in Section 1 above, Borrower shall pay Lender an extension fee in the amount of \$200,000. The extension fee is due and payable in cash to Lender on or prior to the close of business on May 31, 2024.

5. Other Matters. Other than as specifically set forth herein, the Loan Agreement and the Note shall be unaffected by this Amendment or otherwise.

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IN WITNESS WHEREOF, the parties have caused their authorized representatives to set their hands to this Amendment to be effective as of the Effective Date.

**LENDER:**

MILL CITY VENTURES III, LTD.

By: /s/ Joseph A. Geraci  
Name: Joseph A. Geraci, II  
Title: Chief Financial Officer

**BORROWER:**

MUSTANG FUNDING, LLC

By: /s/ James K. Beltz  
Name: James K. Beltz  
Title: President

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**SUBORDINATION AND INTERCREDITOR AGREEMENT**

This Subordination and Intercreditor Agreement (this "Agreement") is made as of December 28, 2022, by and among (i) Mill City Ventures III, Ltd., a Minnesota corporation ("Subordinated Creditor"), (ii) Orion Pip LLC, a Delaware limited liability company, as administrative agent and as collateral agent (in such capacities, together with its successors and assigns, the "Senior Agent") for itself and the Senior Lenders (as defined below) (together with the Senior Agent, each individually, a "Senior Creditor" and collectively, the "Senior Creditors"), and (iii) Mustang Funding, LLC, a Delaware limited liability company (the "Borrower").

## WITNESSETH

Reference is made to that certain Senior Secured Credit and Guaranty Agreement, dated as of December 28, 2022 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the certain subsidiaries of the Borrower (together with Borrower, the "Credit Parties", and each, a "Credit Party"), Senior Agent and the lenders from time to time party thereto (the "Senior Lenders"), pursuant to which the Senior Lenders have agreed to make Loans (as defined in the Credit Agreement) to the Borrower upon the terms, and subject to the conditions, in each case specified in the Credit Agreement and the other Credit Documents (as defined in the Credit Agreement). Such Loans, together with all other obligations, liabilities and indebtedness of every nature of any Credit Party from time to time owed to the Senior Agent and the other Senior Lenders under the Credit Documents, any amendments, modifications, renewals or extensions thereof and any interest, fees and other charges accruing thereon or due or to become due with respect, whether or not such interest, fees and other charges are allowed claims, are collectively referred to herein as the "Senior Debt".

Reference is also made to that certain Promissory Note issued pursuant to the Short-Term Loan Agreement, dated December 12, 2022 (as amended, restated, supplemented or otherwise modified from time to time in accordance with the terms hereof, the Promissory Note and Short-Term Loan Agreement are collectively referred to hereinafter as the "Subordinated Note"), made by the Company to the Subordinated Creditor, evidencing the loans made by the Subordinated Creditor to the Company thereby (such loans, the "Subordinated Debt").

The parties hereto desire to enter into this Agreement to provide for the subordination in right and time of payment of the Subordinated Debt to the Senior Debt due or to become due to the Senior Lenders.

NOW, THEREFORE, in consideration of the foregoing and for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Subordination:
  - a. Subordination. Notwithstanding any provision of the Subordinated Note, each of the Company and Subordinated Creditor hereby covenants, for the benefit of the Senior Lenders, that all obligations of the Company under the Subordinated Note and all rights of Subordinated Creditor to repayment of Subordinated Debt, are each hereby expressly made subordinate and junior to Senior Lenders in (i) right and time of payment and (ii) exercise of remedies, in each case to the prior indefeasible payment in full in cash of all Senior Debt.

- b. Permitted Payments. Notwithstanding the foregoing, provided no Default or Event of Default (each as defined in the Credit Agreement) has occurred and is continuing both before and after giving effect to such payment, the Company may pay to the Subordinated Creditor all amounts due and owing under the Subordinated Note from (i) free cash or (ii) the proceeds of the issuance of equity or debt authorized in accordance with the provisions of the Credit Agreement (collectively, the “Permitted Payments”). Any payments prohibited by the terms of this Section 1(b), may be paid by the Company to the Subordinated Creditor (each a “Catch Up Payment”) after Borrower has cured, or Senior Creditors have waived, the Default or Event of Default prohibiting such payment, but only to the extent such Catch Up Payment would not give rise to a Default or Event of Default.
- c. Turnover. If any payment or distribution of any character or any security, whether in cash, securities, or other property, shall be received by the Subordinated Creditor in contravention of any of the terms hereof, such payment or distribution or security shall be received in trust for the benefit of, and shall be paid over or delivered and transferred to the Senior Agent for application to the payment of all Senior Debt remaining unpaid. In the event of the failure of the Subordinated Creditor to endorse or assign any such payment, distribution or security, the Senior Agent is hereby irrevocably authorized to endorse or assign the same. With respect to any such payments or distributions in cash, property, or other assets received by Subordinated Creditor, Subordinated Creditor shall be subrogated to the rights of such Senior Creditor to receive distributions with respect to the Senior Debt until the Subordinated Debt is Paid in Full (as defined in Section 6(a) below).
- d. Waiver. WITHOUT LIMITING THE GENERALITY OF ANY OTHER WAIVER OR OTHER PROVISION SET FORTH IN THE SUBORDINATED NOTE, SUBORDINATED CREDITOR HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHTS AND DEFENSES ARISING OUT OF AN ELECTION OF REMEDIES BY THE SENIOR AGENT OR ANY OTHER SENIOR CREDITOR, EVEN THOUGH THAT ELECTION OF REMEDIES HAS DESTROYED SUBORDINATED CREDITOR'S RIGHTS OF SUBROGATION AND REIMBURSEMENT AGAINST THE COMPANY BY THE OPERATION OF ANY APPLICABLE LAW. AN ELECTION OF REMEDIES INCLUDES, WITHOUT LIMITATION, ANY FORECLOSE UPON ANY COLLATERAL (AS DEFINED IN THE CREDIT AGREEMENT) HELD BY ANY SENIOR CREDITOR BY ONE OR MORE JUDICIAL OR NON-JUDICIAL SALES OR OTHER DISPOSITIONS, WHETHER OR NOT EVERY ASPECT OF ANY SUCH SALE IS COMMERCIALY REASONABLE OR OTHERWISE FAILS TO COMPLY WITH APPLICABLE LAW.
- e. Stand Still. “Collection Action” means (a) to ask for, demand, or sue for any payment, distribution, or any other remedy in respect of indebtedness, (b) to accelerate such indebtedness, or (c) the commencement of, or the joinder with any creditor in commencing, any petition of bankruptcy, assignment for the benefit of creditors or any other creditors' agreement or insolvency proceeding against Borrower or any assets of Borrower. Notwithstanding Section 1(b) hereof, after any Default or Event of Default (each as described in the Credit Agreement) and until the earlier of (1) 180 days thereafter without any Collection Action having been initiated by the Senior Creditors or (2) six months following the Payment in Full (as defined below) of all Senior Debt, the Subordinated Creditor shall not: (i) take any Collection Action against the Company or with respect to the Subordinated Debt; (ii) sell, assign, transfer, pledge, mortgage, charge, hypothecate, or grant a security interest in the Subordinated Note or any of the Subordinated Debt, except subject to Section 1 hereof; (iii) advance any additional debt or liability, or the like, to, or receive any loan, dividend, return of capital, advance, gift, or any other transfer of any property whether real or personal, or tangible or intangible, from the Company; (iv) contest, protest, direct or object to any Collection Action by any Senior Creditor; nor (iv) object to (and hereby waives any and all claims with respect to) the forbearance by any Senior Creditor from taking any Collection Action. Notwithstanding the foregoing, if any Default or Event of Default is cured by the Borrower (to the extent capable of being cured) or waived by the Senior Creditors, Subordinated Creditor shall be entitled to do any of the foregoing as permitted hereby unless and until another Default or Event of Default occurs under the Credit Agreement.

2. Agreements by Subordinated Creditor and Company: Subordinated Creditor and the Company agree as follows:

a. The Subordinated Debt is, and shall always be, evidenced exclusively by the Subordinated Note, together with any security agreement entered into with the Subordinated Creditor pursuant to the terms of the Subordinated Note; provided, however, that in the event that any such security agreement is executed and delivered, such security shall be subject to the terms and conditions of this Agreement and subject further to the terms and conditions of any other subordination agreement (or amendment to this agreement), in customary and negotiated form, as between Subordinated Creditor and Senior Creditors as Senior Creditors may request. Subordinated Creditor agrees to provide Senior Creditor at least ten days' notice prior to requesting that Borrower execute any security agreement pursuant to the terms of the Subordinated Note.

b. The Company shall advise the Subordinated Creditor of the occurrence of any Default or Event of Default under the Credit Agreement; provided, that the failure of the Company to do so shall in no way effect the rights and privileges of the Senior Agent or other Senior Creditors or the duties or obligations of the Subordinated Creditor under this Agreement.

c. Except as expressly permitted pursuant to Section 1(b) hereof, Subordinated Creditor shall not demand, accept, or receive from the Company or any other Person, directly or indirectly, and the Company shall not make or give to Subordinated Creditor, directly or indirectly, any payment or other value in cash or in kind, on account of the Subordinated Debt.

d. The Company shall not set off, establish a contra account, or otherwise apply, all or any part of the Subordinated Debt towards satisfaction of any obligation of the Subordinated Creditor to the Company.

e. Neither the Subordinated Creditor nor the Company shall, without the prior written consent of the Senior Agent, which is not to be unreasonably withheld or conditioned, (i) amend, restate, supplement or otherwise modify the Subordinated Note or (ii) alter, amend, or change the amount of, or any term of payment of, the Subordinated Debt (other than the forgiveness of the Subordinated Debt in whole or in part, or extension of any payment date therefor).

f. Subordinated Creditor shall not enforce any of its rights, remedies, powers, privileges and discretions with respect to the Subordinated Debt except as permitted in Section 1(e). Notwithstanding the foregoing, nothing contained herein shall prevent the Subordinated Creditor from: (i) taking any action to the extent necessary to prevent the running of any applicable statute of limitation or similar restriction on claims; (ii) the filing of any necessary responsive or defensive pleadings in opposition to any motion, claim, adversary proceeding, or other pleading made by any Person objecting to or otherwise seeking the disallowance of the claims of the Subordinated Creditor, provided that such action is not in contravention of this Agreement or adverse to the rights, remedies or liens of Senior Creditors; or (iii) voting, filing proofs of claim and taking any other action with respect to the Subordinated Debt in any Debtor Relief Law (as defined in the Credit Agreement) to the extent not inconsistent with the other provisions of this Agreement.

3. Further Assurances: The Subordinated Creditor and the Company shall execute all such further instruments and do such other and further acts as the Senior Agent may reasonably request in furtherance of the Senior Agent's rights enumerated hereunder. The respective obligations of the Subordinated Creditor and the Company hereunder being unique, are specifically enforceable by the Senior Agent.

4. Subordinated Creditor's Obligations: In the event that, notwithstanding the restrictions set forth in Section 2, above, Subordinated Creditor receives any payment on account of the Subordinated Debt not expressly permitted by Section 1 above, Subordinated Creditor shall hold such payment in trust for the Senior Agent, for the benefit of the Senior Creditors, and shall not commingle such payment with any other funds of such Subordinated Creditor. Subordinated Creditor shall deliver all such payments to the Senior Agent, promptly upon receipt thereof in the identical form received, duly endorsed to the Senior Agent.

5. Certain Waivers By Subordinated Creditor: The Subordinated Creditor:

- a. Waives notice of non-payment, presentment, demand, notice, protest or otherwise with respect to the Senior Debt.
- b. Waives notice of the acceptance of this Agreement by the Senior Agent.
- c. Except as otherwise provided under Section 8 hereof, assents to any extension, renewal, indulgence or waiver, permitted to the Company and/or any other Person liable or obligated to the Senior Agent or any other Senior Creditor for or on the Senior Debt; provided, however, that the stated maturity of any Senior Debt may not be extended without the prior written consent of the Subordinated Creditor.
- d. Waives all suretyship defenses generally.
- e. If entitled thereto, waives the right to notice and/or hearing prior to the Senior Agent's exercising of the Senior Agent's rights and remedies hereunder or under any Credit Document.

No action by the Senior Agent which has been assented to herein shall affect the obligations of the Subordinated Creditor to the Senior Agent hereunder.

6. Continuing Effectiveness of Subordination:

- a. The Senior Agent and the other Senior Creditors may continue to rely upon this Agreement and the subordination effected hereby with respect to all Senior Debt which may arise hereafter. This Agreement shall remain in full force and effect until the Senior Debt (other than contingent indemnification obligations for which a claim has not been asserted) are irrevocably paid in full in cash and all Commitments have terminated ("Paid in Full" and "Payment in Full").

b. The subordination effected hereby shall not be affected by any release, discharge or invalidation, by operation of law or otherwise, of the Senior Debt or by the legal incapacity of the Company, Subordinated Creditor or any other Person liable or obligated to the Senior Agent or any other Senior Creditor for or on the Senior Debt.

c. All interest on the Senior Debt for which the Company has agreed to be liable and all fees and expenses shall continue to accrue and shall continue to be Senior Debt for purposes of the subordination effected hereby notwithstanding any stay to the enforcement thereof against the Company, or disallowance therefor against the Company.

d. This Agreement, if previously terminated, shall be automatically reinstated, without any further action, if at any time any payment made or value received by either Senior Agent or any other Senior Creditor with respect to any Senior Debt is rescinded or must otherwise be returned by the Senior Agent or such other Senior Creditor upon the insolvency, bankruptcy or reorganization of Subordinated Creditor, the Company or otherwise, all as though such payment had not been made or value received.

#### 7. Insolvency:

a. In the event of any voluntary or involuntary insolvency, bankruptcy, receivership, custodianship, liquidation, dissolution, reorganization, assignment for the benefit of creditors, appointment of a custodian, receiver, trustee or other officer with similar powers or any other proceeding for the liquidation, dissolution or other winding up of a Person (each, a "Proceeding") involving the Company:

i. This Agreement shall remain in full force and effect. All references to the Company shall include the Company as a debtor in possession and any receiver, assignee or trustee in any Proceeding. The provisions of this Agreement are intended to be and shall be enforceable under Section 510(a) of the United States Bankruptcy Code.

ii. The Senior Debt shall be Paid in Full before any payments in respect of the Subordinated Debt, whether in cash, securities (other than securities which are subordinated in right of payment, redemption or dividend payment, as applicable, to the same extent as provided herein) or other property, shall be made to Subordinated Creditor.

iii. Payments in respect of the Subordinated Debt, whether in cash, securities (other than securities which are subordinated in right of payment, redemption or dividend payment, as applicable, to the same extent as provided herein) or other property which would otherwise, but for the terms hereof, be payable or deliverable on account of the Subordinated Note shall be paid or delivered directly to the Senior Agent until the Senior Debt is Paid in Full. Subordinated Creditor irrevocably authorizes, empowers and directs any debtor, debtor in possession, receiver, trustee, liquidator, custodian, conservator or other Person having authority, to pay or otherwise deliver all such payments to the Senior Agent. Subordinated Creditor also irrevocably authorizes and empowers the Senior Agent, in the name of the Subordinated Creditor, to demand, sue for, collect and receive any and all such payments.

iv. The Subordinated Debt shall continue to be treated as subordinate to the Senior Debt, and the provisions of this Agreement shall continue to govern the relative rights and priorities of the Senior Creditors and the Subordinated Creditor, even if all or part of the Senior Debt or the security interests securing the Senior Debt are subordinated, set aside, avoided, invalidated or disallowed in connection with any such Proceeding.

b. If the Company shall become subject to a Proceeding, and if Senior Creditors shall desire to permit the use of cash collateral or to provide financing to the Company, the Subordinated Creditor agree that adequate notice to the Subordinated Creditor shall be deemed to have been provided if the Subordinated Creditor receive notice in accordance with Section 19 hereof (together with all applicable pleadings) no less than one (1) Business Day prior to the entry of an order approving same.

c. The Subordinated Creditor agrees that the Senior Agent may consent to the use of cash collateral or provide (or consent to a third party providing) financing to the Company on such terms and conditions and in such amounts as the Senior Agent, in its sole and exclusive discretion, may decide and, in connection therewith, the Company may grant to the Senior Creditors liens and security interests upon all of the property of the Company, which liens and security interests (i) shall secure payment of all Senior Debt (whether such Senior Debt arose prior to the commencement of any Proceeding or at any time thereafter) and all other financing provided by the Senior Creditors during such Proceeding and (ii) shall be superior in priority to the liens and security interests, if any, in favor of the Subordinated Creditor on the property of the Company.

d. Subordinated Creditor agrees that it will not object to or oppose a sale or other disposition of any Collateral (as defined in the Credit Agreement) free and clear of security interests, liens (if any), or other claims of Subordinated Creditor under Section 363 of the Bankruptcy Code or any other provision of the Bankruptcy Code, if the Senior Agent has consented to such sale or disposition and shall be deemed to have consented to such sale or disposition pursuant to Section 363(f) of the Bankruptcy Code. Subordinated Creditor agrees not to assert any right it may have to "adequate protection" of the Subordinated Creditor's interest in any Collateral in any Proceeding and agrees that it will not seek to have the automatic stay lifted with respect to any Collateral without the prior written consent of Senior Agent. The Subordinated Creditor waives any claim it may now or hereafter have arising out of Senior Agent's election, in any Proceeding instituted under the Bankruptcy Code, of the application of Section 1111(b)(2) of the Bankruptcy Code, and/or any borrowing or grant of a security interest under Section 364 of the Bankruptcy Code by the Company, as debtor in possession.

e. If Subordinated Creditor fails to file a proof of claim in connection with any Proceeding accurately reflecting its claims, and such filing is required to preserve such claims or is requested by the Senior Agent, then Subordinated Creditor agrees to execute, verify, deliver, and file such proof of claim and hereby irrevocably authorizes, empowers, and appoints the Senior Agent as its agent and attorney-in-fact to execute, verify, deliver and file such proof of claim upon the failure of Subordinated Creditor to do so prior to ten (10) days before the expiration of the time to file such proof of claim. Furthermore, Subordinated Creditor agrees to not vote its claim in any Proceeding without the prior written consent of the Senior Agent and hereby irrevocably authorizes, empowers, and appoints the Senior Agent as its agent and attorney-in-fact, for the Senior Agent's use and benefit without notice to Subordinated Creditor, to accept or reject any plan of reorganization and otherwise vote such claim in such Proceeding in any way the Senior Agent chooses. Notwithstanding the foregoing, the Senior Agent shall not have any obligation to execute, verify, deliver and/or file any such proof of claim or to vote any such claim in any Proceeding.

f. This Agreement shall constitute a "subordination agreement" for the purposes of Section 510(a) of the Bankruptcy Code and shall be enforceable in any Bankruptcy Proceeding in accordance with its terms. In the event of any insolvency or bankruptcy proceeding (and any receivership, liquidation, reorganization or other similar proceeding in connection therewith being collectively referred to as an "Insolvency Proceeding") relative to the Company or Subordinated Creditor or its or their respective creditors or property, the subordination provisions of this Agreement shall remain in full force and effect and all principal of, premium and interest on all Senior Debt shall first be indefeasibly paid in full before any payment on account of principal, premium, if any, or interest shall be made upon the Subordinated Note, and in any such proceedings any payment or distribution of any kind or character, whether in cash, securities or other property, which may be payable or deliverable in respect of the Subordinated Note shall be paid or delivered directly to the Senior Agent for application in payment thereof, unless and until such Senior Debt shall have been indefeasibly paid in full. No Senior Creditor be prejudiced in its right to enforce the subordination provisions of this Agreement by any act or failure to act on the part of the Company or any Senior Creditor.

8. Modification to Credit Agreements: Subordinated Creditor acknowledges and agrees that the Credit Agreement and any and all loan documents executed in connection therewith may be amended, restated, supplemented or otherwise modified from time to time; provided, however, that the stated maturity of any Senior Debt may not be extended without the prior written consent of the Subordinated Creditor, and further that no amendment or supplement shall prohibit the repayment, in the absence of a Default or Event of Default (each as defined in the Credit Agreement), of the Subordinated Debt with (i) free cash or (ii) proceeds of the issuance of equity or debt either of which are authorized in accordance with the provisions of the Credit Agreement. The Company shall promptly after the execution of any amendment or modification to the Credit Agreement, give copies thereof to the Subordinated Creditor, but the failure to do so by the Company shall in no way effect any of the rights or privileges of the Senior Agent under this Agreement.

9. Senior Agent's Books and Records: The books and records of the Senior Agent showing the accounts between the Senior Agent and the Company and (if any) the Senior Agent and the Subordinated Creditor shall be admissible in any action or proceeding to enforce this Agreement and shall constitute prima facie evidence and proof of the items contained therein, absent manifest error.

10. Effect of Breach of Agreement: The Company and Subordinated Creditor each hereby acknowledges and agrees that any failure by any or all of the Company and Subordinated Creditor to promptly, punctually, and faithfully perform or discharge any of their respective obligations hereunder shall be an Event of Default under the Credit Agreement.

11. Costs of Enforcement: The Company will pay on demand all attorneys' fees and out-of-pocket expenses incurred by the Senior Agent's and any other Senior Creditor's attorneys and all costs incurred by the Senior Agent or any other Senior Creditor, including, without limitation, costs associated with travel on behalf of the Senior Agent or any other Senior Creditor, which costs and expenses are related to the Senior Agent's or such other Senior Creditor's efforts to preserve, protect, collect, or enforce any of the obligations of the Company and/or any of the Senior Agent's Rights and Remedies (as defined in Section 13) hereunder (whether or not suit is instituted by or against the Senior Agent or any other Senior Creditor).

12. Incorporation: This Agreement constitutes the entire agreement and understanding of the parties relating to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, whether oral or written, relating to the subject matter hereof. No provisions hereof may be altered, amended, waived, canceled, or modified, except by a written instrument executed, sealed, and acknowledged by a duly authorized officer of the Senior Agent, the Company and the Subordinated Creditor with respect to which such alteration, amendment, waiver, cancellation or modification applies.

13. Senior Agent's Rights and Remedies: The rights, remedies, powers, privileges, and discretions of the Senior Agent hereunder (hereinafter, the "Senior Agent's Rights and Remedies") shall be cumulative and not exclusive of any rights or remedies which it would otherwise have. No delay or omission by the Senior Agent in exercising or enforcing any of the Senior Agent's Rights and Remedies shall operate as, or constitute, a waiver thereof. No waiver by the Senior Agent of any of the Senior Agent's Rights and Remedies or of any default or remedy under any other agreement with the Company or the Subordinated Creditor shall operate as a waiver of any other default hereunder or thereunder. No exercise of the Senior Agent's Rights and Remedies and no other agreement or transaction, of whatever nature, entered into between the Senior Agent, the Subordinated Creditor and/or between the Senior Agent and the Company at any time shall preclude any other or further exercise of the Senior Agent's Rights and Remedies. No waiver by the Senior Agent of any of the Senior Agent's Rights and Remedies on any one occasion shall be deemed a continuing waiver. All of the Senior Agent's Rights and Remedies and all of the Senior Agent's rights, remedies, powers, privileges, and discretions under any other agreement with the Subordinated Creditor and/or the Company shall be cumulative, and not alternative or exclusive, and may be exercised by the Senior Agent at such time or times and in such order of preference as the Senior Agent in its sole discretion may determine. The Senior Agent may proceed with respect to the Subordinated Debt without resort or regard to other collateral or sources of satisfaction of the Senior Debt or, if any, the obligations and indebtedness of the Subordinated Creditor to the Senior Agent and the other Senior Creditors.

14. Binding Effect: This Agreement has been duly executed and delivered by the Subordinated Creditor and the Company. Subordinated Creditor and the Company each represents and warrants solely on behalf of itself, that this Agreement constitutes a legal, valid and binding obligation of such Person, enforceable against such Person thereto in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and the laws of agency and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. This Agreement shall be binding upon Subordinated Creditor, the Company and their respective, representatives, successors, and assigns, and shall inure to the benefit of and be enforceable by the Senior Agent and the other Senior Creditors, and their respective successors and assigns. This Agreement shall remain in full force and effect until the Senior Creditors are Paid in Full.

15. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICT OF LAWS THEREOF, BUT INCLUDING SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

16. Jurisdiction; Consent to Service of Process

a. THE SUBORDINATED CREDITOR AND THE COMPANY EACH IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR FOR RECOGNITION



OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE SUBORDINATED CREDITOR AND THE COMPANY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE SUBORDINATED CREDITOR AND THE COMPANY AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT THE AGENT OR ANY OTHER SENIOR CREDITOR MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AGAINST THE SUBORDINATED CREDITOR, THE COMPANY OR THEIR RESPECTIVE PROPERTIES IN THE COURTS OF ANY OTHER JURISDICTION.

b. THE SUBORDINATED CREDITOR AND THE COMPANY EACH IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT IN ANY COURT REFERRED TO IN PARAGRAPH (A) OF THIS SECTION. THE SUBORDINATED CREDITOR AND THE COMPANY EACH HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

c. THE SUBORDINATED CREDITOR AND THE COMPANY EACH AGREES THAT ANY ACTION COMMENCED BY SUCH PERSON ASSERTING ANY CLAIM OR COUNTERCLAIM ARISING UNDER OR IN

CONNECTION WITH THIS AGREEMENT SHALL BE BROUGHT SOLELY IN A COURT REFERRED TO IN PARAGRAPH (A) OF THIS SECTION.

17. Waiver of Jury Trial: The Senior Agent, the Company and Subordinated Creditor each respectively make the following waiver knowingly, voluntarily, and intentionally and understand that the Senior Agent, in the establishment and maintenance of the Senior Agent's relationship with the Company, is relying thereon. THE AGENT, SUBORDINATED CREDITOR AND THE COMPANY EACH HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). THE AGENT, SUBORDINATED CREDITOR AND THE COMPANY EACH (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED TO IT, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT THE AGENT AND THE OTHER SENIOR CREDITORS HAVE BEEN INDUCED TO ENTER INTO THE CREDIT AGREEMENT AND THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS HEREIN.

18. Counterparts: This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement in electronic format shall be effective as delivery of a manually executed counterpart of this Agreement.

19. Notices: All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

- a. if to the Company, to:

c/o Mustang Funding, LLC  
701 Lake Street E., Suite 250  
Attn: James K Beltz  
E-mail: [jimmy@mustangfunding.com](mailto:jimmy@mustangfunding.com)

- b. if to the Subordinated Creditor, to:

Mill City Ventures III, Ltd.  
1907 Wayzata Blvd., Wayzata MN 55391  
Joseph A. Geraci, CFO  
Email: [jgeraci@millcityventures3.com](mailto:jgeraci@millcityventures3.com)

- c. if to the Senior Agent, to:

Orion Pip LLC  
405 Lexington Avenue  
59th Floor  
New York, NY 10174  
E-mail: [loanops@arenaco.com](mailto:loanops@arenaco.com)

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date above first written.

SUBORDINATED CREDITOR:

MILL CITY VENTURES III, LTD.

/s/ Joseph A. Geraci  
Name: Joseph A. Geraci, II  
Title: Chief Financial Officer

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[Signature Page to Subordination and Intercreditor Agreement]

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COMPANY:

**MUSTANG FUNDING, LLC**

By: /s/ James Beltz

Name: James Beltz

Title: President



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SENIOR AGENT:

**Orion Pip, LLC**

By: /s/ Lawrence Cutler

Name: Lawrence Cutler

Title:

[Signature Page to Subordination and Intercreditor Agreement]

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## SECTION 302 CERTIFICATION

I, Douglas M. Polinsky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mill City Ventures III, Ltd.;
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(s) 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 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(s) 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.

Date: November 11, 2024

/s/ Douglas M. Polinsky  
Chief Executive Officer

## SECTION 302 CERTIFICATION

I, Joseph A. Geraci, II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mill City Ventures III, Ltd.;
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(s) 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 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(s) 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.

Date: November 11, 2024

/s/ Joseph A. Geraci, II  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mill City Ventures III, Ltd. (the "Company") on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas M. Polinsky, Chief Executive Officer of the Company, and I, Joseph A. Geraci, II, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Douglas M. Polinsky

Douglas M. Polinsky  
Chief Executive Officer

November 11, 2024

/s/ Joseph A. Geraci, II

Joseph A. Geraci, II  
Chief Financial Officer

November 11, 2024