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DELTA REPORT

10-Q

MCVT - MILL CITY VENTURES III, L

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	592
CHANGES	91
DELETIONS	224
ADDITIONS	277

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, 2023 March 31, 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	**90-0316651**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1907 Wayzata Blvd, #205, Wayzata, Minnesota	**55391**
(Address of principal executive offices)	(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, 2023 May 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, 2023 March 31, 2024

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MILL CITY VENTURES III, LTD.

CONDENSED BALANCE SHEETS

	September 30, 2023 (unaudited)	December 31, 2022	March 31, 2024 (unaudited)	December 31, 2023
ASSETS				
Investments, at fair value:	$ 17,555,601	$ 16,708,432		
Non-control/non-affiliate investments (cost: $17,577,481 and $17,359,804 respectively)				
Investments, at fair value (cost: $18,366,616 and $18,577,481, respectively)			$ 17,125,563	$ 17,284,676
Cash	962,860	1,089,641	504,725	376,024
Note receivable	250,000	250,000		
Note receivable, related party			250,000	250,000
Prepaid expenses	217,422	218,440	207,588	165,301
Interest and dividend receivables	219,205	250,879	268,590	264,413
Right-of-use lease asset	14,716	16,398		
Right-of-use operating lease asset			3,734	9,283
Deferred taxes	397,000	201,000	660,000	757,000
Total Assets	$ 19,616,804	$ 18,734,790	$ 19,020,200	$ 19,106,697
LIABILITIES				
Accounts payable	$ 124,082	$ 776,514	$ 36,496	$ 71,702
Accrued payroll liabilities			7,604	435,449
Operating lease liability	14,716	16,562	3,734	9,283
Deferred interest income	—	70,154		
Total Liabilities	138,798	863,230	47,834	516,434
SHAREHOLDERS EQUITY (NET ASSETS)				
Common stock, par value $0.001 per share (111,111,111 authorized; 6,385,255 and 6,185,255 outstanding)	12,415	12,215		
Common stock, par value $0.001 per share (111,111,111 authorized; 6,385,255 issued and outstanding)			6,385	6,385
Additional paid-in capital	15,467,091	15,043,291	15,473,121	15,473,121
Additional paid-in capital - stock options	1,460,209	—	1,460,209	1,460,209
Accumulated deficit	(1,159,665)	(1,159,665)	(1,159,665)	(1,159,665)
Accumulated undistributed investment loss	(1,435,364)	(1,086,739)	(746,326)	(1,052,183)
Accumulated undistributed net realized gains on investment transactions	5,155,200	5,713,829	5,179,695	5,155,200
Net unrealized depreciation in value of investments	(21,880)	(651,371)		
Net unrealized appreciation (depreciation) in value of investments			(1,241,053)	(1,292,804)
Total Shareholders' Equity (Net Assets)	19,478,006	17,871,560	18,972,366	18,590,263
Total Liabilities and Shareholders' Equity	$ 19,616,804	$ 18,734,790	$ 19,020,200	$ 19,106,697
Net Asset Value Per Common Share	$ 3.05	$ 2.89	$ 2.97	$ 2.91

See accompanying Notes to Financial Statements

MILL CITY VENTURES III, LTD.

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Investment Income				
Interest income	$ 725,158	$ 1,115,224	$ 2,496,688	$ 3,351,935
Total Investment Income	725,158	1,115,224	2,496,688	3,351,935
Operating Expenses				
Professional fees	184,008	916,359	601,184	1,309,348
Payroll	141,040	122,477	1,418,640	433,461
Insurance	26,452	27,016	79,974	84,092
Occupancy	14,890	18,589	55,005	54,542
Director's fees	30,000	30,000	592,968	147,073
Interest expense	—	46,779	78,000	164,632
Other general and administrative	24,983	18,572	57,464	34,717
Total Operating Expenses	421,373	1,179,792	2,883,235	2,227,865
Net Investment Gain (Loss)	303,785	(64,568)	(386,547)	$ 1,124,070
Realized and Unrealized Gain (Loss) on Investments				
Net realized gain (loss) on investments	—	—	(558,629)	133,020
Net change in unrealized appreciation (depreciation) on investments	2,175	—	629,491	(16,297)
Net Realized and Unrealized Gain (Loss) on Investments	2,175	—	70,862	116,723
Net Increase (Decrease) in Net Assets Resulting from Operations Before Taxes	$ 305,960	$ (64,568)	$ (315,685)	$ 1,240,793
Provision for (Benefit from) Income Taxes	(63,600)	(28,442)	(37,922)	346,800
Net Increase (Decrease) in Net Assets Resulting from Operations	$ 369,560	$ (36,126)	$ (277,763)	893,993
Net Increase (Decrease) in Net Assets Resulting from Operations per share:				
Basic	$ 0.06	$ (0.01)	$ (0.04)	$ 0.18
Diluted	$ 0.06	$ (0.01)	$ (0.04)	$ 0.18

See accompanying Notes to Financial Statements

	Three Months Ended	
	March 31, 2024	March 31, 2023
Investment Income		
Interest income	$ 832,667	$ 864,028
Total Investment Income	832,667	864,028
Operating Expenses		
Professional fees	138,371	129,851
Payroll	151,066	1,130,439
Insurance	26,890	27,000
Occupancy	10,677	19,043
Director's fees	30,000	532,968
Interest expense	320	34,667
Other general and administrative	3,763	15,827
Total Operating Expenses	361,087	1,889,795
Net Investment Gain (Loss)	471,580	(1,025,767)
Realized and Unrealized Gain (Loss) on Investments		
Net realized gain (loss) on investments	24,495	(600,000)
Net change in unrealized appreciation on investments	51,751	648,423
Net Realized and Unrealized Gain on Investments	76,246	48,423

Net Increase (Decrease) in Net Assets Resulting from Operations Before Taxes	$	547,826	$	(977,344)
Provision (Benefit) for Income Taxes		165,723		(259,300)
Net Increase (Decrease) in Net Assets Resulting from Operations	$	382,103	$	(718,044)
Net Increase (Decrease) in Net Assets Resulting from Operations per share:				
Basic and diluted	$	0.06	$	(0.12)
Weighted-average number of common shares outstanding - basic		6,385,255		6,185,255
Weighted-average number of common shares outstanding - diluted		6,501,823		6,185,255

Table of Contents

MILL CITY VENTURES III, LTD.

CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

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 (Loss) 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
Depreciation 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

Three Months Ended March 31, 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		—	—	—	305,857	—	—	305,857
Undistributed net realized gain on investment transactions		—	—	—	—	24,495	—	24,495
Appreciation in value of investments		—	—	—	—	—	51,751	51,751
Balance as of March 31, 2024	6,385,255	$ 6,385	$ 16,933,330	$ (1,159,665)	$ (746,326)	$ 5,179,695	$ (1,241,053)	$ 18,972,366

Three Months Ended September 30, 2022	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, 2022	4,824,628	$ 10,855	$ 10,776,537	$ (1,159,665)	$ (1,064,271)	$ 5,713,830	$ 149,321	$ 14,426,607
Common shares issued in public offering	1,250,000	1,250	4,040,545	—	—	—	—	4,041,795

Common shares issued in reverse stock split rounding	735	—	—	—	—	—	—	—
Common shares issued in stock-based compensation	32,115	32	66,844	—	—	—	—	66,876
Common shares issued in consideration for expense payment	77,777	78	159,365	—	—	—	—	159,443
Undistributed net investment loss		—	—	—	(36,126)	—	—	(36,126)
Balance as of September 30, 2022	6,185,255	$ 12,215	$ 15,043,291	$ (1,159,665)	$ (1,100,397)	$ 5,713,830	$ 149,321	$ 18,658,595

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

Nine Months Ended September 30, 2022	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 December 31, 2021	4,795,739	$ 10,790	$ 10,694,163	$ (1,159,665)	$ (1,877,667)	$ 5,580,810	$ 165,618	$ 13,414,049
Common shares issued in public offering	1,250,000	1,250	4,040,545	—	—	—	—	4,041,795
Common shares issued in reverse stock split rounding	735	—	—	—	—	—	—	—
Common shares issued in stock-based compensation	31,248	97	149,218	—	—	—	—	149,315
Common shares issued in consideration for expense payment	107,533	78	159,365	—	—	—	—	159,443
Undistributed net investment gain		—	—	—	777,270	—	—	777,270
Undistributed net realized gain on investment transactions		—	—	—	—	133,020	—	133,020
Depreciation in value of investments		—	—	—	—	—	(16,297)	(16,297)
Balance as of September 30, 2022	6,185,255	$ 12,215	$ 15,043,291	$ (1,159,665)	$ (1,100,397)	$ 5,713,830	$ 149,321	$ 18,658,595

Three Months Ended March 31, 2023	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 December 31, 2022	6,185,255	$ 6,185	$ 15,049,321	$ (1,159,665)	$ (1,086,739)	$ 5,713,829	$ (651,371)	$ 17,871,560
Issuance of stock options		—	1,460,209	—	—	—	—	1,460,209
Net investment loss, net of tax benefit of $259,300		—	—	—	(766,467)	—	—	(766,467)
Net realized loss on investment transactions		—	—	—	—	(600,000)	—	(600,000)
Appreciation in value of investments		—	—	—	—	—	648,423	648,423
Balance as of March 31, 2023	6,185,255	$ 6,185	$ 16,509,530	$ (1,159,665)	$ (1,853,206)	$ 5,113,829	$ (2,948)	$ 18,613,725

See accompanying Notes to Financial Statements

Table of Contents

MILL CITY VENTURES III, LTD.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

STATEMENT OF CASH FLOWS

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ (277,763)	$ 893,993
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized (appreciation) depreciation on investments	(629,491)	16,297
Net realized (gain) loss on investments	558,629	(133,020)
Purchases of investments	(11,900,500)	(13,924,333)
Proceeds from sales of investments	11,124,193	10,076,483
Issuance of stock options	1,460,209	—
Deferred income taxes	(196,000)	—
Common shares issued as consideration for expense payment	—	308,758
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	2,700	(21,225)
Interest and dividends receivable	31,674	(614,949)
Payable for investment purchase	—	(1,900,000)
Accounts payable and other liabilities	(654,278)	53,903
Income taxes payable	—	(1,185,200)
Deferred interest income	(70,154)	—
Net cash used in operating activities	(550,781)	(6,429,293)
Cash flows from financing activities:		
Proceeds from public offering	—	4,041,795
Proceeds from stock option exercise	424,000	
Proceeds from line of credit	2,750,000	8,414,000
Repayments on line of credit	(2,750,000)	(6,101,000)
Net cash provided by financing activities	424,000	6,354,795
Net increase (decrease) in cash	(126,781)	(74,498)
Cash, beginning of period	1,089,641	1,936,148
Cash, end of period	$ 962,860	$ 1,861,650
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 78,010	$ —
Non-cash investing activities:		

See accompanying Notes to Financial Statements

- 6

Table of Contents

MILL CITY VENTURES III, LTD.

CONDENSED SCHEDULE OF INVESTMENTS (UNAUDITED)

SEPTEMBER 30, 2023

Investment / Industry	Cost	Fair Value	Percentage of Net Assets
Short-Term Non-banking Loans			
Business Services - 15% secured loans			
Mustang Litigation Funding	$ 10,000,000	$ 10,030,569	51.50 %
Consumer - 18% secured loans			
Intelligent Mapping, LLC	2,900,000	2,899,757	14.89 %
Financial - 12% secured loans	500,000	405,166	2.08 %
Information Technology - 15% convertible note	212,500	214,021	1.10 %
Real Estate - 18% secured loans	745,000	745,650	3.82 %
Real Estate - 12% secured loans			
Alatus Development Corp	2,000,000	2,001,823	10.28 %
Total Short-Term Non-Banking Loans	16,357,500	16,296,986	83.67 %
Preferred Stock			
Consumer			
Wisdom Gaming, Inc	900,000	900,000	4.62 %
Information Technology	150,000	300,000	1.54 %
Total Preferred Stock	1,050,000	1,200,000	6.16 %
Common Stock			
Consumer	159,302	48,615	0.25 %
Warrants			
Healthcare	679	—	0.00 %
Other Equity			
Financial	10,000	10,000	0.05 %
Total Investments	$ 17,577,481	$ 17,555,601	90.13 %
Total Cash	962,860	962,860	4.94 %
Total Investments and Cash	$ $18,540,341	$ $18,518,461	95.07 %

See accompanying Notes to the Financial Statements

Table of Contents

MILL CITY VENTURES III, LTD.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ 382,103	$ (718,044)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided (used) in operating activities:		
Net change in unrealized appreciation on investments	(51,751)	(648,423)
Net realized (gain) loss on investments	(24,495)	600,000
Purchases of investments	(73,438)	(6,900,500)

Proceeds from sales of investments	308,797	3,945,000
Issuance of stock options	—	1,460,209
Deferred income taxes	97,000	(260,000)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(36,738)	(43,633)
Interest and dividends receivable	(4,177)	(115,512)
Accounts payable and other liabilities	(468,600)	(690,971)
Deferred interest income	—	(27,938)
Net cash provided by (used in) operating activities	128,701	(3,399,812)
Cash flows from financing activities:		
Proceeds from line of credit	—	2,750,000
Net cash provided by financing activities	—	2,750,000
Net increase (decrease) in cash	128,701	(649,812)
Cash, beginning of period	376,024	1,089,641
Cash, end of period	$ 504,725	$ 439,829

See accompanying Notes to Financial Statements

Table of Contents

MILL CITY VENTURES III, LTD.

CONDENSED SCHEDULE OF INVESTMENTS

MARCH 31, 2024

Investment / Industry	**Cost**	**Fair Value**	**Percentage of Net Assets**
Short-Term Non-banking Loans			
Business Services - 15% secured loans			
Mustang Litigation Funding	$ 10,000,000	$ 10,111,873	53.30%
Consumer - 23% secured loans			
Intelligent Mapping, LLC	2,900,000	2,904,717	15.31%
Financial - 12% secured loans	500,000	-	0.00%
Real Estate - 18% secured loans	745,000	740,763	3.90%
Tailwind, LLC	1,000,000	1,002,443	5.28%
Real Estate - 12% secured loans			
Alatus Development Corp	2,000,000	2,010,712	10.60%
Total Short-Term Non-Banking Loans	17,145,000	16,770,508	88.39%
Preferred Stock			
Consumer			
Wisdom Gaming, Inc	900,000	265,000	1.40%
Information Technology	150,000	-	0.00%
Total Preferred Stock	1,050,000	265,000	1.40%
Common Stock			
Information Technology	160,937	80,055	0.42%
Warrants			
Healthcare	679	—	0.00%
Other Equity			
Financial	10,000	10,000	0.05%

Total Investments	$ 18,366,616	$ 17,125,563	90.26 %
Total Cash	504,725	504,725	2.66 %
Total Investments and Cash	$ 18,871,341	$ 17,630,288	92.92 %

Table of Contents

MILL CITY VENTURES III, LTD.

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2022 2023

Investment / Industry	**Cost**	**Fair Value**	**Percentage of Net Assets**
Short-Term Non-banking Loans			
Business Services - 18% secured loans			
Liberated Syndication Inc.	$ 2,250,000	$ 2,255,625	12.62 %
Business Services - 15% secured loans			
Mustang Litigation Funding	5,000,000	4,975,955	27.84 %
Consumer - 15% secured loans	400,000	398,635	2.23 %
Intelligent Mapping, LLC	2,900,000	2,873,893	16.08 %
Financial - 33% secured loans			
Benton Financial, LLC	2,479,125	2,478,030	13.87 %
Financial - 12% secured loans	500,000	345,421	1.93 %
Information Technology - 15% convertible note	212,500	213,656	1.20 %
Real Estate - 15% secured loans	745,000	746,354	4.17 %
Real Estate - 12% secured loans			
Alatus Development Corp	1,000,000	998,363	5.59 %
Total Short-Term Non-Banking Loans	15,486,625	15,285,932	85.53 %
Preferred Stock			
Consumer			
Wisdom Gaming, Inc	900,000	900,000	5.04 %
Information Technology	150,000	300,000	1.68 %
Total Preferred Stock	1,050,000	1,200,000	6.72 %
Warrants			
Healthcare	679	—	0.00 %
Other Equity			
Consumer	212,500	212,500	1.19 %
Financial	610,000	10,000	0.06 %
Total Other Equity	822,500	222,500	1.25 %
Total Investments	$ 17,359,804	$ 16,708,432	93.50 %
Total Cash	1,089,641	1,089,641	6.10 %
Total Investments and Cash	$ $18,449,445	$ $17,798,073	99.60 %

See accompanying Notes to the Financial Statements

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

Table of Contents

MILL CITY VENTURES III, LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2024

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. Topic 946 "Financial Services – Investment Companies".

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 condensed financial statements of Mill City Ventures have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarter ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The condensed balance sheet as of December 31, 2022 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2022.

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 deposits: We maintain our cash balances in financial institutions and with regulated financial investment brokers. Cash on deposit in excess of FDIC and similar coverage is subject to the usual banking risk of funds in excess of those limits.

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.

Accounting guidance establishes a hierarchal 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:

Table of Contents

- **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.

Table of Contents

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 fair value certain cost unless circumstances however, impact the qualitative factors that we use in determining fair value. 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 approach indicates 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.

We value Level 2 investments based on quoted prices for similar instruments or investments traded in active markets. If there are no active markets for similar instruments or investments, then we value our Level 2 investments based on quoted prices not traded in active markets, or on valuation models whose inputs or significant value drivers consist of observable market data.

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.

Table of Contents

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.

Table of Contents

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 its unrecognized tax positions over the next 12 months. Our evaluation was performed for the tax years ended December 31, 2020 through 2022, 2023, which are the tax years that remain subject to examination by major tax jurisdictions as of September 30, 2023 March 31, 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 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 Sholes 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.

Table of Contents

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, 2023 March 31, 2024 (together with the corresponding percentage of the fair value of our total portfolio of investments):

	As of September 30, 2023				As of March 31, 2024
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value	

					Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	$ 16,357,500	93.0 %	$ 16,296,986	92.8 %	$ 17,145,000	93.3 %	$ 16,770,508	97.9 %
Preferred Stock	1,050,000	6.0	1,200,000	6.8	1,050,000	5.7	265,000	1.5
Common Stock	159,302	0.9	48,615	0.3	160,937	0.9	80,055	0.5
Warrants	679	—	—	—	679	—	—	—
Other Equity	10,000	0.1	10,000	0.1	10,000	0.1	10,000	0.1
Total	$ 17,577,481	100.0 %	$ 17,555,601	100.0 %	$ 18,366,616	100.0 %	$ 17,125,563	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, 2022 December 31, 2023 (together with the corresponding percentage of the fair value of our total portfolio of investments):

	As of December 31, 2022				As of December 31, 2023			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	$ 15,486,625	89.2 %	$ 15,285,932	91.5 %	$ 17,357,500	93.4 %	$ 16,961,766	98.1 %
Preferred Stock	1,050,000	6.1	1,200,000	7.2	1,050,000	5.6	265,000	1.5
Common Stock	—	—	—	—	159,302	0.9	47,910	0.3
Warrants	679	—	—	—	679	—	—	—
Other Equity	822,500	4.7	222,500	1.3	10,000	0.1	10,000	0.1
Total	$ 17,359,804	100.0 %	$ 16,708,432	100.0 %	$ 18,577,481	100.0 %	$ 17,284,676	100.0 %

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of September 30, 2023 March 31, 2024:

	As of September 30, 2023		As of March 31, 2024	
	Investments at Fair Value	Percentage of Fair Value	Investments at Fair Value	Percentage of Fair Value
Business Services	$ 10,030,569	57.1 %	$ 10,111,873	59.0 %
Consumer	3,848,372	21.9	3,169,717	18.5
Financial	415,166	2.4	10,000	0.1
Information Technology	514,021	2.9	80,055	0.5
Real Estate	2,747,473	15.7	3,753,918	21.9
Total	$ 17,555,601	100.0 %	$ 17,125,563	100.0 %

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of December 31, 2022 December 31, 2023:

	As of December 31, 2022		As of December 31, 2023	
	Investments at Fair Value	Percentage of Fair Value	Investments at Fair Value	Percentage of Fair Value
Business Services	$ 7,231,580	43.3 %	$ 10,069,354	58.3 %
Consumer	4,385,028	26.2	3,219,374	18.6
Financial	2,833,451	17.0	10,000	0.1
Information Technology	513,656	3.1	213,501	1.2
Real Estate	1,744,717	10.4	3,772,447	21.8
Total	$ 16,708,432	100.0 %	$ 17,284,676	100.0 %

Table of Contents

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 investment portfolio as of September 30, 2023 March 31, 2024 may differ materially from values that would have been used had a readily available market for the those investments existed.

Table of Contents

The following table presents the fair value measurements of our portfolio investments by major class, as of September 30, 2023 March 31, 2024, according to the fair value hierarchy:

	As of September 30, 2023				As of March 31, 2024			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Short-term Non-banking Loans	$ —	$ —	$ 16,296,986	$ 16,296,986	$ —	$ —	$ 16,770,508	$ 16,770,508
Preferred Stock			1,200,000	1,200,000	—	—	265,000	265,000
Common Stock	48,615	—	—	48,615	80,055	—	—	80,055
Warrants	—	—	—	—				
Other Equity	—	—	10,000	10,000	—	—	10,000	10,000
Total	$ 48,615	$ —	$ 17,506,986	$ 17,555,601	$ 80,055	$ —	$ 17,045,508	$ 17,125,563

The following table presents the fair value measurements of our investment portfolio investments by major class, as of December 31, 2022 December 31, 2023, according to the fair value hierarchy:

As of December 31, 2022				As of December 31, 2023			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total

Short-term Non-banking Loans	$ —	$ —	$ 15,285,932	$ 15,285,932	$ —	$ —	$ 16,961,766	$ 16,961,766
Preferred Stock	—	—	1,200,000	1,200,000	—	—	265,000	265,000
Common Stock	—	—	—	—	47,910	—	—	47,910
Other Equity	—	—	222,500	222,500	—	—	10,000	10,000
Total	$ —	$ —	$ 16,708,432	$ 16,708,432	$ 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 three months ended September 30, 2023 March 31, 2024:

	For the nine months ended September 30, 2023					For the three months ended March 31, 2024		
	ST Non-banking Loans	Preferred Stock	Common Stock	Warrants	Other Equity	ST Non-banking Loans	Preferred Stock	Other Equity
Balance as of January 1, 2023	$ 15,285,932	$ 1,200,000	$ —	$ —	$ 222,500			
Balance as of January 1, 2024						$ 16,961,766	$ 265,000	$ 10,000
Net change in unrealized appreciation	140,179	—	—	—	600,000	21,242	—	—
Purchases and other adjustments to cost	11,900,500	—	—	—	—	73,438	—	—
Sales and redemptions	(11,029,625)	—	—	—	—	(125,000)	—	—
Net realized loss	—	—	—	—	(600,000)			
Transfers out of level 3	—	—	—	—	(212,500)	(160,938)	—	—
Balance as of September 30, 2023	$ 16,296,986	$ 1,200,000	$ —	$ —	$ 10,000			
Balance as of March 31, 2024						$ 16,770,508	$ 265,000	$ 10,000

The net change in unrealized appreciation for the nine three months ended September 30, 2023 March 31, 2024 attributable to Level 3 portfolio investments still held as of September 30, 2023 is $89,486. March 31, 2024 was $22,243.

The following table lists our Level 3 investments held as of September 30, 2023 March 31, 2024 and the unobservable inputs used to determine their valuation:

Investement Type	9/30/23 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	$ 16,296,986	discounted cash flow	determining private company interest rate based on changes in market rates of instruments with comparable creditworthiness	12-18 %
Other Equity	10,000	last secured funding known by company	data obtained from issuer, and stated value of instrument (if any), less assumed transaction costs.	
Preferred Stock	1,200,000	last funding secured by company	data obtained from issuer, and stated value of instrument (if any), less assumed transaction costs.	
	$ 17,506,986			

Table of Contents

Security Type	3/31/24 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	$ 16,770,508	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	
	$ 17,045,508			

The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the year period ended December 31, 2022 December 31, 2023:

	For the year ended December 31, 2022					For the year ended December 31, 2023		
	ST Non-banking Loans	Preferred Stock	Common Stock	Warrants	Other Equity	ST Non-banking Loans	Preferred Stock	Other Equity
Balance as of January 1, 2022	$ 11,650,000	$ 1,200,000	$ —	$ —	$ 812,500			
Balance as of January 1, 2023						$ 15,285,932	$ 1,200,000	$ 222,500
Net change in unrealized depreciation	(200,693)	—	—	—	(600,000)	(195,041)	(935,000)	600,000
Purchases and other adjustments to cost	23,548,458	—	—	—	10,000	12,900,500	—	—
Sales and redemptions	(19,711,833)	—	—	—	—	(11,029,625)	—	—
Balance as of December 31, 2022	$ 15,285,932	$ 1,200,000	$ —	$ —	$ 222,500			
Realized gain (loss)						—	—	(600,000)

Transfers between level 3 and level 1	—	—	(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, 2022 December 31, 2023 attributable to Level 3 portfolio investments still held as of December 31, 2022 December 31, 2023 was $651,371. $1,126,877.

The following table lists our Level 3 investments held as of December 31, 2022 December 31, 2023 and the unobservable inputs used to determine their valuation:

Security Type	12/31/22 FMV	Valuation Technique	Unobservable Inputs	Range	12/31/23 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	$ 15,285,932	discounted cash flow	determining private company interest rate based on changes in market rates of instruments with comparable creditworthiness	12-33%	$ 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	222,500	last secured funding known by company			10,000	last secured funding known by company		
Preferred Stock	1,200,000	last funding secured by company	economic changes since last funding		265,000	last funding secured by company	economic changes since last funding	
	$ 16,708,432				$ 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:

- · On August 10, 2018, we entered into a loan transaction with Elizabeth Zbikowski who, along with her husband Scott Zbikowski, owned and continues to own approximately 534,445 shares of our common stock. In the transaction, we obtained a two-year promissory note in the principal amount of $250,000, which was subsequently amended such that the note presently matures on December 31, 2023 July 1, 2024. The promissory note bears interest payable monthly at the rate of 10% per annum. The note is secured by the debtors' pledge to us of 277,778 shares of our common stock. The pledged shares are held in physical custody for us by Millennium Trust Company, as our custodial agent.

- · On January 3, 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust (collectively, the "Lenders"). Mr. Berman is a director of our Company. 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. See note 7 below for further details.

NOTE 6 – INCOME TAXES

We Presently, 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, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we have a deferred tax asset of $397,000 $660,000 and $201,000, $757,000, respectively. As of September 2023, March 31, 2024, our net deferred tax asset consists of foreign tax credit carryforwards, unrealized investment gain/loss, non-qualified stock option expenses, net operating losses (NOL), 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.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 we had prepaid income taxes of $139,200 $67,700 and $179,300, $131,500, respectively. We recorded an increase of income taxes of $165,723 (30 percent effective tax rate) and a decrease of income taxes of $38,000 (27 percent effective tax rate) and an increase of income taxes of $346,000 (27 $259,300 (26 percent effective tax rate) during the nine three months ended September March 2024 and March 2023, and September 2022, respectively.

As of September 30, 2023, we had a federal NOL of approximately $277,000. The federal NOL may be carried forward to offset future taxable income, subject to applicable provisions of the Internal Revenue Code. Due to tax reform enacted in 2017, NOLs created after 2017 carry forward indefinitely. The estimated federal NOL that does not expire included in the total above is $277,000. States vary in their treatment of post-2017 NOLs. The state NOL of $200,000 is expected to be used by December 31, 2024. The remaining state NOL carryforwards may expire in 2038 if not used.

NOTE 7 – LINE OF CREDIT

On January 3, 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust (collectively, the "Lenders"). Mr. Berman is a director of our Company. 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. Amounts drawn under the Loan Agreement accrue accrued interest at the per annum rate of 8%, and all our obligations under the Loan Agreement are were secured by a grant of a collateral security interest in substantially all of our assets.

As a Lender, Mr. Berman is was obligated to furnish only one-half of the aggregate $5 million available under the Loan Agreement. The Loan Agreement has had a five-year term ending on January 3, 2027, at which time all amounts owing under the Loan Agreement will were to become due and payable; subject, however, to each Lender's right, including Mr. Berman, to terminate the Loan Agreement, solely with respect to such Lender's obligation to provide further credit, at any time after January 3, 2023. In the event that a Lender, including Mr. Berman, terminates its lending obligations, the Loan Agreement requires that we repay such Lender, prior to the five-year maturity date, with the proceeds derived from specified investments.

During the period January 3 to September 30, 2022 June 30, 2022, the Loan Agreement provided for us to pay a quarterly unused commitment fee equal to one-quarter of one percent of the amount of credit available but unused under the Loan Agreement, and initially required us to pay such fee in the form of shares of our common stock based on our net asset value per share on the last day of the applicable fiscal quarter. The Loan Agreement grants the Lenders piggyback registration rights subject to customary terms, conditions and exceptions. Beginning July 1, 2022, however, we became obligated under the Loan Agreement to pay the quarterly unused commitment fee in cash.

As of September 30, 2023 and December 31, 2022 At December 31, 2023, there was no the balance outstanding on the line. line was $0. In January 2024, we terminated the Loan Agreement having earlier satisfied all amounts owing thereunder. Any applicable fees related to early termination of the Agreement were waived.

- 16 -

[Table of Contents](#)

MILL CITY VENTURES III, LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2024

NOTE 8 – STOCK-BASED COMPENSATION

The Company's 2022 Stock Incentive Plan (the "Plan") authorized the issuance of incentives relating to 900,000 shares of common stock. As of September 30, 2023 March 31, 2024, incentives relating to the issuance of 870,000 shares have been issued under the Plan, leaving 30,000 shares available for issuance. The Plan was amended by the Board of Directors on August 14, 2023, and a registration statement on Form S-8 respecting the Plan was filed with the SEC on August 23, 2023.

The following table summarizes the activity for all stock options outstanding for the nine three months ended September 30, 2023 March 31, 2024:

	Shares	Weighted Average Exercise Price

Options outstanding at beginning of year	—	$ —
Granted	870,000	2.11
Exercised	(200,000)	2.12
Forfeited	—	—
Balance at September 30, 2023	670,000	$ 2.11
Options exercisable at September 30:	670,000	$ 2.11
Grant Date Fair Value for options granted during the period:	$ 1,242,902	

Table of Contents

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	670,000	$ 2.11
Granted	—	—
Exercised	—	—
Forfeited	—	—
Balance at March 31	670,000	$ 2.11
Options exercisable at March 31:	670,000	$ 2.11

The following table summarizes additional information about stock options outstanding and exercisable at September 30, 2023 March 31, 2024:

Options Outstanding	Options Outstanding				Options Exercisable			Options Outstanding				Options Exerc	
Options Outstanding	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options Exercisable	Weighte Averag Exercis Price
	670,000	9.17	$ 2.11	$ 632,900	670,000	$ 2.11	$ 632,900	670,000	8.67	$ 2.11	$ 364,900	670,000	$ 2.1

The Company recognized stock-based compensation expense for stock options of $0 and $1,460,209 for the nine three months ended September 30, 2023.

The Black-Scholes option-pricing model was used to estimate the fair value of equity-based awards with the following weighted-average assumptions for the nine months ended September 30, 2023:

	2023
Risk-free interest rate	4.59 %
Expected volatility	90.00 %
Expected life (years)	5.0
Expected dividend yield	— %

The inputs for the Black-Scholes valuation model require management's significant assumptions. The price per share of common stock is determined by using the closing market price on the Nasdaq Capital Market on the grant date. The risk-free interest rates are based on the rate for U.S. Treasury securities at the date of grant with maturity dates approximately equal to the expected life at the grant date. The expected life is based on the simplified method in accordance with the SEC Staff Accounting Bulletin Nos. 107 March 31, 2024 and 110. The expected volatility is estimated based on historical volatility information of peer companies that are publicly available in combination with the Company's calculated volatility. 2023, respectively.

NOTE 9 – SHAREHOLDERS' EQUITY

At September 30, 2023 March 31, 2024, we had 6,385,255 shares of common stock issued and outstanding.

On August 9, 2022, In connection with the 2022 public offering, the Company effected issued a stock combination (reverse stock split) of its 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 a 1-for-2.25 basis such that every 2.25 shares of common stock issued August 8, 2027. This warrant is equity-classified and outstanding the fair value was $201,173 on that date were combined into one share of common stock. Any fractional share resulting from the reverse stock split was rounded up to the nearest whole share. The reverse stock split was approved by the Company's board of directors in accordance with Minnesota law and resulted in a proportionate reduction in the number of authorized shares of capital stock available for issuance under the Company's articles of incorporation. This reduction was affected pursuant to the filing of articles of amendment with the Minnesota Secretary of State indicating that the Company, on a post-reverse-split basis, is authorized to issue up to 111,111,111 shares of capital stock. All share and per share information has been retrospectively adjusted to reflect the reverse stock split. 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 March 31,			
	2024		2023	
	Basic	Diluted	Basic	Diluted
Numerator: Net increase (decrease) in net assets resulting from operations	$ 382,103	$ 382,103	$ (718,044)	$ (718,044)
Denominator: Weighted-average number of common shares outstanding	6,385,255	6,501,823	6,185,255	6,185,255
Basic and diluted net gain (loss) per common share	$ 0.06	$ 0.06	$ (0.12)	$ (0.12)

Table of Contents

	For the Three Months Ended September 30,			
	2023		2022	
	Basic	Diluted	Basic	Diluted
Numerator: Net increase in net assets resulting from operations	$ 369,560	$ 369,560	$ (36,126)	$ (36,126)
Denominator: Weighted-average number of common shares outstanding	6,241,777	6,358,345	5,512,737	5,512,737
Basic and diluted net gain (loss) per common share	$ 0.06	$ 0.06	$ (0.01)	$ (0.01)

	For the Nine Months Ended September 30,			
	2023		2022	
	Basic	Diluted	Basic	Diluted
Numerator: Net increase (decrease) in net assets resulting from operations	$ (277,763)	$ (277,763)	$ 893,993	$ 893,993
Denominator: Weighted-average number of common shares outstanding	6,204,303	6,204,303	5,045,830	5,045,830
Basic and diluted net gain (loss) per common share	$ (0.04)	$ (0.04)	$ 0.18	$ 0.18

NOTE 11 – OPERATING LEASES

We are a party to two a non-cancelable operating leases lease for office space expiring May 31, 2024. These leases do The lease does not have significant lease escalations, holidays, concessions, leasehold improvements, or other build-out clauses. Further, the leases do lease does not contain contingent rent provisions. The leases do lease does not include options an option to renew.

Because our leases do lease does not provide an implicit rate, we use our incremental borrowing rate in determining the present value of the lease payments. The incremental borrowing rate represents an estimate of the interest rate we would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease. The weighted-average discount rate as of September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 was 4.5% and the weighted-average remaining lease term is one year.

Rent expense for office facilities for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 2023 was $55,005 $10,677 and $54,542, $19,043, respectively.

The components of our operating lease leases were as follows for the three and nine months ended September 30, 2023: March 31:

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	2024	2023
Operating lease costs	$ 5,504	$ 16,512	$ 5,612	$ 5,504
Variable lease cost	4,886	14,619	5,065	4,905
Short-term lease cost	4,500	23,874	—	8,634
Total	$ 14,890	$ 55,005	$ 10,677	$ 19,043

Supplemental balance sheet information consisted of the following at March 31:

	2024	2023
Operating Lease		
Right-of-use assets	$ 3,734	$ 10,903
Operating Lease Liability	$ 3,734	$ 11,067
Less: short term portion	(3,734)	(11,067)
Long term portion	$ —	$ —

Maturity analysis under this lease extension agreement consists of the following as of March 31:

	2024	2023
2023	$ —	$ 11,226
2024	3,755	—
Total lease payments	3,755	11,226
Less: Present value discount	(21)	(159)
Present value of lease liabilities	$ 3,734	$ 11,067

Table of Contents

Supplemental balance sheet information consisted of the following at September 30: MILL CITY VENTURES III, LTD.

	2023	2022
Operating Lease		
Right-of-use assets	$ 14,716	$ 21,563
Operating Lease Liability	$ 14,716	$ 21,672
Less: short term portion	(14,716)	(21,672)
Long term portion	$ —	$ —

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Maturity analysis under lease agreements consisted of the following as of September 30: March 31, 2024

	2023	2022
2022	$ —	$ 6,357
2023	7,428	14,859
2024	7,482	—
Total lease payments	14,910	21,216
Less: Present value discount	(194)	456
Present value of lease liabilities	$ 14,716	$ 21,672

NOTE 12 – FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the nine three months ended September 30, 2023 March 31, 2024 through 2019: 2020:

	Nine Months Ended September 30,					Three Months Ended March 31,			
	2023	2022	2021	2020	2019	2024	2023	2022	2021
Per Share Data (1)									
Net asset value at beginning of period	$ 2.89	2.80	2.43	2.05	2.30	$ 2.91	2.89	2.79	2.4
Net investment income (loss)	(0.06)	0.18	0.20	0.05	(0.11)	0.07	(0.17)	0.09	0.0
Net realized and unrealized gains (losses)	0.01	0.02	0.54	0.14	0.02	0.01	0.01	0.02	0.5
Provision for income taxes	0.01	(0.05)	(0.20)	0.00	0.00				
Provision for (benefit from) income taxes						(0.02)	0.04	(0.02)	(0.1
Issuance of stock options	0.24	0.00	0.00	0.00	0.00	0.00	0.24	0.00	0.0
Issuance of common stock	0.05	0.00	0.00	0.00	0.00				
Stock-based compensation	0.00	0.05	0.00	0.00	0.00				
Repurchase of common stock	0.00	0.00	0.00	0.05	0.00				
Other changes in equity	(0.09)	0.02	0.00	0.00	0.00				
Payment of common stock dividend	0.00	0.00	(0.23)	0.00	(0.11)				
Net asset value at end of period	$ 3.05	3.02	2.74	2.29	2.10	$ 2.97	3.01	2.88	2.7
Ratio / Supplemental Data									
Per share market value of investments at end of period	$ 2.75	2.92	2.30	1.71	1.58	$ 2.68	3.19	4.19	2.8
Shares outstanding at end of period	6,385,255	6,185,255	4,795,739	4,754,104	4,918,845	6,385,255	6,185,255	4,795,739	4,794,18

Average weighted shares outstanding for the period - basic	6,204,303	5,045,830	4,795,075	4,836,170	4,918,845	6,385,255	6,185,255	4,795,739	4,793,739
Average weighted shares outstanding for the period - diluted	6,320,871	5,045,830	4,795,075	4,836,170	4,918,845	6,501,823	6,185,255	4,795,739	4,793,739
Net assets at end of period	$ 19,478,006	18,658,595	13,140,835	10,805,062	10,588,689	$ 18,972,366	18,613,725	13,826,160	13,391,679
Average net assets [(2)]	$ 18,661,934	15,081,352	13,090,497	10,220,482	12,304,975	$ 18,781,314	18,242,642	13,620,104	12,516,283
Total investment return (loss)	(2.76)%	6.07%	22.22%	8.79%	(8.82)%				
Total investment return						2.06%	(4.15)%	3.23%	14.81
Portfolio turnover rate (3)	59.61%	66.81%	124.55%	18.18%	7.11%	0.39%	21.63%	8.46%	40.24
Ratio of operating expenses to average net assets [(3)]	(20.10)%	(19.24)%	(10.31)%	(6.49)%	(7.70)%	(7.57)%	(35.82)%	(15.28)%	(16.20
Ratio of net investment income (loss) to average net assets [(3)]	(2.76)%	10.09%	9.87%	3.35%	(6.40)%	10.58%	(20.92)%	14.24%	0.42

(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.

NOTE 13 – Subsequent Events

At the Company's 2023 annual shareholder meeting held on October 31, 2023, the shareholders of the Company re-elected all directors to serve another term on our Board of Directors, approved on an advisory basis the executive compensation paid to the Company's named executives, and voted on an advisory basis in favor of future advisory votes on the Company's executive compensation every three years. None.

Table of Contents

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, 2022 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.

PORTFOLIO AND INVESTMENT ACTIVITY

During the three months ended March 31, 2024, we made $73,438 of investment purchases and had $308,797 of redemptions and repayments, resulting in net investments at amortized cost of $18,366,616 as of March 31, 2024.

During the three months ended March 31, 2023, we made $6,900,500 of investment purchases and had $3,945,000 of redemptions and repayments, resulting in net investments at amortized cost of $19,715,304 as of March 31, 2023.

Our portfolio composition by major class, based on fair value at March 31, 2024, was as follows:

	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	$ 16,770,508	97.9 %
Equity/Other	355,055	2.1
Total	$ 17,125,563	100.0 %

Table of Contents

PORTFOLIO AND INVESTMENT ACTIVITY

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 the period.

During the nine months ended September 30, 2022, we made $9,103,580 of investment purchases and had $7,977,898 of redemptions and repayments, resulting in net investments at amortized cost of $15,191,759 at the end of that period.

Our portfolio composition by major class, based on fair value at September 30, 2023, was as follows:

	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	$ 16,296,986	92.8 %
Equity/Other	1,258,615	7.2

Total	$ 17,555,601	100.0 %

RESULTS OF OPERATIONS

Our operating results for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,			
	2023	2022	2023	2022	2024	2023
Investment Income:	$ 725,158	$ 1,115,224	$ 2,496,688	$ 3,351,935	$ 832,667	$ 864,028
Operating Expenses:	(421,373)	(1,179,792)	(2,883,235)	(2,227,865)	(361,087)	(1,889,795)
Net Investment Gain (Loss)	$ 303,785	$ (64,568)	$ (386,547)	$ 1,124,070	$ 471,580	$ (1,025,767)

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, 2023, March 31, 2024 and 2023, our total investment income was $725,158 $832,667 and $2,496,688, $864,028, respectively. For the three and nine months ended September 30, 2022, our total investment income was $1,115,224 and $3,351,935, respectively. The decrease is due to an overall reduction in our short-term non-bank lending activity. Our loan portfolio generates interest income, with an average rate on the loans of 15.2% 16.2%.

Professional Fees

For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we had $184,008 $138,371 and $601,184 $129,851 of professional fees expense, respectively. For the three and nine months ended September 30, 2022, we had $916,359 and $1,309,348 professional fees expense, respectively. The decrease is due to the significant costs we incurred during and in conjunction with our public offering of common stock in 2022, partially offset by our costs incurred to amend our Form 10K filing for December 31, 2022 during 2023.

Table of Contents

Payroll and Directors Fees

For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we had $141,040 $151,066 and $1,418,640 $1,130,439 of payroll expense, respectively, and we had respectively. In addition, director fees were $30,000 and $592,968 of directors fees, respectively. For $532,968 for the three and nine months ended September 30, 2022, we had $122,477 March 31, 2024 and $433,461 of payroll expense, respectively, and we had $30,000 and $147,073 of directors fees, 2023, respectively. The increase in the current period was 2023 over 2024 is due to a stock option issuance recognized in large part to the company's issuance of 870,000 10-year options to directors, officers and consultants in November and December 2022 (which were issued subject to shareholder approval). On January 20, 2023 company shareholders approved the options and the related incentive plan at a special meeting held for that purpose. These options generated a noncash expense of $1,460,209. January 2023.

Interest Expense

For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we had $0 $320 and $78,000 of interest expense, respectively. For the three and nine months ended September 30, 2022, we had $46,779 and $164,632 $34,667 of interest expense, respectively. The decrease is due to our reduced borrowing on the termination of the line of credit during agreement at the current period. end of 2023.

Net Realized Gain (Loss) from Investments

For the three and nine months ended September 30, 2023 March 31, 2024, we had $0 and $94,569, respectively, $308,797 of sales proceeds from sale of investments, and $1,975,000 and 11,029,625, respectively, of repayments on short-term loans, resulting in $0 and $558,629 $24,495 of realized losses, respectively. gains. For the three and nine months ended September 30, 2022 March 31, 2023, we had $0 and $552,898, respectively, $3,945,000 of sales proceeds from sale of investments, and $2,098,585 and $9,523,585, respectively, of repayments on short-term loans, resulting in $0 and $133,020 $600,000 of realized gains, respectively. losses.

Net Change in Unrealized Appreciation (Depreciation) on Investments

For the three and nine months ended September 30, 2023March 31, 2024, our investments had $2,175 and $629,491included $51,751 of unrealized appreciation, respectively.appreciation. For the three and nine months ended September 30, 2022March 31, 2023, our investments had $0 and $16,297included $648,423 of unrealized depreciation, respectively.appreciation.

Changes in Net Assets from Operations

For the three and nine months ended September 30, 2023March 31, 2024, 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.$382,103. Based on the weighted-average number of shares of common stock outstanding for the three and nine months ended September 30, 2023March 31, 2024, 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.$0.06. For the three and nine months ended September 30, 2022March 31, 2023, we recorded a net decrease in net assets from operations of $36,126 and a net increase in net assets from operations of $893,993, respectively.$718,044. Based on the weighted-average number of shares of common stock outstanding for the three and nine months ended September 30, 2022March 31, 2023, our per-share net decrease in net assets from operations was $0.01 and our per share net increase in net assets from operations was $0.18, respectively.$0.12.

Table of Contents

Cash Flows for the Nine monthsThree Months Ended September 30, 2023March 31, 2024 and 20222023

The level of cash flows used in or provided by operating activities is affected primarily by our provisionthe timing of short-term loans, purchases, of other investments, redemptions and repayments of our loans orportfolio investments, andamong other related factors. For the ninethree months ended September 30, 2023March 31, 2024, net cash provided in operating activities was $128,701. Cash flows used in operating activities for the three months ended March 31, 2024 were primarily related to redemptions and repayments of investments totaling $308,797. For the three months ended March 31, 2023, net cash used in operating activities was $550,781.$3,399,812. Cash flows usedprovided in operating activities for the ninethree months ended September 30, 2023March 31, 2023 were primarily related to the funding of our short-term loans and purchases of investments aggregating $11,900,500,totaling $6,900,500, offset mostly by redemptions and repayments of short-term loans and investments totaling $11,124,193. For the nine months ended September 30, 2022, net cash used in operating activities was $6,429,293. Cash flows used in operating activities for the nine months ended September 30, 2022 were primarily related to the funding of our short-term loans and purchases of investments aggregating $13,924,333, offset mostly by redemptions and repayments of short-term loans and investments totaling $10,076,483.$3,945,000.

FINANCIAL CONDITION

As of September 30, 2023March 31, 2024, we had cash of $962,860, a decrease$504,725, an increase of $126,781$128,701 from December 31, 2022December 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.”

Table of Contents

On August 9, 2022, we effected a stock combination (reverse stock split) of our common shares on a 1-for-2.25 basis such that every 2.25 shares of common stock issued and outstanding on that date were combined into one share of common stock. Any fractional share resulting from the reverse stock split was rounded up to the nearest whole share. The reverse stock split was approved by our Board of Directors in accordance with Minnesota law, and resulted in a proportionate reduction in the number of authorized shares of capital stock available for issuance under our articles of incorporation. On a post-reverse-split basis, we are authorized to issue up to 111,111,111 shares of capital stock.

On August 11, 2022, we completed a public offer and sale of 1,250,000 common shares pursuant to a registration statement filed with the SEC and declared effective on August 9, 2022. We sold these shares at $4.00 per share, resulting in gross proceeds of $5,000,000. As part of the registered public offering, we granted the underwriters a 45-day option to purchase up to 187,500 additional common shares at the offering price, less underwriting discounts, which option was not exercised. In connection with the offering, we issued the underwriter a five-year warrant to purchase up to 75,000 common shares at the per-share price of $5.00. Our net proceeds after the payment of underwriting discounts, underwriting expenses, and offering-related expenses we incurred were otherwise obligated to pay, were approximately $4,041,000.

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, 2022 December 31, 2023.

OFF-BALANCE-SHEET ARRANGEMENTS

During the nine three months ended September 30, 2023 March 31, 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 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.

Table of Contents

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 17, 2023 (related to our year ended December 31, 2022 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, 2023March 31, 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, 2023March 31, 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, 2022December 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.

Table of Contents

PART II. OTHER INFORMATION

ITEM 5.6. EXHIBITS

Exhibit Number	Description
3.1	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)
3.2	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)
10.131.1*	Amendment to 2022 Stock Incentive Plan, dated August 14, 2023 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 10-Q filed August 15, 2023)
31.1*	Section 302 Certification of the Chief Executive Officer
31.2*	Section 302 Certification of the Chief Financial Officer
32.1*	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

* Filed herewith

Table of Contents

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.LTD

Date: November 17, 2023May 15, 2024

By: /s/ Douglas M. Polinsky
DOUGLASDouglas M. POLINSKYPolinsky
Chief Executive Officer

Date: November 17, 2023May 15, 2024

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

Exhibit 31.1

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: May 15, 2024

/s/ Douglas M. Polinsky
Chief Executive Officer

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Exhibit 31.2

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: May 15, 2024

/s/ Joseph A. Geraci, II

Chief Financial Officer

Exhibit 32.1

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 March 31, 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

May 15, 2024

/s/ Joseph A. Geraci, II

Joseph A. Geraci, II

Chief Financial Officer

May 15, 2024

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