



**Aztec Land and Cattle  
Company, Limited**

**Financial Statements**

**December 31, 2020 and 2019**



**Wallace Plese + Dreher**  
CERTIFIED PUBLIC ACCOUNTANTS + CONSULTANTS

# Aztec Land and Cattle Company, Limited

## Contents

December 31, 2020 and 2019

---

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

## Independent Auditor's Report

Board of Directors and Stockholders  
Aztec Land and Cattle Company, Limited  
10265 West Camelback Road, No. 104  
Phoenix, AZ 85037

We have audited the accompanying financial statements of Aztec Land and Cattle Company, Limited, which comprise the statements of assets, liabilities, and stockholders' equity – tax basis as of December 31, 2020 and 2019, and the related statements of revenues and expenses – tax basis and changes in stockholders' equity – tax basis for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting Aztec Land and Cattle Company, Limited uses for income tax purposes; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and stockholders' equity of Aztec Land and Cattle Company, Limited as of December 31, 2020 and 2019, and its revenue and expenses and changes in stockholders' equity for the years then ended, in accordance with the basis of accounting Aztec Land and Cattle Company, Limited uses for income tax purposes, as described in *Note 1*.

### Basis of Accounting

We draw attention to *Note 1* to 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 that matter.

*Wallace, Plese + Dreher, G.P.*

Chandler, Arizona  
January 25, 2021

# Aztec Land and Cattle Company, Limited

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

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 406,753	\$ 177,707
Certificates of deposit and money market accounts	1,363	1,363
Land	3,027,140	3,029,285
Investment in The Apache Railroad Company, LLC	3,792,369	3,832,305
Furniture and equipment, net of accumulated depreciation of \$6,492	700	700
Restricted cash (Note 4)	20,000	20,000
Project advances (Note 5)	143,100	143,100
Advance due from The Apache Railroad Company, LLC	1,686	1,586
Note receivable (Note 7)	640,000	-
Notes receivable, related parties (Note 6)	3,533,955	3,145,261
	<u>\$ 11,567,066</u>	<u>\$ 10,351,307</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deferred gains on sales of land and membership interest (Note 7)	\$ 3,093,956	\$ 2,460,626
Customer deposit	20,000	20,000
Note payable to related party	3,000	-
Convertible notes payable, related parties (Note 8)	800,000	800,000
	<u>3,916,956</u>	<u>3,280,626</u>
Contingencies (Notes 3 and 12)		
<b>Stockholders' equity</b>		
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 deficit	(206,212)	(785,641)
	<u>7,650,110</u>	<u>7,070,681</u>
	<u>\$ 11,567,066</u>	<u>\$ 10,351,307</u>

See Notes to Financial Statements

# Aztec Land and Cattle Company, Limited

## Statements of Revenues and Expenses - Tax Basis

Years Ended December 31, 2020 and 2019

	2020	2019
Revenues collected		
Rentals (Note 14)		
Grazing lease and access license income	\$ 214,170	\$ 260,735
Renewable energy development leases	543,000	190,000
Real estate and sales taxes collected from lessees	8,097	7,436
Other revenue		
Gain on sale of land and membership interest (Note 7)	639,779	10,269
Stone and gravel sales	4,051	2,394
Interest income	53,694	90,750
Management fees	111,000	196,000
PPP loan proceeds (Note 18)	20,700	-
Miscellaneous revenue	4,197	75
	<u>1,598,688</u>	<u>757,659</u>
Expenses paid		
Compensation	120,000	130,000
Contract services (Note 15)	112,665	73,913
Professional fees	81,669	85,944
District base costs (Note 12)	48,878	44,685
Rent	23,550	24,800
Insurance, net of premium refund	6,430	6,550
Travel	19,942	26,549
Payroll taxes	9,222	9,987
Office expense	10,162	13,378
Real estate and mineral taxes	8,923	9,822
Telephone	5,241	3,707
Pension plan (Note 9)	18,000	19,500
Contributions	500	1,500
Amortization	39,936	39,937
Dry Lake farm expenses (Note 17)	442,846	227,965
Interest expense (Notes 8 and 15)	56,933	20,461
Other expenses paid	14,233	15,927
	<u>1,019,130</u>	<u>754,625</u>
Excess of revenues collected over expenses paid before income taxes	579,558	3,034
Income taxes paid	<u>129</u>	<u>120</u>
Excess of revenues collected over expenses paid	<u>\$ 579,429</u>	<u>\$ 2,914</u>

See Notes to Financial Statements

# Aztec Land and Cattle Company, Limited

## Statements of Changes in Stockholders' Equity - Tax Basis

Years Ended December 31, 2020 and 2019

---

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained deficit</u>	<u>Total</u>
Balances, December 31, 2018	\$ 37,502	\$ 7,818,820	\$ (788,555)	\$ 7,067,767
Excess of revenues collected collected over expenses paid	<u>-</u>	<u>-</u>	<u>2,914</u>	<u>-</u> <u>2,914</u>
Balances, December 31, 2019	37,502	7,818,820	(785,641)	7,070,681
Excess of revenues collected collected over expenses paid	<u>-</u>	<u>-</u>	<u>579,429</u>	<u>579,429</u>
Balances, December 31, 2020	<u>\$ 37,502</u>	<u>\$ 7,818,820</u>	<u>\$ (206,212)</u>	<u>\$ 7,650,110</u>

See Notes to Financial Statements

# Aztec Land and Cattle Company, Limited

## Notes to Financial Statements – Tax Basis

December 31, 2020 and 2019

---

### 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 sand and gravel mining 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 (deficient) revenues collected over expenses paid. The Corporation did not have any nontaxable revenue during the years ended December 31, 2020 and 2019.

#### **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, 2020 and 2019

---

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

#### Investments in LLCs:

The Corporation had a membership interest in Snowflake Land JV, LLC (“SL JV, LLC”), which it liquidated in 2017, and 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. 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 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.

#### Subsequent events:

Management has evaluated subsequent events through January 25, 2021, 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 34% and 25% of the Corporation’s revenue for the years ended December 31, 2020 and 2019, respectively, was provided by renewable energy development leases (see *Note 14*).



# Aztec Land and Cattle Company, Limited

## Notes to Financial Statements – Tax Basis December 31, 2020 and 2019

### 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. At the same time, the Railway obtained an extension of the maturity date of its loans to December 2020 (subsequently extended to December 2022). At December 31, 2020 and 2019, the balance of the Railway's third-party loans was approximately \$586,900 and \$673,000, 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 2019 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>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 3,832,305	\$ 3,593,174
Capital contribution	-	279,068
Amortization of acquisition costs	<u>(39,936)</u>	<u>(39,937)</u>
Balance, end of year	<u>\$ 3,792,369</u>	<u>\$ 3,832,305</u>

### Note 4 – Restricted Cash

At December 31, 2020 and 2019, restricted cash consisted of a certificate of deposit held as collateral for reclamation on a sandstone mining lease agreement that expired in September 2020. Interest is payable directly to the mining lessee and the certificate of deposit is accessible to the Corporation only upon breach of contract.

### 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, 2020, the Corporation had advanced LCWCD \$143,100 in cash.

### 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 \$1,121,218 as of December 31, 2020 and 2019.

# Aztec Land and Cattle Company, Limited

## Notes to Financial Statements – Tax Basis December 31, 2020 and 2019

---

### Note 6 – Notes Receivable, Related Parties (Continued)

In 2020 and 2019, the Corporation received \$35,900 and \$49,001 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 \$1,389,737 as of December 31, 2020 and 2019. The Corporation forgave \$182,275 of the Company's note in exchange for the Company's interest in SL JV, LLC on May 31, 2017 (see *Notes 7*). In 2020 and 2019, the Corporation received \$17,794 and \$41,750 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 15, 2020 to allow a maximum advance of \$1,300,000. 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 an additional \$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 railroad under the line of credit agreement. The principal balance on the note was \$1,023,000 and \$631,000 at December 31, 2020 and 2019, respectively. The Corporation did not receive interest income in 2020 or 2019.

### 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 \$1,102,227 on December 31, 2020 and 2019.

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 \$1,355,175 and \$1,358,399 on December 31, 2020 and 2019, respectively.

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 is due July 31, 2021 and does not bear interest. The balance of the deferred gain was \$635,554 on December 31, 2020.

# **Aztec Land and Cattle Company, Limited**

## **Notes to Financial Statements – Tax Basis**

**December 31, 2020 and 2019**

---

### **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 of management, and trusts and IRAs belonging to stockholders. These notes have an aggregate principal balance of \$800,000, mature on August 31, 2022, bear a 7% interest rate based on a 360-day year and can be repaid by the Corporation at any time. Interest payments are payable quarterly, in arrears, and totaled \$56,933 and \$18,069 in 2020 and 2019, respectively. The notes are 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, and ending on the maturity date. In the event a note holder elects to convert, the principal balance will be reduced by a percentage of the interest already paid; and the base conversion price will be \$165 (assuming the Corporation does not issue, redeem or repurchase shares between now and the conversion date). If all stockholders were to exercise on the first available conversion date, 4,653 shares would be issued. If all stockholders were to exercise on the maturity date, 4,555 shares would be issued. At maturity, the Corporation also has the option to repay the notes with shares in lieu of cash with the number of shares equal to the principal balance of the note divided by 85% of the base conversion price. Using \$165 as the base conversion price, the Corporation would need to issue 5,706 shares to repay all notes upon maturity. The Corporation has reserved, but not issued, these shares.

### **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 and \$19,500 for the years ended December 31, 2020 and 2019, respectively.

### **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 has approximately \$708,000 and \$199,000 of federal and State of Arizona net operating loss carryforwards, respectively, as of December 31, 2020. The federal loss carryforwards begin to expire in 2026. The State of Arizona loss carryforwards begin to expire in 2033.

### **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, 2020 and 2019

---

### 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. Given the low likelihood of settlement, costs of the litigation in the coming years are expected to remain at or exceed 2020 levels. Assessments in 2020 and 2019 by LCWCD to the Corporation for LCWCD's fixed costs (meaning those which do not vary based on water use), which principally arose from the litigation, appear on the Statements of Revenues and Expenses 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 and other 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.

In 2010, the Corporation entered into road use agreements granting a wind energy developer (the "grantee") access over the Corporation's land to the grantee's wind turbine projects. The annual lease payments are \$20,000. The payments are subject to inflationary adjustments in the future and management estimates that the agreements will continue for 25 years. The lease payment was increased to \$22,457 in 2019. The agreements terminate when the grantee removes its wind turbines. Management has included one year of future minimum payments due under this lease in the schedule below.

A schedule of the approximate annual minimum rental income provided for by non-cancellable leases, which were in effect as of December 31, 2020, follows. The amounts shown for 2021 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, 2020 and 2019

---

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

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

2021	\$ 217,000
2022	43,000
2023	<u>4,000</u>
	<u>\$ 264,000</u>

#### Renewable energy development leases:

The Corporation and the Company have entered into several solar and wind renewable energy development leases. The leases have development term lengths of 5 to 8 years and operations term lengths from 30 to 35 years. During the development term for all leases, the lessee may cancel at any time but without refund of prior payments.

The Corporation received rental income from renewable energy development leases totaling \$543,000 and \$190,000 in the years ended December 31, 2020 and 2019, respectively.

### Note 15 – Related Party Transactions Not Disclosed Elsewhere

During 2020 and 2019, the Corporation paid \$127,597 and \$85,562, 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. In addition, the Corporation paid Page \$13,750 in 2020 and \$15,000 in 2019 for office rent under a cancelable agreement. The Corporation executed a note payable to Page for \$4,000 on November 20, 2018 for funds advanced to the Corporation by Page. Principal and interest at 4% were repaid in 2019. 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. The balance on this line of credit was \$3,000 and \$0 on December 31, 2020 and 2019, respectively. Interest paid to Page in 2019 totaled \$2,392. No interest was paid in 2020.

The Corporation paid an individual who is an officer, director and stockholder of the Corporation, \$10,042 and \$12,057 in 2020 and 2019, respectively, for reimbursement of office rent, office expenses, and travel.

The Corporation received from the Company \$2,750 and \$28,975 in 2020 and 2019, respectively, as reimbursement for legal services, and \$87,370 in 2019 as reimbursement for LCWCD's district base costs, paid on the Company's behalf by the Corporation.

In 2020 and 2019, 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 \$14,753 and \$38,356 for legal services in 2020 and 2019, respectively. Some of these legal services were performed by a relative of the president of the Corporation.

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

# Aztec Land and Cattle Company, Limited

## Notes to Financial Statements – Tax Basis December 31, 2020 and 2019

---

### Note 16 – Aztec Area Land Plan

In May 2011, Navajo County, Arizona approved and adopted the Aztec Area Plan (the “Plan”), a comprehensive land planning document for the Corporation’s and Company’s property. The Plan is posted in its entirety on the Corporation’s website: [www.azteclandco.com](http://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 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 fixed costs of LCWCD in 2019 and 2020 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 a pilot program undertaken by the Corporation to test and develop a sustainable use for the 3,000-acre farm (the “Dry Lake Farm”). The Dry Lake Farm is part of 12,000 acres acquired by the Corporation in 2017 from a purchase of the remaining 88.74% interest not already owned by the Corporation and the Company in SL JV LLC. Costs associated with the pilot program are shown in the Statements of Revenue and Expenses as Dry Lake farm expenses. Further activity relating to Dry Lake Farm awaits the Corporation’s assessment of the profitability of the pilot program.

### 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 has a stated interest rate of 1% and matures on June 22, 2025. Since the entire loan is expected to be forgiven under the CARES Act, the Corporation has 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

# **Aztec Land and Cattle Company, Limited**

**Notes to Financial Statements - Tax Basis**

**December 31, 2020 and 2019**

---

## **Note 19 - Company Insiders (Continued)**

### **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, 2020):**

Mitchell Partners, L.P.