



**Aztec Land and Cattle
Company, Limited**

Financial Statements

December 31, 2021 and 2020



Wallace Plese + Dreher
CERTIFIED PUBLIC ACCOUNTANTS + CONSULTANTS

Aztec Land and Cattle Company, Limited

Contents

December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors and Stockholders
Aztec Land and Cattle Company, Limited
4647 North 32nd Street, No. 240
Phoenix, AZ 85018

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Aztec Land and Cattle Company, Limited, which comprise the statements of assets, liabilities, and changes in stockholders' equity—tax basis as of December 31, 2021 and 2020, and the related statements of revenue and expenses—tax basis and of changes in stockholders' equity—tax basis for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities, and capital of Aztec Land and Cattle Company, Limited, as of December 31, 2021 and 2020, and its revenue and expenses and changes in stockholders' equity accounts for the years then ended in accordance with the basis of accounting Aztec Land and Cattle Company, Limited uses for income tax purposes described in *Note 1*.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Aztec Land and Cattle Company, Limited, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting

We draw attention to *Note 1* of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting Aztec Land and Cattle Company, Limited uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting Aztec Land and Cattle Company, Limited uses for income tax purposes, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Aztec Land and Cattle Company, Limited's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Aztec Land and Cattle Company, Limited's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Wallace, Plesse + Dreher, G.P.

Chandler, Arizona
January 31, 2022

Aztec Land and Cattle Company, Limited

Statements of Assets, Liabilities, and Stockholders' Equity - Tax Basis

December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 214,337	\$ 406,753
Certificates of deposit and money market accounts	-	1,363
Land	3,027,140	3,027,140
Investment in The Apache Railroad Company, LLC	3,752,432	3,792,369
Furniture and equipment, net of accumulated depreciation of \$6,492	700	700
Restricted cash (Note 4)	-	20,000
Project advances (Note 5)	143,100	143,100
Advance due from The Apache Railroad Company, LLC	1,686	1,686
Note receivable (Note 7)	-	640,000
Notes receivable, related parties (Note 6)	4,123,923	3,533,955
	<u>\$ 11,263,318</u>	<u>\$ 11,567,066</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deferred gains on sales of land and membership interest (Note 7)	\$ 2,457,371	\$ 3,093,956
Customer deposit	-	20,000
Note payable to related party	-	3,000
Convertible notes payable, related parties (Note 8)	-	800,000
	<u>2,457,371</u>	<u>3,916,956</u>
Contingencies (Notes 3 and 12)		
Stockholders' equity		
Common stock, \$0.25 par value; 200,000 shares authorized; 150,010 shares issued and outstanding (Note 13)	37,502	37,502
Additional paid-in capital	7,818,820	7,818,820
Retained earnings (deficit)	949,625	(206,212)
	<u>8,805,947</u>	<u>7,650,110</u>
	<u>\$ 11,263,318</u>	<u>\$ 11,567,066</u>

See Notes to Financial Statements

Aztec Land and Cattle Company, Limited

Statements of Revenues and Expenses - Tax Basis

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues collected		
Rentals (<i>Note 14</i>)		
Grazing lease income	\$ 200,793	\$ 190,126
Access and mineral revenue	81,577	24,044
Renewable energy development leases	1,139,564	543,000
Real estate and sales taxes collected from lessees	7,022	8,097
Other revenue		
Gain on sale of land and membership interest (<i>Note 7</i>)	636,585	639,779
Stone and gravel sales (<i>Note 4</i>)	35,431	4,051
Interest income	163,269	53,694
Management fees	-	111,000
PPP loan proceeds (<i>Note 18</i>)	-	20,700
Dry Lake farm revenue (<i>Note 17</i>)	224,001	4,197
	<u>2,488,242</u>	<u>1,598,688</u>
Expenses paid		
Compensation	120,000	120,000
Contract services (<i>Note 15</i>)	106,280	112,665
Professional fees	95,660	81,669
District base costs (<i>Note 12</i>)	149,974	48,878
Rent	42,708	23,550
Insurance, net of premium refund	6,475	6,430
Travel	14,823	19,942
Payroll taxes	9,222	9,222
Office expense	25,584	10,162
Real estate and mineral taxes	8,678	8,923
Telephone	9,098	5,241
Pension plan (<i>Note 9</i>)	18,000	18,000
Contributions	1,000	500
Amortization	39,936	39,936
Dry Lake farm expenses (<i>Note 17</i>)	639,098	442,846
Interest expense (<i>Notes 8 and 15</i>)	35,467	56,933
Other expenses paid	10,282	14,233
	<u>1,332,285</u>	<u>1,019,130</u>
Excess of revenues collected over expenses paid before income taxes	1,155,957	579,558
Income taxes paid	<u>120</u>	<u>129</u>
Excess of revenues collected over expenses paid	<u>\$ 1,155,837</u>	<u>\$ 579,429</u>

See Notes to Financial Statements

Aztec Land and Cattle Company, Limited

Statements of Changes in Stockholders' Equity - Tax Basis

Years Ended December 31, 2021 and 2020

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Total
Balances, December 31, 2019	\$ 37,502	\$ 7,818,820	\$ (785,641)	\$ 7,070,681
Excess of revenues collected collected over expenses paid	-	-	579,429	579,429
Balances, December 31, 2020	37,502	7,818,820	(206,212)	7,650,110
Excess of revenues collected collected over expenses paid	-	-	1,155,837	1,155,837
Balances, December 31, 2021	<u>\$ 37,502</u>	<u>\$ 7,818,820</u>	<u>\$ 949,625</u>	<u>\$ 8,805,947</u>

See Notes to Financial Statements

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2021 and 2020

Note 1 – Nature of Business and Significant Accounting Policies

Nature of operations:

Aztec Land and Cattle Company, Limited (the "Corporation") was incorporated in New York in 1885 to own land in Navajo County, Arizona. Since the 1960s, the Corporation's business strategy has focused primarily on acquiring land to consolidate its holdings and, over time, develop them. The Corporation manages several related entities – Aztec Land Company, LLC (the "Company"), Aztec East Jeffers, LLC ("East Jeffers, LLC") and Aztec Despain Ranch, LLC ("Despain, LLC"). Combined, the Corporation and its related entities own approximately 239,000 acres of surface land and 318,000 acres of mineral rights. Revenues are derived primarily from various leases of its land, including solar and wind renewable energy development leases, grazing leases, and mineral leases.

A summary of the Corporation's significant accounting policies follows:

Basis of accounting:

The Corporation prepares its financial statements on the cash basis of accounting used by the Corporation for federal income tax purposes. The income tax basis of accounting is a special purpose financial reporting framework that differs from accounting principles generally accepted in the United States of America (GAAP). Consequently, certain revenues and expenses are recognized in the determination of excess (deficient) revenues over expenses collected in different reporting periods than they would be if the financial statements were prepared in conformity with GAAP. The income tax basis of accounting differs from GAAP for the Corporation primarily due to recognition of revenues when collected and recognition of expenses when paid. Additionally, the Corporation uses the installment method to recognize gains on sales of land and membership interest to related parties. This treatment differs from GAAP, whereby any related party gains would be deferred until the land or membership interest was sold to unrelated third parties. The Corporation recognizes pension contribution expense when contributions are paid. This treatment differs from GAAP, whereby actuarial and other data is used to determine a pension liability and related expense. Finally, the Corporation capitalized certain costs related to its acquisition of The Apache Railroad Company, LLC, and is amortizing those costs over fifteen years. This treatment differs from GAAP, whereby costs to acquire a business are generally expensed when incurred.

Although income tax rules are used to determine timing of the reporting of revenues and expenses, nontaxable revenues, and nondeductible expenses, if any, are included in the determination of excess revenues collected over expenses paid. The Corporation did not have any nontaxable revenue during the years ended December 31, 2021 and 2020.

Use of estimates:

The preparation of financial statements in conformity with the cash basis of accounting used for federal income tax reporting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations. As such, the amounts reported in the accompanying financial statements may be subject to change upon final determination by the taxing authorities.

Cash and cash equivalents:

The Corporation considers all cash investments with original or purchased maturities of three months or less to be cash equivalents.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2021 and 2020

Note 1 – Nature of Business and Significant Accounting Policies (Continued)

Investment in The Apache Railroad Company, LLC:

The Corporation has a membership interest in The Apache Railroad Company, LLC (“ARC”), the sole shareholder of The Apache Railway Company (the “Railway”). As a limited liability company, ARC’s excess (deficient) revenues over expenses are taxable proportionately to its unit holders for federal and state income tax reporting purposes. The Corporation’s share of ARC’s net income (loss) is recognized as a gain (loss) in the Corporation’s Statement of Revenues and Expenses and is added to (deducted from) the investment account. Capital contributions to ARC are treated as additions to the investment account, and distributions received from ARC are treated as reductions. See *Note 3*.

Grazing land and mineral rights:

The land is recorded at average cost for income tax purposes. No value has been assigned to mineral rights retained by the Corporation.

Furniture and equipment:

Furniture and equipment are recorded at cost and depreciated using accelerated methods over their estimated useful lives (5 to 7 years), as allowed by the income tax basis of accounting. Furniture and equipment consists of fully depreciated assets with an original cost of \$6,492. Works of art have a nondepreciable cost basis of \$700.

Deferred gains on sales of land and membership interest:

The Corporation uses the installment method to recognize revenues from the sales of land and membership interests. The installment method recognizes gains on a sale as payments are received. The unrecognized gain appears as a liability in the Statements of Assets, Liabilities, and Stockholders' Equity—Tax Basis. See *Note 7*.

Recognition of revenue:

The Corporation recognizes revenue when received.

Income taxes:

Income taxes paid as shown on the statements of revenues and expenses – tax basis consist of all amounts paid for prior years and current year estimated payments. If assessed, the Corporation would classify any interest and penalties associated with a tax position as other expenses paid in the Statement of Revenues and Expenses—Tax Basis.

Subsequent events:

Management has evaluated subsequent events through January 31, 2022, which is the date the financial statements were available to be issued.

Note 2 – Concentrations of Risk

The Corporation maintains its cash in bank deposit accounts which at times may exceed federally insured limits.

Approximately 46% and 34% of the Corporation’s revenue for the years ended December 31, 2021 and 2020, respectively, was provided by renewable energy development leases (see *Note 14*). The Corporation received payments from a single lessee corresponding to 10% of total revenues, and received payments from two lessees corresponding to 11% of total revenues each for the years ended December 31, 2021 and 2020, respectively.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2021 and 2020

Note 3 – Investment in The Apache Railroad Company, LLC

In February 2017, the Corporation made a \$966,250 capital contribution to ARC, along with a contribution from the Company in the amount of \$283,750, for a total of \$1,250,000. ARC, in turn, contributed the proceeds to the Railway to reduce the principal balance of the Railway's \$2,500,000 in third-party loans by a like amount. The maturity date of its third-party loans is January 1, 2024. On December 31, 2021 and 2020, the balance of the Railway's third-party loans was approximately \$498,000 and \$588,500, respectively. These loans are guaranteed by ARC, the Corporation, the Company, and personally by the Corporation's president.

In December 2017, the third-party member of ARC made a \$1,250,000 capital contribution to ARC. A portion of the proceeds was contributed to the Railway and used to reduce the principal balance of the Railway's third-party loans and for working capital. In March 2019, the Corporation forgave \$279,068 of principal on its revolving credit note with the Railway (see *Note 6*), converting this amount into a capital contribution to ARC. Additionally, the third-party member of ARC extended a loan of \$279,068 to the Railway in 2020 which was also converted into a capital contribution to ARC. The Corporation's investment activity in ARC was as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 3,792,369	\$ 3,832,305
Amortization of acquisition costs	<u>(39,937)</u>	<u>(39,936)</u>
Balance, end of year	<u>\$ 3,752,432</u>	<u>\$ 3,792,369</u>

Note 4 – Restricted Cash

As of December 31, 2020, restricted cash consisted of a certificate of deposit ("CD") held as collateral for reclamation on a sandstone mining lease agreement that expired in September 2020. Interest was payable directly to the mining lessee and the certificate of deposit was accessible to the Corporation only upon breach of contract. Included in the contract was a clause calling for the reclamation of the leased land. In April of 2021, an agreement was reached with the former lessee to surrender the CD and all accrued interest, totaling \$22,323, as well as pay an additional \$12,000 as a settlement of the reclamation obligation. This was included in stone and gravel sales on the statements of revenues and expenses.

Note 5 – Project Advances

In April 2013, the Corporation advanced cash to the Little Colorado Water Conservation District ("LCWCD") in furtherance of the establishment of irrigation and electrical services for the benefit of the Corporation's land. LCWCD's purpose is to provide reasonably priced water and electrical services to land within LCWCD's boundaries, the majority of which belongs to either the Corporation or the Company. No advances have been made since 2017. As of December 31, 2021, the Corporation had advanced LCWCD \$143,100 in cash.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2021 and 2020

Note 6 – Notes Receivable, Related Parties

Aztec Land Company, LLC and Subsidiaries:

Notes receivable consist of several promissory notes due from the Company or the Company's subsidiaries, East Jeffers, LLC and Despain, LLC. The Company is an affiliate of the Corporation (see *Note 11*).

In December 2009, a note payable to the Corporation was executed by Despain, LLC in exchange for 6,443 acres. The note provided for annual principal and interest payments of \$50,000, with the unpaid principal balance accruing interest at an annual rate of 4.25%. On December 1, 2020, the note was amended to remove the minimum payment. The note has a maturity date of December 11, 2024 and its balance was \$1,121,198 and \$1,121,217 as of December 31, 2021 and 2020, respectively. In 2021 and 2020, the Corporation received \$87,081 and \$35,900 of interest income, respectively. The Company may prepay the note without penalty.

In October 2011, the Corporation sold its entire membership interest in East Jeffers, LLC to the Company for \$1,939,000 (see *Note 7*). The Company paid \$193,900 and executed a promissory note for the remainder of the purchase price due October 1, 2031, with annual payments of \$90,000 and the balance, compounded by an annual interest rate of 4.5%, due at maturity. The promissory note was amended on January 1, 2016, revising the annual payments to \$40,000 and decreasing the interest rate to 3%. The note was amended again on December 1, 2020 to remove the minimum payment. The note is secured by 100% of the membership interest in East Jeffers, LLC. The note had a balance of \$1,389,725 and 1,389,737 as of December 31, 2021 and 2020. In 2021 and 2020, the Corporation received \$76,188 and \$17,794 of interest income, respectively. The Company may prepay the note without penalty.

The Apache Railway Company:

In April 2014, the Corporation executed an unsecured revolving credit note with the Railway. The president of the Railway is an officer, stockholder, and director of the Corporation. The note was amended on December 1, 2021 to allow a maximum advance of \$2,000,000. The note is due on demand, or if repayment is not demanded, the note will mature on December 31, 2022. Interest accrues from and after the date of disbursement at 4% per year. On March 27, 2019, the Corporation forgave \$279,068 of principal and converted the \$279,068 into a capital contribution to ARC (see *Note 3*). In 2020, \$392,000 was advanced to the Railway under the line of credit agreement. In 2021, \$620,000 was advanced to and \$30,000 was collected from the Railway under the line of credit agreement. The principal balance on the note was \$1,613,000 and \$1,023,000 on December 31, 2021 and 2020, respectively. The Corporation did not receive interest income on the note in 2021 or 2020.

Note 7 – Deferred Gains on Sales of Land and Membership Interest

In December 2009, the Corporation sold 6,443 acres of land to Despain, LLC. The total sales price of \$1,288,500 was received from Despain, LLC in the form of a promissory note (see *Note 6*) and \$130,000 in cash. The deferred gain was \$1,102,215 and \$1,102,226 on December 31, 2021 and 2020, respectively.

In June 2011, the Corporation contributed 14,143 acres of land to form East Jeffers, LLC. In October 2011, the Corporation sold its membership interest in East Jeffers, LLC to the Company. The total sales price of \$1,939,000 was received from the Company in the form of a promissory note (see *Note 6*) and \$193,900 in cash. The deferred gain was \$1,355,156 and \$1,355,175 on December 31, 2021 and 2020, respectively.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2021 and 2020

Note 7 – Deferred Gains on Sales of Land and Membership Interest (Continued)

In December 2020, the Corporation sold 632.9 acres of land to an unrelated third party. The total sales price of \$1,280,000 was received from the buyer in the form of a \$640,000 promissory note and \$640,000 in cash. The promissory note was due July 31, 2021 and did not bear interest. Payment in the full amount was received in August of 2021. The balance of the deferred gain was \$0 and \$636,555 on December 31, 2021 and 2020, respectively.

Note 8 – Convertible Notes Payable, Related Parties

In August and September of 2019, the Corporation entered into nine convertible note payable agreements with related parties, including stockholders, stockholder family members, family members of management, and trusts and IRAs belonging to stockholders. These notes had an aggregate principal balance of \$800,000, matured on August 31, 2022, bore a 7% interest rate based on a 360-day year and could be repaid by the Corporation at any time. Interest payments were payable quarterly, in arrears, and totaled \$35,467 and \$56,933 in 2021 and 2020, respectively. The notes were convertible into shares of stock in the Corporation (with corresponding units of the Company), at the option of the note holders beginning August 31, 2021 at the conversion price of \$165 per share. In August of 2021, the Corporation repaid the full principal balance of these notes; thus, no shares were issued related to the convertible debt. The balance of the convertible debt was \$0 and \$800,000 on December 31, 2021 and 2020, respectively.

Note 9 – Employee Pension Plan

The Corporation established a money purchase pension plan effective January 1, 1991. The plan covers all employees age 21 and older on completion of one year of service. The plan provides for the Corporation to contribute 15% of each participant's covered compensation for the plan year. The Corporation uses the cash method for income tax reporting, and therefore does not recognize pension liabilities. Pension contributions are charged to expense when paid and totaled \$18,000 for each of the years ended December 31, 2021 and 2020.

Note 10 – Income Taxes

The Corporation's taxable income for the year ended December 31, 2020 was reduced by the benefit of net operating losses carried forward from prior years. The Corporation used all loss carryforwards in 2021; thus, the Corporation had no federal or State of Arizona net operating loss carryforwards as of December 31, 2021.

Note 11 – Formation of Aztec Land Company, LLC

In 2002, the Corporation formed the Company. Upon formation of the Company, the Corporation simultaneously declared a dividend of all the units of interest in the Company to the Corporation's stockholders. The dividend equaled one unit of interest in the Company for each share of the Corporation's regular capital stock. Each unit of interest in the Company is in book entry form only (meaning there are no certificates) and each unit is "stapled" to its respective share of the Corporation's regular capital stock. As such, a unit in the Company can only be transferred by transferring the share of capital stock to which it is "stapled".

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2021 and 2020

Note 12 – Contingencies

The Corporation's groundwater rights have been subject to pending litigation for almost 40 years. The case is *In Re the General Adjudication of All Rights to Use Water in the Little Colorado River System and Source*, Case No. CV-6417. The litigation involves a determination of the relative rights of water users in the Little Colorado River basin. The more significant issues in the litigation involve Native American claims of water rights, primarily those of the Hopi and Navajo Tribes and the United States on behalf of the Tribes. All water rights claims in the Little Colorado River basin are subject to this adjudication. The adjudication is an extremely complex matter and involves thousands of parties. Management expects this adjudication to continue for a substantial period of time. No monetary damages are being claimed by any party. The Corporation is responding to this litigation through active participation in the adjudication's numerous legal proceedings and longstanding settlement negotiations and through its financial support of LCWCD, which itself is involved in the litigation for the same reasons. In managing the litigation and attempting to control costs, the Corporation and LCWCD entered into a joint defense agreement with several northern Arizona municipalities, irrigation districts, and water companies with similar, if not identical, legal interests. Because the Corporation and the Company own the majority of land within LCWCD's service area, they together pay 85% of the expenses allocated to LCWCD via the joint defense agreement. The 15% balance is borne by an unrelated third party and the Railway, both of which receive water deliveries from LCWCD. For 2022 and 2023, litigation costs borne by LCWCD (and thus, on a pass-thru basis, by the Corporation and the Company) are expected to be lower than in the past two years due to a temporary revision in the cost sharing provisions of the joint defense agreement for this period. In the years beyond 2023, and assuming the continued absence of a settlement, litigation costs are expected to remain significant. Assessments in 2021 and 2020 by LCWCD to the Corporation for LCWCD's base costs (meaning those which do not vary with water usage), which principally arose from the litigation, appear on the Statements of Revenues and Expenses—Tax Basis as District base costs.

Note 13 – Common Stock

The Corporation offers a single class of common stock and no preferred stock. The ticker symbol is AZLCZ. The transfer agent is Transfer Online, Inc., located at 512 SE Salmon St. Portland, OR 97214.

Note 14 – Operating Leases (as Lessor)

Grazing leases:

The Corporation leases its land for grazing to multiple tenants. The grazing leases are written for five-year terms and have staggered expirations. They are generally expected to be renewed as they expire and are classified as operating leases.

Access agreements:

In 2009 and 2010, the Corporation entered into road use agreements granting a cellular tower operator and wind energy developer (the "grantees") access over the Corporation's land to the grantees' projects. The annual payments total \$22,457 and are subject to future inflationary adjustments. The agreements terminate when the grantees remove their equipment. Management has included one year of future minimum payments due under the agreements in the schedule below; but estimates that the agreements will continue for 25 years.

A schedule of the approximate annual minimum rental income provided for by non-cancellable grazing leases and access agreements, which were in effect as of December 31, 2021, follows. The amounts shown for 2022 and subsequent years do not reflect the Corporation's belief as to amounts which will be realized, as actual results are dependent on the amounts the Corporation is able to continue charging for its grazing leases.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2021 and 2020

Note 14 – Operating Leases (as Lessor) (Continued)

Approximate minimum future rental income for the years ending December 31:

2022	\$ 98,000
2023	36,000
2024	33,000
2025	<u>33,000</u>
	<u>\$ 200,000</u>

Renewable energy development leases:

The Corporation and the Company have entered into six solar and three wind renewable energy development leases. The leases have development term lengths of five to eight years and operations term lengths of 25 to 35 years. During the development term for all leases, the lessee may cancel at any time but without refund of prior payments. All leases are currently in their development terms.

The Corporation received rental income from renewable energy development leases totaling \$1,139,564 and \$543,000 in the years ended December 31, 2021 and 2020, respectively.

Mineral development leases:

In August 2020, the Corporation executed a letter agreement with a third party establishing the framework for an exploratory drilling program to locate and develop the Corporation's and the Company's oil, gas and helium resources, if any. Pursuant to the letter agreement, the third party leased approximately 5,800 acres of land from the Corporation in 2021; and has the option to lease another ~17,000 acres of Corporation and Company land over the next two to three years. The leases are for a term equal to the greater of three years or for as long as oil, gas or helium is produced. Should oil, gas, or helium be produced, the Corporation will receive a royalty based on the market value of the resource. As of December 31, 2021, the third party had drilled one well and was evaluating the production potential, if any, of this well and future wells in surrounding areas. Aside from the initial lease payments, the Corporation did not receive additional revenue from the third party.

Note 15 – Related Party Transactions Not Disclosed Elsewhere

During 2021 and 2020, the Corporation paid \$366,309 and \$205,179, respectively, to Page Land & Cattle Co. ("Page") for contract services and expenses incurred in connection with the documentation, organization, and management of the Corporation's land and financial records, preservation of its water rights, and reimbursement of expenses paid by Page on behalf of the Corporation for expenses arising from its 3,000-acre farm ("Dry Lake Farm") (see *Note 17*). In addition, the Corporation paid Page \$7,500 in 2021 and \$13,750 in 2020 for office rent under a cancelable agreement. The agreement was terminated in June of 2021; and the Corporation, having moved its office location, now pays rent to a third party. On May 2, 2019, the Corporation entered into a line of credit agreement with Page with a maximum draw of \$250,000 and an interest rate of 6%. On December 1, 2020, the note was amended to extend the due date to December 31, 2022. The Corporation drew \$3,000 on the line of credit in 2020. In 2021, the Corporation drew \$130,000 and repaid \$133,000 on the line of credit. The balance on this line of credit was \$0 and \$3,000 on December 31, 2021 and 2020, respectively. No interest was paid in 2021 and 2020.

The Corporation paid an individual who is an officer, director and stockholder of the Corporation, \$10,103 and \$10,042 in 2021 and 2020, respectively, for reimbursement of office rent, office expenses, and travel.

The Corporation received from the Company \$825 and \$2,750 in 2021 and 2020, respectively, as reimbursement for legal services, paid on the Company's behalf by the Corporation.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2021 and 2020

Note 15 – Related Party Transactions Not Disclosed Elsewhere (Continued)

In 2021 and 2020, the Corporation paid \$3,000 to an organization for membership dues. The president of the Corporation is vice president and a member of the Board of Directors of this organization.

The Corporation paid a law firm \$25,550 and \$14,753 for legal services in 2021 and 2020, respectively. Some of these legal services were performed by a relative of the president of the Corporation.

In 2021 and 2020, the Corporation paid \$60,000 for contract services to a company owned by a relative of the president of the Corporation.

In 2021 and 2020, the Corporation paid the Railway \$17,237 and \$7,408, respectively for services undertaken by the Corporation to further develop Dry Lake Farm.

Note 16 – Aztec Area Land Plan

In May 2011, Navajo County, Arizona approved and adopted the Aztec Area Plan (the “Plan”), a comprehensive planning document for the Corporation’s and Company’s land. The Plan is posted in its entirety on the Corporation’s website: www.azteclandco.com.

Note 17 – Water and Related Development

North Well Field:

In 2012, in furtherance of the Plan, the Company executed a 100-year lease for its well field near Holbrook (the “North Well Field”) with LCWCD, a municipality that provides water and power to land within its service area, the majority of which is owned by the Corporation and the Company. In 2013, Arizona Department of Water Resources approved LCWCD’s application for it to provide 10,184 acre feet of water per year from the North Well Field to its service area through 2035. No water was delivered from the North Well Field in 2021 or 2020.

South Well Field:

In 2017, the Corporation acquired a well field with a long-term water production history of 15,000 acre feet per year, of which the Corporation is entitled to 13,490 acre feet per year (the “South Well Field”). The Corporation then conveyed the South Well Field’s well sites and related supporting infrastructure to LCWCD. At the same time, the Corporation and the Company entered into a water service contract with LCWCD obliging the Corporation and the Company to pay LCWCD’s district base costs and, depending on water usage, a portion of LCWCD’s operating costs based on an assessment that is determined annually by LCWCD. The base costs of LCWCD in 2020 and 2021 arose primarily from LCWCD’s share of litigation costs in the Little Colorado River System Adjudication (see *Note 12*).

Dry Lake Farm:

The operating costs assessed to the Corporation by LCWCD for water usage arose from Dry Lake Farm. The farm is part of 12,000 acres acquired by the Corporation in 2017. Costs associated with Dry Lake Farm are shown in the Statements of Revenues and Expenses—Tax Basis as Dry Lake farm expenses. Further activity relating to Dry Lake Farm awaits the Corporation’s assessment of the farm’s profitability and sustainability.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2021 and 2020

Note 18 – PPP Loan Proceeds

On June 22, 2020, the Corporation received \$20,700 of proceeds under the Paycheck Protection Program (PPP), a loan program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020. The loan had a stated interest rate of 1% and matured on June 22, 2025. The full amount of the loan was forgiven on March 23, 2021. Based on the expectation of this forgiveness, the Corporation elected to report the proceeds as income in 2020.

Note 19 – Company Insiders

Officers:

Ian H. Fraser – Chairman

Stephen M. Brophy – President

Tricia Crichton – Secretary/Treasurer

Directors:

Nathan C.T. Walsh – Class A

David C. Davenport – Class A

James E. Mitchell – Class A

Hugh C. Fraser – Class B

Holly C. Evarts – Class B

Michael J. Brewer – Class B

Stephen M. Brophy – Class C

Ian H. Fraser – Class C

Peter E. Converse – Class C

10% or Greater Stockholders (as of December 31, 2021):

Mitchell Partners, L.P.