



**Aztec Land and Cattle
Company, Limited**

Financial Statements

December 31, 2022 and 2021



Wallace Plese + Dreher
CERTIFIED PUBLIC ACCOUNTANTS + CONSULTANTS

Aztec Land and Cattle Company, Limited

Contents

December 31, 2022 and 2021

Independent Auditor's Report	1-2
Financial Statements	
Statements of assets, liabilities, and stockholders' equity – tax basis	3
Statements of revenues and expenses – tax basis	4
Statements of changes in stockholders' equity – tax basis	5
Notes to financial statements – tax basis	6-13



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, 2022 and 2021, 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, 2022 and 2021, 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, Plese + Dreher, G.P.

Chandler, Arizona
January 23, 2023

Aztec Land and Cattle Company, Limited

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

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 635,883	\$ 214,337
Land	3,027,140	3,027,140
Investment in The Apache Railroad Company, LLC	3,712,496	3,752,432
Furniture and equipment, net of accumulated depreciation of \$6,492	700	700
Project advances (Note 4)	143,100	143,100
Advance due from The Apache Railroad Company, LLC	1,736	1,686
Notes receivable, related parties (Note 5)	4,655,423	4,123,923
	<u>\$ 12,176,478</u>	<u>\$ 11,263,318</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deferred gains on sales of land and membership interest (Note 6)	\$ 2,457,371	\$ 2,457,371
Contingencies (Note 11)		
Stockholders' equity		
Common stock, \$0.25 par value; 200,000 shares authorized; 150,010 shares issued and outstanding (Note 12)	37,502	37,502
Additional paid-in capital	7,818,820	7,818,820
Retained earnings	1,862,785	949,625
	<u>9,719,107</u>	<u>8,805,947</u>
	<u>\$ 12,176,478</u>	<u>\$ 11,263,318</u>

See Notes to Financial Statements

Aztec Land and Cattle Company, Limited

Statements of Revenues and Expenses - Tax Basis

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues collected		
Rentals (<i>Note 13</i>)		
Grazing lease income	\$ 195,787	\$ 200,793
Access and mineral revenue	48,944	81,577
Renewable energy development leases	1,442,379	1,139,564
Real estate and sales taxes collected from lessees	6,449	7,022
Other revenue		
Gain on sale of land and membership interest (<i>Note 6</i>)	-	636,585
Stone and gravel sales	2,882	35,431
Interest income	83,468	163,269
Management fees	394,090	-
Dry Lake farm revenue (<i>Note 16</i>)	248,977	224,001
	<u>2,422,976</u>	<u>2,488,242</u>
Expenses paid		
Compensation	120,000	120,000
Contract services (<i>Note 14</i>)	135,675	106,280
Professional fees	90,609	95,660
District base costs (<i>Note 11</i>)	-	149,974
Rent	48,578	42,708
Insurance, net of premium refund	8,487	6,475
Travel	24,036	14,823
Payroll taxes	9,222	9,222
Office expense	20,143	25,584
Real estate and mineral taxes	8,466	8,678
Telephone	5,433	9,098
Pension plan (<i>Note 8</i>)	18,000	18,000
Contributions	300	1,000
Amortization	39,936	39,936
Dry Lake farm expenses (<i>Note 16</i>)	820,205	639,098
Interest expense (<i>Notes 7 and 14</i>)	1,870	35,467
Other expenses paid	16,583	10,282
	<u>1,367,543</u>	<u>1,332,285</u>
Excess of revenues collected over expenses paid before income taxes	1,055,433	1,155,957
Income taxes paid	<u>142,273</u>	<u>120</u>
Excess of revenues collected over expenses paid	<u>\$ 913,160</u>	<u>\$ 1,155,837</u>

See Notes to Financial Statements

Aztec Land and Cattle Company, Limited

Statements of Changes in Stockholders' Equity - Tax Basis

Years Ended December 31, 2022 and 2021

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings (deficit)</u>	<u>Total</u>
Balances, December 31, 2020	\$ 37,502	\$ 7,818,820	\$ (206,212)	\$ 7,650,110
Excess of revenues collected collected over expenses paid	<u>-</u>	<u>-</u>	<u>1,155,837</u>	<u>1,155,837</u>
Balances, December 31, 2021	37,502	7,818,820	949,625	8,805,947
Excess of revenues collected collected over expenses paid	<u>-</u>	<u>-</u>	<u>913,160</u>	<u>913,160</u>
Balances, December 31, 2022	<u>\$ 37,502</u>	<u>\$ 7,818,820</u>	<u>\$ 1,862,785</u>	<u>\$ 9,719,107</u>

See Notes to Financial Statements

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2022 and 2021

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 (hereafter, "the income tax basis of accounting"). 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 interests 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, 2022 and 2021.

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, 2022 and 2021

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 6*.

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 23, 2023, 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 60% and 46% of the Corporation’s revenue for the years ended December 31, 2022 and 2021, respectively, was provided by renewable energy development leases (see *Note 13*). The Corporation received payments from four lessees corresponding to 12%, 11%, 10% and 10% of total revenues for the year ended December 31, 2022. The Corporation received payments from a single lessee corresponding to 10% of total revenues for the year ended December 31, 2021.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2022 and 2021

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, 2025. On December 31, 2022 and 2021, the balance of the Railway's third-party loans was approximately \$301,800 and \$498,000, respectively. The Railway paid an additional \$100,000 of principal on these loans in December 2022. 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 converted \$279,068 of principal on its revolving credit note with the Railway (see *Note 5*) 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>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 3,752,432	\$ 3,792,369
Amortization of acquisition costs	<u>(39,936)</u>	<u>(39,937)</u>
Balance, end of year	<u>\$ 3,712,496</u>	<u>\$ 3,752,432</u>

Note 4 – 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, 2022, the Corporation had advanced LCWCD \$143,100 in cash.

Note 5 – 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 10*).

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 as of December 31, 2022 and 2021. In 2022 and 2021, the Corporation received \$44,518 and \$87,081 of interest income, respectively. The Company may prepay the note without penalty.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2022 and 2021

Note 5 – Notes Receivable, Related Parties (Continued)

Aztec Land Company, LLC and Subsidiaries (Continued):

In October 2011, the Corporation sold its entire membership interest in East Jeffers, LLC to the Company for \$1,939,000 (see *Note 6*). 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 \$1,389,726 as of December 31, 2022 and 2021. In 2022 and 2021, the Corporation received \$38,950 and \$76,188 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 October 3, 2022 to allow a maximum advance of \$3,000,000. The note is due on demand, or if repayment is not demanded, the note will mature on December 31, 2025. Interest accrues from and after the date of disbursement at 4% per year. On March 27, 2019, the Corporation converted \$279,068 of principal into a capital contribution to ARC (see *Note 3*). In 2022, \$531,500 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 \$2,144,500 and \$1,613,000 on December 31, 2022 and 2021, respectively. The Corporation did not receive interest income on the note in 2022 or 2021.

Note 6 – 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 5*) and \$130,000 in cash. The deferred gain was \$1,102,215 on December 31, 2022 and 2021.

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 5*) and \$193,900 in cash. The deferred gain was \$1,355,156 on December 31, 2022 and 2021.

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.

Note 7 – 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 in 2021. 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.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2022 and 2021

Note 8 – 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, 2022 and 2021.

Note 9 – Income Taxes

The Corporation's taxable income for the year ended December 31, 2021 was reduced by the benefit of net operating losses carried forward from prior years. The Corporation used all loss carryforwards in 2021. During the year ended December 31, 2022, the Corporation paid federal income taxes of \$95,113 and state income taxes of \$47,160 related to the 2021 tax year.

Note 10 – 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".

Note 11 – 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 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 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.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2022 and 2021

Note 12 – 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 13 – 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 20 years.

On July 14, 2022, the Corporation entered into a rail access and land use lease agreement with the Railway. The lease allows the Railway to use land owned by the Corporation for the purposes of railroad operation and to cross other property owned by the Corporation. The lease has a five-year term that expires on July 13, 2027, and a minimum annual rental payment of \$15,000.

A schedule of the approximate annual minimum rental income provided for by non-cancellable grazing leases and access agreements that were in effect as of December 31, 2022, follows. The amounts shown for 2023 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.

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

2023	\$ 242,000
2024	204,000
2025	204,000
2026	<u>171,000</u>
	<u>\$ 821,000</u>

Renewable energy development leases:

The Corporation and the Company have entered into seven 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 \$1,442,379 and \$1,139,564 in the years ended December 31, 2022 and 2021, respectively.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis December 31, 2022 and 2021

Note 13 – Operating Leases (as Lessor) (Continued)

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 640 and 5,800 acres of land from the Corporation in 2022 and 2021, respectively; and has the option to lease another ~17,000 acres of Corporation and Company land over the next one to two 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, 2022, the third party had drilled two wells and was evaluating the production potential, if any, of the wells and future wells in surrounding areas. Aside from the initial lease payments, the Corporation did not receive additional revenue from the third party.

Note 14 – Related Party Transactions Not Disclosed Elsewhere

During 2022 and 2021, the Corporation paid \$501,108 and \$366,309, 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 16*). In addition, the Corporation paid Page \$7,500 in 2021 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. 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 on December 31, 2022 and 2021. No interest was paid in 2022 and 2021.

The Corporation paid an individual who is an officer, director and stockholder of the Corporation, \$13,019 and \$10,103 in 2022 and 2021, respectively, for reimbursement of office rent, office expenses, and travel.

The Corporation received from the Company \$4,169 and \$825 in 2022 and 2021, respectively, as reimbursement for legal services, paid on the Company's behalf by the Corporation.

In 2022 and 2021, 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 \$5,671 and \$25,550 for legal services in 2022 and 2021, respectively. Some of these legal services were performed by a relative of the president of the Corporation.

In 2022 and 2021, the Corporation paid \$60,000 for contract services to a company owned by a relative of the president of the Corporation. In 2022, the Corporation also paid this company \$2,476 as reimbursement for travel expenses incurred while providing these consulting services, and borrowed \$125,000 on a short-term loan to cover cash shortages, which was repaid in full in the same year with interest of \$948.

In 2022 and 2021, the Corporation paid the Railway \$29,603 and \$17,237, respectively, for services undertaken by the Corporation to further develop Dry Lake Farm.

In 2022, the Corporation borrowed \$50,000 from the President of the Corporation as a short-term loan, which was repaid in full with \$841 of interest during the year.

Aztec Land and Cattle Company, Limited

Notes to Financial Statements – Tax Basis

December 31, 2022 and 2021

Note 15 – 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 16 – 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 2022 or 2021.

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 2021 arose primarily from LCWCD’s share of litigation costs in the Little Colorado River System Adjudication (see *Note 11*).

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.

Note 17 – 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, 2022):

Mitchell Partners, L.P.