Aztec Land Company, LLC and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019

Wallace Plese + Dreher
CERTIFIED PUBLIC ACCOUNTANTS + CONSULTANTS

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Independent Auditor's Report

To the Members
Aztec Land Company, LLC
10265 West Camelback Road, No. 104
Phoenix, AZ 85037

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

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the basis of accounting Aztec Land Company, LLC and Subsidiaries use 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities, and members' equity of Aztec Land Company, LLC and Subsidiaries as of December 31, 2020 and 2019, and its revenue, expenses, and changes in members' equity for the years then ended, in accordance with the basis of accounting Aztec Land Company, LLC and Subsidiaries uses for income tax purposes, as described in *Note 1*.

Basis of Accounting
We draw attention to *Note 1* of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the basis of accounting Aztec Land Company, LLC and Subsidiaries 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, L.L.P.

Chandler, Arizona
January 25, 2021

Aztec Land Company, LLC and Subsidiaries

Consolidated Statements of Assets, Liabilities, and Members' Equity - Tax Basis

December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 893	$ 692
Investment in The Apache Railroad Company, LLC	782,721	782,721
Land	3,701,196	3,701,196
	$ 4,484,810	$ 4,484,609
Liabilities and Members' Equity		
Liabilities		
Notes payable, related parties (Note 4)	$ 2,514,455	$ 2,514,261
Contingencies (Notes 2 and 6)		
Members' equity	1,970,355	1,970,348
	$ 4,484,810	$ 4,484,609

See Notes to Consolidated Financial Statements

Aztec Land Company, LLC and Subsidiaries

Consolidated Statements of Revenues, Expenses, and Members' Equity - Tax Basis
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues collected		
Grazing rent and related revenues	$ 27,411	$ 42,127
Renewable energy development leases (Note 3)	490,000	558,000
	517,411	600,127
Operating expenses paid		
Interest expense	53,694	90,750
Professional fees	28,708	49,099
District base costs (Notes 6 and 7)	320,837	262,111
Real estate taxes	837	845
Management fees	111,000	196,000
Other operating expenses	2,328	1,366
	517,404	600,171
Excess (deficiency) of revenues collected over expenses paid	7	(44)
Members' equity, beginning	1,970,348	1,970,392
Members' equity, ending	$ 1,970,355	$ 1,970,348

See Notes to Consolidated Financial Statements

Note 1 – Nature of Business and Significant Accounting Policies

Nature of operations:
Aztec Land Company, LLC (the "Company") is a Delaware Limited Liability Company formed by Aztec Land and Cattle Company, Limited (the "Corporation").

The Company was initially capitalized by the Corporation with $15,000 plus organization costs, for a total of $44,171, and an option to purchase a portion of the Corporation's land (see *Note* 4). On January 1, 2003, the Corporation distributed to each of its stockholders a non-cash dividend consisting of one unit of the Company for each share of the Corporation. As a result of this dividend, each stockholder of the Corporation acquired an ownership interest in the Company proportionate to the stockholder's interest in the Corporation. The units of the Company are in book entry form only and, are "stapled" to the shares of the Corporation. They can only be transferred or sold with the transfer or sale of a share in the Corporation.

Aztec Despain Ranch, LLC ("Despain, LLC") is wholly owned by the Company. It was formed by the Corporation in November 2009 as a single member LLC to hold 6,443 acres of land (see *Note 4*).

Aztec East Jeffers, LLC ("East Jeffers, LLC") is wholly owned by the Company. It was formed by the Corporation in April 2011 as a single member LLC. In June 2011, the Corporation contributed 14,143 acres of land to East Jeffers, LLC. In October 2011, the Company purchased the Corporation's membership interest in East Jeffers, LLC (see *Note 4*).

The consolidated entities, herein referred to as the Company, were formed to create and implement a business strategy to develop and market certain land, mineral, and water resources. The Company's manager is the Corporation and at present, the Company has no employees.

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

Principles of consolidation:
All material intercompany balances have been eliminated in consolidation. The Corporation is the manager for the Company, Despain, LLC, and East Jeffers, LLC. Despain, LLC and East Jeffers, LLC are treated as disregarded entities for income tax purposes.

Basis of accounting:
The Company prepares its financial statements on the cash basis of accounting used by the Company 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 Company due to recognition of revenues when collected and recognition of expenses when paid.

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 Company did not have any nontaxable revenue during the years ended December 31, 2020 and 2019.

Cash and cash equivalents:
The Company considers all cash investments with original or purchased maturities of three months or less to be cash equivalents.

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

Investment in The Apache Railroad Company, LLC:
The Company 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 Company's share of ARC's net income (loss) is recognized as a gain (loss) in the Company's Consolidated 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. ARC had zero net income for each of the years ended December 31, 2020 and 2019 (see *Note 2*).

Recognition of revenue:
The Company recognizes revenue when received.

Income taxes:
As a limited liability company, the excess (deficient) revenues over expenses is taxable proportionately to the Company's unit holders for federal and state income tax reporting purposes. Therefore, each unit holder will receive an IRS Schedule K-1 from the Company reflecting their pro-rata share of the Company's excess (deficient) revenues over expenses and tax credits each year. If assessed, the Company would classify any interest and penalties associated with a tax position as other expenses in the Consolidated Statement of Revenues, Expenses, and Members' Equity.

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.

Subsequent events:
Management has evaluated subsequent events through January 25, 2021, which is the date the consolidated financial statements were available to be issued.

Note 2 – Investment in The Apache Railroad Company, LLC

In February 2017, the Company made a $283,750 capital contribution to ARC, along with a contribution from the Corporation in the amount of $966,250, 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.

Note 3 – Operating Leases (as Lessor)

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 Company received rental income from renewable energy development leases totaling $490,000 and $558,000 in the years ended December 31, 2020 and 2019, respectively.

Note 4 – Notes Payable, Related Parties

In December 2009, the Company purchased 6,443 acres of land from the Corporation for $1,288,500, through its subsidiary, Despain, LLC. The Company paid $130,000 at closing and executed a promissory note due December 11, 2024 with annual payments of $50,000 with the balance due at maturity and an annual interest rate of 4.25%. On December 1, 2020, the note was amended to remove the minimum payment. The note had a balance of $1,121,217 at December 31, 2020 and 2019. In 2020 and 2019, the Company paid $35,900 and $49,001 of interest expense, respectively. The Company may prepay the note without penalty.

In October 2011, the Company purchased the entire membership interest in East Jeffers, LLC from the Corporation for $1,939,000. The Company paid $193,900 at closing and executed a promissory note due October 1, 2031 with annual payments of $90,000 with the balance due at maturity and an annual interest rate of 4.5%. 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. In March 2017, $182,275 of the note was forgiven in exchange for the Company's interest in Snowflake Land JV, LLC with the Corporation. The note had a balance of $1,389,737 and 1,393,043 at December 31, 2020 and 2019, respectively. In 2020 and 2019, the Company paid $17,794 and $41,750 of interest expense, respectively. The Company may prepay the note without penalty.

On December 1, 2020, the Company obtained an unsecured revolving line of credit from an entity related to ownership and management. The line allows for borrowings up to $50,000, bears interest at 6%, and is payable in full at the earlier of a qualifying event or the line's December 31, 2022 maturity. The Company may prepay the note without penalty. The balance on the line of credit was $3,500 on December 31, 2020. No interest was paid on the line during 2020.

Note 5 – Concentrations of Risk

The Company maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Approximately 95% and 93% of the Company's revenue in the years ended December 31, 2020 and 2019, respectively, was provided by the renewable energy development leases described in *Note 3*.

Note 6 – Contingencies

The Company'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 the Native American claims of water rights, primarily those of the Hopi and Navajo Indian 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 at this time. The Company 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 the Little Colorado Water Conservation District ("LCWCD"), which itself is involved in the litigation for the same reasons. In managing the litigation and attempting to control cost, the Company 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 Company and the Corporation 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. 2020 assessments by LCWCD to the Company 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, Expenses, and Members' Equity as district base costs.

Note 7 – Related Party Transactions Not Disclosed Elsewhere

The Company paid to the Corporation $28,975 and $2,750 in 2019 and 2020, 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.

The Company paid a law firm $4,470 and $827 for legal services in 2019 and 2020, respectively. Some of these legal services were performed by a relative of the president of the Corporation.