

Mill City Ventures III, Ltd
Form 10-K
March 28, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016 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 814-00991

MILL CITY VENTURES III, LTD.

(Exact name of registrant as specified in its charter)

Minnesota 90-0316651
(State of incorporation) (I.R.S. Employer Identification No.)

328 Barry Ave. S. #210
Wayzata, Minnesota 55391
(Address of principal executive offices) (Zip Code)

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

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Registrant's telephone number, including area code: (952) 479-1923

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Name of Each Exchange on which Registered

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting stock held by persons other than officers, directors and more than 5% shareholders of the registrant as of June 30, 2016 was approximately \$1,644,442 based on the closing sales price of \$0.65 per share as reported on the OTCQX. As of March 17, 2017, there were 12,151,493 shares of the registrant’s common stock, \$0.001 par value, outstanding.

DOCUMENTS INCORPORATED IN PART BY REFERENCE

None.

Mill City Ventures III, Ltd.

Form 10-K

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PART I

ITEM 1 BUSINESS

Overview

Mill City Ventures III, Ltd., formerly known as Poker Magic, Inc. (the “Company” or “we”), is a Minnesota corporation that was incorporated 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. On December 13, 2012, we filed a Form N-8A with the Securities and Exchange Commission (“SEC”), notifying the SEC of our intent to register as an internally managed, non-diversified, closed-end investment company under the Investment Company Act of 1940 (the “1940 Act”). On February 7, 2013, we filed Form N-54A to become a business development company (“BDC”) under the 1940 Act. Presently, we are regulated as a BDC and intend to be taxed as a regulated investment company.

Business Model and Strategy

As a BDC, we primarily focus on investing in or lending to private and small-capitalization public companies and making managerial assistance available to such companies. A BDC generally provides shareholders with the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage companies that are privately or publicly owned. As permitted by BDC regulations, we may acquire securities directly from private and small-cap public issuers, their affiliates, or from third parties, and may acquire securities issued by small-cap public issuers in open-market purchases effected through public exchanges and automated quotation systems.

Our revenues relate to the earnings we receive from our portfolio investments. Our objective is to obtain superior returns from investments in securities and other investment opportunities available to BDCs under the 1940 Act. We intend to invest capital in portfolio companies for purposes of financing acquisitions, organic growth, recapitalizations, buyouts and working capital. In this regard, buyouts generally include transactions that involve the acquisition of a controlling interest in an entity, either by management or other investors. Organic growth refers to growth through the internal operations of the company, whether through investments in marketing initiatives, capital expenditures or other internal growth initiatives, rather than growth by means of acquisitions.

We plan to identify potential investments through multiple sources, including without limitation private equity sponsors, investment bankers, brokers, professional contacts, and owners and operators of businesses. We expect to base our investment decisions on our analyses of actual and potential business operations, asset valuations and viable exit strategies to establish appropriate pricing and maximize our return on investment. Subject to regulations applicable to BDCs, we plan to invest in private companies, small-cap public stocks, notes and other forms of debt, investment contracts, and other investments commonly referred to as securities.

Competition

As a BDC, we compete with strategic buyers, private equity funds, subordinated debt funds and other buyers and financing sources, including traditional financial services companies such as finance companies, commercial banks, investment banks and other equity and non-equity based investment funds. Some of our competitors will be substantially larger and have considerably greater financial resources than we do. Competitors may have a lower cost of funds and many have access to funding sources that are not available to us. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Competitive pressures may have a material adverse effect on our results of operations. In addition, as a result of this competition, we may be unable to take advantage of attractive investment opportunities and meet our investment goals.

Competitive Advantages

We believe that we are well positioned to secure appropriate investments in target companies for the following reasons:

Management Expertise. We believe that our management's strong combination of experience and contacts in the investment sector, including the experience and contacts of non-management members of our Board of Directors, should attract suitable prospective portfolio companies. Since 1994, Douglas M. Polinsky, our Chief Executive Officer, has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company that he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies and other transaction-related matters, and also makes direct investments into public and private companies. Our Chief Financial Officer, Joseph A. Geraci, II, has been managing member of Isles Capital, LLC, an advisory and consulting firm that assists small businesses, both public and private, in business development. Mr. Geraci also managed Mill City Advisors, LLC, a Minnesota limited liability company that formerly served as the general partner of Mill City Ventures II, LP, a Minnesota limited partnership investment fund that previously invested directly into both private and public companies. Mr. Geraci previously served as a stockbroker and Vice President of Oak Ridge Financial Services, Inc. from June 2000 to December 2004. While at Oak Ridge Financial Services, Mr. Geraci's business was focused on structuring and negotiating debt and equity private placements with both private and publicly held companies. We believe that our management team's extensive experience in researching, analyzing, advising and investing in private and publicly held companies will afford us a relative competitive advantage in structuring investments in potential portfolio companies. See "Directors, Executive Officers and Corporate Governance" for a more detailed description of our management team. Although we believe our management provides valuable investment experience to the Company, none of our management team has previously been involved in the operation of a company subject to the BDC requirements and regulations set forth in the 1940 Act. Please see "Risk Factors — Risks Related to Our Business — Our management team has no prior experience managing a BDC" for more information.

Flexible Investment Options. We will have significant relative flexibility in selecting and structuring our investments. We will not be subject to many of the regulatory limitations that govern traditional lending institutions. Also, we will have fairly broad latitude as to the term and nature of our investments. We intend to calculate rates of return on invested capital based on a combination of up-front commitment fees, current and deferred interest rates and residual values, which may take the form of common stock, warrants or future contract payments. We believe that this flexible approach to structuring investments will facilitate positive, long-term relationships with our portfolio companies and enable us to become a preferred source of capital to them after our initial investments.

Longer Investment Horizons. We will not be subject to periodic capital-return requirements that are typical for most private equity and venture capital funds. These types of funds typically return to investors their initial capital investment after a certain period of time, together with any capital gains on such capital investment. These provisions often force such funds to seek the return of their investments in portfolio companies through mergers, public equity offerings or other liquidity events more quickly than they otherwise might, which can result in a lower overall return to investors and adversely affect the ultimate viability of the affected portfolio companies. Because we may invest in

the same portfolio companies as these funds, we are subject to these risks if these funds demand an early return on their investments in the portfolio companies. Overall, however, we believe that our flexibility to take a longer-term view should help us to maximize returns on our invested capital while still meeting the needs of our portfolio companies.

Investing Across Industries. We expect to seek to obtain and maintain a portfolio of investments that is appropriately balanced among various companies, industries, and end markets. We believe that maintaining a balanced portfolio will mitigate the potential effects of negative economic events for particular companies, industries and markets.

Investment Process

Prospective Portfolio Company Characteristics

We have identified several criteria that we believe will prove important in achieving our investment objectives with respect to target portfolio companies. These criteria will provide general guidelines for our investment decisions. Nevertheless, not all of these criteria will be met by each prospective portfolio company in which we choose to invest.

Experienced Management. We will seek portfolio companies that have an experienced and knowledgeable management team or Board of Directors. We will also seek portfolio companies that have in place proper incentives to induce management to succeed and to act in concert with our interests as investors.

Existing Significant Financial or Strategic Sponsor. We may invest in target companies in which established private equity or venture capital funds or other financial or strategic sponsors have previously invested and make an ongoing contribution to the management of the business. We believe that having an established financial or strategic sponsor that has a meaningful commitment to the business diversifies the capital sources of the target portfolio company, making it more likely to succeed in the longer term.

Competitive Position. We will seek to invest in portfolio companies that have developed, or appear poised to develop, a strong competitive position within their respective sector or niche.

Cash Flow Companies. We will seek to invest in portfolio companies that are profitable or nearly profitable on an operating cash flow basis. We may, however, invest in pre-revenue companies.

Future Growth. We will seek out target portfolio companies that demonstrate an ability to increase revenues in addition to operating cash flow over time. The anticipated growth rate of a prospective target company will be an important factor in determining the value that we ascribe to any warrants or other equity securities we may acquire in connection with an investment.

Exit Strategy. Prior to making an investment, we will analyze the potential for that company to increase the liquidity of its equity securities through a future event that would enable us to realize appreciation, if any, in the value of our equity interest. Liquidity events may include an initial public offering, a private sale of our equity interest to a third party, a merger or an acquisition of the company, or a purchase of our equity interest by the company or one of its other investors.

Asset Liquidation Value. Although we do not intend to operate as an asset-based lender, the prospective liquidation value of the assets, if any, collateralizing any debt securities we hold will be an important factor in our credit analysis of potential portfolio companies. In assessing creditworthiness and asset liquidation value, we expect to consider both tangible assets (such as accounts receivable, inventory and equipment) and intangible assets (such as intellectual property, customer lists, networks and databases).

Due Diligence

If we believe a target portfolio company generally meets the characteristics described above or if we believe that certain of the most important characteristics for that particular target portfolio company or the industry in which it operates are met, or if we have other reasons to believe in the potential profitability of an investment in a target portfolio company, we may perform initial due diligence on that company. Our due-diligence examination for each target portfolio company will differ based on a number of factors but is generally likely to include our:

• assessment of the market in which the company operates, including any special risks (regulatory or otherwise) that apply,

• assessment of the competitive landscape in that market,

• familiarity with or evaluation of management,

• review and assessment of the company's financing history, as well as the likely need for additional financings,

• risk analysis relating to the terms of the investment and the transaction size, and

• assessment of the investment pricing and structure.

The assessments delineated above provide our general approach for our investment decisions, although not all of such activities will be followed in each instance, or some may be stressed more so than others depending on facts and circumstances. Upon successful completion of this preliminary evaluation, we will decide whether to move forward towards negotiating a letter of intent and, thereafter, definitive documentation for our investment. Depending on timing, we may not use a letter of intent and will instead proceed directly to definitive documentation.

Types of Investments

We expect to engage in various investment strategies in order to achieve our overall investment objectives. The particular type of investment strategy we select will depend, among other things, upon market opportunities, the skills and experience of our management and Board of Directors and our overall portfolio composition. Our strategies generally seek to provide (i) in the case of debt, current cash yields and favorable loan-to-value ratios, or other financial guarantees or credit enhancements with respect to loan collateral, and (ii) in the case of equity, favorable long-term growth and income potential together with viable exit or liquidity strategies.

Debt Investments

We intend to tailor the terms of each debt investment we make to the facts and circumstances of the transaction and prospective portfolio company, negotiating a structure that seeks to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan. Our expected primary source of return on debt investments is the monthly cash interest we collect on those investments. The particular types of debt investments we may make include, but are not limited to, the following:

First lien loans

Second lien loans

Unsecured loans

Equity Investments

Like debt investments, we intend to tailor the terms of each equity investment we make to the facts and circumstances of the transaction and prospective portfolio company, negotiating a structure that seeks to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan. As an equity holder, the rights we will generally seek to protect or obtain include minority rights, event-driven rights to “put” or sell our equity back to the portfolio company or certain affiliates or sponsors, and registration rights such as “demand” or “piggyback” registration rights. We may invest in common stock and preferred stock, and may receive warrants in connection with our investments. When we make a debt investment, we may also be granted equity participation in the form of warrants to purchase common equity in the company in the same class of security that the owners or equity sponsors receive upon funding. In addition to purchasing equity securities from the issuer or its affiliates, we

may choose to purchase publicly traded equity securities of the issuer, if any, on the open market (i.e., the particular stock exchange or automated quotation system on which the issuer's equity primarily trades).

Ongoing Relationships with Portfolio Companies

Monitoring

We monitor our portfolio companies in order to determine whether they are meeting our financing criteria and their respective business plans. We may decline to make additional investments in portfolio companies that do not continue to meet our financing criteria or that fail to successfully execute their business plans. Of course, we may choose to make additional investments in portfolio companies that do not do so, but that we believe will nevertheless perform well in the future.

We expect to monitor the financial trends of each portfolio company and their respective industries to assess the appropriate course of action for each company and to evaluate our overall portfolio quality. In this regard, our management team will monitor the status and performance of each individual company on at least a quarterly and, in some cases, a monthly basis.

We have several methods of evaluating and monitoring the performance and fair value of our debt and equity positions. By way of example, we may:

- ◆ Consider the amortized value of our debt securities;

- ◆ Assess the business development success, including product development, financings, profitability and the portfolio company's overall adherence to its business plan

- ◆ Contact portfolio company management to discuss financial position, requirements and accomplishments

• Interview portfolio company management and, if appropriate, other financial or strategic sponsors of that portfolio company

• Attend and participate in board meetings of portfolio companies and

• Review monthly and quarterly financial statements and financial projections of our portfolio companies.

We expect that current and annual financial statements of portfolio companies will often be available to us to assist us in our fair value reporting obligations under the 1940 Act.

Managerial Assistance

As a BDC, we offer, and in some cases may provide, significant managerial assistance to those of our portfolio companies intended to qualify as “eligible portfolio companies” under the 1940 Act. We expect that this assistance, if any, will typically involve monitoring the operations of our portfolio companies, participating in their board and management meetings, consulting with and advising their officers and providing other organizational, financial, strategic and transactional guidance.

Our 2016 Portfolio

At December 31, 2016, we held investments in 22 eligible portfolio investments, which had an aggregate amortized cost of \$6,574,490 and a fair value of \$6,211,043, and our non-eligible portfolio holdings had an aggregate cost of \$823,418 and a fair market value of \$775,959. At December 31, 2015, we held 18 eligible portfolio investments, which had an aggregate amortized cost of \$6,175,345 and a fair value of \$4,863,249. Our eligible portfolio investments at December 31, 2016 were as follows:

• 600,000 shares of common stock of Southern Plains Resources, Inc. Our aggregate cost for this holding at December 31, 2016 was \$730,000, and the fair value was \$0.

• Warrants to purchase 413,934 shares of common stock of CombiMatrix Corporation. Our aggregate cost and fair value for these holdings at December 31, 2016 was \$0.

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300,000 shares of Series B Convertible Preferred Stock of MAX4G, Inc. At December 31, 2016, our cost for this holding was \$150,000 and the fair value for this holding was \$300,000.

55,000 Class A Membership Units of Tzfat Spirits of Israel, LLC. At December 31, 2016, our cost for this holding was \$101,019 and our fair value was \$25,000.

Warrants to purchase 108,960 shares of common stock of Insite Software Solutions. At December 31, 2016, our aggregate cost and fair value for this holding was \$0.

Warrants to purchase 100,000 shares of common stock of Bio Life Solutions, Inc. At December 31, 2016, our cost and fair value for this holding was \$0.

\$500,000 in principal amount of a Senior Secured Convertible promissory note issued by Mix 1 Life, Inc. (convertible at \$1.08 per share) and 140,051 shares of common stock of Mix 1 Life, Inc., of which 100,000 shares are restricted. At December 31, 2016, our aggregate cost for this holding was \$546,160 and our fair value was \$225,219.

a \$250,000 in principal amount of secured promissory note issued by Mix 1 Life, Inc. At December 31, 2016, our aggregate cost for this holding was \$250,000 and the fair value of this holding was \$0.

500 shares of Series A 6% Convertible Preferred Stock of Dala Petroleum, Inc. and a warrant to purchase 714,286 shares of common stock of Dala Petroleum, Inc. At December 31, 2016, our aggregate cost was \$500,000 and fair value for this holding was \$0.

\$82,695 in principal amount of a promissory note issued by Dala Petroleum, Inc. At December 31, 2016 our aggregate cost was \$82,695 and fair value for this holding was \$0.

550,000 Membership Units of Northern Capital Partners I, LP. At December 31, 2016, our aggregate cost was \$550,000 and fair value for this holding was \$488,629.

Warrants to purchase 1,071,429 shares of common stock of Creative Realities Inc. At December 31, 2016, our aggregate cost and fair value for this holding was \$32,143.

\$500,000 in principal amount of a promissory note issued by Bravo Financial, LLC. At December 31, 2016, our cost and fair value for this holding was \$500,000.

- 100,000 shares of Series A Convertible Preferred Stock of BiteSquad.com, LLC. At December 31, 2016, our cost was \$1,380,000 and fair value for this holding was \$2,747,011.

85,210 shares of common stock of WaferGen Bio-Systems, Inc and a warrant to purchase 40,000 shares of common stock of WaferGen Bio-Systems, Inc. At December 31, 2016, our aggregate cost and fair value for this holding was \$369,799 and our fair value was \$420,085.

18,639 shares of common stock of Simulations Plus, Inc. At December 31, 2016, our cost and fair value for this holding was \$173,310 and \$179,862, respectively.

36,905 common shares of Educational Development Corporation. At December 31, 2016, our cost and fair value for this holding was \$409,380 and \$367,205, respectively.

7,929 common shares of Escalade Inc. At December 31, 2016, our cost and fair value for this holding was \$93,975 and \$104,663, respectively.

7,772 common shares of Mitek Systems, Inc. At December 31, 2016, our cost and fair value for this holding was \$50,540 and \$47,798, respectively.

59,839 common shares of National American University Holdings, Inc. At December 31, 2016, our cost and fair value for this holding was \$119,027 and \$116,686, respectively.

19,074 common shares of OTC Markets Group Cl A. At December 31, 2016, our cost and fair value for this holding was \$297,381 and \$438,702, respectively.

15,000 common shares of QC Holdings, Inc. At December 31, 2016, our cost and fair value for this holding was \$10,655 and \$11,100, respectively.

5,000 common shares of Tessco Technologies, Inc. At December 31, 2016, our cost and fair value for this holding was \$83,090 and \$65,000, respectively.

15,100 common shares of Travel Zoo, Inc. At December 31, 2016, our cost and fair value for this holding was \$177,459 and \$141,940, respectively.

BDC Regulation

The following discussion is a general summary of some of the material prohibitions and restrictions governing BDCs generally. It does not purport to be a complete description of all the laws and regulations affecting BDCs.

The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their directors and officers and principal underwriters and certain other related persons, and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of (i) 67% or more of such company’s shares present at a meeting or represented by proxy if more than 50% of the outstanding shares of such company are present or represented by proxy or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than “qualifying assets” listed in Section 55(a) of the 1940 Act unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC’s total assets. The principal categories of qualifying assets relevant to our business are the following:

Securities of an “eligible portfolio company” purchased from the issuer of such securities, from any person who is, or who was within the 13 months prior to the date of purchase, an affiliate of the issuer, or from any other person (subject to limitation by SEC rules), in any case in transactions not involving any public offering. The 1940 Act defines an “eligible portfolio company” as any issuer which:

(a) is organized under the laws of, and has its principal place of business in, the United States

(b) is not an investment company or a company that would be an investment company but for certain exclusions under the 1940 Act and

(c) satisfies one of the following:

does not have outstanding any class of securities with respect to which a broker or dealer may extend margin credit (or, if a broker or dealer may in fact extend or maintain margin credit to a customer with respect to such securities, then at the time of purchase of the issuer’s securities (A) the BDC owns at least 50% of the greatest number of outstanding and issuable equity securities of such issuer (i.e., 50% determined on a fully diluted basis) and the greatest amount of debt securities of such issuer), (B) the BDC is one of the 20 largest holders of record of the issuer’s outstanding voting securities)

is controlled by a BDC or a group of companies acting together that includes a BDC, the BDC does in fact exercise (ii) a controlling influence over the management or policies of the issuer, and, as a result of such control, the BDC has an affiliated person serving as a director of the eligible portfolio company

(iii) is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million, subject to adjustment by SEC rules or

by virtue of SEC Rule 2a-46, (A) does not have any class of securities listed on a national securities exchange, or (iv) (B) has a class of securities listed on a national securities exchange but an aggregate market value (as computed under such rule) of outstanding voting and non-voting common equity of less than \$250 million.

Securities of any eligible portfolio company (as defined above) that we control through having a person serving on the board of directors of the issuer

Securities purchased from an issuer, or from a person who is, or who was within the 13 months prior to the date of purchase, an affiliate of the issuer, which issuer is organized under the laws of, and has its principal place of business in, the United States and is not an investment company (or a company that would be an investment company but for certain exclusions under the 1940 Act), and which is in bankruptcy and subject to reorganization (or where the issuance of securities is consummated pursuant to or in consummation of a bankruptcy or reorganization plan or

arrangement)

Securities of an eligible portfolio company (as defined above) purchased from any person in a transaction not involving a public offering, if there is no ready market for such securities and if immediately prior to such purchase the BDC owns at least 60% of the outstanding equity securities of such issuer, as determined on a fully diluted basis

Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the conversion of warrants or rights relating to such securities

Cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment and

Office furniture and equipment, interests in real estate and leasehold improvement and facilities maintained to conduct the business operations of the BDC, operating expenses, and other non-investment assets necessary and appropriate to its operations as a BDC, including notes of indebtedness of directors, officers, employees and general partners held by the BDC as payment for securities of such company issued in connection with an executive compensation plan described in Section 57(j) of the 1940 Act.

Significant Managerial Assistance

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described above. However, to count portfolio securities as qualifying assets for the purpose of the foregoing 70% test, the BDC must either control the issuer of the securities or offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, whether through its directors, officers or employees, offers to provide, and, if accepted, does in fact so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company's officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, 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, so that at least 70% of our assets are qualifying assets. We plan to invest in U.S. treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests imposed on us by the Internal Revenue Code to qualify for tax treatment as a "regulated investment company" ("RIC") for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities Coverage Ratio

We will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock, but only if our "asset coverage," as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must not make any dividend distribution to our shareholders or repurchase securities unless we meet the applicable asset-coverage

ratios at the time of the dividend distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes.

Other

We will be periodically examined by the SEC for compliance with the 1940 Act, the rules and regulations thereunder, and good governance practices. We will not “concentrate” our investments (i.e., invest 25% or more of our assets in any particular industry, determined at the time of investment). We will be required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from indemnifying any director or officer against any liability to our shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person’s office. We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, and review these policies and procedures annually for their adequacy and the effectiveness of their implementation.

Management

Currently, Mr. Douglas M. Polinsky, the Chief Executive Officer and Chairman of our Board of Directors, and Joseph A. Geraci, II, our Chief Financial Officer and a director of the Company, both serve as our senior management team. Our ability to achieve our investment objective will depend on our senior management team’s ability to identify, evaluate, finance and invest in suitable companies that meet our investment goals. Accomplishing this result in a cost-effective manner will largely be a function of managing the due-diligence and investment process, efficiently monitoring investments we make and, in some cases, accessing financing sources on acceptable terms.

ITEM 1A RISK FACTORS

You should consider the following risk factors, in addition to the other information presented or incorporated by reference into this Annual Report on Form 10-K, in evaluating our business and any investment decision relating to our securities.

Risks Related to our Business

Our management team has no prior experience managing a BDC.

On December 13, 2012, we changed our business to become an internally managed, closed-end investment company and subsequently elected to be treated as a BDC under the 1940 Act. We have no prior experience managing a BDC, which may affect our ability to successfully manage and grow our business.

The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or small-cap traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Our management team's lack of experience in managing a portfolio of assets under such regulatory constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. Furthermore, our failure to comply with the complex BDC requirements could cause the SEC to bring an enforcement action against us, expose us to private claims and/or cause us to lose our status as a BDC.

We operate in a highly competitive market for portfolio investment opportunities.

We expect that many entities will compete with us to make the types of investments we plan to make in prospective portfolio companies. We will compete with private equity firms as well as other BDCs, investment funds, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources not available to us. These resources may enable our competitors to offer terms that we cannot match. We may lose prospective portfolio investments if we do not match our competitors' pricing, terms and structure. If, on the other hand, we do match our competitors' pricing, terms or structure, we may experience decreased

net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Importantly, many of our potential competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act does impose on us as a BDC. If we are not able to compete effectively, our business and financial condition and results of operations will be adversely affected.

We may be unable to make distributions, which failure could materially and adversely affect your investment.

Although we intend to make periodic distributions to our shareholders, we may be unable to achieve operating results that will allow us to make such distributions. For example, the BDC asset-coverage requirements may limit our ability to make distributions. In addition, restrictions and provisions in any future credit facilities may limit our ability to make distributions. Although we intend to elect RIC taxation under the Internal Revenue Code, if we fail to meet certain annual income-distribution requirements, we could lose our RIC status and be subject to corporate-level income tax. Any failure to make distributions or any loss of our RIC status could materially and adversely affect your investment.

Any unrealized losses we experience may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at the fair value as determined in good faith by our Board of Directors and consistent with our Company's valuation policy. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation on our statement of operations. Any unrealized losses in our portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us (if a loan), or of its diminishing value (if equity). This could result in future realized losses and, ultimately, income available for distribution in future periods.

Many of our portfolio investments will be recorded at fair value as determined in good faith by our Board of Directors. As a result, there may be uncertainty as to the ultimate value of our investments.

Our investments are expected to consist in material part of securities issued by privately held companies, the fair value of which is not readily determinable. In addition, we will not be permitted to maintain a general reserve for anticipated loan losses. Instead, we will be required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value. Our Board of Directors will value these securities at fair value as they determine in good faith and consistent with the written policies and procedures that we have adopted for this purpose. Where appropriate, our board may utilize the services of an independent valuation firm to assist in the determination of fair value. Because valuations, and particularly valuations of private investments, are inherently uncertain and may be based on estimates, our fair value determinations may differ materially from those that would be assessed if a liquid market for these securities existed. Our net asset value could be adversely affected if we determine the fair value of our investments to be materially higher than the values we ultimately realize from those investments.

If we are unable to source investments effectively, we may be unable to achieve our investment objectives.

Our ability to achieve our investment objective will depend on our senior management team's ability to identify, evaluate, finance and invest in suitable companies that meet our investment criteria. Accomplishing this result in a cost-effective manner will largely be a function of our management of the investment process, our ability to provide efficient services and our access to financing sources on acceptable terms. In addition to monitoring the performance of our investments, our management team must offer managerial assistance to our portfolio companies. These demands on their time may distract them, slowing the rate of overall investment. To grow, we expect that we will need to hire, train, supervise and manage new employees and to implement computer and other systems capable of effectively accommodating our growth. Our failure to effectively manage our future growth could materially and adversely affect our business, financial condition and results of operations.

We will be exposed to risks associated with changes in interest rates.

General interest rate fluctuations may have a substantial and negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in interest spreads on new investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates. Also, an increase in interest rates could make investment in our common stock less attractive if we are unable to increase our dividend rate, which could reduce the value of our common stock.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

Once we become a BDC subject to RIC taxation upon making a RIC election, we may be required to include in our taxable income certain amounts that we have not yet received in cash. Any of these amounts will increase the amounts we are required to distribute to qualify under the RIC rules. In any such event, we would need to obtain cash from other sources to satisfy our RIC-related distribution requirements. If we are unable to so obtain cash, we may fail to qualify for tax treatment as a RIC, and thus could become subject to a corporate-level income tax on all of our income. Accordingly, we may have to sell some of our assets, raise additional debt or equity capital, or reduce new investment originations to meet these distribution requirements and avoid a corporate-level income tax.

If we incur additional debt, it could increase the risk of investing in our Company.

We expect, in the future, that we may borrow from, and issue senior debt securities to, banks, insurance companies and other lenders. In such a case, lenders will have fixed-dollar claims on our assets that are superior to the claims of our shareholders, and we may grant a security interest in our assets in connection with our borrowings. In the case of a liquidation event, those lenders would receive proceeds before our shareholders. In addition, borrowings generally magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage and any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds, and could negatively affect our ability to make distributions on our common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures.

As a BDC, we will be required to meet an asset-coverage ratio, calculated as total assets (less all liabilities and indebtedness not represented by senior securities) to total indebtedness represented by senior securities, of at least 200%. If this ratio declines below 200%, we will be unable to incur additional debt and may need to sell a portion of our investments to repay debt when it is otherwise disadvantageous to do so, and we may be unable to make distributions.

Because we intend to distribute substantially all of our income and net realized capital gains to our shareholders once we make a RIC election, we will likely need additional capital to finance our growth.

To qualify for RIC taxation and avoid payment of excise taxes and minimize or avoid payment of income taxes, we intend to distribute to our shareholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our shareholders). As described elsewhere, as a BDC we will be required to meet a 200% asset-coverage ratio limiting the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may require us to raise additional equity at a time when it may be disadvantageous to do so. While we expect to be able to borrow and issue additional debt and equity securities, debt and equity financing may not be available to us on favorable terms, if at all. In addition, as a BDC, we will generally not be permitted to issue equity securities below our net asset value without shareholder approval. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value could decline.

Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or shareholder approval.

Our Board of Directors has the authority from time to time to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without shareholder approval. Under Section 58 of the 1940 Act, our Board of Directors may not, however, choose to withdraw our status as a BDC, or change its operations so as to cease to be a BDC, without the prior approval of our shareholders. The effects of any such exercise of authority may adversely affect our business and the value of your investment.

Failure to achieve and maintain effective internal controls could limit our ability to detect and prevent fraud and thereby adversely affect our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. Nevertheless, all internal control systems, no matter how well designed, have inherent limitations. Even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our most recent evaluation of our internal controls resulted in our conclusion that our disclosure controls and procedures were effective. Our inability to maintain an effective control environment may cause investors to lose confidence in our reported financial information, which could in turn have a material adverse effect on our stock price.

We are highly dependent on the services provided by certain executives and key personnel.

Our success depends in significant part upon the continued service of certain senior management and other key personnel. In particular, the Company is materially dependent upon the services of Douglas M. Polinsky, our Chief Executive Officer and Chairman and Joseph A. Geraci, II, our Chief Financial Officer and a director of the Company. Presently, we have no written employment agreement with either Mr. Geraci or Mr. Polinsky (their prior written employment agreements having expired in March 2016). Nevertheless, we expect to enter into written employment agreements with Messrs. Polinsky and Geraci in 2017 that will be substantially similar to their prior written agreements. We do not have any key-man insurance in place with respect to Messrs. Geraci and Polinsky.

Our articles of incorporation grant our Board of Directors the power to designate and issue additional shares of common and preferred stock.

Our authorized capital consists of 250,000,000 shares of capital stock. Unless otherwise specifically so designated upon issuance, all shares of capital issued we issue will be common stock. Pursuant to authority granted by our articles of incorporation, our Board of Directors, without any action by our shareholders, may designate and issue shares in such classes or series (including classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our common shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to shares of our common stock. Furthermore, any issuances of additional stock (common or preferred) will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute our book value per share.

Our stock is thinly traded, which may make it difficult to sell shares of our common stock.

Our common stock is thinly traded on the OTCQX and we expect that our common stock will generally remain thinly traded for the foreseeable future. A low trading volume will generally make it difficult for our shareholders to sell their shares as and when they choose. Furthermore, low trading volumes are generally understood to depress market prices. As a result, our shareholders may not always be able to resell shares of our common stock publicly at the time and prices that they feel are fair or appropriate.

Our common stock qualifies as a “penny stock,” which may make it difficult to sell shares of our common stock.

Our common stock is categorized as a “penny stock” subject to the requirements of Rule 15g-9 under the Securities and Exchange Act of 1934. Under this rule, broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. Under applicable regulations, our common stock will generally remain a “penny stock” until and for such time as its per-share price is \$5.00 or more (as determined in accordance with SEC regulations), or until we meet certain net asset or revenue thresholds. These thresholds include the possession of net tangible assets (i.e., total assets less intangible assets and liabilities) in excess of \$2,000,000 in the event we have been operating for at least three years or \$5,000,000 in the event we have been operating for fewer than three years, and the recognition of average revenues equal to at least \$6,000,000 for each of the last three years. We do not anticipate meeting any of the foregoing thresholds in the foreseeable future.

The penny-stock rules severely limit the liquidity of securities in the secondary market, and many brokers choose not to participate in penny-stock transactions. As a result, there is generally less trading in penny stocks. If you become a holder of our common stock, you may not always be able to resell shares of our common stock in public broker’s transaction, if at all, at the times and prices that you feel are fair or appropriate.

Risks Related to our Investments

Our investments may involve significant risks, which could ultimately materially and adversely affect our results of operation, financial condition and the value of our common stock. You could lose all of your investment.

We expect to invest primarily in senior secured term loans, mezzanine debt and selected equity investments issued by privately held and public “small- and micro-capitalization” companies, and may also use short sales and options in connection with our business.

Senior Secured Loans. When we extend senior secured term loans, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, which we expect to help mitigate the risk of default. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions. In some circumstances, our lien could be subordinate to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

Mezzanine Debt. Any mezzanine debt investments will generally be unsecured and subordinated to senior loans. We expect this will result in above-average risk and volatility, which could adversely affect our investment returns. Because mezzanine debt generally does not receive any cash prior to maturity of the debt, the investment will be of greater risk. To the extent interest payments associated with such debt are deferred, such debt will necessarily be subject to greater fluctuations in value based on changes in interest rates, and such debt could subject us to phantom income.

Equity Investments. We expect to make equity investments. In addition, when we invest in senior loans or mezzanine debt, we may acquire warrants in connection with such investments. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. Nevertheless, the equity interests we receive may not appreciate in value and may in fact decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Short Sales. We may engage in short selling. In certain circumstances, short sales can substantially increase the impact of adverse price movements in our investment positions. A short sale involves the theoretically unlimited increase in the market price of the security and uncertainty as to the availability of such security for purchase—theoretically an unlimited loss.

Options. We may buy or sell (write) both call options and put options, and may do so on a “covered” or an “uncovered” basis. Any options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or as a form of leverage, in which we have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances under which a particular transaction or position is entered into. When we buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of our investment in the option. When we sell (write) an option, the risk can be substantially greater. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. This risk is theoretically unlimited unless the option is “covered.” If it is covered, an increase in the market price of the security above the exercise price would cause us to lose the opportunity for gain on the underlying security—assuming it bought the

security for less than the exercise price.

Middle-Market Companies. Investments in middle-market companies also involve a number of additional significant risks, including:

typically shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns

material dependence on management talents and efforts of a small group of persons

less predictable operating results, engaging in rapidly changing businesses with products subject to a substantial risk of obsolescence, and requiring substantial additional capital

difficulty accessing the capital markets to meet future capital needs and

generally less publicly available information about their operations and financial condition.

The lack of liquidity in our investments may adversely affect our business.

We may invest in private companies and certain public companies. These securities may be subject to legal and other restrictions on resale or otherwise be less liquid than other publicly traded securities. The relative illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve near-term liquidity in our investments. Our investments may occasionally be subject to contractual or legal restrictions on resale or will be otherwise illiquid due to the fact that there is no established trading market for such securities, or such trading market is thinly traded. The relative illiquidity of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of collateral securing our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

Defaults by our portfolio companies could harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other debt holders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets. Such events could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

We anticipate making both debt and minority equity investments in our portfolio companies. Therefore, we will be subject to the risk that a portfolio company may make business decisions with which we disagree, and may take risks or otherwise act in ways that do not immediately or ultimately serve our interests and that could decrease the value of our portfolio holdings. We will not be in a position to control any portfolio company, and mitigate these risks, by investing in its debt securities or minority equity positions.

The prepayment of our debt investments could adversely impact our results of operations and reduce our return on equity.

We will be subject to the risk that our portfolio investments may be repaid prior to maturity. When this occurs, we generally expect to reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt that has been prepaid, and we could experience significant delays in reinvesting these prepaid amounts. Any future investment in a new portfolio company may also be at lower yields than the prepaid debt. As a result, our results of operations could be materially and adversely affected if one or more of our portfolio companies were to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Our portfolio companies may incur debt that ranks equally with or senior to our investments.

In some cases, portfolio companies will have other debt ranking equal or senior to the debt securities in which we invest. By their terms, such debt instruments may provide that holders thereof are entitled to receive payment of interest or principal on or before us. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, senior debt holders will typically be entitled to receive full payment before we receive distributions in respect of our investment, if any. In the case of debt ranking equal to our investment, we would have to share distributions on a pro rata basis with other creditors holding such debt upon any insolvency, liquidation, dissolution, reorganization or bankruptcy.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender-liability claims.

Even though we may structure investments as senior loans, if one of our portfolio companies goes bankrupt, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders such as us can be subject to lender-liability claims when they become too involved in the borrower's business or exercise control over the borrower.

Investments in equity securities involve a substantial degree of risk.

We may purchase common stock and other equity securities. The equity securities we acquire may fail to appreciate and may decline in value or become worthless, and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including the risk of dilution as a result of additional issuances. Even investments in preferred securities involve unique risks, such as the risk of deferred distributions, credit risk, illiquidity and limited voting rights.

Risks Related to Our Operation as a BDC

Our ability to enter into transactions with our affiliates will be restricted.

The 1940 Act prohibits us from participating in certain transactions with certain of our directors, officers and affiliates without the prior approval of our independent directors and, in some cases, the SEC. In this regard, any person owning, directly or indirectly, 5% or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include co-investments in a portfolio company, without prior approval of our independent directors and, in some cases, the SEC. In this regard, if a person acquires more than 25% of our voting securities, we will be prohibited from buying or selling any security from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such persons absent the prior approval of the SEC. As a result of these restrictions, the scope of investment opportunities that would otherwise be available to us may be materially limited.

BDC regulations affect our ability to raise additional capital.

We will likely require additional capital. We may acquire additional capital by issuing senior securities or indebtedness, by issuing additional common shares or from securitization transactions. Nonetheless, we may be unable to raise additional capital on favorable terms, if at all. We may issue debt securities or preferred securities, which we refer to collectively as “senior securities,” and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. Our ability to pay dividends or issue additional senior securities would be restricted if our asset-coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. In such a case, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

Changes in the laws or regulations governing our business, or in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.

Changes in the laws, regulations or the interpretations thereof that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements, we may have to incur significant compliance expenses or we might have to restrict our operations. If we fail to comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines or criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

If our primary investments are not deemed to be qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

To maintain qualification as a BDC, we must not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. If we fail to meet this “qualifying assets test,” we could be forced to dispose of certain investments, be precluded from investing in the manner described in this Form 10K, or lose our status as a BDC, any of which would have a material adverse effect on our business, financial condition and results of operations. The disposition of such investments may need to occur quickly, which would make it difficult to dispose of such investments on favorable terms. In addition, because these types of investments will generally be illiquid, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

If we are unable to qualify for RIC tax treatment, we will be subject to corporate-level income tax, which will adversely affect our results of operations and financial condition.

Provided we qualify for tax treatment as a RIC, we can generally avoid corporate-level federal income taxes on income distributed to our shareholders as dividends. We will not qualify for this pass-through tax treatment, and thus will be subject to corporate-level federal income taxes, if we are unable to comply with the source of income, diversification and distribution requirements contained in the Internal Revenue Code, or if we fail to maintain our registration under the 1940 Act. If we fail to qualify for RIC tax treatment, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to shareholders and the actual amount of our distributions. As such, any such failure would have a material adverse effect on us, the net asset value of our common stock and the total return obtainable from your investment in our common stock.

ITEM 2 PROPERTIES

On June 6, 2013, we entered into an agreement to lease approximately 1,917 square feet of commercial space and two parking spots, for a period of 62 months. The leased space became available for occupancy on September 23, 2013. The 62-month lease term began on October 1, 2013 and runs through November 30, 2018. The total base rent expense for the year ended December 31, 2016 and December 31, 2015 was \$45,378 and \$45,378, respectively.

The following is a schedule of the required annual minimum lease payments.

| Year | Amount |
|-------|----------|
| 2017 | \$50,311 |
| 2018 | 46,988 |
| TOTAL | \$97,299 |

ITEM 3 LEGAL PROCEEDINGS

On March 15, 2017, we filed a complaint in the Superior Court for the State of Arizona, Maricopa County, against defendants Mix 1 Life, Inc., a Nevada corporation, and Messrs. Christopher Larson and Cameron Robb. The complaint alleges a breach of contract on the part of Mix 1 Life for its default on two senior secured promissory notes. The first secured note is convertible into common stock of Mix 1 Life, was purchased on February 6, 2014 in the original principal amount of \$500,000 and originally became due on February 6, 2016. The second secured note is not convertible by its terms, was purchased on March 13, 2015 in the original principal amount of \$250,000, and originally became due on March 13, 2016. Mr. Larson is a guarantor of Mix 1 Life's obligations under the promissory notes, and each of Mr. Larson and Mr. Robb caused certain shares of Mix 1 Life common stock to be pledged to us as collateral security for the obligations under the promissory notes. As a result, the complaint also alleges breaches of related security contracts on the part of Messrs. Larson and Robb.

The complaint seeks recovery of the full aggregate original principal amount of \$750,000, plus accrued but unpaid interest, plus attorney's fees and other costs of collection and enforcement under the promissory notes and related security documents, from each of Mix 1 Life and Mr. Larson, and further seeks recovery of all attorney's fees and costs of collection and enforcement of the related security documents from Mr. Robb. The complaint also seeks (i) appointment of a receiver, pursuant to an Arizona state statute, over the business operations of Mix 1 Life to preserve and liquidate our collateral, and (ii) an equitable relief enjoining Messrs. Robb and Larson from interfering with the functions of the court-appointed receiver.

As of the date of this report, none of the defendants had answered our complaint.

PART II**ITEM 5 MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is listed for trading on the OTCQX under the symbol “MCVT”. The transfer agent and registrar for our common stock is Pacific Stock Transfer Company, 4045 South Spencer Street, Suite 403, Las Vegas, NV 89119. The following table sets forth the high and low bid prices for our common stock as reported by the OTCQX in 2016 and 2015. These quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. Trading in our common stock during the period represented was infrequent, exemplified by low trading volume and many days during which no trades occurred.

| | Market Price (High/Low) | Market Price (High/Low) |
|-----------------------------|----------------------------|----------------------------|
| For the Fiscal Year/Quarter | 2016 | 2015 |
| First Quarter | \$0.75 - 0.60 | \$1.00 - 0.80 |
| Second Quarter | \$0.65 - 0.37 | \$0.89 - 0.60 |
| Third Quarter | \$0.75 - 0.40 | \$0.89 - 0.75 |
| Fourth Quarter | \$0.80 - 0.28 | \$0.75 - 0.75 |

Holders

As of the date of this filing, we had approximately 183 holders of record of our common stock.

Dividends

We have not paid any dividends on our common stock and do not anticipate paying any such dividends in the near future. We do, however, intend to distribute dividends annually to our shareholders once we make an election to be treated as a regulated investment company (RIC) under the Internal Revenue Code.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2016, we had no outstanding options, warrants or other rights to purchase any equity securities of the

Company under any equity compensation plan or “individual compensation arrangement,” as defined in Item 201 of Regulation S-K. Furthermore, as of the date of this filing, we are not a party to any equity compensation plan, nor are we obligated under any “individual compensation arrangement” to issue any options, warrants, rights or other securities. We are not required by applicable state law or the listing standards of any self-regulatory agency (e.g., the OTCQX, NASD, AMEX or NYSE) to obtain the approval of our security holders prior to issuing any such compensatory options, warrants or other rights to purchase securities of the Company. Nevertheless, there are restrictions and limitations under the 1940 Act on our ability to grant options and warrants to members of our management and our non-interested, non-employee directors that, in our case, generally prohibit any such grants in the absence of prior SEC approval.

Recent Sales of Unregistered Securities

None.

ITEM 7 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 set forth below should be read in conjunction with our audited financial statements, and notes thereto, filed together with this Form 10-K.

Cautionary Note Regarding Forward-Looking Statements

Some of the statements made in this section of our report are forward-looking statements. These forward-looking statements generally relate to and are based upon our current plans, expectations, assumptions and projections about future events. Our management currently believes that the various plans, expectations, and assumptions reflected in or suggested by these forward-looking statements are reasonable. Nevertheless, all forward-looking statements involve risks and uncertainties and our actual actions or future results may be materially different from the plans, objectives or expectations, or our assumptions and projections underlying our present plans, objectives and expectations, which are expressed in this report. An example of specific factors that might cause our actual results to differ from our current expectations include but are not limited to:

- Our lack of a significant prior operating history to provide our management with a basis to better evaluate certain likelihoods
- Our likely need for additional financing to prosecute and grow our business
- Our inability, for any reason, to retain our executive management personnel and
- Our lack of experience with the complex rules and regulations applicable to a BDC under the 1940 Act and our ability, while being leanly staffed in order conserve investor resources, to comply with those rules and regulations.

The foregoing list is not exhaustive, and readers are urged to read carefully and consider the risk factors described elsewhere in this report. In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate even materially inaccurate. Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by the Company 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.

Results of Operations

| Item | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|-----------------------------------|------------------------------------|------------------------------------|
| Investment Income: | | |
| Interest Income | \$ 289,990 | \$ 478,331 |
| Dividend Income | 98,675 | 89,751 |
| Operating Expenses: | | |
| General Operating Expenses | 149,909 | 126,012 |
| Legal and Accounting Expenses | 174,454 | 206,292 |
| Executive Management Compensation | 157,490 | 162,861 |
| Insurance Expense | 78,134 | 89,421 |
| Director's Fees | 58,956 | 55,000 |
| Net Investment Loss | \$ (230,278 |) \$ (71,504 |

For the year ended December 31, 2016, the Company earned \$289,990 in interest payments from four eligible portfolio companies— Mix 1 Life, Inc., DBR Phase III US Investors, LLC, Creative Realities, Inc. and Bravo Financial, LLC— an additional \$170 bank interest on cash balances, and \$48,949 in dividend payments from six eligible portfolio companies— Educational Development Corp., OTC Markets Group Cl A, Simulations Plus, Inc., Tessco Technologies, Inc., Escalade Inc., and National American University Holdings, Inc., and \$49,726 in non-eligible portfolio company dividends. For the year ended December 31, 2015, the Company earned \$445,381 in interest payments from six eligible portfolio companies— Insite Software Solutions, Inc., Mix 1 Life, Inc. DBR Phase III US Investors, LLC, The Igloo, LLC, Creative Realities, Inc. and Bravo Financial, LLC— an additional \$450 bank interest on cash balances, \$32,500 in loan origination fees, \$15,000 in dividend payments from one eligible portfolio company, Dala Petroleum, Inc., and \$74,751 in noneligible portfolio company dividends.

As the table above indicates, we incurred general and administrative expenses aggregating \$581,443 for the year ended December 31, 2016, and \$639,586 for the year ended December 31, 2015. A discussion of the various components of our general and administrative expenses for these periods is set forth below.

General Operating Expenses. Our general operating expenses, which primarily include rent occupancy expense, bad debt expense, and miscellaneous office supply expenses, were \$149,909 for the year ended December 31, 2016. Our general operating expenses were \$126,012 for the year ended December 31, 2015. The increase in the current period is primarily related to our bad debt expense incurred in 2016.

Legal and Accounting Expenses. Our legal and accounting expenses were \$174,454 for the year ended December 31, 2016 and \$206,292 for the year ended December 31, 2015.

Executive Management Compensation. For the year ended December 31, 2016 and December 31, 2015, executive management compensation aggregated \$157,490 and \$162,861, respectively, in cash payments.

For the year ended December 31, 2016 and December 31, 2015, our net investment loss was \$192,778 and \$71,504, respectively. The increased net investment loss is primarily the result of lower income received on our investment portfolio.

Financial Condition

For the year ended December 31, 2016, we had an increase in net assets of \$646,120. This increase in net assets was primarily due to the increase in valuation of our holding in BiteSquad.com, LLC, offset by the decrease in valuation of our holdings in Mix 1 Life secured loans. Our net assets decreased by \$2,732,402 for the year ended December 31, 2015, primarily due to the write down of our oil and gas holdings, Southern Plains Resources, Inc. and Dala Petroleum, Inc., and the write off of The Igloo, LLC note. The decrease in the closing price of our holdings in the Mix 1 common stock was also a major contributor to this decrease.

Liquidity and Capital Resources

Summary cash flow data is as follows:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---------------------------|------------------------------------|------------------------------------|
| Cash flows used by: | | |
| Operating activities | \$ (635,908) | \$ (1,125,252) |
| Investing activities | (0) | (0) |
| Financing activities | (0) | (0) |
| Net decrease in cash | (635,908) | (1,125,252) |
| Cash, beginning of period | 2,980,659 | 4,105,911 |
| Cash, end of period | \$ 2,344,751 | \$ 2,980,659 |

We are not a party to any credit facilities or other sources of liquidity, and we have no present plans to become party to any credit facility. As a result, our \$2,344,751 of cash at the end fiscal 2016 and our \$2,980,659 of cash at the end of fiscal 2015 constituted our sole source of liquidity. Management believes cash on hand is sufficient to fund our anticipated operational and financing activities through fiscal 2017.

Presently, we expect that our \$2.3 million in cash as of December 31, 2016 will be substantially invested within the next 12 months.

Capital Expenditures

We did not have any material commitments for capital expenditures in fiscal 2016 and we do not anticipate any such capital expenditures for fiscal 2017. Given our business model, investment in capital resources is not required beyond investments in certain securities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, nor are we a party to any contract or other obligation not included on its balance sheet that has, or is reasonably likely to have, a current or future effect on our financial condition.

Critical Accounting Policies

Critical accounting policies are policies that are both most important to the portrayal of the Company's financial condition and results, and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to investment valuation and interest and dividend income as a BDC.

Investment Valuation

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by the Valuation Committee of our Board of Directors, based on, among other things, the input of our executive management, Audit Committee and independent third party valuation expert that may be engaged by management to assist in the valuation of our portfolio investments. Valuation determinations are in all cases made in conformity with the written valuation policies and procedures respecting the valuation of Company investments.

Interest and Dividend Income Recognition

Interest income is recorded on an accrual basis and includes the accretion of discounts and amortization of premiums. Discounts from and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective 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. 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 this if the 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.

Use of Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The application of GAAP requires that we make estimates that affect our reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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| <u>Balance Sheets — December 31, 2016 and December 31, 2015</u> | 23 |
| <u>Statements of Operations — Years ended December 31, 2016 and December 31, 2015</u> | 24 |
| <u>Statements of Shareholders' Equity (Deficit) — Years ended December 31, 2016 and December 31, 2015</u> | 25 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors of

Mill City Ventures III, Ltd.

Wayzata, Minnesota

We have audited the accompanying balance sheets of Mill City Ventures III, Ltd.(the “Company”) as of December 31, 2016 and 2015, including the schedule of investments as of December 31, 2016 and 2015 and the related statements of operations, shareholders' equity and cash flows for the year ended December 31, 2016, and December 31, 2015 and the financial highlights for each of the four years in the period then ended. These financial statements and financial highlights are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as we as the overall financial statement presentation. Our procedures included confirmation of investments as of December 31, 2016 and 2015, by correspondence with the custodian, loan agents or borrowers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above, including the schedule of investments, present fairly, in all material respects, the financial position of Mill City Ventures III, Ltd. as of December 31, 2016 and 2015 and the results of their operations and cash flows for the years ended December 31, 2016 and 2015 and the financial highlights for each of the four years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in note 7 to the financial statements, the accompanying financial statements include investments valued at \$4,240,640, whose fair values have been estimated by the Valuation Committee and management in the absence of readily determinable fair values. Such estimates are based on financial and other information provided by

management of its portfolio companies and pertinent market and industry data. These investments are valued in accordance with FASB ASC 820, Fair Value Measurement, which requires the Company to assume that the portfolio investments are sold in a principal market to market participants. The Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. As of December 31, 2016, \$4,240,640 of investments are valued based on unobservable inputs. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate significantly over short periods of time. These determinations of fair value could differ materially from the values that would have been utilized had a ready market for these investments existed.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 28, 2017

Mill City Ventures III, Ltd.

Balance Sheets

| | December 31, 2016 | December 31, 2015 |
|---|----------------------|----------------------|
| ASSETS | | |
| Investments, at fair value | | |
| Non-control/Non-affiliate investments (cost of \$7,397,908 and \$7,218,131) | \$ 6,987,002 | \$ 5,747,808 |
| Cash | 2,344,751 | 2,980,659 |
| Prepaid expenses | 61,661 | 43,808 |
| Interest and dividends receivable | 4,853 | 23,840 |
| Leasehold improvements, net | 15,665 | 23,773 |
| Property and equipment, net | 9,946 | 14,222 |
| Total Assets | \$ 9,423,878 | \$ 8,834,110 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 25,097 | \$ 10,431 |
| Payable for purchase of investments | - | 65,622 |
| Deferred interest income | - | 5,645 |
| Deferred rent | 11,373 | 11,124 |
| Total Current Liabilities | 36,470 | 92,822 |
| Total Liabilities | 36,470 | 92,822 |
| Commitments and Contingencies (Note 4) | | |
| SHAREHOLDERS' EQUITY | | |
| Common Stock, \$.001 par value: Authorized 250,000,000 shares: Issued and outstanding 12,151,493 and 12,151,493 shares. | 12,151 | 12,151 |
| Additional paid-in capital | 11,857,660 | 11,857,660 |
| Accumulated deficit | (1,159,665) | (1,159,665) |
| Accumulated undistributed investment loss | (1,330,205) | (1,099,927) |
| Accumulated undistributed net realized gains on investment transactions | 418,373 | 601,392 |
| Net unrealized appreciation/(depreciation) in value of investments | (410,906) | (1,470,323) |
| Total Shareholders' Equity | 9,387,408 | 8,741,288 |
| Total Liabilities and Shareholders' Equity | \$ 9,423,878 | \$ 8,834,110 |

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.

Statements of Operations

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|--|------------------------------------|------------------------------------|
| Investment Income | | |
| Interest income | \$ 289,990 | \$ 478,331 |
| Dividend income | 98,675 | 89,751 |
| Total Investment Income | 388,665 | 568,082 |
| Operating Expenses: | | |
| Professional fees | 174,454 | 206,292 |
| Payroll expense | 157,490 | 162,861 |
| Insurance expense | 78,134 | 89,421 |
| Occupancy | 82,901 | 91,217 |
| Director's fees | 58,956 | 55,000 |
| Bad debt expense | 37,500 | - |
| Depreciation and amortization | 12,384 | 12,849 |
| Other general and administrative expenses | 17,124 | 21,946 |
| Total Operating Expenses | 618,943 | 639,586 |
| Net Investment Loss | \$ (230,278 |) \$ (71,504) |
| Realized and Unrealized Gain (Loss) on Investments | | |
| Net realized gain (loss) on investments | \$ (183,019 |) \$ 183,416 |
| Net change in unrealized appreciation (depreciation) on investments | \$ 1,059,417 | \$ (2,844,314) |
| Net Realized and Unrealized Gain (Loss) on Investments | 876,398 | (2,660,898) |
| Net Increase (Decrease) in Net Asset Value Resulting from Operations | \$ 646,120 | \$ (2,732,402) |
| Net Increase (Decrease) in Net Assets Resulting from Operations per share: | | |
| Basic and diluted | \$ 0.05 | \$ (0.22) |
| Weighted-average number of common shares outstanding | 12,151,493 | 12,151,493 |

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.

Statements of Shareholders' Equity

For the years ended December 31, 2016 and 2015

| | Common Shares | Stock Amount | Additional Paid In Capital | Accumulated Deficit | Accumulated Investment Loss | Accumulated Net Realized Gains on Investments | Net Unrealized Appreciation in value of Investments | Total Shareholders' Equity |
|---|------------------|-----------------|----------------------------------|------------------------|-----------------------------------|---|---|----------------------------------|
| Balance as of January 1, 2015 | 12,151,493 | \$12,151 | \$11,857,660 | \$(1,159,665) | \$(1,028,423) | \$417,976 | \$1,373,991 | \$11,473,690 |
| Undistributed investment loss | — | — | — | — | (71,504) | — | — | (71,504) |
| Undistributed net realized gains on investment transactions | — | — | — | — | — | 183,416 | — | 183,416 |
| Depreciation in value of investments | — | — | — | — | — | — | (2,844,314) | (2,844,314) |
| Balance as of December 31, 2015 | 12,151,493 | \$12,151 | \$11,857,660 | \$(1,159,665) | \$(1,099,927) | \$601,392 | \$(1,470,323) | \$8,741,288 |
| Undistributed investment loss | — | — | — | — | (230,278) | — | — | (230,278) |
| Undistributed net realized gains on investment transactions | — | — | — | — | — | (183,019) | — | (183,019) |
| | — | — | — | — | — | — | 1,059,417 | 1,059,417 |

Appreciation
in value of
investments

Balance as of

| | | | | | | | | |
|----------------------|------------|----------|--------------|---------------|---------------|-----------|-------------|-------------|
| December 31, 2016 | 12,151,493 | \$12,151 | \$11,857,660 | \$(1,159,665) | \$(1,330,205) | \$418,373 | \$(410,906) | \$9,387,408 |
|----------------------|------------|----------|--------------|---------------|---------------|-----------|-------------|-------------|

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.

Statements of Cash Flows

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|------------------------------------|------------------------------------|
| Cash flows from operating activities: | | |
| Net increase (decrease) in net asset value resulting from operations | \$ 646,120 | \$ (2,732,402) |
| Adjustments to reconcile net increase (decrease) in net asset value resulting from operations to net cash used in operating activities: | | |
| Net change in unrealized appreciation or depreciation on investments | (1,059,417) | 2,844,314 |
| Net realized gain or loss on investments | 183,019 | (183,416) |
| Payments for purchases of investments | (2,520,559) | (3,999,675) |
| Proceeds from sales of investments | 2,157,763 | 2,762,478 |
| Depreciation and amortization | 12,384 | 12,849 |
| Changes in operating assets and liabilities: | | |
| Receivable from sale on investments | - | 82,103 |
| Interest and dividends receivable | 18,987 | 35,954 |
| Prepaid expenses | (17,853) | 5,815 |
| Accounts payable | 14,666 | (25,667) |
| Deferred rent | 249 | 1,128 |
| Deferred interest income | (5,645) | 5,645 |
| Payable for purchase of investment | (65,622) | 65,622 |
| Net cash used in operating activities | (635,908) | (1,125,252) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | - | - |
| Purchases of leasehold improvements | - | - |
| Net cash used in investing activities | - | - |
| Cash flows from financing activities: | | |
| Payment for repurchase of common stock | - | - |
| Net cash used in financing activities | - | - |
| Net decrease in cash | (635,908) | (1,125,252) |
| Cash, beginning of the year | 2,980,659 | 4,105,911 |
| Cash, end of the year | \$ 2,344,751 | \$ 2,980,659 |

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.**Investment Schedule****As of December 31, 2016**

| Investments ⁽¹⁾ | Investment Type | Interest Rate ⁽²⁾ | Maturity Date | Principal Amount | Cost | Fair Value | Percentage of Net Assets | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Net Unrealized Appreciation (Depreciation) |
|-----------------------------------|-----------------------------|-------------------------------------|----------------------|-------------------------|------------------|-------------------|---------------------------------|--------------------------------------|--------------------------------------|---|
| Debt Investments | | | | | | | | | | |
| Consumer | | | | | | | | | | |
| Mix 1 Life, Inc. | Secured Loan ⁽⁴⁾ | 12% | 2/6/2016 | \$ 500,000 | 500,000 | 180,000 | | — | 320,000 | (320,000) |
| Mix 1 Life, Inc. | Secured Loan | 12% | 3/13/2016 | \$ 250,000 | 250,000 | — | | — | 250,000 | (250,000) |
| | | | | | 750,000 | 180,000 | 1.92% | — | 570,000 | (570,000) |
| Financial | | | | | | | | | | |
| Bravo Financial LLC | Secured Loan | 12% | 8/31/2018 | \$ 500,000 | 500,000 | 500,000 | 5.32% | — | — | — |
| Oil & Gas | | | | | | | | | | |
| Dala Petroleum, Inc. | Secured Loan | 12% | 12/31/2015 | \$ 25,000 | 25,000 | — | | — | 25,000 | (25,000) |
| Dala Petroleum, Inc. | Secured Loan | 12% | 12/22/2016 | \$ 35,195 | 35,195 | — | | — | 35,195 | (35,195) |
| Dala Petroleum, Inc. | Secured Loan | 12% | 12/16/2017 | \$ 22,500 | 22,500 | — | | — | 22,500 | (22,500) |
| | | | | | 82,695 | — | 0.00% | — | 82,695 | (82,695) |
| Total Debt Investments | | | | | 1,332,695 | 680,000 | 7.24% | — | 652,695 | (652,695) |

The accompanying notes are an integral part of these financial statements.

| Investments ⁽¹⁾ | Investment Type ⁽⁵⁾ | Interest Rate ⁽⁶⁾ | Expiration Date ⁽⁷⁾ | Shares/Units | Cost | Fair Value | Percentage of Net Assets | Gross Unrealized Appreciation |
|----------------------------------|-------------------------------------|------------------------------|--------------------------------|--------------|---------|------------|--------------------------|-------------------------------|
| Equity Investments | | | | | | | | |
| Advertising | | | | | | | | |
| Creative Realities, Inc. | Warrants ⁽⁸⁾ | n/a | 12/28/2020 | 1,071,429 | — | 32,143 | 0.34 % | 32,143 |
| Bio-technology | | | | | | | | |
| Bio Life Solutions, Inc. | Warrants ⁽⁸⁾ | n/a | 3/20/2021 | 100,000 | — | — | | — |
| Combimatrix Corporation | Warrants ⁽⁸⁾ | n/a | 5/6/2019 | 5,464 | — | — | | — |
| Combimatrix Corporation | Warrants ⁽⁸⁾ | n/a | 6/28/2019 | 5,464 | — | — | | — |
| Combimatrix Corporation | Warrants ⁽⁸⁾ | n/a | 12/19/2018 | 16,666 | — | — | 0.00 % | — |
| Consumer | | | | | | | | |
| Escalade Inc. | Common Stock | n/a | n/a | 7,929 | 93,975 | 104,663 | | 10,688 |
| Mix 1 Life, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 40,051 | — | 15,219 | | 15,219 |
| Mix 1 Life, Inc. | Common Stock ⁽¹⁰⁾ | n/a | n/a | 100,000 | 46,160 | 30,000 | | — |
| Tzfat Spirits of Israel, LLC | LLC Membership Units ⁽⁸⁾ | n/a | n/a | 55,000 | 101,019 | 25,000 | | — |
| | | | | | 241,154 | 174,882 | 1.86 % | 25,907 |
| Education | | | | | | | | |
| Nat'l Amer. Univ. Holdings, Inc. | Common Stock | n/a | n/a | 59,839 | 119,027 | 116,686 | 1.24 % | 992 |
| Financial | | | | | | | | |
| Comm. Sales & Leasing | Common Stock ⁽⁹⁾ | n/a | n/a | 2,000 | 65,620 | 50,820 | | — |
| OTC Markets Group | Common Stock | n/a | n/a | 19,074 | 297,381 | 438,702 | | 141,321 |
| CI A | Common Stock ⁽⁸⁾ | n/a | n/a | 15,000 | 10,655 | 11,100 | | 445 |
| QC Holdings, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 15,000 | 373,656 | 500,622 | 5.33 % | 141,766 |
| Healthcare | | | | | | | | |
| WaferGen Bio-Systems, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 85,210 | 369,800 | 420,085 | | 50,285 |
| WaferGen Bio-Systems, Inc. | Warrants ⁽⁸⁾ | n/a | 10/21/2020 | 40,000 | — | — | | — |
| | | | | | 369,800 | 420,085 | 4.48 % | 50,285 |
| Information Technology | | | | | | | | |
| Insite Software Solutions, Inc | Warrants ⁽⁸⁾ | n/a | 12/30/2023 | 108,960 | — | — | | — |
| MAX 4G, Inc. | Preferred Stock ⁽⁸⁾ | n/a | n/a | 300,000 | 150,000 | 300,000 | | 150,000 |

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| | | | | | | | | |
|----------------------------------|--|-----|----------|---------|--------------|--------------|---------|--------------|
| Mitek Systems Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 7,772 | 50,540 | 47,798 | | — |
| Simulations Plus, Inc. | Common Stock | n/a | n/a | 18,639 | 173,310 | 179,862 | | 10,659 |
| Travelzoo, Inc. | Common Stock | n/a | n/a | 15,100 | 177,459 | 141,940 | | — |
| | | | | | 551,309 | 669,600 | 7.13 % | 160,659 |
| Investment Fund | | | | | | | | |
| Calamos Conv. & High Inc. Fund | Common Stock ⁽⁹⁾ | n/a | n/a | 10,000 | 128,357 | 105,500 | | — |
| Solar Senior Capital Ltd | Common Stock ⁽⁹⁾ | n/a | n/a | 6,047 | 91,983 | 99,412 | | 7,429 |
| | | | | | 220,340 | 204,912 | 2.18 % | 7,429 |
| Leisure & Hospitality | | | | | | | | |
| Bitesquad.com LLC | Preferred LLC Units ^{(4) (8)} | n/a | n/a | 100,000 | 1,380,000 | 2,747,011 | 29.26 % | 1,367,011 |
| Media | | | | | | | | |
| Discovery Communications Inc. | Common Stock ⁽⁹⁾ | n/a | n/a | 5,000 | 149,609 | 137,050 | 1.46 % | — |
| Oil & Gas | | | | | | | | |
| Dala Petroleum, Inc. | Preferred Stock ⁽⁸⁾ | n/a | n/a | 500 | 500,000 | — | | — |
| Dala Petroleum, Inc. | Warrants ⁽⁸⁾ | n/a | 6/3/2017 | 714,286 | — | — | | — |
| Northern Capital Partners I, LP | Limited Partnership Units ⁽⁸⁾ | n/a | n/a | 550,000 | 550,000 | 488,629 | | — |
| Southern Plains Resources, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 600,000 | 730,000 | — | | — |
| | | | | | 1,780,000 | 488,629 | 5.21 % | — |
| Publishing | | | | | | | | |
| Educational Development Corp. | Common Stock | n/a | n/a | 36,905 | 409,380 | 367,205 | 3.91 % | 3,141 |
| Telecommunications | | | | | | | | |
| AT&T | Common Stock ⁽⁹⁾ | n/a | n/a | 5,000 | 175,260 | 212,650 | | 37,390 |
| CenturyLink, Inc. | Common Stock ⁽⁹⁾ | n/a | n/a | 5,000 | 157,360 | 118,900 | | — |
| MagicJack | Common Stock ^{(8) (9)} | n/a | n/a | 5,754 | 34,141 | 39,415 | | 5,274 |
| VocalTek Ltd. | | | | | | | | |
| Tessco Technologies Inc. | Common Stock | n/a | n/a | 5,000 | 83,090 | 65,000 | | — |
| Windstream Holdings Inc. | Common Stock ⁽⁹⁾ | n/a | n/a | 1,666 | 21,087 | 12,212 | | — |
| | | | | | 470,938 | 448,177 | 4.78 % | 42,664 |
| Total Equity Investments | | | | | 6,065,213 | 6,307,002 | 67.18 % | 1,831,997 |
| Total Cash and Cash Equivalents | | | | | 2,344,751 | 2,344,751 | 24.98 % | — |
| Total Investments, Cash and Cash | | | | | \$ 9,742,659 | \$ 9,331,753 | 99.40 % | \$ 1,831,997 |

Equivalents

- (1) All investments and all cash, restricted cash and cash equivalents are “qualifying assets” under Section 55(a) of the Investment Company Act of 1940 unless indicated to the contrary in the table or by footnote.
- (2) Interest is presented on a per annum basis.
- (3) Investment is secured but payment and collateral are subordinated to the debt of another creditor by contract.
- (4) Investment is convertible into common equity of the issuer.
- (5) In the case of warrants, warrants provide for the right to purchase common equity of the issuer.
- (6) In the case of preferred stock, this represents the right to annual cumulative dividends calculated on a per annum basis.
- (7) In the case of warrants, purchase rights under the warrants will expire at the close of business on this date.
- (8) Investment is not an income-producing investment.

Investment is neither a “qualifying asset” under Section 55(a) of the Investment Company Act of 1940, nor a (9) restricted security. At December 31, 2016, aggregate non-qualifying assets represented approximately 8.3% of our total assets.

- (10) Value reflects 20% discount for restricted nature of securities.

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd

Schedule of Investments

As of December 31, 2015

| Investments ⁽¹⁾ | Investment Type | Interest Rate ⁽²⁾ | Maturity Date | Principal Amount | Cost | Fair Value | Percentage of Net Assets | Gross Unrealized Depreciation | Gross Unrealized Appreciation | Net Unrealized Depreciation |
|----------------------------|-----------------------------|------------------------------|---------------|------------------|--------------|--------------|--------------------------|-------------------------------|-------------------------------|-----------------------------|
| Debt Investments | | | | | | | | | | |
| Advertising | | | | | | | | | | |
| Creative Realities, Inc. | Secured Loan ⁽³⁾ | 12% cash + 2% PIK | 4/15/2017 | \$ 600,000 | \$ 600,000 | \$ 600,000 | 6.86 % | — | — | — |
| Consumer | | | | | | | | | | |
| Mix 1 Life, Inc. | Secured Loan ⁽⁴⁾ | 12 % | 2/6/2016 | \$ 500,000 | 500,000 | 500,000 | | — | — | — |
| Mix 1 Life, Inc. | Secured Loan | 12 % | 3/13/2016 | \$ 250,000 | 250,000 | 250,000 | | — | — | — |
| | | | | | 750,000 | 750,000 | 8.58 % | — | — | — |
| Financial | | | | | | | | | | |
| Bravo Financial LLC | Secured Loan | 12 % | 8/31/2018 | \$ 500,000 | 500,000 | 500,000 | 5.72 % | — | — | — |
| Leisure & Hospitality | | | | | | | | | | |
| The Igloo LLC | Secured Loan | 20 % | 12/31/2016 | 500,000 | 500,000 | — | 0.00 % | — | 500,000 | (500,000) |
| Oil & Gas | | | | | | | | | | |
| Dala Petroleum, Inc. | Secured Loan | 12 % | 12/22/2016 | \$ 5,195 | 5,195 | — | | — | 5,195 | (5,195) |
| Pacific Oil & Gas LLC | Secured Loan | 12 % | 12/31/2015 | \$ 25,000 | 25,000 | — | | — | 25,000 | (25,000) |
| | | | | | 30,195 | — | 0.00 % | — | 30,195 | (30,195) |
| Total Debt Investments | | | | | \$ 2,380,195 | \$ 1,850,000 | 21.16 % | — | \$ 530,195 | (\$ 530,195) |

The accompanying notes are an integral part of these financial statements.

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| Investments ⁽¹⁾ | Investment Type ⁽⁵⁾ | Interest Rate ⁽⁶⁾ | Expiration Date ⁽⁷⁾ | Shares/Units | Cost | Fair Value | Percentage of Net Assets | Gross Unrealized Uplift | Gross Unrealized Depreciation |
|--------------------------------|-------------------------------------|------------------------------|--------------------------------|--------------|---------|------------|--------------------------|-------------------------|-------------------------------|
| Equity Investments | | | | | | | | | |
| Advertising | | | | | | | | | |
| Creative Realities, Inc. | Warrants ⁽⁸⁾ | n/a | 12/28/2020 | 1,071,429 | — | — | | — | — |
| Creative Realities, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 975,000 | — | 243,750 | | 243,750 | — |
| | | | | | — | 243,750 | 2.79 % | 243,750 | — |
| Bio-technology | | | | | | | | | |
| Bio Life Solutions, Inc. | Warrants ⁽⁸⁾ | n/a | 3/20/2021 | 100,000 | — | — | | — | — |
| Combimatrix Corporation | Warrants ⁽⁸⁾ | n/a | 5/6/2019 | 81,967 | — | — | | — | — |
| Combimatrix Corporation | Warrants ⁽⁸⁾ | n/a | 6/28/2019 | 81,967 | — | — | | — | — |
| Combimatrix Corporation | Warrants ⁽⁸⁾ | n/a | 12/19/2018 | 250,000 | — | — | | — | — |
| | | | | | — | — | 0.00 % | — | — |
| Consumer | | | | | | | | | |
| Mix 1 Life, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 237,470 | — | 237,470 | | 237,470 | — |
| Tzfat Spirits of Israel, LLC | LLC Membership Units ⁽⁸⁾ | n/a | n/a | 55,000 | 101,019 | 25,000 | | — | — |
| | | | | | 101,019 | 262,470 | 3.00 % | 237,470 | — |
| Financial | | | | | | | | | |
| Comm. Sales & Leasing | Common Stock ⁽⁹⁾ | n/a | n/a | 2,000 | 65,620 | 37,380 | 0.43 % | — | — |
| Healthcare | | | | | | | | | |
| WaferGen Bio-Systems, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 200,000 | 200,000 | 146,760 | | — | — |
| WaferGen Bio-Systems, Inc. | Warrants ⁽⁸⁾ | n/a | 10/21/2020 | 200,000 | — | — | | — | — |
| | | | | | 200,000 | 146,760 | 1.68 % | — | — |
| Information Technology | | | | | | | | | |
| Insite Software Solutions, Inc | Warrants ⁽⁸⁾ | n/a | 12/30/2023 | 108,960 | — | — | | — | — |
| MAX 4G Simulations Plus, Inc. | Preferred Stock ⁽⁸⁾ | n/a | n/a | 300,000 | 150,000 | 300,000 | | 150,000 | — |
| | Common Stock | n/a | n/a | 5,000 | 47,869 | 49,550 | | 1,681 | — |
| | | | | | 197,869 | 349,550 | 4.00 % | 151,681 | — |
| Investment Fund | | | | | | | | | |
| Calamos Conv. & High Inc. Fund | Common Stock ⁽⁹⁾ | n/a | n/a | 10,000 | 128,357 | 105,100 | | — | — |
| | Common Stock ⁽⁹⁾ | n/a | n/a | 10,000 | 253,510 | 210,000 | | — | — |

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| | | | | | | | | | |
|--|--|-----|----------|---------|--------------|-------------|---------|-----------|-----|
| Powershares High Dividend Yield Solar Senior Capital Ltd | Common Stock ⁽⁹⁾ | n/a | n/a | 6,047 | 91,983 | 90,100 | — | — | — |
| | | | | | 473,850 | 405,200 | 4.64 % | — | — |
| Leisure & Hospitality | | | | | | | | | |
| Bitesquad.com LLC | Preferred LLC Units ^{(4) (8)} | n/a | n/a | 60,000 | 780,000 | 780,000 | 8.92 % | — | — |
| DBR Phase III US Investors, LLC | Limited Partnership Units ⁽⁸⁾ | n/a | n/a | 761,050 | 761,050 | 761,050 | 8.71 % | — | — |
| | | | | | 1,541,050 | 1,541,050 | 17.63 % | — | — |
| Media | | | | | | | | | |
| Discovery Communications Inc. | Common Stock ⁽⁹⁾ | n/a | n/a | 5,000 | 149,609 | 133,400 | 1.53 % | — | — |
| Oil & Gas | | | | | | | | | |
| Dala Petroleum, Inc. | Preferred Stock ⁽⁸⁾ | n/a | n/a | 500 | 500,000 | — | — | — | — |
| Dala Petroleum, Inc. | Warrants ⁽⁸⁾ | n/a | 6/3/2017 | 714,286 | — | — | — | — | — |
| Northern Capital Partners I, LP | Limited Partnership Units ⁽⁸⁾ | n/a | n/a | 500,000 | 500,000 | 444,208 | — | — | — |
| Southern Plains Resources, Inc. | Common Stock ⁽⁸⁾ | n/a | n/a | 600,000 | 730,000 | — | — | — | — |
| | | | | | 1,730,000 | 444,208 | 5.08 % | — | — |
| Publishing | | | | | | | | | |
| Educational Development Corp. | Common Stock | n/a | n/a | 2,300 | 25,212 | 25,461 | 0.29 % | 249 | — |
| Telecommunications | | | | | | | | | |
| AT&T | Common Stock ⁽⁹⁾ | n/a | n/a | 5,000 | 175,260 | 172,050 | — | — | — |
| CenturyLink, Inc. | Common Stock ⁽⁹⁾ | n/a | n/a | 5,000 | 157,360 | 125,800 | — | — | — |
| Windstream Holdings Inc. | Common Stock ⁽⁹⁾ | n/a | n/a | 1,666 | 21,087 | 10,729 | — | — | — |
| | | | | | 353,707 | 308,579 | 3.53 % | — | — |
| Total Equity Investments | | | | | \$4,837,936 | \$3,897,808 | 44.59% | \$633,150 | \$— |
| Total Cash and Cash Equivalents | | | | | \$2,980,659 | \$2,980,659 | 34.10% | — | — |
| Total Investments, Cash and Cash Equivalents | | | | | \$10,198,790 | \$8,728,467 | 99.85% | \$633,150 | \$— |

⁽¹⁾ All investments and all cash, restricted cash and cash equivalents are “qualifying assets” under Section 55(a) of the Investment Company Act of 1940 unless indicated to the contrary in the table or by footnote.

⁽²⁾ Interest is presented on a per annum basis.

⁽³⁾ Investment is secured but payment and collateral are subordinated to the debt of another creditor by contract.

⁽⁴⁾ Investment is convertible into common equity of the issuer.

- (5) In the case of warrants, warrants provide for the right to purchase common equity of the issuer.
- (6) In the case of preferred stock, this represents the right to annual cumulative dividends calculated on a per annum basis.
- (7) In the case of warrants, purchase rights under the warrants will expire at the close of business on this date.
- (8) Investment is not an income-producing investment.
- (9) Investment is neither a “qualifying asset” under Section 55(a) of the Investment Company Act of 1940, nor a restricted security.
- At December 31, 2015, aggregate non-qualifying assets represented approximately 10.1% of our total assets.

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.

NOTE 1 — ORGANIZATION

Mill City Ventures III, Ltd. is an investment company 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 an internally managed closed-end non-diversified management investment company. We have elected to be regulated as a business development company, or “BDC,” under the Investment Company Act of 1940 (the “1940 Act”). To date, we have not made an election to be treated as a regulated investment company, or “RIC,” under the Internal Revenue Code of 1986.

We primarily focus on investing in or lending to privately held and small-cap publicly traded U.S. companies, and making managerial assistance available to such companies. These investments are typically structured as purchases of preferred or common stock, investment contracts, or loans evidenced by promissory notes that may be convertible into stock by their terms or that may be accompanied by the issuance to us of warrants or similar rights to purchase stock. Our investments may be made for purposes of financing acquisitions, recapitalizations, buyouts, organic growth and working capital. Our future revenues will relate to the gain we realize from the sale of securities we purchase, and to dividends and interest we derive from those securities. Our investment objective is to generate both current income and capital appreciation that ultimately become gains.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 the Valuation Committee of 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.

Income taxes: We account for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. For more information, see Note 7 “Income Taxes.”

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

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

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

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

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.

NOTE 3 — NET GAIN (LOSS) PER COMMON SHARE

Basic net gain (loss) per common share is computed by dividing net gain (loss) by the weighted-average number of vested common shares outstanding during the period. A reconciliation of the numerator and denominator used in the

calculation of basic and diluted net gain (loss) per common share follows:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|------------------------------------|------------------------------------|
| Numerator: Net Gain (Loss) | \$ 646,120 | \$ (2,732,402) |
| Denominator: Weighted-average number of common shares outstanding | 12,151,493 | 12,151,493 |
| Basic and diluted net gain (loss) per common share | \$ 0.05 | \$ (0.22) |

At December 31, 2016 and 2015, the Company did not have any options or warrants outstanding or any other dilutive common equivalent shares.

NOTE 4 — COMMITMENTS AND CONTINGENCIES

On June 6, 2013, we entered into an agreement to lease approximately 1,917 square feet of commercial space and two parking spots, for a period of 62 months. The leased space became available for occupancy on September 23, 2013. The 62-month lease term began October 1, 2013 and runs through November 30, 2018. The total base rent expense for the year ended December 31, 2016 and December 31, 2015 was \$45,378 and \$45,378, respectively.

The following is a schedule of the required annual minimum lease payments.

| Year | Amount |
|-------|----------|
| 2017 | \$50,311 |
| 2018 | 46,988 |
| TOTAL | \$97,299 |

NOTE 5 — SHAREHOLDERS' EQUITY

At December 31, 2016, a total of 12,151,493 shares of common stock were issued and outstanding.

NOTE 6 — INVESTMENTS

The following table shows the composition of our investment portfolio by major class, at amortized cost and fair value, as of December 31, 2016 (together with the corresponding percentage of total portfolio investments):

| | As of December 31, 2016 | | | | |
|-----------------|-------------------------------|------------------------------|---------------------------|--------------------------|---|
| | Investments at Amortized Cost | Percentage of Amortized Cost | Investments at Fair Value | Percentage of Fair Value | |
| Loans (Secured) | \$1,332,695 | 18.0 | % \$ 680,000 | 9.7 | % |
| Preferred Stock | 2,030,000 | 27.4 | 3,047,011 | 43.6 | |
| Common Stock | 3,384,194 | 45.8 | 2,714,219 | 38.8 | |
| Warrants | - | - | 32,143 | 0.5 | |
| Other Equity | 651,019 | 8.8 | 513,629 | 7.4 | |
| Total | \$7,397,908 | 100.0 | % \$ 6,987,002 | 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, 2015 (together with the corresponding percentage of total portfolio investments):

| | As of December 31, 2015 | | | | |
|-----------------|-------------------------------|------------------------------|---------------------------|--------------------------|---|
| | Investments at Amortized Cost | Percentage of Amortized Cost | Investments at Fair Value | Percentage of Fair Value | |
| Loans (Secured) | \$2,380,195 | 33.0 | % \$ 1,850,000 | 32.2 | % |

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| | | | | | |
|-----------------|-------------|-------|----------------|-------|---|
| Preferred Stock | 1,430,000 | 19.8 | 1,080,000 | 18.8 | |
| Common Stock | 2,045,867 | 28.3 | 1,587,550 | 27.6 | |
| Warrants | - | - | - | - | |
| Other Equity | 1,362,069 | 18.9 | 1,230,258 | 21.4 | |
| Total | \$7,218,131 | 100.0 | % \$ 5,747,808 | 100.0 | % |

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of December 31, 2016:

| | As of December 31, 2016 | | |
|------------------------|------------------------------|-----------------------------|---|
| | Investments at Fair Value | Percentage of Fair Value | |
| Advertising | \$ 32,143 | 0.5 | % |
| Consumer | 354,882 | 5.1 | |
| Education | 116,686 | 1.7 | |
| Financial | 1,000,622 | 14.3 | |
| Healthcare | 420,085 | 6.0 | |
| Information Technology | 669,600 | 9.6 | |
| Investment Fund | 204,912 | 2.9 | |
| Leisure & Hospitality | 2,747,011 | 39.3 | |
| Media | 137,050 | 2.0 | |
| Oil & Gas | 488,629 | 7.0 | |
| Publishing | 367,205 | 5.2 | |
| Telecommunications | 448,177 | 6.4 | |
| Total | \$ 6,987,002 | 100.0 | % |

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of December 31, 2015:

| | As of December 31, 2015 | | |
|------------------------|-------------------------|---------------|---|
| | Investments at | Percentage of | |
| | Fair Value | Fair Value | |
| Advertising | \$ 843,750 | 14.7 | % |
| Consumer | 1,012,470 | 17.6 | |
| Financial | 537,380 | 9.3 | |
| Healthcare | 146,760 | 2.6 | |
| Information Technology | 349,550 | 6.1 | |
| Investment Fund | 405,200 | 7.1 | |
| Leisure & Hospitality | 1,541,050 | 26.8 | |
| Media | 133,400 | 2.3 | |
| Oil & Gas | 444,208 | 7.7 | |
| Publishing | 25,461 | 0.4 | |
| Telecommunications | 308,579 | 5.4 | |
| Total | \$ 5,747,808 | 100.0 | % |

We do not “control,” and we are not an “affiliate” (as each of those terms is defined in the 1940 Act), of any of our portfolio companies as of December 31, 2016. Under the 1940 Act, we would generally be presumed to “control” a portfolio company if we owned more than 25% of its voting securities, and be an “affiliate” of a portfolio company if we owned at least 5% and up to 25% of its voting securities.

NOTE 7 — FAIR VALUE OF FINANCIAL INSTRUMENTS

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

· **Level 1:** Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable inputs based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.

Level 3: Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

Our valuation policy and procedures: Under our valuation policies and procedures, we evaluate the source of inputs, including any markets in which our investments are trading, and then apply the resulting information in determining fair value. For our Level 1 investment assets, our valuation policy generally requires us to use 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 at their weighted-average yield to maturity.

The estimated fair value of our Level 3 investment assets is determined on a quarterly basis by the Valuation Committee of our Board of Directors, pursuant to our written Valuation Policy and Procedures. These policies and procedures generally require that we value our Level 3 equity investments at cost plus any accrued interest, unless circumstances warrant a different approach. Our Valuation Policy and Procedures provide examples of these circumstances, such as when 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 situations identified in our Valuation Policy and Procedures that may serve as input supporting a change in the valuation of our Level 3 equity investments include (i) a third-party valuation conducted by an independent and qualified professional, (ii) changes in the performance of long-term financial prospects of the portfolio company, (iii) a subsequent financing that changes the distribution rights associated with the equity security we hold, or (iv) sale transactions involving comparable companies, but only if further supported by a third-party valuation conducted by an independent and qualified professional.

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

When valuing warrants, our Valuation Policy and Procedures indicate that value will generally be the difference between 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 securities with a residual maturity less than or equal to 60 days, the value will generally be the straight-line amortized face value of the debt unless justification for impairment exists.

On a quarterly basis, our management provides members of our Valuation Committee with (i) valuation reports for each portfolio investment (which reports include our cost, the most recent prior valuation and any current proposed valuation, and an indication of the valuation methodology used, together with any other supporting materials); (ii) Mill City Ventures' bank and other statements pertaining to our cash and cash equivalents; and (iii) quarter- or period-end statements from our custodial firms holding any of our portfolio investments. The committee then discusses these materials and, consistent with the policies and approaches outlined above, makes final determinations respecting the valuation of our portfolio investments.

We made no changes to our Valuation Policy and Procedures during the reporting period.

Level 3 valuation information: Due to the inherent uncertainty in the valuation process, the estimate of the fair value of our investment portfolio as of December 31, 2016 may differ materially from values that would have been used had a readily available market for the securities existed.

The following table presents the fair value measurements of our portfolio investments by major class, as of December 31, 2016, according to the fair value hierarchy:

| | As of December 31, 2016 | | | |
|-----------------|-------------------------|----------|-------------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Loans (Secured) | \$- | \$- | \$680,000 | \$680,000 |
| Preferred Stock | - | - | 3,047,011 | 3,047,011 |
| Common Stock | 2,684,219 | 30,000 | - | 2,714,219 |
| Warrants | - | 32,143 | - | 32,143 |
| Other Equity | - | - | 513,629 | 513,629 |
| Total | \$2,684,219 | \$62,143 | \$4,240,640 | \$6,987,002 |

The following table presents the fair value measurements of our portfolio investments by major class, as of December 31, 2015, according to the fair value hierarchy

| | As of December 31, 2015 | | | |
|-----------------|-------------------------|---------|-------------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Loans (Secured) | \$- | \$ - | \$1,850,000 | \$1,850,000 |
| Preferred Stock | - | - | 1,080,000 | 1,080,000 |
| Common Stock | 1,587,550 | - | - | 1,587,550 |
| Warrants | - | - | - | - |
| Other Equity | - | - | 1,230,258 | 1,230,258 |
| Total | \$1,587,550 | \$ - | \$4,160,258 | \$5,747,808 |

The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the period ended December 31, 2016:

| | Secured Loans | Preferred Stock | Common Stock | Warrants | Other Equity |
|---|------------------|--------------------|-----------------|----------|-----------------|
| Balance as of December 31, 2015 | \$1,850,000 | \$1,080,000 | \$ - | \$ - | \$1,230,258 |
| Net change in unrealized appreciation | (122,500) | 1,367,011 | - | - | (5,579) |
| Purchases and other adjustments to cost | 64,500 | 600,000 | - | - | 50,000 |
| Sales and redemptions | (724,000) | - | - | - | (761,050) |
| Net realized gain | (388,000) | - | - | - | - |
| Balance as of December 31, 2016 | \$680,000 | \$3,047,011 | \$ - | \$ - | \$513,629 |

The net change in unrealized appreciation for the period ended December 31, 2016 attributable to Level 3 portfolio investments still held at December 31, 2016 is \$713,932, and is included in net change in unrealized appreciation (depreciation) on investments on the statement of operations.

The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the period ended December 31, 2015:

| | Secured Loans | Preferred Stock | Common Stock | Warrants | Other Equity |
|---|------------------|--------------------|-----------------|----------|-----------------|
| Balance as of December 31, 2014 | \$1,750,000 | \$650,000 | \$300,000 | \$ - | \$1,525,000 |
| Net change in unrealized appreciation | (530,195) | (350,000) | (300,000) | - | (55,792) |
| Purchases and other adjustments to cost | 2,380,195 | 780,000 | - | - | - |
| Sales and redemptions | (1,750,000) | - | - | - | (238,950) |
| Net realized gain | - | - | - | - | - |
| Balance as of December 31, 2015 | \$1,850,000 | \$1,080,000 | \$- | \$ - | \$1,230,258 |

The net change in unrealized depreciation for the period ended December 31, 2015 attributable to Level 3 portfolio investments still held at December 31, 2015 was \$1,235,987, and is included in net change in unrealized appreciation (depreciation) on investments on the statement of operations.

There were no transfers between levels during the years ended December 31, 2016 and 2015.

NOTE 8 — MINIMUM ASSET COVERAGE

As a BDC, we are required to meet various regulatory tests. Among other things, these tests will require us to invest at least 70% of our total assets in private or small-cap public U.S.-based companies, and to maintain an asset coverage ratio of total assets (less all liabilities and indebtedness not represented by senior securities) to total indebtedness represented by senior securities and borrowings (including accrued interest payable) of at least 200%. As of December 31, 2016, approximately 89% of our investments (by fair value at that date) were in private or small-cap public U.S.-based companies and our asset coverage ratio was 100%.

NOTE 9 — RELATED-PARTY TRANSACTIONS

We maintain a Code of Ethics and certain other policies relating to conflicts of interest and related-party transactions, as well as policies and procedures relating to what regulations applicable to BDCs generally describe as “affiliate transactions.” Nevertheless, from time to time we may hold investments in portfolio companies in which certain members of our management, our Board of Directors, or significant shareholders of ours, are also directly or indirectly invested. Our Board of Directors has adopted a policy to require our disclosure of these instances in our periodic filings with the SEC. Our related-party transactions requiring disclosure under this policy are:

Mr. Joseph A. Geraci, II, our Chief Financial Officer, and Mr. Douglas M. Polinsky, our Chief Executive Officer, hold direct and indirect interests in the common stock of Southern Plains Resources, Inc., a company in which we made investments in common stock in each of March and July 2013.

A former director of our company, Christopher Larson, had a direct interest in Mix 1 Life, Inc. and served as that company’s Chief Financial Officer at the time of a portfolio investment we made in secured convertible debt of Mix 1 Life (together with common stock purchase warrants) in February 2014. In June 2014, Mr. Larson became a director of Mix 1 Life. In August 2014, we exercised our common stock purchase warrant on a cashless basis for the purchase of Mix 1 Life common stock. In March 2015, we invested in additional secured debt of Mix 1 Life. Mr. Larson resigned from his position as a director of Mill City Ventures in November 2015.

Lantern Advisors, LLC is a limited liability company equally owned by Messrs. Geraci and Polinsky, and owns a cashless warrant to purchase up to 153,846 shares of Creative Realities, Inc. at a price of \$0.70 per share through July 14, 2019. We made an initial investment in secured convertible debt of Creative Realities (together with common stock purchase warrants) in February 2015, and then a subsequent investment in secured convertible debt of Creative Realities (together with common stock purchase warrants) in December 2015. In December 2015, we also exchanged our common stock purchase warrant obtained in February 2015 for shares of Creative Realities common stock.

NOTE 10 — INCOME TAXES

We plan to be taxed as a regulated investment company, or “RIC,” and intend to comply with the requirements of the Internal Revenue Code applicable to RICs. Currently, however, we have not elected to be treated as a RIC. Upon our election to be taxed as a RIC, we will be required to distribute at least 90% of our investment company taxable income, and we intend at that time to distribute to shareholders (or retain through a deemed distribution) all of our investment company taxable income and net capital gain. Based on the foregoing, we have made no provision for income taxes. The characterization of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to shareholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

NOTE 11 — FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the years ended December 31, 2016 through 2013:

| | Year Ended December 31, | | | |
|--|-------------------------|------------|------------|------------|
| | 2016 | 2015 | 2014 | 2013 |
| Per Share Data: (1) | | | | |
| Net asset value at beginning of period | 0.72 | 0.94 | 0.86 | 0.04 |
| Net investment income | (0.02) | 0.00 | (0.04) | (0.05) |
| Net realized and unrealized losses | 0.07 | (0.22) | 0.12 | 0.03 |
| Issuance of common stock | 0.00 | 0.00 | 0.00 | 0.84 |
| Net asset value at end of period | 0.77 | 0.72 | 0.94 | 0.86 |
| Ratio / Supplemental Data: | | | | |
| Per share market value of investments at end of period | 0.57 | 0.47 | 0.59 | 0.27 |
| Shares outstanding at end of period | 12,151,493 | 12,151,493 | 12,151,493 | 12,169,422 |
| Average weighted shares outstanding for the period | 12,151,493 | 12,151,493 | 12,166,608 | 10,219,737 |
| Net assets at end of period | 9,387,408 | 8,741,288 | 11,473,690 | 10,521,830 |
| Average net assets (2) | 8,651,742 | 10,520,199 | 11,416,452 | 8,538,872 |
| Portfolio turnover rate (3) | 24.94 % | 26.26 % | 11.21 % | 7.53% |
| Ratio of operating expenses to average net assets (3) | -7.15 % | -6.08 % | -7.00 % | -7.12% |
| Ratio of net operating loss to average net assets (3) | -2.66 % | -0.68 % | -4.02 % | -6.71% |
| Ratio of realized gains to average net assets (3) | -2.12 % | 1.74 % | 2.54 % | 1.51% |

(1) Per-share data was derived using the weighted-average 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 12 — SUBSEQUENT EVENTS

On January 6, 2017, we received \$726,785 from BiteSquad.com, LLC on the sale of 26,457 preferred LLC units.

In February 2017, we commenced actions to take title to and possession of, with the intent of consummating periodic public foreclosure sales, shares of Mix 1 Life, Inc. that had been pledged to us by third parties as collateral security for obligations owed to us under secured promissory notes. As of the date of this report, we have obtained title to and engaged in one or more public sales of the pledged shares.

On March 15, 2017, we filed a complaint in the Superior Court for the State of Arizona, Maricopa County, against defendants Mix 1 Life, Inc., a Nevada corporation, and Messrs. Christopher Larson and Cameron Robb. The complaint alleges breaches of contract on the part of the defendants in connection with a default by Mix 1 Life on two senior secured promissory notes having an aggregate original principal amount of \$750,000. Please see Part I, Item 3, “Legal Proceedings” for more information.

On February 2, 2017, we entered into a mezzanine loan agreement with DBR Enclave US Investors, LLC for a total commitment of \$500,000, of which \$333,333 was called. The promissory note we obtained in exchange for our investment bears interest at the per annum rate of 15% and matures on June 30, 2021.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 December 31, 2016, our Chief Executive Officer and Chief Financial Officer in conjunction with our Chief Compliance 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 are effective as of December 31, 2016.

Report of Management on Internal Control Over Financial Reporting

Board of Directors and Shareholders Mill City Ventures III, Ltd.:

The management of Mill City Ventures III, Ltd. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company's management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2016 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016. Baker Tilly Virchow Krause, LLP, an independent registered public accounting firm, is not required to issue, and thus has not issued, an attestation report on the Company's internal control over financial reporting as of December 31, 2016.

/s/ Douglas M. Polinsky
Chairman, President and Chief Executive Officer

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

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers, Promoters, and Control Persons

| Name | Age | Positions |
|----------------------|-----|---|
| Douglas M. Polinsky | 57 | Chairman, Chief Executive Officer and President |
| Joseph A. Geraci, II | 47 | Director and Chief Financial Officer |
| Howard Liszt | 70 | Director |
| Lyle Berman | 75 | Director |

Laurence Zipkin 75 Director

Douglas M. Polinsky co-founded the Company in January 2006 and since that time has been the Chairman and Chief Executive Officer of the Company. Since 1994, Mr. Polinsky has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company that he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies and other transaction-related matters, and also make direct investments into public and private companies. Since 2007, Mr. Polinsky has been an independent director of FAB Universal Inc., a Pennsylvania-based company specializing in digital content distribution. Mr. Polinsky is a member of the Audit and Compensation Committees of the Board of Directors. Mr. Polinsky earned a Bachelor of Science degree in hotel administration at the University of Nevada at Las Vegas.

Joseph A. Geraci, II co-founded the Company in January 2006 and has been a director and the Chief Financial Officer of the Company since that time. Since February 2002 through the present time, Mr. Geraci has been managing member of Isles Capital, LLC, an advisory and consulting firm that assists small businesses, both public and private, in business development. In March 2005, Mr. Geraci also became the managing member of Mill City Advisors, LLC, the general partner of Mill City Ventures, LP, and Mill City Ventures II, LP, each a Minnesota limited partnership that invested directly into both private and public companies. From January 2005 until August 2005, Mr. Geraci served as the Director of Finance for Gelstat Corporation, a purveyor of homeopathic remedies, based in Bloomington, Minnesota. Mr. Geraci provided investment advice to clients as a stockbroker and Vice President of Oak Ridge Financial Services, Inc., a Minneapolis-based brokerdealer firm, from June 2000 to December 2004. While at Oak Ridge Financial Services, Mr. Geraci's business was focused on structuring and negotiating debt and equity private placements with both private and publicly held companies. From his career and investment experiences, Mr. Geraci has established networks of colleagues, clients, co-investors, and the officers and directors of public and private companies. Mr. Geraci was employed at other Minneapolis brokerage firms from July 1991 to June 2000. These networks offer a range of contacts across a number of sectors and companies that may provide opportunities for investment, including many that meet the Company's screening criteria.

In August 2003, the National Association of Securities Dealers (NASD) found in an administrative hearing that Mr. Geraci, while employed by and affiliated with a NASD member, had violated NASD Conduct Rule 2110 and SEC Rule 10b-5 in August 1999, and barred him from associating with any NASD member in the future.

Howard Liszt served as Chief Executive Officer of Campbell Mithun, a national marketing communications agency he joined in 1976, until 2001. He currently serves on the board of Egghand's Best, a branded egg company, and Land O' Lakes, the second largest cooperative in the United States. Mr. Liszt previously served on the board of Wireless Ronin Technologies (now known as Creative Realities, Inc.), but resigned from that board in August 2014. Mr. Liszt holds a Bachelor of Arts in Journalism and Marketing and a Master's in Business from the University of Minnesota, Minneapolis.

Lyle Berman is a 1964 graduate of the University of Minnesota with a degree in Business Administration. Mr. Berman began his career with Berman Buckskin, his family's leather business. He helped grow the business into a major specialty retailer with 27 outlets. In 1990, Mr. Berman participated in the founding of Grand Casinos, Inc. Mr. Berman is credited as one of the early visionaries in the development of casinos outside of the traditional gaming markets of Las Vegas and Atlantic City. In less than five years, the company opened eight casino resorts in four states. In 1994, Mr. Berman financed the initial development of Rainforest Cafe. He served as the Chairman and CEO from 1994 until 2000. In October 1995, Mr. Berman was honored with the B'nai B'rith "Great American Traditions Award." In April 1996, he received the Gaming Executive of the Year Award and in 2004, Mr. Berman was inducted into the Poker Hall of Fame and in 2009, he received the Casino Lifetime Achievement Award from Raving Consulting & Casino Journal. In 1998, Lakes Entertainment, Inc. was formed. In 2002, as Chairman of the Board and CEO of Lakes Entertainment, Inc., Mr. Berman was instrumental in creating the World Poker Tour. Since January 2005, Mr. Berman has also served as Chairman of the Board of Pokertek, Inc.

Laurence Zipkin is nationally recognized for his expertise in the gaming industry, restaurants, and emerging small growth companies. From 1996 to 2006, Mr. Zipkin owned Oakridge Securities, Inc. where, as an investment banker, he successfully raised capital for various early growth-stage companies and advising clients with regard to private placements, initial public offerings, mergers, debt offerings, bridge and bank financings, developing business plans and evaluating cash needs and resources. He has extensive experience in the merger and acquisition field and has represented companies on both the buy and sell side. Since 2006, Mr. Zipkin has been self-employed, engaging in various consulting activities, owning and operating two restaurant properties, and purchasing distressed real estate. Mr. Zipkin is a licensed insurance agent for both life and health insurance. Mr. Zipkin attended the University of Pennsylvania Wharton School of Finance.

Under the Company's bylaws, the directors serve for indefinite terms expiring upon the next annual meeting of the Company's shareholders.

When considering whether directors and nominees have the experience, qualifications, attributes and skills to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Board of Directors focuses primarily on the industry and transactional experience, and other background, in addition to any unique skills or attributes associated with a director. With regard to Messrs. Polinsky and Geraci, the Board of Directors considered their significant experience, expertise and background with regard to investing in general and the Company in particular. With regard to Mr. Berman, the Board of Directors considered his background and experience with the public securities markets and his former employment and experience in operational capacities. With regard to Mr. Liszt, the Board of Directors considered his experience on other boards of public companies, his past experience in the communications and advertising fields, and his organizational experience. With regard to Mr. Zipkin, the Board of Directors considered his knowledge, experience and skills in the finance, public securities and investment banking fields.

Code of Ethics

Our Board of Directors adopted a Code of Ethics on August 5, 2008, and revised March 6, 2013. The Code of Ethics includes our Company's principal executive officer and principal financial officer, or persons performing similar functions, as required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. Our Code of Ethics is available at our website, www.millcityventures3.com, or without charge, to any shareholder upon written request made to Mill City Ventures III, Ltd., Attention: Chief Executive Officer, 328 Barry Ave. S., Suite 210, Wayzata, MN 55391.

The Code of Ethics has been drafted in order to facilitate compliance with the requirements applicable to the Company, as a BDC, under Section 17 of the 1940 Act. In this regard, the Company has recently implemented procedures to ensure compliance with the provisions of the Code of Ethics, which procedures are part of the various requirements applicable to the Company under Section 17 of the 1940 Act and Rule 17j-1 promulgated by the SEC thereunder.

Changes to Board of Director Nomination Procedures

We have not had any material changes to the procedures for shareholder nominations of candidates to serve on our Board of Directors during the fiscal year ended December 31, 2016.

Committees of the Board of Directors Audit Committee Financial Expert

The Board of Directors has an Audit Committee, a Compensation Committee and a Valuation Committee. The members of the Audit Committee are Laurence Zipkin, Howard Liszt and Lyle Berman., each of whom is independent for purposes of the Securities Exchange Act of 1934 and "non-interested" directors for purposes of the 1940 Act. Mr. Berman currently serves as chair of the Audit Committee. The board has adopted a charter for the Audit Committee a copy of which is available at the Company's website at <http://www.millcityventures3.com>. The Audit Committee is responsible for approving the Company's independent accountants and recommending them to the board (including a majority of the independent directors) for approval and submission to the shareholders for ratification, if any, reviewing with its independent accountants the plans and results of the audit engagement, approving professional services provided by its independent accountants, reviewing the independence of its independent accountants and reviewing the adequacy of its internal accounting controls. The Audit Committee is also responsible for discussing with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The board has determined that Mr. Berman is an "audit committee financial expert" within the meaning of the rules of the Commission. Mr. Berman's relevant experience is detailed in his biography above. The Board of Directors has

determined that each of the Audit Committee members is able to read and understand fundamental financial statements and that at least one member of the Audit Committee has past employment experience in finance or accounting.

The members of the Compensation Committee are Messrs. Zipkin, Liszt and Berman, each of whom is independent for purposes of the Securities Exchange Act of 1934 and “non-interested” directors for purposes of the 1940 Act. Mr. Zipkin currently serves as chair of the Compensation Committee. The compensation committee is responsible for approving the Company’s compensation arrangements with its executive management, including bonus-related decisions and employment agreements with respect to such individuals. The board has adopted a charter for the Compensation Committee, a copy of which is available at <http://www.millcityventures3.com>.

The members of the Valuation Committee are Messrs. Zipkin, Liszt and Berman, each of whom is independent for purposes of the Securities Exchange Act of 1934 and “non-interested” directors for purposes of the 1940 Act. Mr. Liszt currently serves as chair of the Valuation Committee. The Valuation Committee is responsible for approving the fair value of debt and equity securities comprising the Company’s investment portfolio pursuant to the Company’s written valuation policy and procedures.

Of the directors presently serving on the board, Messrs. Berman, Liszt and Zipkin are “independent” as that term is defined in Section 4200(a)(15) of National Association of Securities Dealers’ listing standards, and “non-interested” persons as that term is defined in the 1940 Act. Our company is not, however, subject to the Nasdaq listing standards because its common stock is not listed for trading on any Nasdaq market tier.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file with the SEC certain reports regarding their ownership of common stock or any changes in such ownership. Based on our review, we believe that a Form 3 was filed late by Mr. Lyle Berman in connection with his joining our Board of Directors, and a Form 4 was filed late by Mr. Geraci in December 2016 in connection with a purchase by him of our common stock.

ITEM 11 EXECUTIVE AND DIRECTOR COMPENSATION**Executive Compensation — Summary Compensation Table**

The following table sets forth the total compensation paid by the Company during its two most recent fiscal years ended December 31, 2016 and 2015 to those persons who served as the Company's President or Chief Executive Officer and Chief Financial Officer during such periods (collectively, the "named executives").

| Name and Principal Position | Year | Salary (\$) | Stock Awards (\$) | All Other Compensation (\$) | Total (\$) |
|--|------|----------------|-------------------------|-----------------------------------|---------------|
| Douglas M. Polinsky, Chief Executive Officer | 2016 | \$50,000 | \$ 0 | \$ | — \$50,000 |
| Joseph A. Geraci, II, Chief Financial Officer | 2015 | \$50,000 | \$ 0 | \$ | — \$50,000 |
| | 2016 | \$95,000 | \$ 0 | \$ | — \$95,000 |
| | 2015 | \$100,000 | \$ 0 | \$ | — \$100,000 |

Outstanding Equity Awards at Fiscal Year End

We had no outstanding options, warrants, unvested stock awards or equity incentive plan awards as of December 31, 2015 held by any named executive. In addition, we have no options, warrants, unvested stock awards or equity incentive plan awards outstanding and held by any named executive as of the date of this filing.

Director Compensation

For 2016, we paid a total of \$58,956 in director fees to our independent directors. Presently, each such director receives an annualized fee of \$20,000.

| Name | Year | Compensation | Total |
|-----------------------|------|--------------|----------|
| Joseph A. Geraci, III | 2016 | — | — |
| Douglas M. Polinsky | 2016 | — | — |
| Lyle Berman | 2016 | \$ 18,956 | \$18,956 |
| Howard P. Liszt | 2016 | \$ 20,000 | \$20,000 |
| Laurence S. Zipkin | 2016 | \$ 20,000 | \$20,000 |

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The table below sets forth certain information with respect to beneficial ownership of our common stock as of March 15, 2017

(on which date there were 12,151,493 shares of common stock outstanding), by:

- each director of the Company
- each named executive (see Item 11 above)

- all current directors and executive officers of the Company as a group, and
- each person or entity known by the Company to beneficially own more than 5% of our common stock.

Unless otherwise indicated in the table or its footnotes, the business address of each of the following persons or entities is 328 Barry Avenue S., Suite 210, Wayzata, Minnesota 55391, and each such person or entity has sole voting and investment power with respect to the shares of common stock set forth opposite their respective name.

| | Number of Shares Beneficially Owned ⁽¹⁾ | Percentage of Outstanding Shares ⁽¹⁾ | |
|---|---|---|---|
| Douglas M. Polinsky ⁽²⁾ | 554,858 | 4.6 | % |
| Joseph A. Geraci, II ⁽³⁾ | 639,079 | 5.3 | % |
| Howard Liszt ⁽⁴⁾ | — | * | |
| Lyle Berman ⁽⁵⁾ | — | * | |
| Laurence Zipkin ⁽⁶⁾ | — | * | |
| Neal Linnihan | 2,500,000 | 20.6 | % |
| Scott and Elizabeth Zbikowski ⁽⁷⁾ | 1,865,000 | 15.3 | % |
| Ervin Kramer | 1,087,728 | 8.9 | % |
| Donald Schreifels | 1,060,001 | 8.7 | % |
| David Bester | 1,000,000 | 8.2 | % |
| Patrick Kinney ⁽⁸⁾ | 942,278 | 7.8 | % |
| William Hartzell | 650,000 | 5.3 | % |
| All current directors and executive officers as a group ⁽⁹⁾ (five persons) | 1,193,937 | 9.9 | % |

Beneficial ownership is determined in accordance with the rules of the SEC and includes general voting power and/or investment power with respect to securities. Shares of common stock subject to options or warrants (1) currently exercisable, or exercisable within 60 days of the applicable record date, are deemed outstanding for computing the beneficial ownership percentage of the person holding such options or warrants but are not deemed outstanding for computing the beneficial ownership percentage of any other person.

Mr. Polinsky is the Company's Chairman and Chief Executive Officer. Includes 69,411 common shares held by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation of which Mr. Polinsky is the sole shareholder, officer and director, 290,055 common shares held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Polinsky and Geraci, 180,164 common shares held individually by Mr. Polinsky, and 12,728 common shares Mr. Polinsky holds as a custodian for his children (beneficial ownership of which Mr. Polinsky disclaims).

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Mr. Geraci is a director and the Company's Chief Financial Officer. Includes 290,055 common shares held by (3) Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Geraci and Polinsky, 258,802 common shares held by Mr. Geraci and 17,273 common shares held individually by Mr. Geraci's spouse.

(4) Mr. Liszt is a director of the Company.

(5) Mr. Berman is a director of the Company.

(6) Mr. Zipkin is a director of the Company.

Based upon a Schedule 13G filed by Mr. and Mrs. Zbikowski, Mr. Zbikowski is the beneficial owner of 1,240,000 (7) shares, and Mrs. Zbikowski is the beneficial owner of 625,000 shares. Mr. and Mrs. Zbikowski are husband and wife.

Based upon a Schedule 13G filed by Mr. Kinney on March 19, 2013, Mr. Kinney may be deemed to be the (8) beneficial owner of 942,278 shares, which includes 3,640 shares that are held in custodial accounts for the benefit of his grandchildren.

(9) Consists of Messrs. Polinsky, Geraci, Liszt, Berman and Zipkin.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Related Persons and Certain Conflict Disclosures

Our Board of Directors has adopted a policy to require our disclosure of instances in our periodic filings with the SEC. Our related-party transactions requiring disclosure under this policy are:

Mr. Joseph A. Geraci, II, our Chief Financial Officer, and Mr. Douglas M. Polinsky, our Chief Executive Officer, hold direct and indirect interests in the common stock of Southern Plains Resources, Inc., a company in which we made investments in common stock in each of March and July 2013.

A former director of our company, Christopher Larson, had a direct interest in Mix 1 Life, Inc. and served as that company's Chief Financial Officer at the time of a portfolio investment we made in secured convertible debt of Mix 1 Life (together with common stock purchase warrants) in February 2014. In June 2014, Mr. Larson became a director of Mix 1 Life. In August 2014, we exercised our common stock purchase warrant on a cashless basis for the purchase of Mix 1 Life common stock. In March 2015, we invested in additional secured debt of Mix 1 Life. Mr. Larson resigned from his position as a director of Mill City Ventures in November 2015.

Lantern Advisors, LLC is a limited liability company equally owned by Messrs. Geraci and Polinsky, and owns a cashless warrant to purchase up to 153,846 shares of Creative Realities, Inc. at a price of \$0.70 per share through July 14, 2019. We made an initial investment in secured convertible debt of Creative Realities (together with common stock purchase warrants) in February 2015, and then a subsequent investment in secured convertible debt of Creative Realities (together with common stock purchase warrants) in December 2015. In December 2015, we also exchanged our common stock purchase warrant obtained in February 2015 for shares of Creative Realities common stock.

Related-Party Transaction Policy

The Board of Directors has adopted a written Conflict of Interest and Related Party Transaction Policy. That policy governs the approval of all related-party transactions, subject only to certain customary exceptions (e.g., compensation, certain charitable donations, transactions made available to all employees generally, etc.). The policy contains a minimum dollar threshold of \$5,000.

The entire Board of Directors administers the policy and approves any related-party transactions, subject to conflicting requirements of the 1940 Act or the Company's written Code of Ethics. In general, after full disclosure of all material facts, review and discussion, the board approves or disapproves related-party transactions by a vote of a majority of the directors who have no interest in such transaction, direct or indirect. Procedurally, no director is allowed vote in any approval of a related-party transaction for which he or she is the related party, except that such a director may otherwise participate in a related discussion and shall provide to the board all material information concerning the related-party transaction and the director's interest therein. If a related-party transaction will be ongoing, the board may establish guidelines for management to follow in its ongoing dealings with the related party.

Director Independence

The Company currently has five directors, three of whom—Messrs. Liszt, Berman and Zipkin, are “independent” as that term is defined in Section 4200(a)(15) of National Association of Securities Dealers' listing standards. None of our independent directors are “interested persons” as that term is defined in the 1940 Act. The Company is not subject to those listing standards, however, because its common stock is not listed for trading on a Nasdaq market. Based upon information requested from each such director concerning his background, employment and affiliations, the board has affirmatively determined that none of the independent directors has a material business or professional relationship with the Company, other than in his or her capacity as a member of the board or any committee thereof.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees billed by our principal independent registered public accounting firm for the fiscal years indicated:

| | 2016 | 2015 |
|--------------------|----------|----------|
| Audit Fees | \$50,004 | \$49,694 |
| Audit-Related Fees | — | — |
| Tax Fees | 4,750 | 8,200 |
| Total | \$54,754 | \$57,894 |

Audit Fees. The fees identified under this caption were for professional services rendered by Baker Tilly Virchow Krause, LLP for the years ended 2016 and 2015 in connection with the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q. The amounts also include fees for services that are normally provided by the independent public registered accounting firm in connection with statutory and regulatory filings and engagements for the years identified.

Audit-Related Fees. The fees identified under this caption were for assurance and related services that were related to the performance of the audit or review of our financial statements and were not reported under the caption “Audit Fees.” This category may include fees related to the performance of audits and attestation services not required by statute or regulations, and accounting consultations about the application of generally accepted accounting principles to proposed transactions.

Tax Fees. The fees identified under this caption were for tax compliance and corporate tax services. Corporate tax services encompass a variety of permissible services, including technical tax advice related to tax matters assistance with state and local taxes.

Approval Policy. The Audit Committee of our Board of Directors approves in advance all services provided by our independent registered public accounting firm. All engagements of our independent registered public accounting firm in years ended 2016 and 2015 were pre-approved by the Audit Committee.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements

| | |
|---|----|
| Report of Independent Registered Public Accounting Firm on Financial Statements | 22 |
| Balance Sheets — December 31, 2016 and December 31, 2015 | 23 |
| Statements of Operations — Year ended December 31, 2016 and December 31, 2015 | 24 |
| Statements of Shareholders' Equity (Deficit) — Years ended December 31, 2016, December 31, 2015 and December 31, 2014 | 25 |
| Statements of Cash Flows — Year ended December 31, 2016 December 31, 2015 | 26 |
| Notes to Financial Statements | 31 |

Exhibits

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Amended and Restated Articles of Incorporation of Mill City Ventures III, Ltd. (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) |
| 4 | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the registrant's registration statement on Form 10-SB filed on January 29, 2008) |
| 10.1 | Employment Agreement with Joseph A. Geraci II, dated effective March 25, 2013 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 26, 2013) |
| 10.2 | Employment Agreement with Douglas M. Polinsky dated effective March 25, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 26, 2013) |
| 10.3 | Safekeeping Agreement with Millennium Trust Company, LLC dated as of March 22, 2013 (incorporated by reference to Exhibit (j)(1) to the registrant's amendment to Registration Statement on Form N-2 filed on May 31, 2013) |
| 10.4 | Addendum to Safekeeping Agreement with Millennium Trust Company, LLC dated as of March 22, 2013 (incorporated by reference to Exhibit (j)(2) to the registrant's amendment to Registration Statement on Form N2 filed on May 31, 2013) |
| 10.5 | Safekeeping Agreement with Maxwell Simon, Inc. dated as of May 30, 2013 (incorporated by reference to Exhibit (j)(3) to the registrant's amendment to Registration Statement on Form N-2 filed on May 31, 2013) |
| 10.6 | Securities Purchase Agreement with Mix 1 Life, Inc. dated effective February 6, 2014 (incorporated by reference to Exhibit 10.6 to the registrant's Annual Report on Form 10-K filed on March 31, 2015) |
| 10.7 | Senior Secured Convertible Debenture of Mix 1 Life, Inc. dated effective February 6, 2014 (incorporated by reference to Exhibit 10.7 to the registrant's Annual Report on Form 10-k filed on March 31, 2015) |
| 10.8 | Warrant of Mix 1 Life, Inc. dated effective February 6, 2014 (incorporated by reference to Exhibit 10.8 to the registrant's Annual Report on Form 10-K filed on March 31, 2015) |
| 10.9 | Security Agreement with Mix 1 Life, Inc. dated effective February 6, 2014 (incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed on March 31, 2015) |
| 10.10 | Guaranty and Pledge Agreement with Christopher Larson and Cameron Robb dated effective February 6, 2014 (incorporated by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K filed on March 31, 2015) |
| 10.11 | Note Purchase Agreement with Mix 1 Life, Inc. dated effective March 13, 2015 (incorporated by reference to Exhibit 10.11 to the registrant's Annual Report on Form 10-K filed on March 31, 2015) |
| 10.12 | Senior Secured Promissory Note of Mix 1 Life, Inc. dated effective March 13, 2015 (incorporated by reference to Exhibit 10.12 to the registrant's Annual Report on Form 10-K filed on March 31, 2015) |
| 14 | Code of Ethics (incorporated by reference to Exhibit 14.1 to the registrant's Annual Report on Form 10-K filed on April 1, 2013) |
| 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 electronically herewith.

SIGNATURES

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

MILL CITY VENTURES III, LTD.

/s/ Douglas Polinsky
Douglas Polinsky
Chief Executive Officer

Dated: March 28, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature and Name | Position/Title | Date |
|--|--|----------------|
| /s/ Douglas M. Polinsky Douglas M. Polinsky | Chief Executive Officer, President and Director (principal executive officer) | March 28, 2017 |
| /s/ Joseph A. Geraci, II Joseph A. Geraci, II | Chief Financial Officer and Director (principal accounting and financial officer) | March 28, 2017 |
| /s/ Lyle Berman Lyle Berman | Director | March 28, 2017 |
| /s/ Howard Liszt Howard Liszt | Director | March 28, 2017 |
| /s/ Laurence Zipkin Laurence S. Zipkin | Director | March 28, 2017 |