PURE CYCLE

a water and wastewater services company

Municipal Water & Wastewater Services

Agricultural Leasing

Drilling and Hydraulic Fracturing Water

O&G Leases

Fiscal 2013 Annual Report

Letter to Shareholders

Form 10-K

Proxy Statement

2014 Equity Incentive Plan

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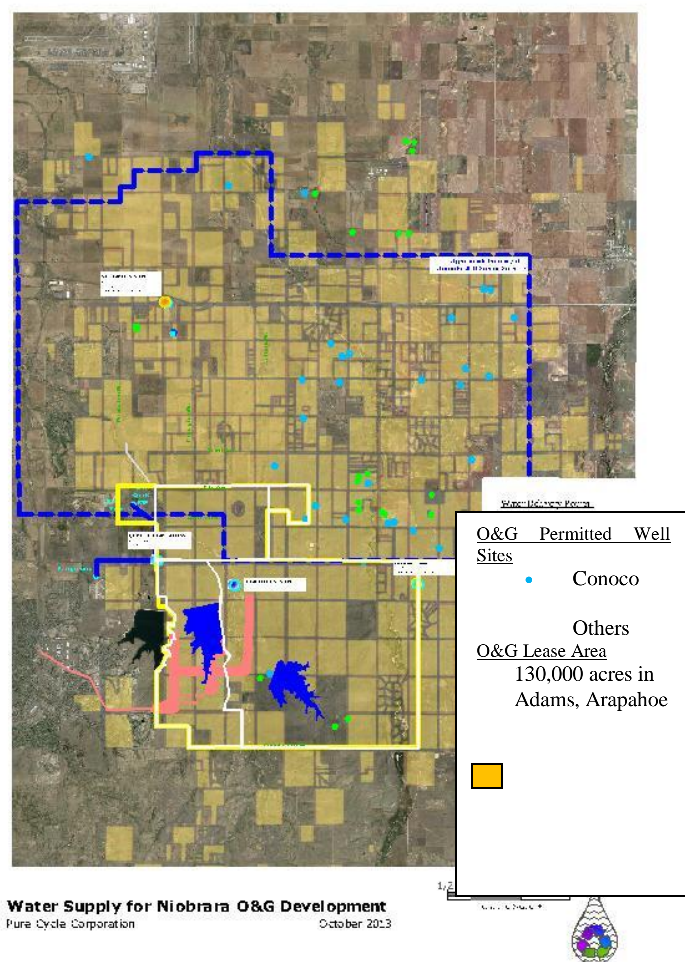
Dear Shareholders:

Fiscal year ending August 31, 2013 has been a terrific year for our company. The Company's investments in our land and water assets have begun to generate significant revenues to our shareholders and our future prospects are encouraging. The Company's land and water asset have long increased in value year over year; however these assets had not begun to generate substantial revenues until this past year. Each of our segment business enterprises, (1) wholesale water and wastewater service, include the sale of industrial water for Oil & Gas operations; and (2) our agricultural operations managing our approximately 17,000 acres of irrigated farm land in southeast Colorado are producing significant revenues with outstanding future prospects.

Industrial Water Sales;

There are several highly publicized shale oil developments in the United States, one of which is located in our home state of Colorado known as the Niobrara Formation. Through the advent and use of horizontal drilling and hydraulic fracturing, Colorado's once quite oil & gas industry has exploded attracting billions of dollars of investment from a number of national and international oil companies.



Production from these formations was historically considered unattractive until the recent use of directionally-drilled wells, which may extend horizontally through the oil-bearing formations for up to 10,000 feet, and hydraulic fracturing, which has unlocked significant quantities of oil and gas from these formations. Significant water demands, in excess of 7,000,000 gallons, are required to drill and frack each well; making water availability and delivery one of the more important components of developing Niobrara wells. In the early development of this play, water was delivered by truck to each well pad site resulting in thousands of truck trips for each well. As E&P companies seek to develop multiple wells at each pad site (as many as 10 horizontal wells on a single pad), water availability and delivery have become key logistics.

We, in conjunction with industry service providers, have developed a water system which delivers water to an acreage area of more than 100,000 acres through fixed and mobile transmission lines nearly eliminating the need to transport water via trucks. In addition to the financial, logistical and operational advantages to transferring water through pipelines, reduced traffic and reduced wear and tear on local roads has been a significant benefit to operators as well as local communities. The operational advantages for us and our customers, allows us to deliver water on a continuous 24/7 basis.

As of the writing of this letter, oil & gas operators have drilled approximately 17 wells in and around our water facilities, where we have delivered water for each of these wells. Operators are still assessing the development potential of this area, and may drill an additional 20 – 40 wells for 2014. If some or all of this more than 200 square mile area of interest moves from an assessment phase to a development phase, we

may see as many as 8 – 16 wells per square mile in the development area. The Company has boosted its water delivery capabilities during 2013 to meet the increased water demands from our customers and can incrementally expand our capacities to meet future demands.

Another significant event occurring during our most recent fiscal year was the purchase of a large lease position in our area by ConocoPhillips from Anadarko, including the Company's' two leases (our 42 acre mineral interest along the east side of the Lowry Range as well as our 640 acre lease at Sky Ranch).

Each of these leases carries a 20% gross (less certain taxes) production royalty interest to the Company. Our 42 acre lease's initial 3 year term matured in June of this year and Conoco paid an additional bonus to extend that Lease for its contract extension period of one additional year until June 2014. Our initial 3 year term for Sky Ranch will mature in March of 2014 and can be extended for an additional two years with the payment of an additional approximately $1.25 million bonus. Conoco is working on well permits for each of our leases and we look forward to working with them on a drilling schedule.

Agricultural Operations

Last year we reported that High Plains A&M ("HP A&M"), the company from which we purchased our farm and water interests in southeastern Colorado, defaulted on certain promissory notes ("Notes") held by HP A&M. The Notes (at that time aggregated approximately $9.6 million) are secured by deeds of trust for the land and water rights owned by the Company. Approximately 70% of the farms and water rights owned by the Company are secured by these Notes and deeds of trust. During the past year, the Company purchased or is in the final stages of purchasing each of the HP A&M notes from the farmers, in most cases through issuing Pure Cycle notes with a 5 year term at an interest rate of 5%. The Company has initiated (or is in the process of initiating) foreclosure proceeding against each of the Notes and intends to exercise its rights under its Asset Purchase Agreement ("Agreement") with HP A&M to seek remedies against HP A&M as outlined in the Agreement.

Our farm operations segment generated over $1 million in revenues from our farm leases. During 2013, our farm leases were primarily cash leases with our tenant farmers, with a small percentage of farm leases being a crop share lease. The 2013 agricultural years in southeast Colorado was a challenging year, while not as challenging as the severe drought of 2012, still very dry. We look to upgrade our farm operations through investing in center pivot sprinkler systems, which will significantly enhance our crop yields and convert many of our cash leases to crop share leases. We believe this will significantly enhance both the Company's as well as our tenant farmer's returns on this asset and continue to believe our farm operations will generate stable and profitable returns to our shareholders.

Domestic Water and Wastewater

We continue to deliver high quality water and wastewater service to our wholesale domestic water and wastewater customers. In addition to operating facilities we own, we also operate systems owned by others under separate contract operations agreements. In 2013, we expanded our operating capabilities adding additional staff and operating contracts such as the Town of Bennett to operate and maintain both their domestic water and wastewater systems. One of the key areas of emphasis for 2014 will be to update our

water and wastewater system designs for service to Sky Ranch. Our Sky Ranch property is competitively positioned and offers attractive zoning which will allow developers and home builders to offer a wide range of housing products. The Denver real estate market continues to be among the nation's best performing metropolitan housing markets. Since we own the land and are able to provide water and wastewater service on a cost effective and incremental basis, and Sky Ranch's proximity to primary transportation corridors (e.g., Interstate 70 and E-470), we believe that Sky Ranch is competitively positioned in the Denver housing market. We look forward to working with area developers and home builders at Sky Ranch.

SMWSA

The most recent fiscal year also reached significant milestones in the Water Infrastructure Supply Efficiency Project know as "WISE". In June of this year members organized the South Metropolitan Wise Authority to implement the WISE project. Under the WISE Partnership, Denver and Aurora will provide wholesale treated South Platte River water to participating WISE members. Water will be made available from Aurora's Water Treatment Plant located adjacent to the Lowry Range and be distributed to each of the 10 member water providers of WISE. The Company, together with the Rangeview Metropolitan District, seeks to participate in this regional water infrastructure and supply project which will interconnect the water systems of the 10 WISE members together with Denver and Aurora's water systems, making water deliveries, transfers, and exchanges readily available. Should the Company, together with the Rangeview Metropolitan District participate, our participation may costs approximately $7 million over a 7 year period. In addition to interconnecting our systems, the project's benefits include additional surface water supplies from the South Platte River the Company can use at Sky Ranch and other areas we serve.

Stock Developments

Pure Cycle has had some significant growth and development in trading during fiscal 2013. The Company's stock increased trading from between $1.65 to $3.25 during fiscal 2012 to $1.87 to $7.32 during fiscal 2013. The volume has also increased dramatically between the two years. This increase was in part due to the Company being added to the Russell 2000® and Russell Global® Indexes. The trend is a positive improvement that we hope will be built upon as the Company's financial performance increases and liquidity returns to the float.

LOOKING FORWARD

Our focus for fiscal 2014 will be to continue to meet the increasing demands of our oil and gas customers in and around our service area and along the I-70 corridor. We expect to see additional oil rigs working the area and we will continue to provide reliable and cost effective water to meet the needs of this industry. We look to pursue new opportunities to enhance revenues from our farm management operations and finalize our remedies against HP A&M throughout the year. We continue to see increased interest in developing Sky Ranch and look to partner with a developer to define a development timeline for the project. We look forward to advancing the WISE Partnership and our discussions regarding the regional use of the water storage reservoirs at the Lowry Range.

Along with the Company's other employees and directors, we remain committed to building shareholder value with our land and water assets, and we are all grateful for your continued support.

Mark W. Harding
President and Chief Executive Officer

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Annual Report on Form 10-K
for the
Fiscal Year Ended August 31, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2013

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-8814

PURE CYCLE CORPORATION

(Exact name of registrant as specified in its charter)

Colorado	**84-0705083**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1490 Lafayette St, Suite 203, Denver, CO 80218	**(303) 292-3456**
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)

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

Common Stock 1/3 of $.01 par value	**The NASDAQ Stock Market, LLC**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **NONE**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act:

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

Large accelerated filer	[ ]		Accelerated filer	[ ]
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	Smaller reporting company	[X]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: $69,447,594

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date: November 20, 2013: 24,037,598

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III is incorporated by reference from the registrant’s definitive proxy statement for the 2014 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days of the close of the fiscal year ended August 31, 2013.

Table of Contents

Item		Page
	Part I	
1	Business	6
1A.	Risk Factors	22
1B.	Unresolved Staff Comments	29
2	Properties	29
3	Legal Proceedings	29
4	Mine Safety Discolosures	30
	Part II	
5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
6	Selected Financial Data	33
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
7A.	Quantitative and Qualitative Disclosures About Market Risk	48
8	Financial Statements and Supplementary Data	49
9	Changes in and Disagreements with Accountants on Accounting and Financial	50
9A.	Controls and Procedures	50
9B.	Other Information	51
	Part III	
10	Directors, Executive Officers and Corporate Governance	51
11	Executive Compensation	51
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
13	Certain Relationships and Related Transactions, and Director Independence	51
14	Principal Accounting Fees and Services	51
	Part IV	
15	Exhibits and Financial Statement Schedules	51
s	Signatures	54

“SAFE HARBOR” STATEMENT UNDER THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements that are not historical facts contained in this Annual Report on Form 10-K, or incorporated by reference into this Form 10-K, are forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from projected results. The words “anticipate,” “believe,” “estimate,” “expect,” “plan,” “intend” and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. We cannot assure you that any of our expectations will be realized. Our actual results could differ materially from those discussed in or implied by these forward-looking statements. Forward-looking statements include statements relating to, among other things:

- factors that may impact labor and material costs;
- loss of key employees and hiring additional personnel for our operations;
- our competitive advantage;
- negotiation of payment terms for fees;
- the sufficiency of our working capital and financing sources to fund our operations;
- intent not to hold marketable securities until maturity;
- our ability to comply with permit requirements and environmental regulations and the cost of such compliance;
- the adequacy of the provisions in the “Lease” for the Lowry Range to cover present and future circumstances;
- estimated population increases in the Denver metropolitan area and the South Platte River basin;
- plans for the use and development of our water assets;
- anticipated timing and amount of, and sources of funding for (i) capital expenditures to construct infrastructure and increase production capacities, (ii) compliance with water, environmental and other regulations, and (iii) operations including delivery and treatment of water and wastewater;
- the ability of our deep water well enhancement tool and process to increase efficiency of wells and our plans to market that product to area water providers;
- our ability to assist Colorado “Front Range” water providers in meeting current and future water needs;
- our ability to reduce the amount of up-front construction costs;
- participation in regional water projects, including “WISE”;
- timing of satisfaction of conditions to change Land Board royalties;
- regional cooperation among area water providers in the development of new water supplies and water storage, transmission and distribution systems as the most cost-effective way to expand and enhance service capacities;
- future water supply needs in Colorado;
- anticipated increases in residential and commercial demand for water services and competition for these services;
- use of raw and reclaimed water for outdoor irrigation;
- costs to treat contaminated water;
- the decreases of individual housing and economic cycles on the number of connections we can serve with our water;
- the number of new water connections needed to recover the costs of our Rangeview Water Supply and Arkansas River water assets;
- increases in future water tap fees;
- the impact of water quality, solid waste disposal and environmental regulations on our financial condition and results of operations;
- the impact of the downturn in the homebuilding and credit markets on our business and financial condition;
- environmental clean-up at the Lowry Range by the U.S. Army Corps of Engineers;
- our plans to provide water for drilling and hydraulic fracturing of oil and gas wells;
- increases in oil and gas drilling activity on our property and on the Lowry Range;
- the recoverability of construction and acquisition costs from rates;
- our belief that we are not a public utility under Colorado law;

- plans for development of our Sky Ranch property;
- anticipated revenues from full development of our Sky Ranch property;
- management of farms and the generation of revenues from such management including plans to increase crop yields;
- our ability to meet customer demands in a sustainable and environmentally friendly way;
- potential opposition to, and anticipated requirements of, the water court in connection with a change of use application for our Arkansas River water;
- our ability to mitigate adverse impacts to local communities from our change of use process;
- claims of "HP A&M" against the Company;
- the amount of the "Tap Participation Fee" liability;
- our ability to reduce the Tap Participation Fee and recover damages from HP A&M;
- changes in unrecognized tax positions;
- forfeitures of option grants and vesting of non-vested options;
- the impact of new accounting pronouncements;
- impairments in carrying amounts of long-lived assets;
- the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting;
- loss of properties and water rights due to the failure to cure defaults by HP A&M;
- litigation and arbitration with the Land Board;
- litigation with HP A&M; and
- future fluctuations in the price and trading volume of our common stock.

Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, without limitation:

- the timing of new home construction and other development in the areas where we may sell our water, which in turn may be impacted by credit availability;
- population growth;
- employment rates;
- general economic conditions;
- the market price of water;
- changes in customer consumption patterns;
- changes in applicable statutory and regulatory requirements;
- changes in governmental policies and procedures;
- uncertainties in the estimation of water available under decrees;
- uncertainties in the estimation of costs of delivery of water and treatment of wastewater;
- uncertainties in the estimation of the service life of our systems;
- uncertainties in the estimation of costs of construction projects;
- the strength and financial resources of our competitors;
- our ability to find and retain skilled personnel;
- climatic and weather conditions, including floods, droughts and freezing conditions;
- labor relations;
- turnover of elected and appointed officials and delays caused by political concerns and government procedures;
- availability and cost of labor, material and equipment;
- delays in anticipated permit and construction dates;
- engineering and geological problems;
- environmental risks and regulations;
- our ability to raise capital;
- our ability to negotiate contracts with new customers;
- outcome of litigation and arbitration proceedings; and
- uncertainties in water court rulings.

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us, including the factors described under "Risk Factors" in this Annual Report on Form 10-K. "Risk Factors" contains additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements. Except for our ongoing obligation to disclose certain information under the federal securities laws, we undertake no obligation, and disclaim any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements are expressly qualified by this cautionary statement.

PART I

Item 1 – Business Summary

Pure Cycle Corporation ("Pure Cycle") is an investor-owned Colorado corporation that provides wholesale water and wastewater services and leases farm land. The wholesale water and wastewater services include water production, storage, treatment, bulk transmission to retail distribution systems, wastewater collection and treatment, irrigation water treatment and transmission, construction management, billing and collection and emergency response. We provide these services to our wholesale customers, which are typically local governmental entities that provide water and wastewater services to their end-use customers located in the greater Denver, Colorado metropolitan area.

We are vertically integrated, which means we own all assets necessary to provide wholesale water and wastewater services to our customers. This includes owning (i) water rights which we use to provide domestic and irrigation water to our wholesale customers (we own surface water, groundwater, reclaimed water rights and storage rights), (ii) infrastructure (such as wells, diversion structures, pipelines, reservoirs and treatment facilities) required to withdraw, treat, store and deliver water, (iii) infrastructure required to collect, treat, store and reuse wastewater, and (iv) infrastructure required to treat and deliver reclaimed water for irrigation use.

We currently provide wholesale water service predominately to two local governmental entity customers. Our largest customer is the Rangeview Metropolitan District (the "District"), a quasi-municipal political subdivision of the State of Colorado which is described further below. We provide service to the District and its end-use customers pursuant to "The Rangeview Water Agreements" (defined below) between us and the District for the provision of wholesale water service to the District for use in the District's service area. Through the District, we provide wholesale service to 258 Single Family Equivalent ("SFE") (as defined below) water connections and 157 SFE wastewater connections located in southeastern metropolitan Denver. We also provide water to the oil and gas industry for the purpose of hydraulic fracturing.

We plan to utilize our significant water assets along with our adjudicated reservoir sites, which are described in the *Our Water Assets* section below, to provide wholesale water and wastewater services to local governmental entities. These local governmental entities will in turn provide residential and commercial water and wastewater services to communities along the eastern slope of Colorado in the area extending essentially from Fort Collins on the north to Colorado Springs on the south which is generally referred to as the "Front Range." Principally we are targeting the "I-70 corridor" which is located east of downtown Denver and south of the Denver International Airport. This area is predominately undeveloped and is expected to experience substantial growth over the next 30 years.

Our farm land consists of approximately 16,700 acres of irrigated land currently being leased to local farmers in southeastern Colorado and we own 931 acres of land in the I-70 corridor east of Denver, Colorado that is being held for development. These land interests are described in the *Our Water and Land Assets* section below.

Pure Cycle Corporation was incorporated in Delaware in 1976 and reincorporated in Colorado in 2008.

Glossary of terms

The following terms are commonly used in the water industry and are used throughout our annual report:

- Acre Foot ("aft") – approximately 326,000 gallons of water, or enough water to cover an acre of ground with one foot of water. For some instances herein, as context dictates, the term acre feet is used to designate an annual decreed amount of water available during a typical year.

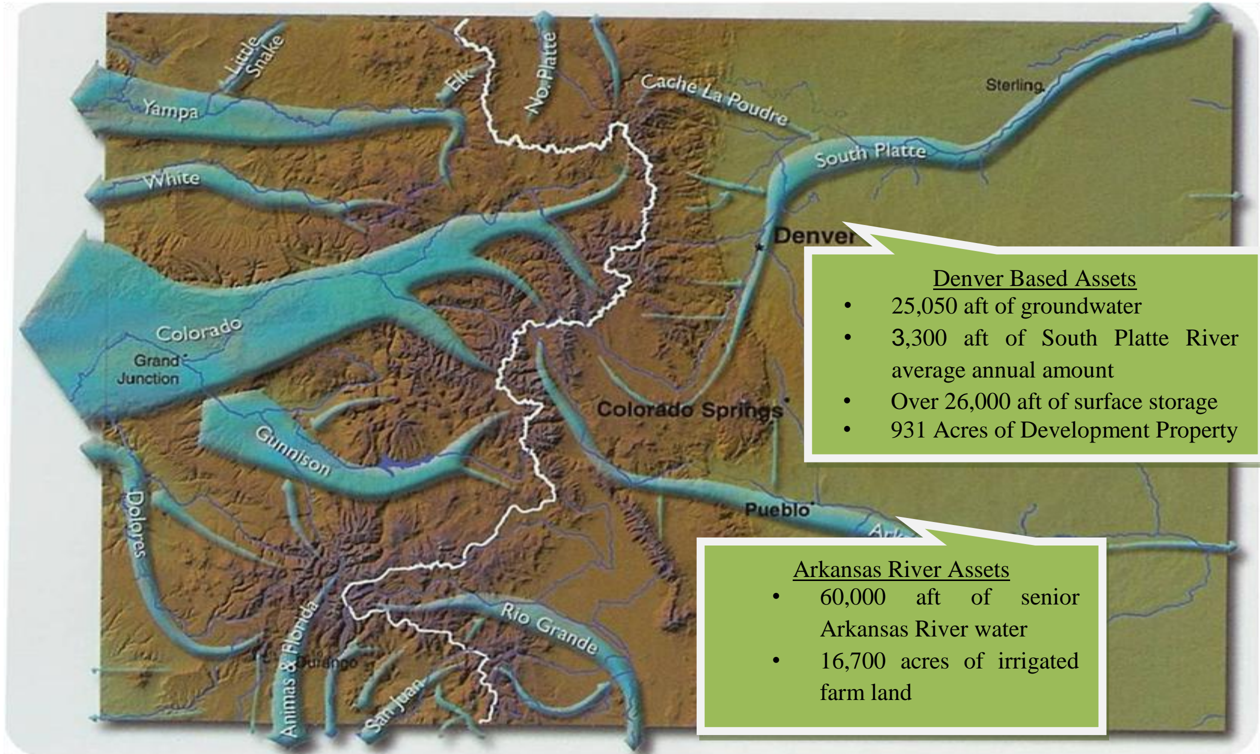
- Consumptive Use – the amount of water that is evaporated, transpired, incorporated into products or crops, consumed by humans or livestock, or otherwise removed from the immediate water environment.
- Customer Facilities – facilities that carry potable water and reclaimed water to customers from the retail water distribution system (see "Retail Facilities" below) and collect wastewater from customers and transfer it to the retail wastewater collection system. Water and wastewater service lines, interior plumbing, meters and other components are typical examples of Customer Facilities. In many cases, portions of the Customer Facilities are constructed by the developer, but they are owned and maintained by the customer.
- Non-Tributary Groundwater – underground water in an aquifer which is situated so it neither draws from nor contributes to a natural surface stream in any measurable degree.
- Not Non-Tributary Groundwater – statutorily defined as a groundwater located within those portions of the Dawson, Denver, Arapahoe, and Laramie-Fox hills aquifers that are outside of any designated groundwater basin in existence on January 1, 1985.
- Retail Facilities – facilities that distribute water to and collect wastewater from an individual subdivision or community. Developers are typically responsible for the funding and construction of Retail Facilities. Once we certify that the Retail Facilities have been constructed in accordance with our design criteria, the developer dedicates the Retail Facilities to us or to a quasi-municipal political subdivision of the state and we operate and maintain the facilities.
- Section – a parcel of land equal to one square mile and containing 640 acres.
- Single Family Equivalent unit ("SFE") – One SFE is a customer – whether residential, commercial or industrial – that imparts a demand on our water or wastewater systems similar to the demand of a family of four persons living in a single family house on a standard sized lot. One SFE is assumed to have a water demand of approximately 0.4 acre feet per year and to contribute wastewater flows of approximately 300 gallons per day.
- Special Facilities – facilities that are required to extend services to an individual development and are not otherwise classified as a typical "Wholesale Facility" or "Retail Facility." Temporary infrastructure required prior to construction of permanent water and wastewater systems or transmission pipelines to transfer water from one location to another are examples of Special Facilities. We typically design and construct the Special Facilities using funds provided by the developer in addition to the normal rates, fees and charges that we collect from our customers. We are typically responsible for the operation and maintenance of the Special Facilities upon completion.
- Tributary Groundwater – all water located in an aquifer that is hydrologically connected to a natural stream and is not considered non-tributary or not non-tributary.
- Tributary Surface Water – water on the surface of the ground flowing in a stream or river system.
- Wholesale Facilities – facilities that serve an entire service area or major regions or portions thereof. Wells, treatment plants, pump stations, tanks, reservoirs, transmission pipelines, and major sewage lift stations are typical examples of Wholesale Facilities. We own, design, construct, operate, maintain and repair Wholesale Facilities which are typically funded using rates, fees and charges that we collect from our customers.

Our Water and Land Assets

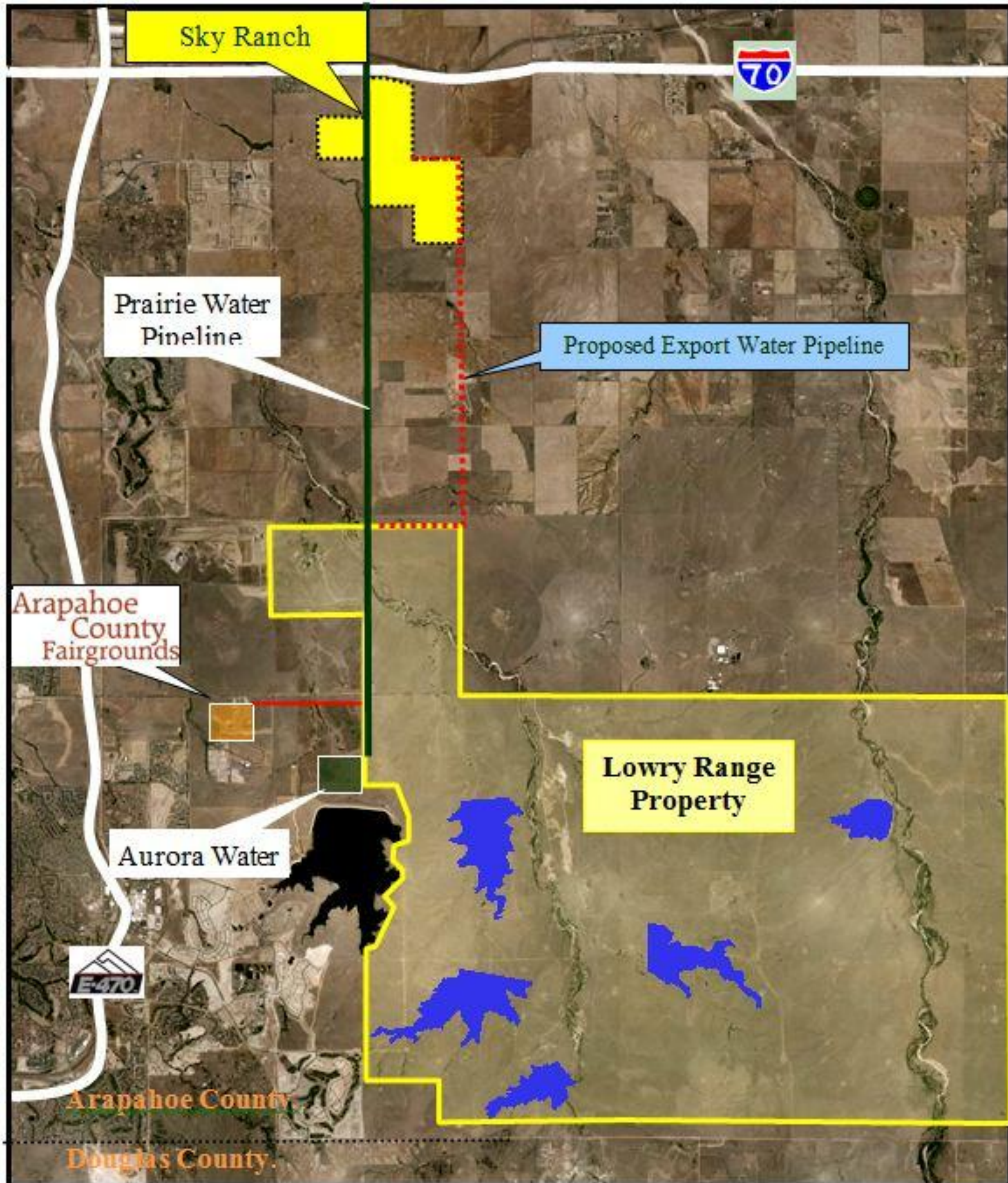
This section should be read in conjunction with *Item 1A – Risk Factors, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates*, and Note 4 – Water Assets to the accompanying financial statements.

The $88.5 million of capitalized water costs on our balance sheet represents the costs of the water rights we own and the related infrastructure developed to provide wholesale water and wastewater services. Each of these assets is explained in detail below.

The illustration below indicates the approximate location of each of our assets.



The map below indicates the location of our Denver area assets.



Rangeview Water Supply and the Lowry Range

Our Rangeview Water – We own or control a total of approximately 3,300 acre feet of tributary surface water, 25,050 acre feet of non-tributary and not non-tributary groundwater rights, and approximately 26,000 acre feet of

adjudicated reservoir sites that we refer to as our "Rangeview Water Supply." This water is located at the "Lowry Range," which is owned by the State Board of Land Commissioners (the "Land Board") and is described below.

Of the 25,050 acre feet of Lowry Range groundwater, we own approximately 11,650 acre feet of non-tributary and not non-tributary groundwater which we can "export" from the Lowry Range to supply water to nearby communities (this portion of the Rangeview Water Supply is referred to as our "Export Water"). We also have the right to convert up to 1,650 acre feet of the Export groundwater to a similar amount of surface water for use off the Lowry Range. We hold the exclusive right to develop and deliver through the year 2081 the remaining 13,400 acre feet of groundwater, along with the balance of the surface water, for use on the Lowry Range.

We acquired our Rangeview Water Supply in April 1996 pursuant to the following agreements:

(i) The 1996 Amended and Restated Lease Agreement (the "Lease") between the Land Board and the District;

(ii) The Agreement for Sale of Export Water between us and the District; and

(iii) The Service Agreement between us and the District for the provision of water service to the District's customers.

Additionally, in 1997 we entered into a Wastewater Service Agreement (the "Wastewater Agreement") with the District to provide wastewater service to the District's customers. All of the foregoing agreements are collectively referred to as the "Rangeview Water Agreements."

Pursuant to the Rangeview Water Agreements, we design, construct, operate and maintain the District's water and wastewater systems to allow the District to provide water and wastewater service to its customers located within the District's 24,000 acre service area at the Lowry Range. On the Lowry Range, we operate both the water and the wastewater systems during our contract period on behalf of the District, who owns the facilities for both systems. At the expiration of our contract term in 2081, ownership of the water system facilities servicing customers on the Lowry Range will revert to the Land Board, with the District retaining ownership of the wastewater facilities. Through facilities we own, we use our Export Water, and we intend to use other supplies owned by us, to provide wholesale water service and wastewater service to customers located outside of the Lowry Range, including customers of the District and other governmental entities and industrial and commercial customers.

Based on independent engineering estimates, the water designated for use on the Lowry Range is capable of providing water service to 46,500 SFE units, and the Export Water owned by the Company can serve 33,600 SFE units throughout the Denver metropolitan region.

The Lowry Range Property – The Lowry Range is located in unincorporated Arapahoe County (the "County"), about 20 miles southeast of downtown Denver. The Lowry Range is one of the largest contiguous parcels under single ownership next to a major metropolitan area in the United States. The Lowry Range is approximately 27,000 acres in size or about 40 square miles of land. Of the 27,000 acres, pursuant to our agreements with the District, we have the exclusive rights to provide water and wastewater services to approximately 24,000 acres of the Lowry Range. However, as more fully described in *Item 3 – Legal Proceedings*, we filed a lawsuit against the Land Board for failing to protect our exclusive rights under the Lease in December 2011.

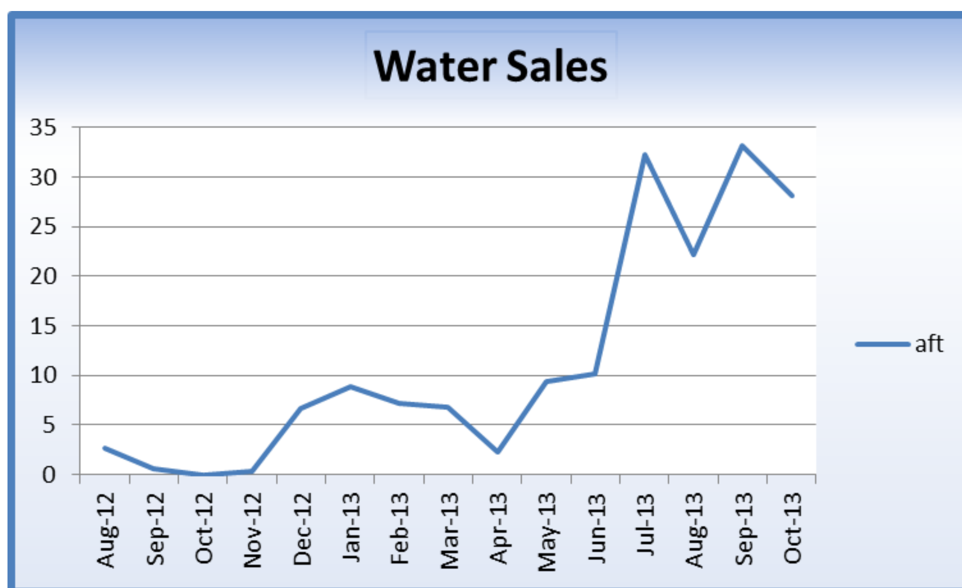
Rangeview Metropolitan District – The District is a quasi-municipal corporation and political subdivision of Colorado formed in 1986 for the purpose of providing water and wastewater service to the Lowry Range. The District is required to utilize the 13,400 acre feet of water leased to it by the Land Board to serve customers on the Lowry Range. The District is governed by an elected board of directors. Eligible voters and persons eligible to serve as directors of the District must own an interest in property within the boundaries of the District. We own certain rights and real property interests which encompass the current boundaries of the District. The current directors of the District are Mark W. Harding and Scott E. Lehman (both employees of Pure Cycle), and an independent board member. Pursuant to Colorado law, directors may receive $100 for each board meeting they attend, up to a maximum of $1,600 per year. Mr. Harding and Mr. Lehman have both elected to forego these payments.

South Metropolitan Water Supply Authority – The South Metropolitan Water Supply Authority ("SMWSA") is a municipal water authority in the State of Colorado organized to pursue the acquisition and development of new water supplies on behalf of its members. SMWSA members include 14 Denver area water providers in Arapahoe

and Douglas Counties. The District became a member of SMWSA in 2009 in an effort to participate with other area water providers in developing regional water supplies along the Front Range. For over 2 years, the SMWSA members have been working with Denver Water and Aurora Water on a cooperative water project known as the Water Infrastructure Supply Efficiency partnership ("WISE"), which seeks to develop regional infrastructure which would interconnect member's water transmission systems to be able to develop additional water supplies from the South Platte River in conjunction with Denver Water and Aurora Water. In July of 2013, the District together with 9 other SMWSA members formed the South Metropolitan Wise Authority ("SMWA") to continue to develop the WISE project. Through an agreement with the District, we support SMWA and its joint water development efforts and may seek to participate in one or more regional water projects if such projects are in our best interest. Preliminary estimates for the District's capital expenditure related to the WISE project are approximately $6.7 million, which will be completed over a 7 year period.

East Cherry Creek Valley System – Pursuant to a 1982 contractual right, the District may purchase water produced from East Cherry Creek Valley Water and Sanitation District's ("ECCV") Land Board system. ECCV's Land Board system is comprised of eight wells and over ten miles of buried water pipeline located on the Lowry Range. In order to increase the delivery capacity and reliability of these wells, in May 2012, in our capacity as Rangeview's service provider and the Export Water Contractor (as defined in the Lease), we entered into an agreement to operate and maintain the ECCV facilities and we can utilize the system to provide water to commercial and industrial customers, including customers providing water for drilling and hydraulic fracturing of oil and gas wells.

Hydraulic fracturing – We generated revenues of $325,700 during our fiscal year ended August 31, 2013 from sales of drilling and frack water to third party service providers who were providing water for wells drilled into the Niobrara Formation. With a large percentage of the acreage surrounding the Lowry Range in Arapahoe, Adams, Elbert, and portions of Douglas Counties already leased by major oil companies, we anticipate providing additional water for drilling oil and gas wells in the coming fiscal year. Through Select Energy Services, LLC ("Select"), we are currently selling frack water to ConocoPhillips, the largest oil and gas lease holder operating in the area. In order to service this new demand, we have rehabilitated or are in the process of rehabilitating five of our ECCV wells to service the industry and we have added approximately 2,500 ft of 8" buried line so that we can deliver water directly to the industry both on and off of the Lowry Range. We have increased our capacity to approximately 500,000 gallons per day to meet this demand and anticipate during fiscal 2014 that we will increase our delivery capacity to 1 million gallons per day. At present ConocoPhillips has one rig working the area and is fracking 1 well approximately every 3 weeks. Each frack uses approximately 7 million gallons. We anticipate another rig will be added in early calendar 2014. During fiscal 2013 we sold approximately 106.5 aft to the industry. During September and October 2013 we sold an additional approximately 61.3 aft to the industry. Sales of water to the industry by aft are detailed in the following chart.



Land Board Royalties **–** Pursuant to the Rangeview Water Agreements, the Land Board is entitled to royalty payments based on a percentage of revenues earned from water sales that utilize water from the Rangeview Water Supply. The calculation of royalties depends on the water source, whether the customer is located on the Lowry Range or elsewhere, and whether the customer is a public or private entity. The Land Board does not receive a royalty from wastewater services.

Lowry Range Customers **–** Water service related payments from customers located on the Lowry Range generate royalties to the Land Board at a rate of 12% of gross revenues. When either (i) metered production of water used on the Lowry Range in any calendar year exceeds 13,000 acre feet or (ii) 10,000 surface acres on the Lowry Range have been rezoned to non-agricultural use, finally platted and water tap agreements have been entered into with respect to all improvements to be constructed on such acreage, the Land Board may elect, at its option, to receive, in lieu of its royalty of 12% of gross revenues, 50% of the collective net profits (ours and the District's) derived from the sale or other disposition of water on the Lowry Range. To date neither of these conditions has been met and such conditions are not likely to be met any time soon.

Export Water Customers **–** Export Water royalties are owed to the Land Board when our Rangeview Water Supply is sold or disposed of to customers located off the Lowry Range. If we incur costs to withdraw, treat and deliver water to such customers, royalties to the Land Board are based on our "Net Revenues." Net Revenues are defined as gross revenues less costs incurred as a direct and indirect result of incremental activity associated with the withdrawal, treatment and delivery of the water (costs include reasonable overhead allocations). Royalties payable to the Land Board for Export Water sales escalate based on the amount of Net Revenue we receive and are lower for sales to a water district or similar municipal or public entity than for sales to a private entity as noted in Table A.

Table A - Royalties for Export Water Sales

	Royalty Rate	
Net Revenues	Private Entity Buyer	Public Entity Buyer
$0 - $45,000,000	12%	10%
$45,000,001 - $60,000,000	24%	20%
$60,000,001 – $75,000,000	36%	30%
$75,000,001 - $90,000,000	48%	40%
Over $90,000,000	50%	50%

The Land Board is currently claiming that Export Royalties are owed on gross rather than Net Revenues and that it is entitled to a royalty on wastewater service revenues. See *Item 1A – Risk Factors – We, the District and the Land Board entered into an Arbitration Agreement pursuant to which the parties have agreed to submit claims under the Lease to binding arbitration* and *Item 3 – Legal Proceedings*.

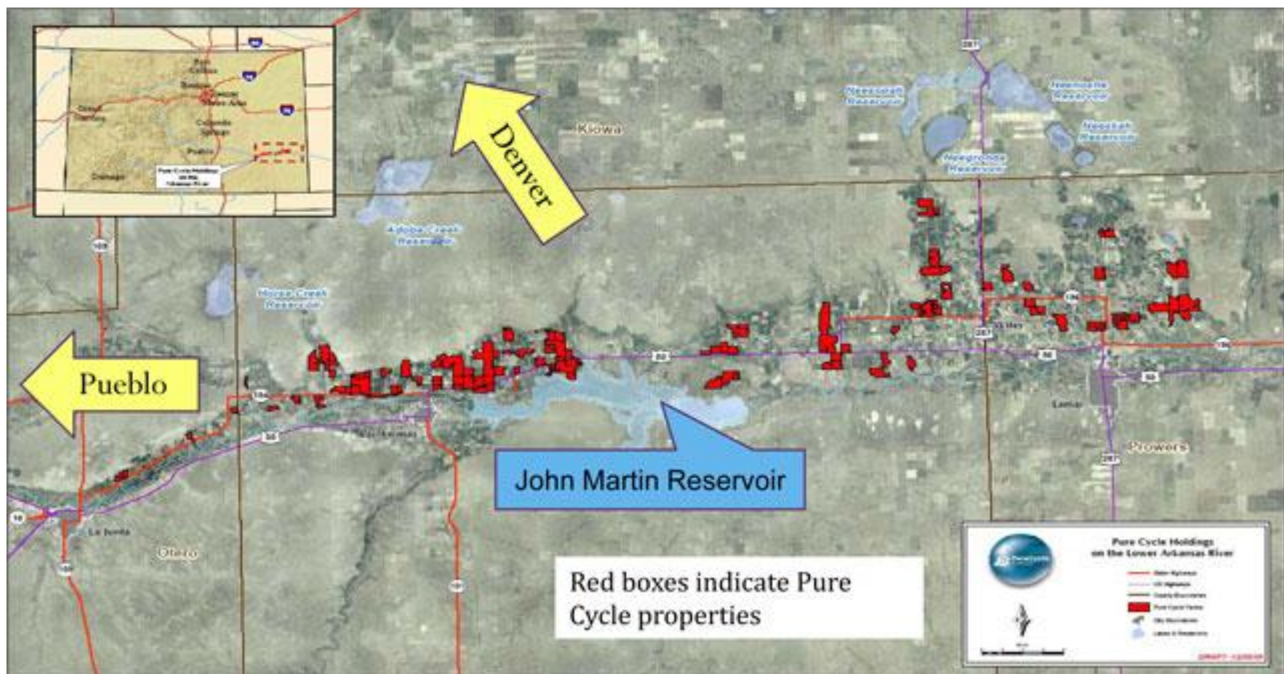
Arkansas River Water and Land

We own approximately 60,000 acre feet of surface water rights in the Arkansas River together with approximately 16,700 acres of irrigated farm land in southeastern Colorado. We acquired our Arkansas River water and land from High Plains A&M, LLC ("HP A&M") pursuant to an asset purchase agreement dated May 10, 2006 (the "Arkansas River Agreement"). The water rights we own are represented by 21,782 shares of the Fort Lyon Canal Company (the "FLCC"), which is a non-profit mutual ditch company established in the late 1800's to operate and maintain the 110-mile long Fort Lyon Canal between La Junta and Lamar, Colorado. We have agreements to sell approximately 1,600 acres of farmland and 3,400 FLCC shares for approximately $5.7 million, which are expected to close during fiscal year 2014.

In order to preserve our Arkansas River water rights until we are ready to seek a change of use, we currently lease our land and water to area farmers who continue to irrigate the land for agricultural purposes. In conjunction with the Arkansas River Agreement we entered into a property management agreement pursuant to which HP A&M agreed to manage our farm properties and take care of our obligations under the farm leases, including property taxes in exchange for the rental income from the Leases (the "Property Management Agreement"). In August 2012,

we terminated the Property Management Agreement due to certain defaults by HP A&M under the terms of the Arkansas River Agreement and related agreements. As a result of the termination, we now control all leasing activities and are entitled to all future income from such leasing activities. We are also responsible for property taxes and other expenses associate with the properties. We intend to continue managing our farms together with our tenant farmers. For additional information concerning our rights and obligations under the Arkansas River Agreement and a discussion of the effect of the defaults by HP A&M, see *Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates – Fair Value Estimates – Obligations Payable by HP A&M, Now in Default* and *– Farm Accounts Receivable and Future Farm Income*.

Agricultural Operations and Leasing – Beginning on August 3, 2012, we assumed management of our farm operations and all associated income and expenses. Beginning September 1, 2012, we began tracking and reporting our farm operations as a separate business segment to reflect management's analysis, investment decision, and operating performance for this business segment. Currently, approximately 90% of our farm operations are managed through cash lease arrangements with local area farmers whereby we charge a fixed fee, billed semi-annually in March and November, to lease our land and the water for agricultural purposes to tenant farmers. We have a small number of crop share leases, pursuant to which we and the tenant farmer jointly share in the gross revenues generated from the crops grown under a 75% farmer, 25% landlord participation. The table to the right details a sampling of the crops grown on our farms. We will continue to review and evaluate ways to enhance the performance of our approximately16,700 acres of farm land through relationships with area farmers. The following is a map of our farming properties.



Tap Participation Fee – As further described in *Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates* below and Note 7 – *Long-Term Debt and Operating Lease* and Note 15 – *Subsequent Events* to the accompanying financial statements, we agreed to pay HP A&M 10% of the tap fees we receive from the next 40,000 water taps we sell from and after the original date of the Arkansas River Agreement. This is referred to as the "Tap Participation Fee", or "TPF." The TPF is payable when we sell water taps and receive funds from such water tap sales or other dispositions of property purchased in the HP A&M acquisition.

Effective as of September 1, 2011, (i) HP A&M elected to increase the TPF percentage from 10% to 20% and take a corresponding 50% reduction in the number of taps subject to the TPF and (ii) pursuant to the Property Management Agreement, we began allocating 26.9% of the Net Revenues (defined as all lease and related income received from the farms less employee expenses, direct expenses for managing the leases and a reasonable overhead allocation) paid to HP A&M against the TPF. Beginning in June of 2012, HP A&M began defaulting on certain promissory notes owed to third parties resulting in a default under the Arkansas River Agreements. As a result of HP A&M's default, on August 3, 2012, we terminated the Property Management Agreement and stopped allocating 26.9% of the Net Revenues to the TPF. We began implementing our remedies under the Arkansas River Agreements, including commencing foreclosure procedures on certain farms and FLCC shares, and as of August 31, 2013, there remained 17,194 water taps subject to the Tap Participation Fee. Subsequent to fiscal year end, additional farms and corresponding FLCC shares have been foreclosed upon reducing the remaining water taps subject to the Tap Participation Fee to 13,830.

Additional information on the elections made by HP A&M, the terms of the Arkansas River Agreement, the estimation of the fair value of the Tap Participation Fee liability, the calculation of the percentage of Net Revenues and the reduction of water taps subject to the Tap Participation Fee is included in *Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates* below and in Note 7 – *Long-term Debt and Operating Lease* and Note 14 – *Related Party Transactions* to the accompanying financial statements.

Approximately 60 of the 80 farms acquired from HP A&M were subject to deeds of trust to secure payment of promissory notes owed by HP A&M to third parties. As of the date of this filing, HP A&M has defaulted on all of these promissory notes and deeds of trust. The farms subject to the deeds of trust consist of approximately 14,000 acres of farm land and 16,882 FLCC shares of water rights. Mineral rights on these farms, if any, are owned approximately 75% by HP A&M and 25% by us. As of September 1, 2012 HP A&M owed approximately $9.6 million of principal and accrued interest on the defaulted notes. We have commenced exercising our remedies under the Arkansas River Agreement and related agreements, which remedies include, but are not limited to, the right to (i) foreclose on 1,500,000 shares of Pure Cycle common stock issued to HP A&M and the proceeds therefrom (the "Pledged Shares") which were pledged by HP A&M pursuant to a pledge agreement (the "Seller Pledge Agreement") to secure the payment and performance by HP A&M of the promissory notes described above (these shares were sold in a foreclosure sale in September 2012); (ii) reduce the Tap Participation Fee; (iii) terminate the Property Management Agreement; and (iv) recover damages caused by the defaults, including certain costs and attorney's fees. See *Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies and Use of Estimates - Fair Value Estimates – Obligations Payable by HP A&M, Now in Default* below for further discussion of the defaults by HP A&M and the remedies under the Arkansas River Agreement, as well as Note 7 – *Long-Term Debt and Operating Lease* and Note 15 – *Subsequent Events* to the accompanying financial statements.

During fiscal year 2013 four of our farms and one FLLC certificate representing water rights only went through foreclosure proceedings due to the defaults by HP A&M. Our agreement with HP A&M provides for a reduction of the number of water taps subject to the TPF payable to HP A&M in the event of the farms or water rights are sold in a foreclosure sale. We reduced the number of taps by 2,233 taps and the discounted present value of the TPF payable by a total of approximately $11.7 million as a result of the foreclosures. As of August 31, 2013 there were 17,194 taps subject to the Tap Participation Fee. Subsequent to our fiscal year end, an additional three farms and one FLCC certificate representing water rights only, collectively including 1,832 FLCC shares, were foreclosed resulting in a reduction of the number of taps subject to the TPF by an additional 3,364 taps (approximately $11.9 million of the TPF), leaving 13,830 taps subject to the Tap Participation Fee as of November 27, 2013.

Sky Ranch

In 2010 we purchased 931 acres of undeveloped land located in unincorporated Arapahoe County known as Sky Ranch. Sky Ranch is located directly adjacent to I-70, 16 miles east of downtown Denver, 4 miles north of the Lowry Range, and 4 miles south of Denver International Airport. The financing of the Sky Ranch acquisition is described in greater detail in Note 4 – *Water Assets* to the accompanying financial statements.

The property includes rights to 820 acre feet of water, has been zoned for residential, commercial and retail uses and may include up to 4,850 SFE's. There is currently no development at Sky Ranch. We currently lease the land to an area farmer. We envision that when development at Sky Ranch begins, the development will be in the form of entry level housing (houses costing less than $300,000). We plan to partner with national home builders/developers to develop the Sky Ranch property. We are anticipating that the home builder/developer will construct infrastructure such as roads, curbs and gutters, and we will construct the necessary water and wastewater systems. Our plan is to provide the market with competitively priced lots that are ready for development together with affordable, sustainable, environmentally sound water and wastewater services. We anticipate working with the builders/developers to bring a product to the Denver market that is both affordable and desirable. Although timing for development of this property is unknown, some land development experts believe the entry level housing market is among the most active housing products in the Denver metropolitan area. At full development, the water and wastewater utilities at Sky Ranch are anticipated to generate in excess of $132 million in tap fee revenue and approximately $7 million annually in wholesale service fee revenue (based on current fees and charges).

Oil and Gas Lease – On March 10, 2011, we entered into a Paid-Up Oil and Gas Lease (the "O&G Lease") and Surface Use and Damage Agreement (the "Surface Use Agreement") with Anadarko E&P Company, L.P. ("Anadarko"), a wholly owned subsidiary of Anadarko Petroleum Company. The O&G Lease seeks to capitalize on the growing interest in the region's Niobrara Oil Formation. Pursuant to the O&G Lease, we received an up-front payment of $1,900 per net mineral leased acre, or $1,243,400, and 20% of gross proceeds royalty (less certain taxes) from the sale of any oil and gas produced from our property. In December of 2012 the O&G Lease was purchased by a wholly owned subsidiary of ConocoPhillips Company ("ConocoPhillips"). The O&G Lease has a term of three (3) years commencing on March 10, 2011. If ConocoPhillips commences drilling and has a producing well on Sky Ranch or lands pooled or unitized with Sky Ranch, the O&G Lease will continue in effect for as long as oil or gas is being produced. If there is no production by the end of the initial term, ConocoPhillips may extend the O&G Lease for an additional two (2) years by paying us an up-front payment equal to the initial up-front payment noted above. Pursuant to the Surface Use Agreement, ConocoPhillips may drill on up to three well pad sites on the Sky Ranch property covered under the O&G Lease. Additionally, we will receive $3,000 per acre for land that is permanently disturbed for use in the oil and gas exploration and production. During October 2013 three well permit applications were filed. One permit is for a well to be drilled on the Sky Ranch property. The remaining two permits are for wells to be drilled off of Sky Ranch, but will be drilled into the formation under the Sky Ranch property.

We have experienced increased water demands for hydraulic fracturing of oil and gas wells being developed in the Niobrara Formation around our Sky Ranch property and the Land Board's Lowry Range property. Based on similar horizontal wells developed in the Niobrara Formation each horizontal well will require between 3 million and 7 million gallons of water to drill and "frack", which equates to selling water to between approximately 23 and 54 SFE's.

Arapahoe County Fairgrounds Agreement for Water Service

In 2005, we entered into an Agreement for Water Service (the “County Agreement”) with the County to design, construct, operate and maintain a water system for, and provide water services to, the County for use at the County’s fairgrounds (the “Fairgrounds”), which are located west of the Lowry Range. Pursuant to the County Agreement we purchased 321 acre feet of water in 2008. Further details of the funding arrangements with the County are described in Note 4 – *Water Assets* to the accompanying financial statements.

Pursuant to the County Agreement we constructed and own a deep water well, a 500,000 gallon water tank and pipelines to transport water to the Fairgrounds. The construction of these items was completed in our fiscal 2006, and we began providing water service to the County in 2006.

Well Enhancement and Recovery Systems

In January 2007, we, along with two other parties, formed Well Enhancement and Recovery Systems, LLC (“Well Enhancement LLC”), to develop a new deep water well enhancement tool and process which we believe will increase the efficiency of wells into the Denver Basin groundwater formation. In fiscal 2008, the well enhancement tool and process was completed and tested on two deep water wells developed by an area water provider with favorable results. According to results from studies performed by an independent hydro-geologist, the well enhancement tool effectively increased the production of the two test wells by 80% and 83% when compared to that of nearby wells developed in similar formations at similar depths. Based on the positive results of the test wells, we continue to refine the process of enhancing deep water wells and are marketing the tool to area water providers. On April 27, 2010, we and the other remaining owner of Well Enhancement LLC acquired the third partner’s 1/3rd interest in Well Enhancement LLC. Following the acquisition, the remaining partners each hold a 50% interest in Well Enhancement LLC. During fiscal 2013 our tool was used in 3 wells.

Paradise Water Supply

In 1987 we acquired the conditional rights to build a 70,000 acre foot reservoir to store Colorado River tributary water and a right-of-way permit from the U.S. Bureau of Land Management for property at the dam and reservoir site (collectively known as our “Paradise Water Supply”). Due to the significant development costs of water assets along the western slope and agreements with other western slope water interests, the use of our Paradise Water Supply is limited to opportunities along the western slope. The conditional water rights diligence application was completed in October 2008 and we were able to negotiate a finding of diligence and continuation of the conditional water rights through October 2014. In order to obtain a finding of reasonable diligence at the next diligence proceeding for the Paradise conditional water rights in October 2014, we are required to (i) select an alternate reservoir site; (ii) file an application with the Water Court for Water Division 5 to change the place of storage; (iii) identify specific end users and places of use for the Paradise conditional water rights within the Colorado River basin in Colorado, excluding the Gunnison River basin; and (iv) identify specific source(s) of the water rights for use. We do not intend to spend the resources needed to find an alternative reservoir site without a specific use for the water. We have been unable to find potential customers for this water and cannot be certain that any customer will commit to use the water within the next year. Since we do not have a customer that will commit to use the water and will not commit the resources necessary to move the reservoir site without a customer, we are expecting to lose the conditional water rights. Accordingly, we deemed the Paradise Water Supply to be fully impaired and an impairment of $5.5 million was recorded in the fiscal 2012 financial statements. We are currently working on options to dispose of our Paradise Water Supply asset.

<u>Revenues</u>

We generate revenues through two separate lines of businesses including our Wholesale Water and Wastewater business and our Farming Operations, which are described below.

Wholesale Water and Wastewater business **–** We generate revenues through our wholesale water and wastewater segment predominately from three sources: (i) monthly service and contract delivery fees, (ii) one time water and wastewater tap fees and construction fees, and (iii) consulting fees. Our revenue sources and how we account for them are described in greater detail below. We typically negotiate the payment terms for tap fees, construction fees, and other water and wastewater service fees with our wholesale customers as a component of our service agreements prior to construction of the project.

i) Monthly Service Fees **–** Monthly wholesale water usage fees are assessed to our customers based on actual metered deliveries to their end-use customers each month. Water usage fees are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. Water usage pricing is capped at the average of the prices charged by the same three surrounding water providers used as the basis for water tap fees. The District has not changed its water usage fees since July 1, 2010. The water usage fees are noted below in table B:

Table B - Tiered Water Usage Pricing Structure

	Price ($ per thousand gallons)		
Amount of consumption	2013	2012	2011
Base charge per SFE	$ 27.62	$ 27.62	$ 27.62
0 gallons to 10,000 gallons	$ 2.81	$ 2.81	$ 2.81
10,001 gallons to 20,000 gallons	$ 3.69	$ 3.69	$ 3.69
20,001 gallons to 40,000 gallons	$ 6.56	$ 6.56	$ 6.56
40,001 gallons and above	$ 8.93	$ 8.93	$ 8.93

The figures in Table B reflect the amounts charged to the District's end-use customers. In exchange for providing water service to the District's Lowry Range customers, we receive 95% of the usage charges received by the District relating to water services after deducting the required royalty to the Land Board (described above at Rangeview Water Supply and Lowry Range – *Land Board Royalties*). In exchange for providing wastewater services, we receive 90% of the District's monthly wastewater service fees, as well as the right to use or sell the reclaimed water.

Currently the District charges its wastewater customers based on a monthly fee of $7.83 per SFE plus a $6.68 per thousand gallons treated usage fee. There have not been any changes to the pricing structure since July 1, 2011.

In addition to the tiered water usage pricing structure we currently charge a hydrant rate of $9 per thousand gallons. During fiscal 2013 our sales to the fracking industry were charged at the hydrant rate. Beginning October 2013 we began charging a water rate to the fracking industry of $10.50 per thousand gallons for export water sales. We also collect other immaterial fees and charges from customers and other users to cover miscellaneous administrative and service expenses, such as application fees, review fees and permit fees.

ii) Water and Wastewater Tap Fees and Construction Fees – Tap fees are paid by developers in advance of construction activities and are non-refundable. Tap fees are typically used to fund construction of the Wholesale Facilities and defray the acquisition costs of obtaining water rights.

Pursuant to the Rangeview Water Agreements the District's rates and charges to end use customers may not exceed the average of similar rates and charges of three nearby water providers. Despite modest increases in the water tap fees at these three nearby water providers, the District's water tap fees and wastewater tap fees have remained unchanged at $22,500 per SFE and $4,883 per SFE, respectively, since 2009. The District last increased water tap fees on July 1, 2009, by $1,000 to $22,500 per SFE, which was a 4.7% increase over the 2008 water tap fee.

In exchange for providing water service to the District's customers (customers on the Lowry Range), we receive 95% of the District's tap fees after deducting the required royalty to the Land Board described above. In exchange for providing wastewater services, we receive 100% of the District's wastewater tap fees.

Construction fees are fees we receive, typically in advance, from developers for us to build certain infrastructure such as Special Facilities which are normally the responsibility of the developer.

iii) Consulting Fees – Consulting fees are fees we receive, typically on a monthly basis, from municipalities and area water providers along the I-70 corridor, for system management and maintenance.

Farming Operations – We lease our farms to local area farmers on both cash and crop share lease basis. Our cash lease farmers are charged a fixed fee, billed semi-annually in March and November. During the November billing cycle our cash lease billings include either a discount or a premium adjustment based on actual water deliveries by the FLCC. Our crop share lease fees are based on actual crop yields and are received upon the sale of the crops. All fees are estimated and recognized ratably on a monthly basis.

Significant Customers

Our wholesale water and wastewater sales to the District pursuant to the Rangeview Water Agreements accounted for 34%, 86%, and 91% of our total water revenues for the years ended August 31, 2013, 2012 and 2011, respectively. The District has one significant customer, the Ridgeview Youth Services Center ("Ridgeview"). Pursuant to our Rangeview Water Agreements with the District, we are providing water to Ridgeview on behalf of the District. Ridgeview accounted for 28%, 53% and 60% of our total water revenues for the years ended August 31, 2013, 2012 and 2011, respectively.

Our wholesale water sales indirectly to ConocoPhillips accounted for 59% of our total water revenues for the fiscal year ended August 31, 2013.

Our Projected Operations

This section should be read in conjunction with *Item 1A – Risk Factors*.

Along the Colorado Front Range, there are over 70 water providers with varying needs for replacement and new water supplies. We believe we are well positioned to assist certain of these providers in meeting their current and future water needs.

We design, construct and operate our existing and future water and wastewater facilities using advanced water purification and wastewater treatment technologies which allow us to use our water supplies in an efficient and environmentally sustainable manner. We plan to develop our water and wastewater systems in stages to efficiently meet demands in our service areas, thereby reducing the amount of up-front capital costs required for construction of facilities. We use third party contractors to construct our facilities as needed. We employ licensed water and wastewater operators to operate our water and wastewater systems. As our systems expand, we expect to hire additional personnel to operate our systems, which include water production, treatment, testing, storage, distribution, metering, billing, and operations management.

Our water and wastewater systems conjunctively use surface and groundwater supplies and storage of raw water and highly treated effluent supplies to provide a balanced sustainable water supply for our wholesale customers and their end-use customers. Integrating conservation practices and incentives together with effective water reuse demonstrates our commitment to providing environmentally responsible, sustainable water and wastewater services. Water supplies and water storage reservoirs are competitively sought throughout the west and along the Front Range of Colorado. We believe regional cooperation among area water providers in developing new water supplies, water storage, and transmission and distribution systems, provides the most cost effective way of expanding and enhancing service capacities for area water providers. We continue to discuss developing water supplies and water storage opportunities with area water providers.

We expect the development of our Rangeview Water Supply to require a significant number of high capacity deep water wells. We anticipate drilling separate wells into each of the three principal aquifers located beneath the Lowry Range. Each well is intended to deliver water to central water treatment facilities for treatment prior to delivery to customers. Development of our Lowry Range surface water supplies will require facilities to divert surface water to storage reservoirs to be located on the Lowry Range and treatment facilities to treat the water prior to introduction

into our distribution systems. Surface water diversion facilities will be designed with capacities to divert the surface water when available (particularly during seasonal events such as spring run-off and summer storms) for storage in reservoirs to be constructed on the Lowry Range. Based on preliminary engineering estimates, the full build-out of water facilities (including diversion structures, transmission pipelines, reservoirs, and water treatment facilities) on the Lowry Range will cost in excess of $340 million, based on current costs, and will accommodate water service to customers located on and outside the Lowry Range. We expect this build out to occur over an extended period of time, and we expect that tap fees will be sufficient to fund the infrastructure costs.

Our Denver based supplies are a valuable, locally available resource located near the point of use. This enables us to incrementally develop infrastructure to produce, treat and deliver water to customers based on their growing demands. Adding our locally available supplies to our intermediate and longer term supplies from the Arkansas River balances both current and ongoing supplies to meet the growing water demands in the Front Range market.

In order to use our Arkansas River water for municipal purposes, we must file a change of use application with the Colorado water court. This will likely be a lengthy process and require a substantial amount of capital for legal and engineering services. If we successfully change the use of our water rights to include municipal uses, we would then need to construct a 130-mile pipeline, and water treatment and pumping facilities, from southeastern Colorado to the Denver metropolitan area at an estimated cost of over $500 million, based on current costs. Since acquiring the Arkansas River supply, we have investigated various pipeline alignments and potential partnerships for construction of these facilities. We do not plan on starting this process in the near term and anticipate that the tap fees and usage fees we generate from taps sold utilizing our water rights located along the Front Range, along with funding from other pipeline partners, will be sufficient to fund the water delivery facilities when the water is needed along the Front Range. Although we have not yet filed a change of use application, we are working with the FLCC and other interested parties in the Arkansas River Valley to mitigate any adverse impacts to the local communities and to make investments and decisions on farming operations which benefit continued agricultural operations as well as providing new municipal water supplies for the Front Range. We are conducting a rotational crop study program and participating in discussions with area interests including the Lower Arkansas Valley Super Ditch (“Super Ditch”), which is a group of Arkansas Valley irrigators who have assembled to study alternatives to traditional “buy and dry” agricultural-to-municipal water transfers.

During fiscal 2013 we, along with the District, began developing and integrating the ECCV system of wells through the rehabilitation of a number of existing wells and the addition of piping to service fracking operations both on and off of the Lowry Range. In order to fully meet the anticipated demand by these operations during fiscal 2014 we may continue to invest in this system to maximize our production and to divert our water to the locations we need to reach. We anticipate expanding capacity in our system from approximately 500,000 gallons per day to approximately 1 million gallons per day during fiscal 2014.

The District is currently in the process of negotiating terms for the development of the WISE project. This project is being established for the purpose of extending renewable water sources held by the Denver and Aurora water districts to the South Metro water providers, including the District. This system will add an additional vital source of water to our system, which in the long-term will be an essential component of the District’s system and will enable us to continue to meet the demands or our customers on a sustainable and environmentally friendly manner. Through our funding agreement with the District we may participate in this project during fiscal 2014.

We are exploring development of our Sky Ranch property including evaluating possible joint venture opportunities whereby we will contribute the property, a portion of the development funds, and build the water and wastewater infrastructure for housing and commercial development of the property. The timing for us to begin developing the property is largely dependent on the Denver real estate market and interest we receive from home builders and developers. While the Denver area’s housing market has strengthened in recent years we are not able to determine when we expect to begin development of the property.

We continue to develop our farming operations seeking to increase crop yields and to balance our cash and crop share leases in order to maximize profits while leveraging our risks. We plan on adding sprinkler irrigation to a few of our farms during fiscal 2014 in order to better utilize our water supplies and increase crop yields. We are also negotiating with area farmers to optimize our lease structure.

Water and Growth in Colorado

After experiencing a weak economy through 2012, much like that of the U.S. as a whole, Colorado began recovering during 2013. The key drivers in our business model are:

- ***Housing Starts*** – From September 2011 to September 2012 the annual housing starts increased by 41%. From September 2012 to September 2013 the annual housing starts increased by 34%.
- ***Unemployment*** **–** The unemployment rate in Colorado was 7% at August 31, 2013 compared to a national unemployment rate of 7.3%. Colorado added an estimated 56,800 jobs from August 2012 to August 2013.
- ***Population*** **–** The Denver Regional Council of Governments ("DRCOG"), a voluntary association of over 50 county and municipal governments in the Denver metropolitan area, continues to estimate that the Denver metropolitan area population will increase by about 44% from today's 2.7 million people to 3.9 million people by the year 2030. A Statewide Water Supply Initiative report by the Colorado Water Conservation Board estimates that the South Platte River basin, which includes the Denver metropolitan region, will grow from a current population of 3.2 million to 4.9 million by the year 2030; while the State's population will increase from 4.7 million to 7.2 million.
- ***Demand*** **–** Approximately 70% of the State's projected population increase is anticipated to occur within the South Platte River basin. Significant increases in Colorado's population, particularly in the Denver metro region and other areas in the water short South Platte River basin, together with increasing agricultural, recreational, and environmental water demands will intensify competition for water supplies. The estimated population increases are expected to result in demands for water services in excess of the current capabilities of municipal service providers, especially during drought conditions.
- ***Supply*** **–** The Statewide Water Supply Initiative estimates that population growth in the Denver region and the South Platte River basin will result in additional water supply demands of over 400,000 acre feet by the year 2030, which must be met with new water sources.
- ***Development*** **–** Colorado law requires property developers to demonstrate they have sufficient water supplies for their proposed projects before rezoning or annexation applications will be considered. These factors indicate that water and availability of water will continue to be critical to growth prospects for the region and the state, and that competition for available sources of water will continue to intensify. We focus the marketing of our water supplies and services to developers and homebuilders that are active along the Colorado Front Range as well as other area water providers in need of additional supplies.

Colorado's future water supply needs will be met through conservation, reuse and the development of new supplies. The District's rules and regulations for water and wastewater service call for adherence to strict conservation measures, including low flow water fixtures, high efficiency appliances, and advanced irrigation control devices. Additionally, our systems are designed and constructed using a dual-pipe water distribution system to segregate the delivery of high quality potable drinking water to our local governmental entities and their end-use customers through one system and a second system to supply raw or reclaimed water for irrigation demands. About one-half of the water used by a typical Denver-area residential water customer is used for outdoor landscape and lawn irrigation. We believe that raw or reclaimed water supplies provide the lowest cost, most environmentally sustainable water for outdoor irrigation. We expect our systems to include an extensive water reclamation system, in which essentially all effluent water from wastewater treatment plants will be reused to meet non-potable water demands. Our dual-distribution systems demonstrate our commitment to environmentally responsible water management policies in our water short region.

Competition

We negotiate individual service agreements with our governmental customers and with their developers and/or homebuilders, to design, construct and operate water and wastewater systems and to provide services to end-use customers of governmental entities and to commercial and industrial customers. These service agreements address all aspects of the development of the water and wastewater systems including:

(i) the purchase of water and wastewater taps in exchange for our obligation to construct certain Wholesale Facilities,

(ii) the establishment of payment terms, timing, capacity and location of Special Facilities (if any); and

(iii) specific terms related to our provision of ongoing water and wastewater services to our local governmental customers as well as the governmental entity's end-use customers.

Although we have exclusive long-term water and wastewater service contracts for 24,000 acres of the 27,000-acre Lowry Range pursuant to our service agreement with the District, providing water and wastewater services to areas other than Sky Ranch and the majority of the Lowry Range, is subject to competition. Moreover, others, including the Land Board, have attempted to challenge, thus far without success, our exclusive rights to service the Lowry Range. See *Item 1A – Risk Factors* and *Item 3 – Legal Proceedings* below. Alternate sources of water are available, principally from other private parties, such as farmers or others owning water rights that have historically been used for agriculture, and from municipalities seeking to annex new development areas in order to increase their tax base. Our principal competition in areas close to the Lowry Range is the City of Aurora. Principal factors affecting competition for potential purchasers of our Arkansas River water and Export Water include the availability of water for the particular purpose, the cost of delivering the water to the desired location including the cost of required taps, and the reliability of the water supply during drought periods. The water assets we own and have the exclusive right to use have a supply capacity of 180,000 SFE units, and we believe they provide us with a significant competitive advantage along the Front Range. Our legal rights to the Rangeview Water Supply have been confirmed for municipal use and a significant portion of our water supply is close to Denver area water users. Our pricing structure is competitive and our water portfolio is well balanced with senior surface water rights, groundwater rights, storage capacity and reclaimed water supplies.

Environmental, Health and Safety Regulation

Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act, related state laws, and federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal and certain other aspects of our operations.

Environmental compliance issues may arise in the normal course of operations or as a result of regulatory changes. We attempt to align capital budgeting and expenditures to address these issues in a timely manner.

Safe Drinking Water Act – The Safe Drinking Water Act establishes criteria and procedures for the U.S. Environmental Protection Agency (the "EPA") to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act and its amendments set standards on the amount of certain microbial and chemical contaminants and radionuclides allowable in drinking water. The State of Colorado has assumed primary responsibility for enforcing the standards established by the Safe Drinking Water Act and has adopted the Colorado Primary Drinking Water Standards (5 CCR 1003-1). Current requirements for drinking water are not expected to have a material impact on our financial condition or results of operations as we have made and are making investments to meet existing water quality standards. In the future, we might be required to change our method of treating drinking water and make additional capital investments if additional regulations become effective.

The federal Groundwater Rule became effective December 1, 2009. This rule requires additional testing of water from well sources and under certain circumstances requires demonstration and maintenance of effective disinfection. In 2009, Colorado adopted Article 13 to the Colorado Primary Drinking Water Standards to establish monitoring and compliance criteria for the Groundwater Rule. We have implemented measures to comply with the Groundwater Rule.

Clean Water Act – The Clean Water Act regulates wastewater discharges from drinking water and wastewater treatment facilities and storm water discharges into lakes, rivers, streams, and groundwater. The State of Colorado has assumed primary responsibility for enforcing the standards established by the federal Clean Water Act for wastewater discharges from domestic water and wastewater treatment facilities and has adopted the Colorado Water Quality Control Act and related regulations. It is our policy to obtain and maintain all required permits and approvals for discharges from our water and wastewater facilities and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, discharge violations might occur which

might result in fines and penalties; but we have no reason to believe that any such fines or penalties are pending or will be assessed.

In the future, we anticipate changing our method of treating wastewater, which will require future additional capital investments, as additional regulations become effective. We anticipate spending between $400,000 and $500,000 during calendar year 2014 for improvements at our wastewater treatment facilities necessary to maintain compliant operations in light of more stringent discharge criteria for ammonia-nitrogen and chlorine residual.

Solid Waste Disposal – The handling and disposal of residuals and solid waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. We have a program in place to monitor our facilities for compliance with regulatory requirements, and we do not anticipate that costs associated with our handling and disposal of waste material from our water and wastewater operations will have a material impact on our business or financial condition.

Employees

We currently have five full-time employees.

Available Information and Website Address

Our website address is *www.purecyclewater.com*. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after filing with the Securities and Exchange Commission ("SEC").

These reports and all other material we file with the SEC may be obtained directly from the SEC's website, *www.sec.gov/edgar/searchedgar/companysearch.html*, under CIK code ***276720***. The contents of our website are not incorporated by reference into this report. You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Operating information for the Public Reference Room is available by calling the SEC at 1-800-SEC-0330.

Item 1A – Risk Factors

Our business, operations, and financial condition are subject to significant risks. These risks include those listed below and may include additional risks of which we are not currently aware or which we currently do not believe are material. If any of the events or circumstances described in the following risk factors actually occurs, our business could be materially adversely affected. These risks should be read in conjunction with the other information set forth in this report, including the accompanying financial statements and notes thereto.

We are dependent on the housing market and development in our targeted service areas for future revenues. Providing wholesale water service using our Colorado Front Range water supplies is our principal source of future revenue. The timing and amount of these revenues will depend significantly on housing developments being built near our water assets. The development of these areas is not within our control, and there can be no assurance that development will occur or that water sales will occur on acceptable terms or in the amounts or time required for us to support our costs of operation. In the event wholesale water sales are not forthcoming or development on the Lowry Range, Sky Ranch or other developments in our targeted service area is delayed indefinitely, we would need to incur additional short or long-term debt obligations or seek to sell additional equity to generate operating capital, and there are no assurances that we would be successful in obtaining additional operating capital. After several years of significant declines in new home construction, there have been positive market gains in the Colorado housing market in 2013. However, if the downturn in the homebuilding and credit markets return or if the national economy weakens and economic concerns intensify, it could have a significant negative impact on our business and financial condition.

Development on the Lowry Range is not within our control and is subject to obstacles. Development on the Lowry Range is controlled by the Land Board, which consists of a five person citizen group representing education, agriculture, local government and natural resources, plus one at-large commissioner, each appointed for a four-year term by the Colorado governor and approved by the Colorado Senate. The Land Board's focus with respect to issues such as development and conservation on the Lowry Range tends to change as membership on the Land Board

changes. In addition, there are often significant delays on the adoption and implementation of plans with respect to property administered by the Land Board because the process involves many constituencies with diverse interests. In the event water sales are not forthcoming or development of the Lowry Range is delayed, we may incur additional short or long-term debt obligations or seek to sell additional equity to generate operating capital. Further, the Land Board may not develop large portions of the Lowry Range which would significantly limit our ability to utilize the non-Export Water specifically reserved for use on the Lowry Range.

Because of the prior use of the Lowry Range as a military facility, environmental clean-up may be required prior to development, including the removal of unexploded ordnance. The U.S. Army Corps of Engineers have been conducting unexploded ordnance removal activities at the Lowry Range for the past 20 years. Continued activities are dependent on federal appropriations, and the Army Corps of Engineers has no assurance from year to year of such appropriations for its activities at the Lowry Range.

We and the District have been involved in ongoing disputes with the Land Board regarding our rights and obligations with respect to our Rangeview Water Supply, and such disputes may continue to arise and may not be resolved in our favor. Our Rangeview Water Supply rights are subject to terms of the Lease between the Land Board and the District. The Lease was entered into in 1996 prior to any development of the Lowry Range or of areas outside the Lowry Range that utilize our Export Water. The terms of the Lease did not fully anticipate the specific circumstances of development that have arisen and may not clearly delineate rights and responsibilities for the forms of transactions that may arise in the future. We are currently involved in both an arbitration proceeding and a lawsuit with the Land Board to resolve disputes under the Lease. See the next two risk factors. Moreover, since the Lease extends until 2081, additional disputes may arise. An unfavorable resolution of these disputes could have a material adverse effect on our business, operating results and financial condition.

We filed a lawsuit against the Land Board claiming the Land Board breached and will breach agreements entered into by the Land Board and us in connection with a 1996 settlement, and we may not be successful. On December 19, 2011, we and the District filed a lawsuit against the Land Board, claiming that the Land Board breached, and will breach, agreements entered into by the Land Board with us and the District in connection with a 1996 settlement agreement with respect to our Rangeview Water Supply. Those agreements include the Lease between the Land Board and the District and the Service Agreement between us and the District. The Land Board issued a Request for Proposal that included a draft lease agreement related to oil and gas rights at the Land Board's Lowry Range and subsequently entered into an oil and gas lease which we believe does not adequately address or protect the District's exclusive right to provide water service to the Lowry Range or our rights as the District's exclusive Service Provider. There can be no assurance that we will be successful in the lawsuit or that disputes under the Lease will not reoccur. An unfavorable decision in this lawsuit could have a material adverse effect on the value of our Rangeview Water Supply, our business, operating results and financial condition.

We, The District and the Land Board entered into an Arbitration Agreement pursuant to which the parties have agreed to submit certain counterclaims under the Lease to binding arbitration. In connection with the lawsuit we and the District filed against the Land Board, as described above, the Land Board raised certain counterclaims related to operational disputes under the Lease, which the parties have agreed to submit to binding arbitration. An unfavorable outcome in the arbitration could increase our costs of operations and have a material adverse effect on our business, operating results, and financial condition.

HP A&M filed a law suit against us alleging breaches of representations made in connection with the Arkansas River Agreement. HP A&M initiated a lawsuit against us in District Court, City and County of Denver, State of Colorado on February 27, 2012 alleging breaches of representations made in connection with the Arkansas River Agreement. HP A&M's claims relate to the issues currently being litigated between us and the Land Board regarding our exclusive right to provide water service to the Land Board's Lowry Range property. An unfavorable decision in our lawsuit against the Land Board discussed above could adversely affect the decision in this lawsuit. An adverse decision in the HP A&M lawsuit could have a material adverse effect on our business, operating, results and financial condition.

The District's rights under the Lease have been challenged by third parties. The District's rights under the Lease have been challenged by third parties in the past, most recently in 2008 when the City of Aurora (the "City") applied for the right to store water in certain reservoir sites on the Lowry Range that had already been adjudicated by the District and the Land Board, which adjudications allow us to use the reservoir sites for our Rangeview Water

Supply. In that proceeding, a developer sought to support the City by filing an amicus brief in which the developer asserted, contrary to the terms of the Lease, that the developer might not be required to obtain water and wastewater service exclusively from the District for planned development on the Lowry Range. The City's application was denied. However, there can be no assurance that the District's rights under the Lease will not be challenged again, which could require us to commence potentially expensive litigation to enforce our rights as the District's service provider to the adjudicated reservoir sites and to provide wholesale water and wastewater service to the Lowry Range. See also risk factor: "*We filed a lawsuit against the Land Board claiming the Land Board breached and will breach agreements entered into by the Land Board and us in connection with a 1996 settlement, and we may not be successful.*"

Our operations are affected by local politics and governmental procedures which are beyond our control. We operate in a highly political environment. We market our water rights to municipalities and other governmental entities run by elected or politically appointed officials. Our principal competitors are municipalities seeking to expand their sales tax base and other water districts. Various constituencies, including our competitors, developers, environmental groups, conservation groups, and agricultural interests, have competing agendas with respect to the development of water rights in Colorado, which means that decisions affecting our business are based on many factors other than economic and business considerations. Additional risks associated with dealing with governmental entities include turnover of elected and appointed officials, changes in policies from election to election, and a lack of institutional history in these entities concerning their prior courses of dealing with the Company. We spend significant time and resources educating elected officials, local authorities and others regarding our water rights and the benefits of contracting with us. Political concerns and governmental procedures and policies may hinder or delay our ability to enter into service agreements or develop our water rights. While we have worked to reduce the political risks in our business through our participation as the service provider for the District in regional cooperative resource programs, such as the SMWA and its WISE partnership with Denver Water and Aurora Water, as well as education and communication efforts and community involvement, there can be no assurance that our efforts will be successful.

Our Lowry Range Surface water rights are "conditional decrees" and require findings of reasonable diligence. Our surface water interests and reservoir sites at the Lowry Range are conditionally decreed and are subject to a finding of reasonable diligence from the Colorado water court every six years. To arrive at a finding of reasonable diligence, the water court must determine that we continue to diligently pursue the development of said water rights. If the water court is unable to make such a finding, we could lose the water right under review. During fiscal 2012, the Lowry Range conditional decrees were granted their first review by the water court which determined that we and the District met the diligence criteria. The water court entered a finding of reasonable diligence on the Lowry Range surface water decrees on February 11, 2012. Our next diligence period will be in February 2018. If the water court does not make a determination of reasonable diligence in 2018, it would materially adversely impact the value of our interests in the Rangeview Surface Water Supply.

In order to utilize our Arkansas River water, we must apply for a change of use with the water court and this may take several years to complete. The change of use of our Arkansas River water requires a favorable ruling by the water court, which could take several years and be a costly and contentious effort since it is anticipated that many parties will oppose the change of use and the transfer of the water. There are several conditions which must be satisfied prior to our receiving a change of use decree for transfer of our Arkansas River water. One condition that we must satisfy is a showing of anti-speculation in which we, as the applicant, must demonstrate that we have contractual obligations to provide water service to customers prior to the water court ruling on the transfer of a water right. The water court is also expected to limit the transfer to the "consumptive use" portion of the water right and to address changing the historic use of the water from agricultural uses to other uses such as municipal and industrial use. We expect to face opposition to any consumptive use calculations of the historic agricultural uses of this water. The water court may impose conditions on our transfer of the water rights such as requiring us to mitigate the loss of the farming tax base, imposing re-vegetation requirements to convert soils from irrigated to non-irrigated, and imposing water quality measures. Any such conditions will likely increase the cost of transferring the water rights.

We may not be able to obtain sufficient capital to develop our water rights, in particular the Arkansas River water. Development of water rights requires a substantial capital investment. We anticipate financing water and wastewater systems primarily through the sale of water taps and water delivery charges to our customers. However, we cannot assure you that these sources of cash will be sufficient to cover our capital costs. Moreover, the development of the Arkansas River water will require a pipeline or other infrastructure to deliver the water to the

Front Range, which is anticipated to cost over $500 million, based on current costs. We likely would be required to partner with others to finance a project of this magnitude, and there is no assurance we would be able to obtain the financing necessary to develop our Arkansas River water.

HP A&M has defaulted on promissory notes secured by deeds of trust on our Arkansas River properties and water rights and if we are unsuccessful in curing the defaults, we will lose some of our properties and the water rights associated with such properties. Approximately 60 of the 80 properties we acquired from HP A&M are subject to promissory notes owed by HP A&M to third parties with principal and accrued interest totaling $9.6 million at August 31, 2012. These promissory notes are secured by deeds of trust on our Arkansas River properties and water rights. HP A&M has defaulted on all of the notes. Although we are not legally responsible for paying these notes, if we do not cure the defaults, we would lose 75% of the Arkansas River properties and a comparable percentage of the water rights. We foreclosed on the Pledged Shares, consisting of 1.5 million shares of our common stock owned by HP A&M which were pledged to us to secure the promissory notes. The foreclosure sale yielded $3.5 million which is not enough to cure all of the promissory notes. We have been acquiring the promissory notes to protect our Arkansas River properties. As of the filing date, we have successfully acquired approximately $7 million of the notes payable by HP A&M in exchange for a combination of cash and secured notes. The notes we have issued are secured by the same Arkansas River properties and water rights and generally have a five-year term, bear interest at an annual rate of 5% and require semi-annual payments with a straight line amortization schedule. We may not be successful in negotiating acquisitions of all of the notes. If we are unable to acquire all of the notes or to pay our notes as they become due, we could lose the property and water rights securing the unacquired HP A&M notes and securing our notes in foreclosure proceedings. The loss of the Arkansas River properties and water rights could have a material adverse effect on our business, operating results and financial condition.

HP A&M attempted to acquire four of the Arkansas River properties, which were subject to promissory notes and deeds of trust defaulted on by HP A&M, without paying us for the properties. We have purchased most of the HP A&M notes and deeds of trust defaulted on by HP A&M and started foreclosure proceedings to clear title to the properties and obtain title to any mineral rights owned by HP A&M as additional collateral to recover the amounts we have had to pay to cure HP A&M's defaults. HP A&M attempted to redeem four of the properties after the foreclosure sales were completed and sought a court order preventing the Public Trustee from issuing us the deeds to the properties as the successful bidder in the foreclosure sales. The court ruled against HP A&M on November 20, 2013. However, HP A&M has 49 days to appeal the judgment. See *"Item 3 – Legal Proceedings"* for details regarding this lawsuit. If HP A&M appeals the judgment and is successful, we could lose these four properties, which have a market value of approximately $3,060,000. HP A&M would be liable to us for this loss pursuant to the terms of the Arkansas River Agreement, but there can be no assurance that we would recover such damages.

Our net losses may continue and we may not have sufficient liquidity to pursue our business objectives. We have experienced significant net losses, our cash flows from operations have not been sufficient to fund our operations in the past and we have been required to raise debt and equity capital to remain in operation. Since 2004, we have raised $30.4 million to support our operations through (i) the issuance of $25.2 million of common stock (includes the issuance of stock pursuant to the exercise of options, net of expenses) and (ii) the issuance of $5.2 million of Convertible Debt, which was converted to common stock on January 11, 2011. Our ability to fund our operational needs and meet our business objectives will depend on our ability to generate cash from future operations. We currently have a limited number of customers. If our future cash flows from operations and other capital resources are not sufficient to fund our operations and the significant capital expenditure requirements to build our water delivery systems, we may be forced to reduce or delay our business activities, or seek to obtain additional debt or equity capital. Recent economic conditions and disruptions have caused substantial volatility in capital markets, including credit markets and the banking industry, and have increased the cost and significantly reduced the availability of financing, which may continue or worsen in the future. There can be no assurance that financing will be available on acceptable terms or at all.

The rates the District is allowed to charge customers on the Lowry Range are limited by the Lease with the Land Board and our contract with the District and may not be sufficient to cover our costs of construction and operation. The prices charged by the District for water service on the Lowry Range are subject to pricing regulations set forth in the Lease with the Land Board. Both the tap fees and usage rates and charges are capped at the average of the rates of three nearby water providers. Annually the District surveys the tap fees and rates of the three nearby providers and the District may adjust tap fees and rates and charges based on the average of those charged by this

group, and we receive 95% of whatever the District charges its customers. Our costs associated with the construction of water delivery systems and the production, treatment and delivery of water are subject to market conditions and other factors, which may increase at a significantly greater rate than the fees we receive from the District. Factors beyond our control and which cannot be predicted, such as government regulations, insurance and labor markets, drought, water contamination and severe weather conditions, like tornadoes and floods, may result in additional labor and material costs that may not be recoverable under the current rate structure. Either increased customer demand or increased water conservation may also impact the overall cost of our operations. If the costs for construction and operation of our wholesale water services, including the cost of extracting our groundwater, exceed our revenues, we would be providing service to the District for use at the Lowry Range at a loss. The District may petition the Land Board for rate increases; however, there can be no assurance that the Land Board would approve a rate increase request. Further, even if a rate increase were approved, it might not be granted in a timely manner or in an amount sufficient to cover the expenses for which the rate increase was sought.

Our construction of water and wastewater projects may expose us to certain completion, performance and financial risks. We intend to rely on independent contractors to construct our water and wastewater facilities. These construction activities may involve risks, including shortages of materials and labor, work stoppages, labor relations disputes, weather interference, engineering, environmental, permitting or geological problems and unanticipated cost increases. These issues could give rise to delays, cost overruns or performance deficiencies, or otherwise adversely affect the construction or operation of our water and wastewater delivery systems. In addition, we may experience quality problems in the construction of our systems and facilities, including equipment failures. We cannot assure you that we will not face claims from customers or others regarding product quality and installation of equipment placed in service by contractors.

Certain of our contracts may be fixed-price contracts, in which we may bear all or a significant portion of the risk for cost overruns. Under these fixed-price contracts, contract prices are established in part based on fixed, firm subcontractor quotes on contracts and on cost and scheduling estimates. These estimates may be based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials, and other issues. If these subcontractor quotations or cost estimates prove inaccurate, or if circumstances change, cost overruns may occur, and our financial results would be negatively impacted. In many cases, the incurrence of these additional costs would not be within our control.

We may have contracts in which we guarantee project completion by a scheduled date. At times, we may guarantee that the project, when completed, will achieve certain performance standards. If we fail to complete the project as scheduled, or if we fail to meet guaranteed performance standards, we may be held responsible for cost impacts and/or penalties to the customer resulting from any delay or for the costs to alter the project to achieve the performance standards. To the extent that these events occur and are not due to circumstances for which the customer accepts responsibility or cannot be mitigated by performance bonds or the provisions of our agreements with contractors, the total costs of the project would exceed our original estimates and our financial results would be negatively impacted.

Our customers may require us to secure performance and completion bonds for certain contracts and projects. The market environment for surety companies has become more risk averse. We secure performance and completion bonds for our contracts from these surety companies. To the extent we are unable to obtain bonds, we may not be awarded new contracts. We cannot assure you that we can secure performance and completion bonds when required.

Design, construction or system failures could result in injury to third parties or damage to property. Any losses that exceed claims against our contractors, the performance bonds and our insurance limits at such facilities could result in claims against us. In addition, if there is a customer dispute regarding performance of our services, the customer may decide to delay or withhold payment to us.

We have a limited number of employees and may not be able to manage the increasing demands of our expanding operations. We have a limited number of employees to administer our existing assets, interface with applicable governmental bodies, market our services and plan for the construction and development of our future assets. We may not be able to maximize the value of our water assets because of our limited manpower. We depend significantly on the services of Mark W. Harding, our President and Chief Financial Officer. The loss of Mr. Harding would cause a significant interruption of our operations. The success of our future business development and ability to capitalize on growth opportunities depends on our ability to attract and retain additional experienced

and qualified persons to operate and manage our business. State regulations set the training, experience and qualification standards required for our employees to operate specific water and wastewater facilities. Failure to find state-certified and qualified employees to support the operation of our facilities could put us at risk for, among other things, regulatory penalties (including fines and suspension of operations), operational errors at the facilities, improper billing and collection processes, and loss of contracts and revenues. We cannot assure you that we can successfully manage our assets and our growth.

We may be adversely affected by any future decision by the Colorado Public Utilities Commission to regulate us as a public utility. The Colorado Public Utilities Commission ("CPUC") regulates investor-owned water companies operating for the purpose of supplying water to the public. The CPUC regulates many aspects of public utilities' operations, including establishing water rates and fees, initiating inspections, enforcement and compliance activities and assisting consumers with complaints. We do not believe we are a public utility under Colorado law. We currently provide services by contract mainly to the District, which supplies the public. Quasi-municipal metropolitan districts, such as the District, are exempt by statute from regulation by the CPUC. However, the CPUC could attempt to regulate us as a public utility. If this were to occur, we might incur significant expense challenging the CPUC's assertion of jurisdiction, and we may be unsuccessful. In the future, existing regulations may be revised or reinterpreted, and new laws and regulations may be adopted or become applicable to us or our facilities. If we become regulated as a public utility, our ability to generate profits could be limited and we might incur significant costs associated with regulatory compliance.

Conflicts of interest may arise relating to the operation of the District. Our officers and employees constitute a majority of the directors of the District. Pure Cycle, along with our officers and employees and one unrelated individual, own the 40 acres that constitute the District. We have made loans to the District to fund its operations. At August 31, 2013, total principal and interest owed to us by the District was $556,000. Pursuant to our Service Agreement with the District for the provision of water services, the District retains 5% of the revenues from the sale of water to its end-use customers on the Lowry Range. Proceeds from the fee collections will initially be used to repay the District's obligations to us, but after these loans are repaid, the District is not required to use the funds to benefit Pure Cycle. We have received benefits from our activities undertaken in conjunction with the District, but conflicts may arise between our interests and those of the District, and with our officers who are acting in dual capacities in negotiating contracts to which both we and the District are parties. We expect that the District will expand when more properties are developed and become part of the District, and our officers acting as directors of the District will have fiduciary obligations to those other constituents. There can be no assurance that all conflicts will be resolved in the best interests of Pure Cycle and its shareholders. In addition, other landowners coming into the District will be eligible to vote and to serve as directors of the District. There can be no assurances that our officers and employees will remain as directors of the District or that the actions of a subsequently elected board would not have an adverse impact on our operations.

Water quality standards are subject to regulatory change. We must provide water that meets all federal and state regulatory water quality standards and operate our water and wastewater facilities in accordance with these standards. Future changes in regulations governing the supply of drinking water and treatment of wastewater may have a material adverse impact on our financial results. With respect to service of customers on the Lowry Range, the District's rates might not be sufficient to cover the cost of compliance with additional or more stringent requirements. If the cost of compliance were to increase, we anticipate that the rates of the nearby water providers that the District uses to establish its rates and charges would increase to reflect these cost increases, thereby allowing the District to increase its rates and charges. However, there can be no assurance that these water providers would raise their rates in an amount that would be sufficient to enable the District (and us) to cover any increased compliance costs.

In October 2009, the Water Quality Control Division of the Colorado Department of Public Health and Environment advised us of proposed changes to the discharge permit for the District's Coal Creek wastewater reclamation facility. The revised permit requires compliance with effluent ammonia limitations, use of E. coli rather than fecal coliform as an indicator of effluent disinfection efficacy, and a more stringent (lower) effluent chlorine residual limitation. The revised permit requires us to comply with the new criteria by October 2015. Although we anticipate being able to comply with the revised permit, there can be no assurances that we will be able to comply with future requirements or that the cost of such compliance will be covered by the rate structure required by the Rangeview Water Agreements.

Contamination to our water supply may result in disruption in our services and litigation, which could adversely affect our business, operating results and financial condition. Our water supplies are subject to contamination, including contamination from naturally occurring compounds, pollution from man-made sources and intentional sabotage. Our land at Sky Ranch and a portion of the Lowry Range have been leased for oil and gas exploration and development. Such exploration and development could expose us to additional contamination risks. In addition, we handle certain hazardous materials at our water treatment facilities, primarily sodium hypochlorite. Any failure of our operation of the facilities or any contamination of our supplies, including sewage spills, noncompliance with water quality standards, hazardous materials leaks and spills, and similar events could expose us to environmental liabilities, claims and litigation costs. If any of these events occur, we may have to interrupt the use of that water supply until we are able to substitute the supply from another source or treat the contaminated supply. We cannot assure you that we will successfully manage these issues, and failure to do so could have a material adverse effect on our future results of operations.

We may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and could adversely affect our business, operating results and financial condition and may not be recoverable in rates.

We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs could assert personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Although we have not been a party to any environmental or pollution-related lawsuits, such lawsuits have increased in frequency in recent years. If we are subject to an environmental or pollution-related lawsuit, we might incur significant legal costs, and it is uncertain whether we would be able to recover the legal costs from ratepayers or other third parties. Our insurance policies may not cover or provide sufficient coverage for the costs of these claims.

Our business is subject to seasonal fluctuations and weather conditions which could affect demand for our water service and our revenues. We depend on an adequate water supply to meet the present and future demands of our local governmental customers and their end-use customers and to continue our expansion efforts. Conditions beyond our control may interfere with our water supply sources. Drought and overuse may limit the availability of water. These factors might adversely affect our ability to supply water in sufficient quantities to our customers and our revenues and earnings may be adversely affected. Additionally, cool and wet weather, as well as drought restrictions and our customers' conservation efforts, may reduce consumption demands, also adversely affecting our revenue and earnings. Furthermore, freezing weather may contribute to water transmission interruptions caused by pipe and main breakage. If we experience an interruption in our water supply, it could have a material adverse effect on our financial condition and results of operations. Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with cooling systems, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than expected or there is more rainfall than expected, the demand for our water may decrease and adversely affect our revenues.

Sales to the fracking industry could be curtailed or eliminated in the future. Our water sales are highly concentrated with one company providing frack services to the oil and gas industry on and around the Lowry range and our Sky Ranch property. Regulations, fracking technologies, and the success of the wells are conditions that could limit or eliminate our sales to this customer base as well as renewals of our oil and gas leases, if any, in the future. We have no contractual commitment that will ensure these sales will continue in the future.

A failure of the water wells or distribution networks that we own or control could result in losses and damages that may affect our financial condition and reputation. We distribute water through a network of pipelines and store water in storage tanks. A failure of these pipelines or tanks could result in injuries and damage to property for which we may be responsible, in whole or in part. The failure of these pipelines or tanks may also result in the need to shut down some facilities or parts of our water distribution network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water delivery requirements prescribed by our contracts, which could adversely affect our financial condition, results of

operations, cash flow, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Our stock price has been volatile in the past and may decline in the future. Our common stock has experienced significant price and volume fluctuations in the past and may experience significant fluctuations in the future depending upon a number of factors, some of which are beyond our control. Factors that could affect our stock price and trading volume include, among others, the perceived prospects of our business; differences between anticipated and actual operating results; changes in analysts' recommendations or projections; the commencement and/or results of litigation and other legal proceedings; and future sales of our common stock by significant shareholders, officers and directors. In addition, stock markets in general have experienced extreme price and volume volatility from time to time, which may adversely affect the market price of our common stock for reasons unrelated to our performance.

Item 1B – Unresolved Staff Comments

None.

Item 2 – Properties

Corporate Office – We occupy 1,200 square feet at a cost of $1,530, per month, at the address shown on the cover of this Form 10-K. We lease these premises pursuant to a two year operating lease agreement with a third party.

Water Related Assets – In addition to the water rights and adjudicated reservoir sites which are described in *Item 1 – Our Water Assets*, we also own a 500,000 gallon water tank, a deep water well and pump station, and four miles of water pipeline in Arapahoe County Colorado. Additionally, although owned by the District, we operate and maintain another 500,000 gallon water tank, a deep water well, and pump station, two alluvial wells, the District's wastewater treatment plant, and water distribution and wastewater collection pipelines that serve customers located at the Lowry Range. These assets are used to provide service to our existing customers.

Land – We own 931 acres of land known as Sky Ranch which is described further in *Item 1 – Our Water Assets – Sky Ranch.* In addition, we own approximately 16,700 acres of irrigated farm land in the Arkansas River Valley as described in *Item 1 – Our Water Assets – Arkansas River Water*. A portion of our farm land totaling 1,603 acres of land is currently held for sale.

Other Equipment – We also own various water delivery fixtures located on our farm properties. These items consist mainly of irrigation pumps, irrigation ditches, and irrigation pipelines.

Item 3 – Legal Proceedings

As discussed in a Form 8-K filed on December 19, 2011, on that date we and the District filed a lawsuit against the State of Colorado by and through the Land Board. The complaint was filed with the District Court, City and County of Denver, State of Colorado. We and the District are claiming that the Land Board breached, and will breach, agreements entered into by the Land Board with us and the District in connection with a 1996 settlement agreement. Those agreements include (i) the Amended and Restated Water Lease, dated as of April 4, 1996, between the Land Board and the District (the "Lease") and (ii) the Service Agreement of the same date between us and the District. The Land Board asserted certain counterclaims in the lawsuit that relate to operational disputes under the Lease. On June 14, 2013, we, the District and the Land Board entered into an Arbitration Agreement pursuant to which the parties have agreed to submit three counterclaims under the Lease to binding arbitration: (i) whether revenues from wastewater services are subject to royalties under the Lease and the appropriate payment for a right-of-way for a wastewater reclamation facility, (ii) whether Export Water royalties are owed on a net or gross proceeds basis, and (iii) if, and/or how water from the four aquifers under the Lowry Range should be blended for sale, as well as any related claims of us and the District for offset, credit or overpayment of previous royalties paid and defenses to the three claims. The counterclaims have been dismissed from the lawsuit without prejudice. An arbitrator has not yet been selected, so the timing of resolution of these claims is unknown. We and the District believe that we have been conducting our operations in accordance with the Lease and are prepared to defend our decisions in the arbitration.

As disclosed in two Form 8-K's, one filed on February 16, 2012 and one filed on February 29, 2012, HP A&M initiated a lawsuit against us in District Court, City and County of Denver, State of Colorado on February 27, 2012 alleging breaches of representations made in connection with the Arkansas River Agreement. HP A&M claims relate to the issues currently being litigated between us and the Land Board regarding our exclusive right to provide water service to the Land Board's Lowry Range property. Because the claims alleged by HP A&M relate to the issues being litigated in our lawsuit against the Land Board, the HP A&M suit has been stayed pending resolution of the Land Board suit. We believe the allegations are without merit and intend to defend the lawsuit vigorously.

During the fiscal year ended August 31, 2013, foreclosure proceedings were commenced against 38 of the properties we acquired from HP A&M which are subject to promissory notes defaulted upon by HP A&M and secured by deeds of trust on our land and water rights. As of August 31, 2013, 34 of our properties acquired from HP A&M remain subject to foreclosure proceedings. These properties represent over 40% of our FLCC shares and over 45% of our farm land. The proceedings were filed on various dates from January 9, 2013 through July 3, 2013, with the Public Trustees of Bent, Otero and Prowers Counties in Colorado and involve claims against HP A&M for its failure to pay the notes. Foreclosure proceedings in Colorado take at least nine months to conclude. Foreclosure sales were conducted on three of our properties on August 28, 2013, and on a fourth property on September 4, 2013. PCY Holdings, LLC ("PCY Holdings"), our wholly owned subsidiary, was the successful bidder in the foreclosure sales. Due to statutory protections afforded us as the owner of the properties and our liquidity, we had anticipated concluding these foreclosure proceedings on terms which would not have a material adverse effect on our financial position, results of operations or cash flows. However, on September 16, 2013, HP A&M filed a complaint against PCY Holdings and the Public Trustee for the County of Bent, Colorado. The lawsuit was filed in the District Court, County of Bent, Colorado. HP A&M is seeking (i) a declaratory judgment that it is entitled to redeem the four properties from the foreclosure sales by paying the amount of the outstanding debt, plus fees, which is the amount we bid in the sales, and (ii) preliminary and permanent injunctions against the Public Trustee preventing the Public Trustee from issuing confirmation deeds for the foreclosure sales to PCY Holdings or anyone other than HP A&M. On November 20, 2013, the complaint was dismissed with prejudice, and judgment was entered in favor of the Public Trustee and PCY Holdings. The District Court ruled that "High Plains' Complaint and Motion are baseless, without statutory authority, and are an attempt to obstruct the proper function of the office of the Public Trustee of Bent County, and PCY Holdings relative to the foreclosures of the four Subject Farms". Further the District Court ruled "that High Plains' Motion and its claims in its Verified Complaint are frivolous and groundless, and awards the Public Trustee of Bent County and PCY Holdings their attorneys' fees and costs incurred in connection with this matter."

HP A&M has 49 days from the date of the judgment in which to file an appeal. If HP A&M appeals this judgment and wins on appeal, we could lose these four properties, subject to our remedies under the Arkansas River Agreement. We intend to vigorously defend any appeal of this ruling. The Arkansas River agreement requires HP A&M to acquire any properties subject to foreclosure on our behalf. Therefore, our remedies against HP A&M for the note defaults include the right to damages for any loss of these four properties.

Item 4 – Mine Safety Disclosures

None.

PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol "PCYO". The high and low sales prices of our common stock, by quarter, for the fiscal years ended August 31, 2013 and 2012 are presented below:

Fiscal 2013 quarters ended:	August 31	May 31	February 28	November 30
Market price of common stock				
High	$ 6.72	$ 7.32	$ 4.10	$ 2.78
Low	$ 5.00	$ 3.87	$ 2.31	$ 1.87

Fiscal 2012 quarters ended:	August 31	May 31	February 28	November 30
Market price of common stock				
High	$ 2.51	$ 2.90	$ 3.25	$ 3.00
Low	$ 1.90	$ 2.03	$ 1.65	$ 1.70

(b) Holders

On November 20, 2013, there were 1,097 holders of record of our common stock.

(c) Dividends

We have never paid any dividends on our common stock and expect for the foreseeable future to retain all of our earnings from operations, if any, for use in expanding and developing our business. Any future decision as to the payment of dividends will be at the discretion of our board of directors and will depend upon our earnings, financial position, capital requirements, plans for expansion and such other factors as our board of directors deems relevant. The terms of our Series B Preferred Stock prohibit payment of dividends on common stock unless all dividends accrued on the Series B Preferred Stock have been paid and require dividends to be paid on the Series B Preferred Stock if proceeds from the sale of Export Water Rights exceed $36,026,232. For further discussion see Note 8 – *Shareholder's Equity* to the accompanying financial statements.

(d) Securities Authorized For Issuance Under Equity Compensation Plans

Table D - Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans:			
Approved by security holders	347,500	$ 5.63	1,218,311
Not approved by security holders	–	–	–
Total	347,500	$ 5.63	1,218,311

(e) Performance Graph [1]

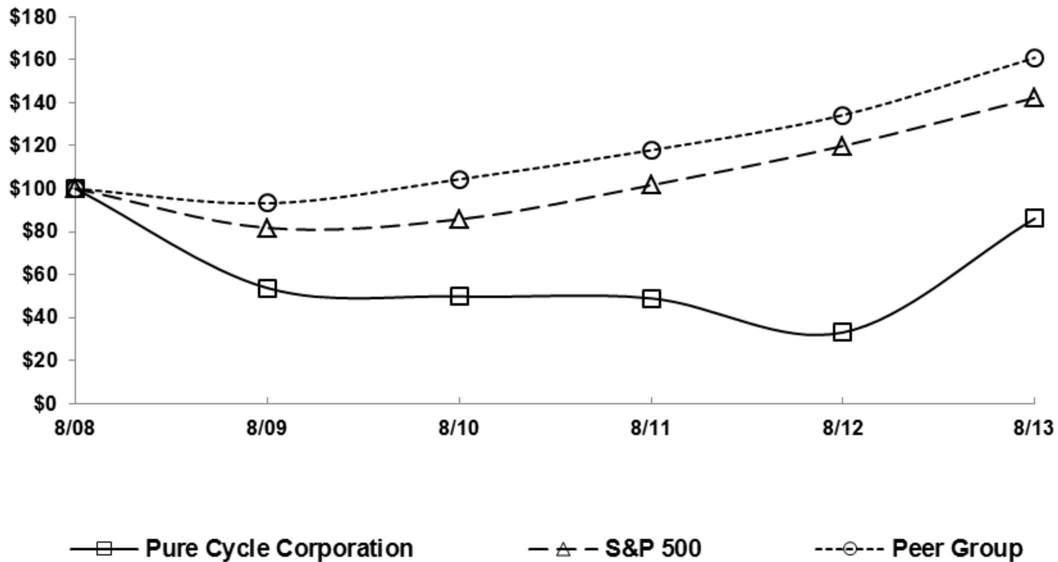
This graph compares the cumulative total return of our common stock for the last five fiscal years with the cumulative total return for the same period of the S&P 500 Index and a peer group index[2]. The graph assumes the investment of $100 in common stock in each of the indices as of the market close on August 31 and reinvestment of all dividends.

Cumulative Returns For the fiscal years ended August 31,

	2013	2012	2011	2010	2009
Pure Cycle Corporation	$ 86.09	$ 33.11	$ 49.01	$ 49.83	$ 53.81
S&P 500	$ 142.35	$ 119.92	$ 101.63	$ 85.76	$ 81.75
Peer Group	$ 160.97	$ 134.27	$ 117.94	$ 104.42	$ 93.18

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Pure Cycle Corporation, the S&P 500 Index, and a Peer Group



*$100 invested on 8/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending August 31.

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1. This performance graph is not "soliciting material," is not deemed "filed" with the Commission and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

2. The Peer Group consists of the following companies that have been selected on the basis of industry focus or industry leadership: American States Water Company, Aqua America, Inc., Artesian Resources Corp., California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Company, Pennichuck Corp., SJW Corp., and The York Water Company.

(f) Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities

None.

(g) Purchase of Equity Securities By the Issuer and Affiliated Purchasers

None.

Item 6 – Selected Financial Data

Table E - Selected Financial Data

In thousands (except per share data)	For the Fiscal Years Ended August 31,				
	2013	2012	2011	2010	2009
Summary Statement of Operations items:					
Total revenues	$ 1,857.5	$ 284.4	$ 282.1	$ 264.1	$ 260.2
Net loss	$ (4,150.4)	$ (17,418.7)	$ (6,016.2)	$ (5,391.3)	$ (5,728.1)
Basic and diluted loss per share	$ (0.17)	$ (0.72)	$ (0.26)	$ (0.27)	$ (0.28)
Weighted average shares outstanding	24,038	24,038	23,169	20,207	20,207

	As of August 31,				
Summary Balance Sheet Information:	2013	2012	2011	2010	2009
Current assets	$ 9,900.0	$ 7,661.8	$ 5,065.6	$ 1,819.6	$ 3,990.4
Total assets	$ 108,618.3	$ 111,582.0	$ 116,122.7	$ 106,377.8	$ 108,091.1
Current liabilities	$ 5,402.3	$ 6,254.8	$ 658.3	$ 171.3	$ 138.1
Long term liabilities	$ 65,443.5	$ 75,209.5	$ 68,174.0	$ 63,746.5	$ 60,183.8
Total liabilities	$ 70,845.8	$ 81,464.3	$ 68,832.3	$ 63,917.8	$ 60,321.9
Equity	$ 37,772.5	$ 30,117.8	$ 47,290.3	$ 42,460.0	$ 47,769.2

The following items had a significant impact on our operations:

- In fiscal 2013 in order to protect our farm assets we acquired approximately $7 million of the $9.6 million in HP A&M notes.
- In fiscal 2013 we sold 1,500,000 unregistered shares of Pure Cycle common stock owned by HP A&M for $2.35 per share, yielding approximately $3.5 million.
- In fiscal 2012 the Paradise Water Supply asset was deemed fully impaired and the entire asset value of $5.5 million was written off and recorded in the accompanying financial statements. Additionally, we recorded an impairment of $6.5 million on land and water rights held for sale. See further discussion in Note 4 – *Water Assets* in the accompanying financial statements.
- In fiscal 2013, 2012, 2011, 2010 and 2009, respectively, we imputed $3.3 million, $3.5 million, $3.8 million, $3.6 million and $3.7 million of interest related to the Tap Participation Fee payable to HP A&M. As described below, this represents the difference between the net present value and the estimated realizable value of the Tap Participation Fee, which is being charged to expense using the effective interest method over the estimated development period utilized in the valuation of the Tap Participation Fee. The Tap Participation Fee is payable when we sell water taps and receive funds from such water tap sales or other dispositions of property purchased from HP A&M.
- In fiscal 2011, we acquired 931 acres of land known as Sky Ranch for $7.0 million.
- In fiscal 2010, we sold a total of 3.8 million shares of common stock for a total of $10.7 million, which was used to acquire the Sky Ranch property and is being used for working capital.
- In fiscal 2009, we recognized gains on the sale of non-irrigated land totaling $59,700.

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors, as described in "Risk Factors" and elsewhere in this Annual Report on Form 10-K, that could cause our actual growth, results of operations, performance, financial position and business prospects and opportunities for this fiscal year and the periods that follow to differ materially from those expressed in, or implied by, those forward-looking statements. Readers are cautioned that forward-looking statements contained in this Form 10-K should be read in conjunction with our disclosure under the heading: "SAFE HARBOR STATEMENT UNDER THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" on page 4.

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and our financial condition and should be read in conjunction with the accompanying financial statements and the notes thereto included in *Part II, Item 8* of this Annual Report on Form 10-K. The following sections focus on the key indicators reviewed by management in evaluating our financial condition and operating performance, including the following:

- Revenue generated from providing water and wastewater services and our farming operations;
- Expenses associated with developing our water and land assets; and
- Cash available to continue development of our water rights and service agreements.

Our MD&A section includes the following items:

Our Business **–** a general description of our business, our services and our business strategy.

Critical Accounting Policies and Estimates **–** a discussion of our critical accounting policies that require critical judgments, assumptions and estimates.

Results of Operations – an analysis of our results of operations for the three fiscal years presented in our financial statements. We present our discussion in the MD&A in conjunction with the accompanying Financial Statements.

Liquidity, Capital Resources and Financial Position **–** an analysis of our cash position and cash flows, as well as a discussion of our financing arrangements.

Our Business

Pure Cycle Corporation ("we", "us" or "our") is an investor-owned Colorado corporation that (i) provides wholesale water and wastewater services to end-use customers of governmental entities and to commercial and industrial customers and (ii) manages land and water assets for farming.

Wholesale Water and Wastewater - These services include water production, storage, treatment, bulk transmission to retail distribution systems, wastewater collection and treatment, irrigation water treatment and transmission, construction management, billing and collection and emergency response.

We are a vertically integrated wholesale water and wastewater provider, which means we own or control substantially all assets necessary to provide wholesale water and wastewater services to our customers. This includes owning (i) water rights which we use to provide domestic, irrigation, and industrial water to our wholesale customers (we own surface water, groundwater, reclaimed water rights and storage rights), (ii) infrastructure (such as wells, diversion structures, pipelines, reservoirs and treatment facilities) required to withdraw, treat, store and deliver water, (iii) infrastructure required to collect, treat, store and reuse wastewater, and (iv) infrastructure required to treat and deliver reclaimed water for irrigation use.

We currently provide wholesale water service predominately to two local governmental entity customers. Our largest customer is the Rangeview Metropolitan District (the "District"), a quasi-municipal political subdivision of the State of Colorado, which is described further below. We provide service to the District and its end-use customers pursuant to "The Rangeview Water Agreements" (defined below) between us and the District for the provision of wholesale water service to the District for use in the District's service area. Through our governmental entity wholesale customers, we serve 258 Single Family Equivalent ("SFE") (as defined below) water connections and 157 SFE wastewater connections located in southeastern metropolitan Denver.

We plan to utilize our significant water assets along with our adjudicated reservoir sites to provide wholesale water and wastewater services to local governmental entities which in turn will provide residential/commercial water and wastewater services to communities along the eastern slope of Colorado in the area extending essentially from Fort Collins on the north to Colorado Springs on the south, which is generally referred to as the "Front Range." Principally we target the "I-70 corridor," which is located east of downtown Denver and south of the Denver International Airport. This area is predominately undeveloped and is expected to experience substantial growth over the next 30 years.

Agricultural Operations and Leasing- Beginning August 3, 2012, we assumed management of our farm operations and all associated income and expenses. Beginning September 1, 2012, we began tracking and reporting our farm operations as a separate business segment to reflect management's analysis, investment decision, and operating performance for this business segment. Currently, approximately 90% of our farm operations are managed through cash lease arrangements with local area farmers whereby we charge a fixed fee, billed semi-annually in March and November, to lease our land and the water for agricultural purposes to tenant farmers. We have a small number of crop share leases, pursuant to which we and the tenant farmer jointly share in the gross revenues generated from the crops grown under a 75% farmer, 25% landlord participation. The majority of crops grown on our farms are alfalfa, with a number of acres also planted in corn, sorghum, and wheat. We will continue to review and evaluate ways to enhance the performance of our approximately 16,700 acres of farm land through relationships with area farmers.

We also own 931 acres of land along the I-70 corridor east of Denver, Colorado. We are currently leasing this land to an area farmer until such time as the property can be developed.

These land interests are described in the *Arkansas River Water and Land* and *Sky Ranch* sections of Note 4 - *Water Assets* to the 2013 Annual Report.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with the timing of revenue recognition, the impairment of water assets and other long-lived assets, valuation of the Tap Participation Fee, fair value estimates and share-based compensation. Below is a summary of these critical accounting policies.

Revenue Recognition

Our revenues consist mainly of tap fees, construction fees, monthly service fees, and beginning in fiscal 2013, farm operations. As further described in Note 2 – *Summary of Significant Accounting Policies* to the accompanying financial statements, proceeds from tap sales and construction fees are deferred upon receipt and recognized in income based on whether we own or do not own the facilities constructed with the proceeds. We recognize tap fees derived from agreements for which we construct infrastructure owned by others as revenue, along with the associated costs of construction, pursuant to the percentage-of-completion method. The percentage-of-completion method requires management to estimate the percent of work that is completed on a particular project, which could change materially throughout the duration of the construction period and result in significant fluctuations in revenue

recognized during the reporting periods throughout the construction process. We did not recognize any revenues pursuant to the percentage-of-completion method during the fiscal years ended August 31, 2013, 2012 or 2011.

Tap and construction fees derived from agreements for which we own the infrastructure are recognized as revenue ratably over the estimated service life of the assets constructed with said fees. Although the cash will be received up-front and most construction will be completed within one year of receipt of the proceeds, revenue recognition may occur over 30 years or more. Management is required to estimate the service life, and currently the service life is based on the estimated useful accounting life of the assets constructed with the tap fees. The useful accounting life of the asset is based on management's estimation of an accounting based useful life and may not have any correlation to the actual life of the asset or the actual service life of the tap. This is deemed a reasonable recognition life of the revenues because the depreciation of the assets constructed generating those revenues will therefore be matched with the revenues.

Monthly water usage fees and monthly wastewater service fees are recognized in income each month as earned.

Pursuant to the O&G Lease, we received up-front payments which are recognized as other income on a straight-line basis over three years (the initial term of the O&G Lease).

Historically, we have leased our Arkansas River land and water to tenant farmers under a cash lease model. Pursuant to the Property Management Agreement, HP A&M was to receive the income from the farm leases until 2014. As a result of HP A&M's default of certain obligations, we terminated the Property Management Agreement. Effective as of August 3, 2012 we are managing the farm operations and we are entitled to receive all income from such operations. Currently we lease our farms to local area farmers on both cash and crop share lease basis. Our cash lease farmers are charged a fixed fee, billed semi-annually in March and November. During the November billing cycle our cash lease billings include either a discount or a premium adjustment based on actual water deliveries by the FLCC. Our crop share lease fees are based on actual crop yields and are received upon the sale of the crops. All fees are estimated and recognized ratably on a monthly basis.

Impairment of Water Assets and Other Long-Lived Assets

We review our long-lived assets for impairment whenever management believes events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by a comparison of the carrying amount of an asset to estimated future undiscounted net cash flows we expect to be generated by the eventual use of the asset. If such assets are considered to be impaired and therefore the costs of the assets deemed to be unrecoverable, the impairment to be recognized would be the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Our water assets will be utilized in the provision of water services which inevitably will encompass many housing and economic cycles. Our service capacities are quantitatively estimated based on an average single family home utilizing .4 acre feet of water per year. Our water supplies are legally decreed to us through the water court. The water court decree allocates a specific amount of water (subject to continued beneficial use) which historically has not changed. Thus, individual housing and economic cycles typically do not have an impact on the number of connections we can serve with our supplies or the amount of water legally decreed to us relating to these supplies.

We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell.

Our Front Range and Arkansas River Water Rights – We determine the undiscounted cash flows for our Denver based assets and the Arkansas River assets by estimating tap sales to potential new developments in our service area and along the Front Range, using estimated future tap fees less estimated costs to provide water services, over an estimated development period. Actual new home development in our service area and the Front Range, actual future tap fees, and actual future operating costs, inevitably will vary significantly from our estimates, which could have a material impact on our financial statements as well as our results of operations. We performed an impairment analysis as of August 31, 2011, which we reviewed as of August 31, 2013, and determined there were no material changes and that our Denver based assets and our Arkansas River assets are not impaired and their costs are deemed recoverable. Our impairment analysis is based on development occurring within areas in which we have service agreements (e.g. Sky Ranch and the Lowry Range) as well as in surrounding areas, including the Front Range and the I-70 corridor. We estimate that we have the ability to provide water service to 180,000 SFE's using our

combined Rangeview Water Supply, Sky Ranch water and Arkansas River water assets which have a carrying value of $88.5 million as of August 31, 2013. Based on the carrying value of our water rights, the long term and uncertain nature of any development plans, current tap fees of $22,500 and estimated gross margins, we estimate that we would need to add 8,300 new water connections (requiring 5.7% of our portfolio) to generate net revenues sufficient to recover the costs of our Rangeview Water Supply and Arkansas River water assets. If tap fees increase 5%, we would need to add 7,900 new water taps (requiring 5.4% of our portfolio) to recover the costs of our Rangeview Water Supply and Arkansas River water assets. If tap fees decrease 5%, we would need to add 8,700 new water taps (requiring 5.9% of our portfolio) to recover the costs of our Rangeview Water Supply and Arkansas River water assets.

Although changes in the housing market throughout the Front Range have delayed our estimated tap sale projections, these changes do not alter our water ownership, nor our service obligations to existing properties or the number of SFE's we can service.

We have contracts to sell farms totaling 1,603 acres along with 3,397 FLCC shares associated with the land.

Our Paradise Water Supply – Every six years the Paradise Water Supply is subject to a finding of reasonable diligence review by the water court and the State Engineer. For a favorable finding we must demonstrate that we are diligently pursuing the development of the water rights. If we do not receive a favorable finding of reasonable diligence, our right to the Paradise Water Supply would be lost and we would be required to impair the Paradise Water Supply asset. The most recent diligence review was started in our fiscal 2005 and was completed in 2008, but not without objectors and not without us having to agree to certain stipulations to remove the objections. In order to continue to maintain the Paradise water right, by 2014 we must (i) select an alternative reservoir site; (ii) file an application in water court to change the place of storage; (iii) identify specific end users and place(s) of use of the water; and (iv) identify specific source(s) of the water rights for use. We do not intend to spend the resources needed to find an alternative reservoir site without a specific use for the water. We have been unable to find potential customers for this water and cannot be certain a customer will commit to use the water within the next two years. Since we do not have a customer that will commit to use the water and we will not commit the resources necessary to move the reservoir site without a customer, we expect to lose the conditional water rights. Accordingly, we have deemed the Paradise Water Supply to be fully impaired and an impairment of $5.5 million was recorded in the accompanying fiscal 2012 financial statements. We are currently working on options to dispose of our Paradise Water Supply asset.

Tap Participation Fee

The $59.8 million Tap Participation Fee liability at August 31, 2013, represents the estimated discounted fair value of the Company's obligation to pay HP A&M 20% of the Company's gross proceeds, or the equivalent thereof, from the future sale of 17,194 water taps by the Company.

As partial consideration for the purchase of our farms and related water, we agreed to pay HP A&M 10% of the tap fees we receive from the next 40,000 water taps we sell from and after the date of the Arkansas River Agreement. The TPF is payable only when we sell water taps and receive funds from such water tap sales from any of our properties as well as any sale of water rights we had purchased from HP A&M. Payment of the TPF may be accelerated in the event of a merger, reorganization, sale of substantially all assets, or similar transactions and in the event of bankruptcy and insolvency events. The TPF liability is valued by estimating new home development in our service area over an estimated development period. This was done by utilizing third party historical and projected housing and population growth data for the Denver metropolitan area applied to an estimated development pattern supported by historical development patterns of certain master planned communities in the Denver metropolitan area. This development pattern was then applied to projected future water tap fees determined by using historical water tap fee trends. Actual new home development in our service area and actual future tap fees inevitably will vary significantly from our estimates, which could have a material impact on our financial statements as well as our results of operations. The difference between the net present value and the estimated realizable value will be imputed as interest expense using the effective interest method over the estimated development period utilized in the valuation of the TPF. See further discussion in the "Obligations Payable by HP A&M, Now in Default" section below.

An important component in our estimate of the value of the TPF is that water tap fees will continue to increase in the coming years. Tap fees are market based and increases in tap fees reflect, among other things, the increasing costs to acquire and develop new water supplies. Tap fees thus are partially indicative of the increasing value of our water assets. We continue to assess the value of the TPF liability and update our valuation analysis whenever events or circumstances indicate the assumptions used to estimate the value of the liability have changed materially. We updated the estimated discounted cash flow analysis as of August 31, 2013, as described in more detail below.

Pursuant to the Arkansas River Agreement, effective as of September 1, 2011, HP A&M elected to increase the TPF percentage from 10% to 20% and take a corresponding 50% reduction in the number of taps subject to the TPF. In addition, the initial term of the Property Management Agreement with HP A&M expired on August 31, 2011. During the extended term of the Property Management Agreement, we were permitted to allocate 26.9% of the Net Revenues (defined as all lease and related income received from the farms less employee expenses, direct expenses for managing the leases and a reasonable overhead allocation) paid to HP A&M against the TPF. As a result of HP A&M's default, on August 3, 2012 we terminated the Property Management Agreement and stopped allocating 26.9% of the Net Revenues to the TPF.

During the 2012 fiscal year, we allocated $189,700 to the TPF liability and to additional paid in capital (due to HP A&M being deemed a related party as of fiscal 2012 year-end). This is the equivalent of 41 water taps.

During the 2013 fiscal year we foreclosed on three farms and one FLCC certificate representing water rights only. Additionally we cured one farm in foreclosure. As a result of these foreclosures, in accordance with our remedies pursuant to our agreement with HP A&M, we exercised our right to reduce the TPF. We reduced the number of taps subject to the TPF by 2,233 taps, and the discounted present value of the TPF by a total of approximately $11.7 million.

As a result of the events described above, we revalued the TPF liability as of August 31, 2013. The updated valuation and the events described above resulted in the following:

- Our obligation to pay HP A&M 20% of the gross proceeds, or the equivalent thereof, from the sale of the next 19,468 water taps as of September 1, 2011, became an obligation to pay 20% of the gross proceeds, or the equivalent thereof, from the sale of the next 17,194 water taps.

- The total undiscounted estimated payments to HP A&M for the TPF decreased $17.9 million from the previous valuation completed in fiscal 2012. The total estimated payments were then discounted to the current valuation date and the difference between the amount reflected on the Company's balance sheet and the total estimated payments is imputed as interest expense over the estimated development life using the effective interest method. The imputed effective interest rate remained 5.3% and the amount of interest imputed was $3.3 million for fiscal 2013.

As of August 31, 2013 there were 17,194 taps subject to the TPF and we revalued the TPF liability resulting in a remaining discounted present value liability of $59.8 million. $26.1 million of interest has been imputed since the acquisition date recorded using the effective interest method. Subsequent to our fiscal year end an additional three farms and 1,832 FLCC shares have been obtained through the foreclosure proceedings resulting in a further reduction of the number of taps subject to the TPF by 3,364 taps and a corresponding reduction to the TPF payable of $11.9 million, leaving 13,830 taps subject to the TPF.

Fair Value Estimates

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. We generally use a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value. *See* Note 3 – *Fair Value Measurements* to the accompanying financial statements. As discussed below, we used other methodologies to determine the fair value of the related party receivable from HP A&M, certain notes payable issued by us in exchange for HP A&M notes, and the receivable for unpaid balances owed to HP A&M for farm lease payments that are now payable to us.

Obligations Payable by HP A&M, Now in Default – Approximately 60 of the 80 properties we acquired from HP A&M were subject to outstanding promissory notes payable to third parties. These promissory notes are secured by deeds of trust on our properties and water rights, as well as mineral interests, up to 25% of which are owned by us and up to 75% of which are currently owned by HP A&M. As of fiscal year end 2012 and since that date, HP A&M has defaulted on all of the notes. At the time of default, HP A&M owed approximately $9.6 million of principal and accrued interest secured by approximately 14,000 acres of farm land and 16,882 FLCC shares representing water rights owned by us.

On July 2, 2012, we formally notified HP A&M that its failure to pay the promissory notes constituted an Event of Default under the Seller Pledge Agreement and a default of a material covenant under the Arkansas River Agreement and that unless such defaults were cured within thirty (30) days, the Property Management Agreement would be terminated and we would proceed to exercise certain rights and remedies under the Arkansas River Agreement, the Seller Pledge Agreement, and the Property Management Agreement to protect our assets. Our remedies at law and under the Arkansas River Agreement and related agreements include, but are not limited to, the right to (i) terminate the Property Management Agreement; (ii) foreclose on the Pledged Shares; (iii) reduce the Tap Participation Fee; and (iv) recover damages caused by the defaults, including certain costs and attorneys' fees. Pursuant to these remedies we have taken the following actions:

(i) On August 3, 2012, we formally terminated the Property Management Agreement. See further discussion in *Farm Accounts Receivable and Future Farm Income* below.

(ii) During September 2012 we sold the Pledged Shares in accordance with the Seller Pledge Agreement yielding approximately $3.4 million to us.

(iii) As described in Note 7 – *Long Term Debt and Operating Lease*, to the accompanying consolidated financial statements, to protect our land and water interests, upon a default by HP A&M, at our sole discretion, we may take any measure we deem appropriate to remedy all of the defaults. If we do not protect our interest relating to the defaults, we may lose the properties and water rights securing the defaulted notes. As of August 31, 2013, we have acquired approximately $7 million of the $9.6 million of promissory notes that are payable by HP A&M to third parties. These promissory notes were acquired with cash payments of approximately $1.5 million and the issuance of notes by us. The majority of the notes we issued have a five-year term, bear interest at an annual rate of 5% and require semi-annual payments with a straight-line amortization schedule. The carrying value of the notes payable approximate the fair value as the rates are comparable to market rates. We did not assume any of these promissory notes and are not legally responsible for making any of the required payments under these notes. This responsibility remains solely with HP A&M.

During the 2013 fiscal year four farms and one FLCC certificate representing water only went through foreclosure proceedings. In accordance with our remedies pursuant to our agreement with HP A&M, we exercised our right to reduce the TPF as a result of these foreclosures. We reduced the number of taps by 2,233 or a total of approximately $10.3 million. Subsequent to our fiscal year end an additional three farms and 1,832 FLCC shares have been through the foreclosure proceedings resulting in a further reduction of 3,364 taps.

(iv) We have the right to collect from HP A&M any amounts we spend to protect our interest against the defaulted notes, including the new notes we issue to the holders in exchange for the HP A&M notes. Among other remedies we have the right to collect from HP A&M all costs and expenses, including reasonable attorneys' fees, we incur to protect our interest against the defaults and in protecting our rights and title to the farm property and water rights securing the notes. The following table details the balance in HP default receivable as of August 31, 2013 and August 31, 2012.

	August 31, 2013	August 31, 2012
HP A&M receivable		
Mortgage default (1)	$ 9,643,550	$ 9,550,222
Attorneys' fees, filing fees, & other costs (2)	426,606	
	10,070,156	9,550,222
Pledged share sale	(3,415,000)	
HP A&M receivable	$ 6,655,156	$ 9,550,222

1) Includes default interest paid at the time we acquired the notes. In addition to the interest included above interest continues to accrue at a default interest rate of 10% per annum. As of August 31, 2013 the balance of default interest not accrued above was approximately $751,300. Payment of the default interest remains the sole responsibility of HP A&M.
2) In addition to the above we have expensed $72,557 in attorney's fees related to the defaults during 2012 that have not been accrued.

Farm Accounts Receivable and Farm Operations – The Property Management Agreement was terminated prior to the end of fiscal 2012 and all future farm income will be paid directly to us instead of HP A&M. Most of the farm leases are "cash only" leases and a few are "crop share" leases. A "crop share" lease entitles us to a share of the sales from the crop sales of the farmer. Most of the farm leases expire on December 31, 2014, while the remaining leases have a variety of expiration dates. The farm "cash only" lease payments are generally billed twice a year in March and November. The unpaid balances from the March billing (performed by HP A&M) were recorded on our books as accounts receivable (less an allowance for uncollectible accounts) of $56,500. We may terminate the leases by written notice on or before July 15th of the year prior to the termination. As of July 15, 2013, none of the leases were terminated. Under the "cash only" lease agreements, the annual lease payment can be reduced if the number of annual runs of irrigation water delivered to the farm as reported by the Fort Lyon Canal Company fall below 20 runs. If the annual runs of irrigation are less than 20, the annual lease rate will be reduced by $2 per acre per run less than the 20 runs with a maximum annual discount of $10 per acre. During calendar year 2013, the lessee farmers only received 11 runs. Accordingly, the maximum discount of $10 per acre will be applied to the second billing in November 2013. This discount which will be deducted with the November 2013 billing is reflected in the schedule below. All future expected cash billings are reflected at their full value. The "crop share" agreements are generally 1 year agreements and the payment cannot be calculated until after the farmers sell their crops. Accordingly any future payments from "crop share" leases are not included in the future farm lease billings schedule below.

The future scheduled billing for the farm income is presented in Table F below:

Table F - Contractual Farm lease income receivable

		Payments due to Pure Cycle by period	
	Total	Less than 1 year	1-3 years
Contractual lease income receivable			
Farm leases receivable	$ 1,350,400	$ 895,800	$ 454,600
Total	$ 1,350,400	$ 895,800	$ 454,600

Expenses associated with the farm operations are expected to include management salaries, maintenance, property taxes and FLCC assessments.

Share-based compensation

We estimate the fair value of share-based payment awards made to key employees and directors on the date of grant using the Black-Scholes option-pricing model. We then expense the fair value over the vesting period of the grant using a straight-line expense model. The fair value of share-based payments requires management to estimate/calculate various inputs such as the volatility of the underlying stock, the expected dividend rate, the estimated forfeiture rate and an estimated life of each option. We do not expect any forfeiture of option grants; therefore the compensation expense has not been reduced for estimated forfeitures. These assumptions are based on historical trends and estimated future actions of option holders and may not be indicative of actual events which may have a material impact on our financial statements. For further details on share based compensation expense, see Note 8 – *Shareholders' Equity* to the accompanying financial statements.

Results of operations

Executive Summary

The results of our operations for the fiscal years ended August 31, 2013, 2012 and 2011 were as follows:

Table G - Summary Results of Operations

	Fiscal Years Ended August 31,			Change 2013-2012		Change 2012-2011	
	2013	2012	2011	$	%	$	%
Millions of gallons of water delivered	69.2	34.2	34.5	35.0	102%	(0.3)	-1%
Water revenues generated	$ 502,700	$ 182,800	$ 157,500	$ 319,900	175%	$ 25,300	16%
Water delivery operating costs incurred (excluding depreciation and depletion)	$ 188,300	$ 78,100	$ 51,900	$ 110,200	141%	$ 26,200	50%
Water delivery gross margin %	63%	57%	67%				
Wastewater treatment revenues	$ 41,700	$ 45,800	$ 68,800	$ (4,100)	-9%	$ (23,000)	-33%
Wastewater treatment operating costs incurred	$ 17,000	$ 19,300	$ 19,200	$ (2,300)	-12%	$ 100	1%
Wastewater treatment gross margin %	59%	58%	72%				
Farm operations	$ 1,241,900	$ -	$ -	$ 1,241,900	100%	$ -	0%
Farm operations operating costs incurred	$ 96,300	$ -	$ -	$ 96,300	100%	$ -	0%
Farm operations gross margin %	92%						
General and administrative expenses	$ 2,333,100	$ 2,374,100	$ 2,212,000	$ (41,000)	-2%	$ 162,100	7%
Net losses	$ 4,150,400	$ 17,418,700	$ 6,016,200	$ (13,268,300)	-76%	$ 11,402,500	190%

Changes in Revenues

We generate water revenues from (i) one time water and wastewater tap fees, (ii) construction fees, (iii) monthly wholesale water usage fees and wastewater service fees and (iv) farm operations.

Fiscal 2013 compared to Fiscal 2012 – Our water deliveries increased 102% in fiscal 2013 compared to fiscal 2012. Revenues increased 175% in fiscal 2013 compared to fiscal 2012. Both deliveries and sales increased primarily as a result of the addition of water sales used for oil and gas activities, which was used to frack wells drilled into the Niabrara formation. Our revenue increased by a greater margin then our deliveries due to our ability to charge a higher meter rate on fracking water then we typically receive from customers that have acquired taps. The following table details the sources of our sales, the number of kgal (1,000 gallons) sold, and the average price per kgal for fiscal 2013 and fiscal 2012.

Water Revenue Summary						
	2013			2012		
Customer Type	Sales	kgal	Average per kgal	Sales	kgal	Average per kgal
On Site	$ 138,300	33,831.2	$ 4.09	$ 142,300	30,759.9	$ 4.63
Export-Commercial	42,000	4,156.8	10.10	23,700	2,587.6	9.16
Fracking	322,400	34,025.1	9.48	10,200	852.8	11.96
Consulting				6,600		
	$ 502,700	72,013.1	$ 6.98	$ 182,800	34,200.3	$ 5.34

Our gross margin on delivering water (not including depletion charges) increased from 57% in fiscal 2012 to 67% in fiscal 2013 due to increased sales and our ability to offset the ECCV system costs with increased water deliveries.

Our wastewater fees decreased 9% in fiscal 2013 compared to fiscal 2012 due to decreased demand from our only customer.

We began our farm operations during fiscal 2013. Prior to fiscal 2012 we did not generate any revenues from our farming operations. The following chart details our farm revenue by lease type, acres, and the average revenue per acre for fiscal 2013.

Farm Summary			
	2013		
Lease Type	Sales	Acres	Average per Acre
Arkansas Cash	$ 1,062,120	10,732	$ 98.97
Arkansas Pasture	5,500	1,084	5.07
Arkansas Watershares	56,000	-	N/A
Arkansas Crop Share	102,400	1,202	85.19
Arkansas Held for Sale	-	1,331	-
Arkansas Not Farmed	-	2,361	-
Sky Ranch	15,880	931	17.06
	$ 1,241,900	17,641	$ 70.40

Fiscal 2012 compared to Fiscal 2011 – Our water deliveries decreased 1% in fiscal 2012 compared to fiscal 2011 due mainly to slightly more precipitation during the irrigation season resulting in less usage for outdoor irrigation. Our gross margin on delivering water (not including depletion charges) decreased from 67% in fiscal 2011 to 57% in fiscal 2012, mainly as a result of the ECCV lease expense of $23,300 in fiscal 2012 and $0 in fiscal 2011, See further discussion below in "ECCV Capacity Operating System" section below.

Our wastewater fees decreased 33% in fiscal 2012 compared to fiscal 2011, because we changed how our customer is charged. Our only wastewater customer was previously charged a flat monthly fee based on the number of tap connections; however, beginning July 1, 2011, we began to charge our wastewater customer based on the amount of wastewater treated due to a reduction in their wastewater flows..

General and Administrative Expenses

Table H details significant items, and changes, included in our General and Administrative Expenses ("G&A Expenses") as well as the impact that share-based compensation has on our G&A Expenses for the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

Table H- G&A Expenses							
				Change			
	Fiscal Years Ended August 31,			2013-2012		2012-2011	
	2013	2012	2011	$	%	$	%
Significant G&A Expense items:							
Salary and salary related expenses	$ 723,500	$ 693,500	$ 807,400	$ 30,000	4%	$ (113,900)	-14%
FLCC water assessment fees	321,200	361,600	472,400	(40,400)	-11%	(110,800)	-23%
Professional fees	370,600	655,800	330,400	(285,200)	-43%	325,400	98%
Fees paid to directors including insurance	120,600	124,700	144,100	(4,100)	-3%	(19,400)	-13%
Costs associated with Sky Ranch	83,600	133,800	136,500	(50,200)	-38%	(2,700)	-2%
Public entity related expenses	90,500	98,100	92,500	(7,600)	-8%	5,600	6%
Consulting fees	47,400	2,600	11,600	44,800	1723%	(9,000)	-78%
Farm property taxes	237,400		-				
All other compenents of G&A combined	338,300	304,000	217,100	34,300	11%	86,900	40%
G&A Expenses as reported	$ 2,333,100	$ 2,374,100	$ 2,212,000	$ (41,000)	-2%	$ 162,100	7%
Share-based compensation	(66,800)	(54,600)	(94,500)	(12,200)	22%	39,900	-42%
G&A Expenses less share-based compensation	$ 2,266,300	$ 2,319,500	$ 2,117,500	$ (53,200)	-2%	$ 202,000	10%
Note - salary and salary related expenses excluding share-based compensation:							
Salary and salary related expenses	$ 656,700	$ 638,900	$ 712,800	$ 17,800	3%	$ (73,900)	-10%

Fiscal 2013 compared to Fiscal 2012 – Salary and related expenses increased by 4% during fiscal 2013 as compared to fiscal 2012 mainly as a result of bonuses paid to management in fiscal 2013 following the successful conversion of our farming operations to our control as well as the addition of capacity to our system. As noted on the bottom line of Table H, salary and related expenses excluding share-based compensation expenses increased 3% during fiscal 2013 compared to fiscal 2012, mainly as a result of the employee bonuses noted above. Share-based compensation expenses increased 22% during fiscal 2013 compared to fiscal 2012 due to the issuance of additional options to our independent directors and to our management.

FLCC water assessment fees are the fees we pay for our share of the maintenance of the Fort Lyon Canal in Southeast Colorado. The fees are approved by the shareholders of the FLCC. The FLCC fees decreased 11% during fiscal 2013 compared to fiscal 2012 as a result of the assessment fees being decreased from $17.00 per share for calendar year 2012 to $15.00 per share for calendar year 2013. As of August 31, 2013, we hold approximately 23% of the voting shares of the FLCC.

Professional fees (mainly legal and accounting fees) decreased 43% during fiscal 2013 compared to fiscal 2012. The decrease was due to a reduction in state litigation legal fees of approximately $188,900, a reduction of legal fees associated with the HP default of $73,600, and a reduction of general legal fees of $27,700. The decrease was partially offset by an increase in accounting fees of $4,900.

Fees paid to our board of directors in fiscal 2013 include $45,800 for premiums related to our directors and officers insurance policy (this amount increased by $800 from fiscal 2012). The remaining fees of $74,800 represent amounts paid to our board members for annual and meeting attendance fees and travel expenses which decreased $4,900 from fiscal 2012, primarily as a result of a reduction in the number of committee meetings.

Costs associated with Sky Ranch decreased 38% during fiscal 2013 as compared to fiscal 2012 due to a decrease in consulting fees associated with the establishment of water districts that occurred in fiscal 2012. The consulting fees were decreased in fiscal 2013 by $23,700. Our property taxes also decreased by $26,500.

Costs associated with being a corporation and costs associated with being a publicly traded entity decreased 8% during fiscal 2013 compared to fiscal 2012 primarily due to a change in our Edgar and XBRL processing providers.

Consulting fees for fiscal 2013 consisted of $27,500 to recruit new staff members, $2,700 for fees associated with the disposal of our Paradise asset, $2,000 related to our involvement in WISE, and $15,200 related to the development of the Sky Ranch water districts. All of these fees are non-recurring.

We incurred $237,400 in property taxes during fiscal 2013 as a result of taking over the management of our farms in August 2012. This obligation was previously the responsibility of HP A&M and as such we did not have this expense in previous years.

All other G&A Expenses are comprised of typical operating expenses and increased 11% during fiscal 2013 compared to fiscal 2012 as a result of additional funding to Rangeview Metropolitan District as well as an increase in our bad debt allowance.

Fiscal 2012 compared to Fiscal 2011 – Salary and related expenses decreased by 14% during fiscal 2012 as compared to fiscal 2011 mainly as a result of bonuses paid to management in fiscal 2011 following the successful completion of the financing and acquisition of the Sky Ranch property which were not paid in 2012. As noted on the bottom line of Table H, salary and related expenses excluding share-based compensation expenses decreased 10% during fiscal 2012 compared to fiscal 2011, mainly as a result of the employee bonuses noted above. Share-based compensation expenses decreased 42% during fiscal 2012 compared to fiscal 2011 due to the forfeiture of 29,500 stock options by two former board members and one former employee.

FLCC water assessment fees are the fees we pay for our share of the maintenance of the Fort Lyon Canal in the Arkansas River Valley. The fees are approved by the shareholders of the FLCC. The FLCC fees decreased 23% during fiscal 2012 compared to fiscal 2011 as a result of the purchase of project water by the FLCC during our fiscal 2011, which did not recur in 2012. As of August 31, 2012, we hold approximately 23% of the voting shares of the FLCC.

Professional fees (mainly legal and accounting fees) increased 98% during fiscal 2012 compared to fiscal 2011 mainly as a result of additional legal fees related to the lawsuit we filed against the State of Colorado by and through the Land Board in December 2011 and the lawsuit filed against us by HP A&M, as well as legal fees associated with the HP A&M default on the promissory notes secured by deeds of trust on our Arkansas River assets.

Fees paid to our board of directors in fiscal 2012 include $45,000 for premiums related to our directors and officers insurance policy (this amount is unchanged from fiscal 2011). The remaining fees of $79,700 represent amounts paid to our board members for annual and meeting attendance fees and travel expenses which decreased 13% from fiscal 2011, mainly as a result of an additional board member in fiscal 2011 as well as additional meetings held to discuss the financing and acquisition of Sky Ranch in fiscal 2011.

Costs associated with Sky Ranch decreased 2% during fiscal 2012 as compared to fiscal 2011 due to a decrease in consulting fees associated with the beginning phases of marketing the property to home builders/developers that occurred in 2011. The consulting fees were decreased in 2012 by $30,000, but were offset by an increase in property taxes of $27,000.

Costs associated with being a corporation and costs associated with being a publicly traded entity increased 6% during fiscal 2012 compared to fiscal 2011 primarily due to increased fees charged by NASDAQ and our transfer agent.

Overall consulting fees decreased due to a decrease in the use of consultants as a result of management’s continued effort to reduce costs.

All other G&A Expenses are comprised of typical operating expenses and increased 40% during fiscal 2012 compared to fiscal 2011 as a result of additional funding to Rangeview Metropolitan District as well as bad debt expense for the newly acquired farm lease receivables.

Other Income and Expense Items

	For the Fiscal Years Ended August 31,						Change					
							2013-2012			2012-2011		
		2013		2012		2011		$	%		$	%
Other expense items:												
Depreciation and depletion expense	$	311,200	$	309,200	$	300,800	$	2,000	1%	$	8,400	3%
Imputed interest expense	$	3,275,400	$	3,470,500	$	3,847,000	$	(195,100)	-6%	$	(376,500)	-10%
Other income items:												
Oil and gas payments recognized	$	416,000	$	423,000	$	199,300	$	(7,000)	-2%	$	223,700	100%
Interest income	$	34,600	$	53,400	$	53,100	$	(18,800)	-35%	$	300	1%

Depreciation and depletion increased 1% during fiscal 2013 compared to fiscal 2012 due to the addition of equipment beginning to depreciate in fiscal 2013. Depreciation and depletion increased 3% during fiscal 2012 compared to fiscal 2011 due mainly to Sky Ranch improvements beginning to depreciate in fiscal 2012.

Imputed interest expense represents the expensed portion of the difference between the relative fair value of the Tap Participation Fee liability payable to HP A&M and the net present value of the liability recognized under the effective interest method. The changes in the imputed interest expense in each of the years presented are a result of the updated valuations performed in first quarter of fiscal 2012, which are explained in greater detail in Note 7- *Long-Term Debt and Operating Lease* to the accompanying financial statements. These imputed interest charges account for 79%, 20% and 64% of our total reported net losses for the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

The $416,000, $423,000, and $199,300 of oil and gas lease payments recognized in fiscal 2013, fiscal 2012, and fiscal 2011 respectively, represent a portion of the up-front payment received on March 10, 2011, upon the signing of the O&G Lease and the Surface Use Agreement with Anadarko. On March 10, 2011 we received an up-front payment of $1,243,400 from Anadarko for the purpose of exploring for, developing, producing and marketing oil and gas on 634 acres of mineral estate we own at our Sky Ranch property. The oil and gas rights under the remaining 304 acres at Sky Ranch were already owned by Anadarko. We deferred immediate recognition of the up-front payment, but began recognizing the up-front payment in income over the initial three year term of the O&G Lease beginning March 10, 2011. We also received $9,300 from Anadarko pursuant to the Surface Use Agreement. As of August 31, 2013, we have deferred recognition of $235,500 of income related to the O&G Lease.

Interest income represents interest earned on the temporary investment of capital in cash equivalents or available-for-sale securities, interest accrued on the note payable by the District and interest accrued on the Special Facilities construction proceeds receivable from the County. The decrease from fiscal 2012 to fiscal 2013 is due to reduced investments partially offset by increased farm late fees. The increase from fiscal 2011 to fiscal 2012 is due to a slight recovery of the investment market interest rates.

<u>Liquidity, capital resources and financial position</u>

At August 31, 2013, our working capital, defined as current assets less current liabilities, was $4.5 million, which included $2.45 million in cash, cash equivalents and marketable securities. As of the date of the filing of this annual report on Form 10-K, we have an effective shelf registration statement pursuant to which we may elect to sell up to another $15 million of stock at any time and from time to time. During 2012 we sold the 1.5 million Pledged Shares for $3.5 million or $2.35 per share. We believe that as of the date of the filing of this annual report on Form 10-K and as of August 31, 2013, we have sufficient working capital to fund our operations for the next fiscal year.

Arkansas River Valley Water Assets – The FLCC water assessments are the charges assessed to the FLCC shareholders for the upkeep and maintenance of the Fort Lyon Canal. The water assessment payments are payable to the FLCC each calendar year. Our calendar year assessments for 2013 will be approximately $290,000 and are being expensed ratably during the year. Our calendar year 2012 property taxes (paid in April 2013) were approximately $142,000. We anticipate the property taxes for calendar year 2013 to be similar, so we accrue monthly property taxes of approximately $11,800.

Sky Ranch Property – Our calendar year 2012 Sky Ranch property taxes (paid in April 2013) were approximately $90,600. We anticipate the property taxes for calendar year 2013 to be similar, so we accrue monthly property taxes of approximately $7,600.

ECCV Capacity Operating System – Pursuant to a 1982 contractual right, the District may purchase water produced from East Cherry Creek Valley Water and Sanitation District's ("ECCV") Land Board system. ECCV's Land Board system is comprised of eight wells and more than ten miles of buried water pipeline located on the "Lowry Range" as described in Note 4 – *Water Assets* to the 2012 Annual Report. In May 2012, in order to increase the delivery capacity and reliability of these wells, in our capacity as the District's service provider and the Export Water Contractor (as defined in the Amended and Restated Water Lease between the District and the Colorado State Board of Land Commissioners), we entered into an agreement to operate and maintain the ECCV facilities allowing us to utilize the system to provide water to commercial and industrial customers, including customers providing water for drilling and hydraulic fracturing of oil and gas wells. Our costs associated with the use of the ECCV system were a flat monthly fee of $4,667 per month from May 1, 2012 through December 31, 2012, which increased to $8,000 per month from January 1, 2013 through December 31, 2020, and will decrease to $3,000 per month from January 1, 2020 through April 2032. Additionally, we pay a fee per 1,000 gallons of water produced from ECCV's system, which is included in the water usage fees charged to customers.

The Tap Participation Fee - The $59.8 million Tap Participation Fee liability at August 31, 2013, represents the estimated fair value of our obligation to pay HP A&M 20% of our gross proceeds, or the equivalent thereof, from the sale of the next 17,194 water taps we sell and includes $26.1 million of interest, which has been imputed since we acquired our farm assets, recorded using the effective interest method. During the extended term of the Property Management Agreement, we were permitted to allocate 26.9% of the Net Revenues (defined as all lease and related income received from the farms less employee expenses, direct expenses for managing the leases and a reasonable overhead allocation) paid to HP A&M against the Tap Participation Fee. During the fiscal year ended August 31, 2012, we allocated $189,700 to the Tap Participation Fee liability, which was the equivalent of 41 taps. As a result of HP A&M's default, on August 3, 2012, we terminated the Property Management Agreement and stopped allocating 26.9% of the Net Revenues to the TPF. Therefore, no Net Revenue was allocated against the TPF liability during the fiscal year ended August 31, 2013, and no Net Revenue will be allocated to the liability in any future period. We did not sell any taps during the fiscal years ended August 31, 2013 or 2012.

Payment of the TPF may be accelerated in the event of a merger, reorganization, sale of substantially all assets, or similar transactions and in the event of bankruptcy and insolvency events. During the 2013 fiscal year we foreclosed on three of our farms and one FLCC certificate representing water rights only, and cured one farm in foreclosure. Our agreement with HP A&M allows us to reduce the TPF in the event any of our farms or water rights are foreclosed upon. As of August 31, 2013, there were 17,194 (a reduction of 2,233 compare to 2012) taps subject to the Tap Participation Fee. As a result of the foreclosures and the reduction in taps remaining subject to the TPF, the Tap Participation Fee was revalued as of August 31, 2013.

South Metropolitan Water Supply Authority – The South Metropolitan Water Supply Authority ("SMWSA") is a municipal water authority in the State of Colorado organized to pursue the acquisition and development of new water supplies on behalf of its members. SMWSA members include 14 Denver area water providers in Arapahoe and Douglas Counties. The District became a member of SMWSA in 2009 in an effort to participate with other area water providers in developing regional water supplies along the Front Range. For over 2 years, the SMWSA members have been working with Denver Water and Aurora Water on a cooperative water project known as the Water Infrastructure Supply Efficiency partnership ("WISE"), which seeks to develop regional infrastructure which would interconnect member's water transmission systems to be able to develop additional water supplies from the South Platte River in conjunction with Denver Water and Aurora Water. In July of 2013, the District together with 9 other SMWSA members formed the South Metropolitan Wise Authority (SWMA) to continue to develop the WISE project. Through an agreement with the District, we continue to support SMWA and its joint water development efforts and may seek to participate in one or more regional water projects if such projects are in our best interest.

Summary Cash Flows Table

	For the Fiscal Years Ended August 31,			Change			
				2013-2012		2012-2011	
	2013	2012	2011	$	%	$	%
Cash (used) provided by:							
Operating acitivites	$ (1,756,700)	$ (1,887,100)	$ (623,200)	$ 130,400	-7%	$ (1,263,900)	203%
Investing activities	$ 4,098,100	$ 3,354,000	$ (9,996,100)	$ 744,100	22%	$ 13,350,100	-134%
Financing activities	$ (1,516,500)	$ 85,000	$ 10,679,100	$ (1,601,500)	-1884%	$ (10,594,100)	-99%

Changes in Operating Activities **–** Operating activities include revenues we receive from the sale of wholesale water and wastewater services, costs incurred in the delivery of those services, G&A expenses, and depletion/depreciation expenses.

Cash used by operations in fiscal 2013 decreased by $130,000 compared to fiscal 2012, which was due mainly to increased revenues and reduced legal fees related to the Land Board. These were partially offset by an increase in accounts receivable and HP default receivable. Cash used by operations in fiscal 2012 increased by $1.3 million compared to fiscal 2011, which was due mainly to increased legal fees related to the Land Board and HP A&M law suits and the HP A&M default on the farm notes and deeds of trust. These were offset by an increase in accounts payable and accrued expenses and a decrease in deferred income from the Anadarko lease.

We will continue to provide wholesale domestic water and wastewater services to customers in our service area and we will continue to operate and maintain our water and wastewater systems with our own employees.

Changes in Investing Activities – Investing activities in fiscal 2013 consisted of the investment in our water system and purchase of assets of $418,000, the sale of marketable securities of $1.1 million, the sale of collateral stock of $3.4 million. Investing activities in fiscal 2012 consisted of the purchase of marketable securities of $1.2 million and the sale of marketable securities of $4.7 million. Investing activities in fiscal 2011 consisted of our acquisition of Sky Ranch, which required $6.8 million during the year ended August 31, 2011, and the purchase of $6.4 million of marketable securities, which was offset by the sale/maturity of $3.2 million of marketable securities..

Changes in Financing Activities – Financing activities in fiscal 2013 consisted primarily of payments on the promissory notes of $1.8 million and the receipt of $292,00 from the County pursuant to the County Agreement and the early payoff of the debt. Financing activities in fiscal 2012 consisted of the receipt of $85,000 from the County pursuant to the County Agreement. Financing activities in fiscal 2011 consisted mainly of the sale of $5.4 million of common stock pursuant to our effective shelf registration and the issuance of the $5.2 million Convertible Note – Related Party. See Note 4 – Water Assets to the accompanying financial statements. Proceeds from both financings were used to finance the acquisition of Sky Ranch and provide additional working capital. The Convertible Note – Related Party was converted into common stock in January 2011. Additionally, we received $82,200 from the County pursuant to the County Agreement. See Note 4 – Water Assets to the accompanying financial statements.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist entirely of the contingent portion of the CAA which is $2.2 million, as described in Note 5 – *Participating Interest in Export Water* to the accompanying financial statements. The contingent liability is not reflected on our balance sheet because the obligation to pay the CAA is contingent on sales of Export Water, the amounts and timing of which are not reasonably determinable.

Recently Adopted and Issued Accounting Pronouncements

See Note 2 – *Summary of Significant Accounting Policies* to the accompanying financial statements for recently adopted and issued accounting pronouncements.

Total Contractual Cash Obligations

Table K - Contractual Cash Obligations

	Total	Payments due by period: Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations	$ 7,758,000	$ 4,546,900	$ 2,664,000	$ 547,100	(a)
Operating lease obligations	24,480	18,360	6,120	(b)	(b)
Participating Interests in Export Water	1,192,900	(c)	(c)	(c)	(c)
Tap Participation Fee payable to HP A&M	105,065,800	(d)	(d)	(d)	(d)
Total	$ 114,041,180	$4,565,260	$2,670,120	$547,100	$ -

(a) Our contractual obligations are related to our Arkansas Valley farms. We have refinanced most farms on 5 year terms at a rate of 5% payable 2 times per year. The remaining farms are in various stages of negotiation, but due to their default status by HP A&M they are reflected as a current liability maturing in less than 1 year.

(b) Our only operating lease is related to our office space. We occupy 1,200 square feet at a cost of $1,530, per month, at the address shown on the cover of this Form 10-K. We lease these premises pursuant to a two year operating lease agreement with a third party.

(c) The participating interests liability is payable to the CAA holders upon the sale of Export Water, and therefore, the timing of the payments is uncertain and not reflected in the above table by period.

(d) The Tap Participation Fee payable to HP A&M is payable upon the sale of water taps. Because the timing of these water tap sales is not fixed and determinable, the estimated payments are not reflected in the above table by period. The amount listed above includes an unamortized discount of $41.4 million. The Tap Participation Fee is described in greater detail in Note 7 – *Long-Term Debt and Operating Lease* to the accompanying financial statements.

Item 7A – Quantitative and Qualitative Disclosures About Market Risk

General

We have limited exposure to market risks from instruments that may impact our balance sheets, statements of operations, and statements of cash flows. Such exposure is due primarily to changing interest rates.

Interest Rates

The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in diversified short-term interest bearing investments. As of August 31, 2013, the Company is not holding any marketable securities in an effort to create liquidity while the Company is in the process of curing the defaults by High Plains A&M, LLC ("HP A&M"). We have no investments denominated in foreign country currencies, and therefore our investments are not subject to foreign currency exchange risk.

Item 8 – Consolidated Financial Statements and Supplementary Data

Index to Consolidated Financial Statements and Supplementary Data

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statements of Shareholders’ Equity and Comprehensive Income (Loss)	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Pure Cycle Corporation

We have audited the accompanying consolidated balance sheets of Pure Cycle Corporation as of August 31, 2013 and 2012, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended August 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pure Cycle Corporation as of August 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ GHP HORWATH, P.C

Denver, Colorado
November 27, 2013

ASSETS:		August 31, 2013		August 31, 2012
Current assets:				
Cash and cash equilvalents	$	2,448,363	$	1,623,517
Marketable securities		–		1,101,367
Trade accounts receivable		584,802		135,458
Sky Ranch receivable		57,303		–
Current portion of HP A&M receivable		6,655,156		4,456,857
Prepaid expenses		154,345		279,782
Current portion of construction proceeds receivable		–		64,783
Total current assets		9,899,969		7,661,764
Investments in water and water systems, net		88,512,249		88,510,359
Land - Sky Ranch		3,768,029		3,778,464
Land and water held for sale		5,748,630		5,748,630
Construction proceeds receivable, less current portion		–		226,879
Note receivable - related party:				
Rangeview Metropolitan District, including accrued interest		555,983		543,945
HP A&M receivable, less current portion		–		5,093,365
Other assets		133,471		18,671
Total assets	$	108,618,331	$	111,582,077
LIABILITIES:				
Current liabilities:				
Accounts payable		167,775		261,383
Current portion mortgages payable, including interest payable of $122,028		4,668,943		5,340,890
Accrued liabilities		264,740		172,630
Deferred revenues		65,384		65,384
Deferred oil and gas lease payment		235,483		414,480
Total current liabilities		5,402,325		6,254,767
Deferred revenues, less current portion		1,232,220		1,297,605
Deferred oil and gas lease payment, less current portion		–		224,510
Mortgages payable, less current portion		3,211,112		4,209,329
Participating interests in Export Water Supply		1,192,910		1,208,928
Tap Participation Fee payable to HP A&M				
net of $42.9 million and $44.8 million discount respectively		59,807,289		68,269,176
Total liabilities		70,845,856		81,464,315
Commitments and Contingencies				
SHAREHOLDERS' EQUITY:				
Preferred stock:				
Series B - par value $.001 per share, 25 milllion shares authorized		433		433
432,513 shares issued and outstanding				
(liquidation perference of $432,513)				
Common stock:				
Par value 1/3 of $.01 per share, 40 million shares authorized;				
24,037,598 shares issued and outstanding		80,130		80,130
Additional paid in capital		115,224,946		103,420,869
Accumulated comprehensive loss		–		(1,081)
Accumulated deficit		(77,533,034)		(73,382,589)
Total shareholders' equity		37,772,475		30,117,762
Total liabilities and shareholders' equity	$	108,618,331	$	111,582,077

PURE CYCLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Fiscal Years Ended August 31,		
	2013	2012	2011
Revenues:			
Metered water usage	$ 502,668	$ 182,802	$ 157,497
Wastewater treatment fees	41,697	45,778	68,833
Special facility funding recognized	41,508	41,508	41,508
Water tap fees recognized	14,294	14,296	14,296
Farm operations	1,241,882		
Other income	15,413		
Total revenues	1,857,462	284,384	282,134
Expenses:			
Water service operations	(188,309)	(78,144)	(51,882)
Wastewater service operations	(16,958)	(19,269)	(19,224)
Farm operations	(96,337)	–	–
Other	(1,199)	(1,995)	
Depletion and depreciation	(90,468)	(88,576)	(88,587)
Total cost of revenues	(393,271)	(187,984)	(159,693)
Gross margin	1,464,191	96,400	122,441
General and administrative expenses	(2,333,126)	(2,374,106)	(2,212,026)
Impairment of land and water rights held for sale	–	(6,457,760)	–
Impairment of water assets	–	(5,544,022)	–
Depreciation	(220,834)	(220,657)	(212,184)
Operating loss	(1,089,769)	(14,500,145)	(2,301,769)
Other income (expense):			
Oil and gas lease income, net	416,048	422,999	199,257
Farm income, net	-	71,101	–
Interest income	34,583	53,339	53,133
Interest expense	(245,503)		
Other	9,574	3,552	31,887
Gain on sale of assets	–	1,016	–
Interest expensed on Convertible Note - Related	–	–	(151,667)
Interest imputed on the Tap Participation Fees payable to HP A&M	(3,275,378)	(3,470,523)	(3,847,000)
Net loss	$ (4,150,445)	$ (17,418,661)	$ (6,016,159)
Net loss per common share – basic and diluted	$ (0.17)	$ (0.72)	$ (0.26)
Weighted average common shares outstanding – basic and diluted	24,037,596	24,037,596	23,168,450

See accompanying Notes to Financial Statements

PURE CYCLE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Income (loss)	Deficit	Total
August 31, 2010 balance:	432,513	$ 433	20,206,566	$ 67,360	$ 92,341,555	$ (1,580)	$ (49,947,769.0)	$ 42,459,999
Sale of common stock, less fees and								-
expenses of approximately $145,200	–	–	1,848,931	6,163	5,395,442	–	–	5,401,605
Issuance of restricted common stock upon								-
conversion of Convertible Debt	–	–	1,982,099	6,607	5,345,060	–	–	5,351,667
Share-based compensation	–	–	–	–	94,550	–	–	94,550
Unrealized loss on investments	–	–	–	–	–	(1,323)	–	(1,323)
Net loss	–	–	–	–	–	–	(6,016,159)	(6,016,159)
Comprehensive loss								(6,017,482)
August 31, 2011 balance:	432,513	433	24,037,596	80,130	103,176,607	(2,903)	(55,963,928)	47,290,339
Share-based compensation	–	–			54,588			54,588
Allocation of net revenues to TPF					189,674			189,674
Unrealized loss on investments	–	–				1,822		1,822
Net loss	–	–					(17,418,661)	(17,418,661)
Comprehensive loss								(17,416,839)
August 31, 2012 balance:	432,513	433	24,037,596	80,130	103,420,869	(1,081)	(73,382,589)	30,117,762
Share-based compensation	–	–	–	–	66,812	–	–	66,812
Reduction in TPF due to remedies under								
the Arkansas River Agreement	–	–	–	–	11,737,265	–	–	11,737,265
Realized gain on investments	–	–	–	–	–	1,081	–	1,081
Net loss	–	–	–	–	–	–	(4,150,445)	(4,150,445)
Comprehensive loss								(4,149,364)

See accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the fiscal Years Ended August 31,		
	2013	2012	2011
Cash flows from operating activities			
Net loss	$ (4,150,445)	$ (17,418,661)	$ (6,016,159)
Adjustments to reconcile net loss to net cash			
used for operating activities:			
Share-based compensation expense	66,812	54,588	94,550
Depreciation, depletion and other non-cash items	313,137	307,507	297,212
Imputed interest on Tap Participation Fees payable to HP A&M	3,275,378	3,470,523	3,847,000
Impairment of water assets	-	5,544,022	-
Impairment of land and water rights held for sale	-	6,457,760	-
Interest expensed on Convertible Note-Related Party	-	-	151,667
Interest added to note receivable - related party			
Rangeview Metropolitan District	(12,038)	(12,072)	(12,039)
Interest added to construction proceeds receivable	-	(19,241)	(22,899)
Gain on sale of fixed assets	-	(1,016)	-
Changes in operating assets and liabilities:			
Trade accounts receivable	(449,344)	(36,974)	(27,329)
Prepaid expenses	125,437	(37,782)	(5,373)
HP A&M Receivable	(519,934)	-	-
Sky Ranch Receivable	(57,303)	-	-
Accounts payable and accrued liabilities	120,527	246,034	72,457
Deferred revenue	(65,385)	(27,314)	(55,802)
Deferred income - oil and gas lease	(403,507)	(414,480)	1,053,470
Net cash used for operating activities	(1,756,665)	(1,887,106)	(623,245)
Cash flows from investing activities:			
Investments in water, water systems and land	(378,008)	(132,221)	(6,841,255)
Purchases of marketable securities	-	(1,235,857)	(6,357,177)
Sales and maturities of marketable securities	1,101,367	4,724,847	3,202,373
Proceeds from sale of land	-	1,099	-
Proceeds from sale of collateral stock	3,415,000	-	-
Purchase of property and equipment	(40,300)	(3,894)	-
Net cash provided (used) by investing activities	4,098,059	3,353,974	(9,996,059)
Cash flows from financing activities			
Net proceeds from equity offering	-	-	5,401,606
Issuance of Convertible Note - Related Party	-	-	5,200,000
Arapahoe County construction proceeds	291,662	84,854	82,196
Payment to contingent liability holders	(16,018)	-	(4,720)
Payments made on promissory notes payable	(1,792,192)		
Net cash (used for) provided by financing activities	(1,516,548)	84,854	10,679,082
Net change in cash and cash equivalents	824,846	1,551,722	59,778
Cash and cash equivalents - beginning of year	1,623,517	71,795	12,017
Cash and cash equivalents - end of year	$ 2,448,363	$ 1,623,517	$ 71,795

See accompanying Notes to Financial Statements

NOTE 1 – ORGANIZATION

Pure Cycle Corporation (the "Company") was incorporated in Delaware in 1976 and reincorporated in Colorado in 2008. The Company owns assets in the Denver, Colorado metropolitan area and in Southeast Colorado. The Company is currently using its water assets located in the Denver metropolitan area to provide wholesale water and wastewater services to customers located in the Denver metropolitan area. The Company is leasing its farm land in the Arkansas River Valley to area farmers.

The Company provides a full line of water and wastewater services which includes designing and constructing water and wastewater systems as well as operating and maintaining such systems. The Company's business focus is to provide wholesale water and wastewater services, predominately to local governmental entities, which provide services to their end-use customers throughout the Denver metropolitan area as well as along the Colorado Front Range.

The Company believes it has sufficient working capital and financing sources to fund its operations for at least the next fiscal year. As of August 31, 2013, the Company had $2.4 million of cash and cash equivalents and $4.5 million of working capital. During fiscal year end 2013, the Company sold the 1.5 million shares of Pure Cycle common stock issued to High Plains A&M, LLC ("HP A&M"), which were pledged as security for certain debt obligations, in a foreclosure sale for $3.5 million or $2.35 per share.

The Company's ability to generate working capital from its water and wastewater projects is dependent on its ability to successfully market its water, or in the event it is unsuccessful, to sell the underlying water assets. In the event increased sales are not achieved or the Company is unable to sell its water assets at a sufficient level, the Company may have to issue additional short or long-term debt or seek to sell additional shares of the Company's common or preferred stock to generate sufficient working capital. There can be no assurance that the Company will be successful in marketing its water on terms that are acceptable to the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of Pure Cycle Corporation and its majority-owned and controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less. The Company's cash equivalents are comprised entirely of money market funds maintained at a high quality financial institution in an account which as of August 31, 2013 exceed federally insured limits. At various times during the year ended August 31, 2013, the Company's main operating account exceeded federally insured limits.

Marketable Securities

At August 31, 2012, the Company's marketable securities are comprised entirely of certificates of deposits maintained at various financial institutions, each of which have invested below federally insured limits and pay interest at stated rates through maturity. The certificates matured at various dates through May 2013.

The amounts reported on the balance sheets for marketable securities as of August 31, 2012 represent the fair values of the underlying instruments as reported by the financial institutions where the funds are held. As of August 31, 2013, the Company is not holding any marketable securities in an effort to create liquidity while the Company is in the process of resolving the defaults by HP A&M.

Financial Instruments – Concentration of Credit Risk and Fair Value

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and marketable securities. The Company places its cash equivalents and investments with high quality financial institutions. At various times throughout the year ended August 31, 2013, cash deposits have exceeded federally insured limits. The Company invests its idle cash primarily in certificates of deposit, money market instruments, commercial paper obligations, corporate bonds and US government treasury obligations. To date, the Company has not experienced significant losses on any of these investments.

Mortgages Payable and HP A&M Receivable

In conjunction with HP A&M defaulting on certain promissory notes in fiscal year 2012, the Company has the right to collect from HP A&M any amounts the Company spends to protect its interest from the defaulted notes. Accordingly the Company has recorded the entire amount of the HP A&M notes at default as well as expenses incurred to cure the defaults as a receivable from HP A&M less proceeds received from the sale of shares held in escrow pursuant to the asset purchase agreement ("The Arkansas River Agreement"). The receivable represents the amount of the defaulted promissory notes payable by HP A&M which were purchased by the Company and with respect to which the Company will pursue remedies under the Arkansas River agreement (as described in more detail in Note 4) over the next 12 months, plus expenses as noted above.

In the fiscal year 2013 the Company began acquiring the defaulted promissory notes that are payable by HP A&M. The majority of the notes issued by the Company have a five-year term, bear interest at an annual rate of five percent (5%) and require semi-annual payments with a straight-line amortization schedule, (see Note 7 – *Long term debt and operating lease*).

Cash Flows

The Company paid $123,500 in interest during the fiscal year ended August 31, 2013. The Company did not pay any interest during the fiscal years ended August 31, 2012 and 2011, respectively.

The Company did not pay any income taxes during the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

Trade Accounts Receivable

The Company records accounts receivable net of allowances for uncollectible accounts. Included in trade accounts receivable are balances due from farm operations. The Company recorded an allowance for uncollectible accounts in the amounts of $41,100 and $20,400 as of August 31, 2013 and 2012, respectively. The allowance for uncollectible accounts was determined based on specific review of all past due accounts.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the eventual use of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Based

on the Company's procedures, the Company determined that its "Paradise Water Supply" asset (defined in Note 4 below) and land and water rights held for sale related to the Arkansas River Assets were impaired as of August 31, 2012. The Company determined that no impairment of such assets existed at August 31, 2013. There was no impairment in the carrying amounts of the remaining long-lived assets at August 31, 2013 and 2012. See further discussion in Note 4 below under sections "Paradise Water Supply" and "Arkansas River Assets".

Capitalized Costs of Water and Wastewater Systems and Depreciation and Depletion Charges

Costs to construct water and wastewater systems that meet the Company's capitalization criteria are capitalized as incurred, including interest, and depreciated on a straight-line basis over their estimated useful lives of up to thirty years. The Company capitalizes design and construction costs related to construction activities and it capitalizes certain legal, engineering and permitting costs relating to the adjudication and improvement of its water assets.

The Company depletes its water assets that are being utilized on the basis of units produced (i.e. thousands of gallons sold) divided by the total volume of water adjudicated in the water decrees.

Tap Participation Fee Liability and Imputed Interest Expense

The Tap Participation Fee liability ("TPF"), as described in Note 7 – *Long Term Debt and Operating Lease*, represents the discounted fair value of the amounts the Company estimates it will pay HP A&M pursuant to the Arkansas River Agreement. The Company imputes interest expense on the unpaid TPF using the effective imputed interest of $3.3 million, $3.5 million and $3.8 million during the years ended August 31, 2013, 2012 and 2011, respectively.

The TPF is due and payable once the Company has sold a water tap and received the consideration due for such water tap. The Company did not sell any water taps during the years ended August 31, 2013, 2012 or 2011. As of August 31, 2013, 17,194 water taps remain subject to the TPF.

Revenue Recognition

The Company generates revenues through two separate lines of businesses. Its revenues are derived through its Wholesale Water and Wastewater business and its Farming Operations, which are described below.

Wholesale Water and Wastewater business **–** The Company generates revenues through its wholesale water and wastewater segment predominately from three sources: (i) monthly wholesale water usage fees and wastewater service fees, (ii) one time water and wastewater tap fees, and construction fees, and (iii) consulting fees. Because these items are separately delivered, the Company accounts for each of the items separately, as described below.

i) Monthly wholesale water and wastewater service fees **–** Monthly wholesale water usage charges are assessed to the Company's customers based on actual metered usage each month plus a base monthly service fee assessed per single family equivalent ("SFE") unit served. One SFE is a customer, whether residential, commercial or industrial, that imparts a demand on the Company's water or wastewater systems similar to the demand of a family of four persons living in a single family house on a standard sized lot. One SFE is assumed to have a water demand of approximately 0.4 acre feet per year and to contribute wastewater flows of approximately 300 gallons per day. Water usage pricing uses a tiered pricing structure. The Company recognizes wholesale water usage revenues upon delivering water to its customers or its governmental customers' end-use customers, as applicable. The water revenues recognized by the Company are shown net of royalties to the Land Board and, when applicable, amounts retained by the Rangeview Metropolitan District (the "District").

The Company recognizes wastewater processing revenues monthly based on usage. The monthly wastewater service fees are shown net of amounts retained by the District. Amounts recognized for water and wastewater services during the fiscal years ended August 31, 2013, 2012 and 2011, are presented in the statements of operations. Costs of delivering water and providing wastewater service to customers are recognized as incurred.

The Company delivered 69.2 million, 34.2 million and 34.5 million gallons of water to customers during the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

ii) Water and wastewater tap fees and construction fees – Tap fees, also called system development fees, are received in advance, are non-refundable and are typically used to fund construction of certain facilities and defray the acquisition costs of obtaining water rights. Construction fees are fees used by the Company to construct assets that are typically required to be constructed by developers or home builders.

Proceeds from tap fees and construction fees are deferred upon receipt and recognized in income either upon completion of construction of infrastructure or ratably over time, depending on whether the Company owns the infrastructure constructed with the proceeds or a customer owns the infrastructure constructed with the proceeds.

Tap and construction fees derived from agreements in which the Company will not own the assets constructed with the fees are recognized as revenue using the percentage-of-completion method. Costs of construction of the assets when the Company will not own the assets are recorded as construction costs.

Tap and construction fees derived from agreements for which the Company will own the infrastructure are recognized as revenues ratably over the estimated accounting service life of the facilities constructed, starting at completion of construction, which could be in excess of thirty years. Costs of construction of the assets when the Company will own the assets are capitalized and depreciated over their estimated economic lives.

In August 2005, the Company entered into the Water Service Agreement (the "County Agreement") with Arapahoe County (the "County") to provide water service to the County's fairgrounds (the "Fairgrounds"). Pursuant to the County Agreement, the Company owns the facilities which store, treat, and deliver the water and amortizes the cost of these facilities over their useful lives. In each of the three fiscal years ended August 31, 2013, 2012 and 2011, the Company recognized $14,300 of tap fee revenue. At August 31, 2013, $327,600 of these tap fees are still deferred. The Company recognized $41,500 of "Special Facilities" funding as revenue in each of the three fiscal years ended August 31, 2013, 2012, and 2011 respectively. These construction revenues also relate to the County Agreement entered into in August 2005. As of August 31, 2013, the Company has deferred recognition of $1.3 million of tap and construction fee revenue from the County, which will be recognized as revenue ratably through 2036.

In addition to the tap fee revenues and the construction revenues, the Company also records interest income from the County using the effective interest method. Pursuant to the County Agreement, the County is making payments to the Company totaling $82,200 per year for the construction of the Special Facilities at the Fairgrounds. These payments include interest at 6% per annum. In April 2013 the County paid the balance on the note. The Company recognized $5,500, $19,200 and $22,900 of interest income from the County during the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

In August 2012, the Company entered into an agreement with Front Range Pipeline which grants Front Range Pipeline easement rights for a period of three years to construct a pipeline for total consideration of $28,700. As of August 31, 2013, the Company had $18,900 in deferred revenue from Front Range Pipeline.

iii) Consulting Fees – Consulting fees are fees we receive, typically on a monthly basis, from municipalities and area water providers along the I-70 corridor, for system management and maintenance

Agricultural Farming Operations – The Company leases its Arkansas River water and land to area farmers who actively farm the properties. Prior to August 3, 2012, pursuant to a property management agreement between HP A&M and the Company (the "Property Management Agreement"), HP A&M received a management fee equal to 100% of the income from the land and water leases. As a result, the Company presented its land and water lease income net of the management fees paid to HP A&M. Effective August 3, 2012, the Company terminated the

Property Management Agreement due to a default by HP A&M on certain promissory notes secured by deeds of trust on the land and water purchased by the Company from HP A&M in 2006. Effective August 3, 2012, the Company manages the land and water leases and the income from the land and water leases became payable to the Company. Pursuant to the farm lease agreements, the Company bills the lessees semi-annually in March and November. The lease billings include minimum billings and adjustments based on actual water deliveries by the Fort Lyon Canal Company ("FLCC") or are based on crop yields. Subsequent to August 3, 2012, the Company records farm lease income ratably each month based on estimated annual lease income the Company anticipates collecting from its land and water leases. The Company recorded these amounts as receivables, less an estimated allowance for uncollectible accounts. The allowance as of August 31, 2013, was determined by the Company's specific review of all past due accounts. The Company has recorded allowances for doubtful accounts totaling $41,100 and $20,400 as of August 31, 2013 and 2012, respectively. As of August 31, 2013 the company has accrued $397,300 of farm income related to billings for future periods. The Company manages the farm lease business as a separate line of business from the wholesale water and wastewater business.

Royalty and other obligations

Revenues from the sale of Export Water are shown net of royalties payable to the Land Board. Revenues from the sale of water on the "Lowry Range" are shown net of the royalties to the Land Board and the amounts retained by the District. See further description of the "Lowry Range" in Note 4 – *Water Assets* under section "Rangeview Water Supply and Water System".

Oil and Gas Lease Payments

As further described in Note 4 below, on March 10, 2011, the Company entered into a Paid-Up Oil and Gas Lease (the "O&G Lease") and a Surface Use and Damage Agreement (the "Surface Use Agreement") with Anadarko E&P Company, L.P. ("Anadarko") a wholly owned subsidiary of Anadarko Petroleum Company. Pursuant to the O&G Lease on March 10, 2011, the Company received an up-front payment of $1,243,400 from Anadarko for the purpose of exploring for, developing, producing and marketing oil and gas on approximately 634 acres of mineral estate owned by the Company at its Sky Ranch property. In December 2012 the O&G Lease was purchased by a wholly owned subsidiary of ConocoPhillips Company. The Company began recognizing the up-front payment from Anadarko as income on a straight-line basis over three years (the initial term of the O&G Lease) on March 10, 2011. During the years ended August 31, 2013, 2012 and 2011, the Company recognized $416,000, $423,000 and $199,000 respectively, of income related to the up-front payments received pursuant to the O&G Lease.

As of August 31, 2013, the Company has deferred recognition of $235,500 of income related to the O&G Lease, which will be recognized into income ratably through February 2014.

Share-based Compensation

The Company maintains a stock option plan for the benefit of its employees and directors. The Company records share-based compensation costs which are measured at the grant date based on the fair value of the award and are recognized as expense over the applicable vesting period of the stock award using the straight-line method. The Company has adopted the alternative transition method for calculating the tax effects of share-based compensation which allows for a simplified method of calculating the tax effects of employee share-based compensation. Because the Company has a full valuation allowance on its deferred tax assets, the granting and exercise of stock options during the fiscal years ended August 31, 2013 and 2012 had no impact on the income tax provisions.

The Company recognized $66,800, $54,600 and $94,600 of share-based compensation expenses during the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

Income Taxes

The Company uses a "more-likely-than-not" threshold for the recognition and de-recognition of tax positions, including any potential interest and penalties relating to tax positions taken by the Company. The Company does not have any significant unrecognized tax benefits as of August 31, 2013.

The Company files income tax returns with the Internal Revenue Service and the State of Colorado. The tax years that remain subject to examination are fiscal 2009 through fiscal 2012. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. At August 31, 2013, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the fiscal years ended August 31, 2013, 2012 or 2011.

Loss per Common Share

Loss per common share is computed by dividing net loss by the weighted average number of shares outstanding during each period. Common stock options and warrants aggregating 347,600, 215,100 and 280,100 common share equivalents as of August 31, 2013, 2012 and 2011, respectively, have been excluded from the calculation of loss per common share as their effect is anti-dilutive.

Recently Issued Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. Where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financials properly reflect the change. A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, the Company has not determined whether implementation of such proposed standards would be material to the Company's financial statements. New pronouncements assessed by the Company recently are discussed below:

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02). ASU 2013-02 finalizes Proposed ASU No. 2012-240, and seeks to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012 (September 1, 2013 for the Company). The adoption of ASU 2013-02 will not have a material impact on its results of operations, financial condition or cash flows.

In 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11). ASU 2013-02 provides that an unrecognized tax benefit, or a portion, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward for reporting fiscal years beginning after December 15, 2013 (September 1, 2014 for the Company). The adoption of ASUJ 2013-11 will not have a material impact on its results of operations, financial condition or cash flows.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Company uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value.

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. The Company had none of these instruments at August 31, 2013 or 2012.

Level 2 — Valuations for assets and liabilities obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company had no Level 2 assets at August 31, 2013 and one Level 2 asset at August 31, 2012, its marketable securities. The Company's principal markets for these securities are the secondary institutional markets and valuations are based on observable market data in those markets.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The Company had one Level 3 liability at August 31, 2013 and 2012, the Tap Participation Fee liability, which is described in greater detail in Note 2 – *Summary of Significant Accounting Policies* and Note 7 – *Long-Term Debt And Operating Lease.*

The Company maintains policies and procedures to value instruments using the best and most relevant data available.

The Company's non-financial assets measured at fair value on a non-recurring basis consist entirely of its investments in water and water systems and other long-lived assets. See Note 4 for impairment of water rights and land with the associated water rights held for sale.

Level 2 Asset – Marketable Securities Measured on a Recurring Basis. The Company's marketable securities were the Company's only financial assets measured on a recurring basis. The fair values of the marketable securities are based on the values reported by the financial institutions where the funds are held. These securities included only federally insured certificates of deposit.

Level 3 Liability – Tap Participation Fee. The Company's Tap Participation Fee liability is the Company's only financial liability measured on a non-recurring basis. The Tap Participation Fee liability is valued by projecting new home development in the Company's targeted service area over an estimated development period. Due to the long-term nature of the Tap Participation Fee, the valuation of the Tap Participation Fee is not sensitive to minor changes. See further description of the Tap Participation Fee in Note 7 – *Long-Term Debt and Operating Lease*.

The following table provides information on the assets and liabilities measured at fair value as of August 31, 2013:

			Fair Value Measurement Using:			
	Fair Value	Cost / Other Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Unrealized Gains and (Losses)
Tap Participation Fee	$ 59,807,289	$ 59,807,289	$ -	$ -	$ 59,807,289	$ -

Although not required, the Company deems the following table, which presents the changes in the Tap Participation Fee for the year ended August 31, 2013, to be helpful to the users of its financial statements:

	Fair Value Measurement using Significant Unobservable Inputs (Level 3)		
	Gross Estimated Tap Participation Fee Liability	Tap Participation Fee Reported Liability	Discount - to be imputed as interest expense in future periods
Balance at August 31, 2012	$ 112,958,000	$ 68,269,100	$ 44,688,900
Total gains and losses (realized and unrealized):			
Imputed interest recorded as "Other Expense"	-	3,275,400	(3,275,400)
Purchases, sales, issuances, payments, and settlements	(10,276,100)	(11,737,200)	1,461,100
Transfers in and/or out of Level 3	-	-	-
Balance at August 31, 2013	$ 102,681,900	$ 59,807,300	$ 42,874,600

The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value are discussed above. The methodologies for other financial assets and liabilities are discussed below.

Cash and Cash Equivalents: The Company's cash and cash equivalents are reported using the values as reported by the financial institution where the funds are held. These securities primarily include balances in the Company's operating and savings accounts. The carrying amount of cash and cash equivalents approximate fair value.

Accounts Receivable and Accounts Payable: The carrying amounts of accounts receivable and accounts payable approximate fair value due to the relatively short period to maturity for these instruments.

Long-term Financial Liabilities: The Comprehensive Amendment Agreement No. 1 the "CAA" is comprised of a recorded balance and an off-balance sheet or "contingent" obligation associated with the Company's acquisition of its "Rangeview Water Supply" (defined in Note 4 below). The amount payable is a fixed amount but is repayable only upon the sale of "Export Water" (defined in Note 4 below). Because of the uncertainty of the sale of Export Water, the Company has determined that the contingent portion of the CAA does not have a determinable fair value. The CAA is described further in Note 5 – *Participating Interests in Export Water*.

The recorded balance of the "Tap Participation Fee" liability (as described below) is its estimated fair value determined by projecting new home development in the Company's targeted service area over an estimated development period.

Notes Receivable and Construction Proceeds Receivable: The carrying amounts of the Company's notes receivable and construction proceeds receivable approximate fair value as they bear interest at rates which are comparable to current market rates.

HP A&M Receivable: In conjunction with HP A&M defaulting on certain promissory notes, the Company has the right to collect from HP A&M any amounts the Company spends to cure the defaulted notes. Accordingly the Company has recorded the entire amount of the HP A&M notes as a receivable from HP A&M. Due to the fact that HP A&M is a related party the fair value of the accounts receivable is not practical to determine.

Mortgages Payable: During fiscal 2013, the Company began acquiring the defaulted and non-defaulted promissory notes that are payable by HP A&M. The majority of the notes issued by the Company have a five-year term, bear interest at an annual rate of five percent (5%) and require semi-annual payments with a straight-line amortization schedule. The carrying value of the notes payable approximate the fair value as the rates are comparable to market rates.

Off-Balance Sheet Instruments: The Company's off-balance sheet instruments consist entirely of the contingent portion of the CAA. Because repayment of this portion of the CAA is contingent on the sale of Export Water, which

is not reasonably estimable, the Company has determined that the contingent portion of the CAA does not have a determinable fair value. See further discussion in Note 5 – *Participating Interests In Export Water*.

NOTE 4 – WATER ASSETS

The Company's water and water systems consist of the following approximate costs and accumulated depreciation and depletion as of August 31:

	August 31, 2013		August 31, 2012	
	Costs	Accumulated Depreciation and Depletion	Costs	Accumulated Depreciation and Depletion
Arkansas River assets	$ 69,112,300	$ (1,487,700)	$ 69,112,300	$ (1,315,900)
Rangeview water supply	14,667,000	(7,700)	14,376,100	(7,100)
Sky Ranch water rights and other costs	3,915,100	(79,800)	3,924,100	(50,800)
Fairgrounds water and water system	2,899,900	(622,600)	2,899,900	(534,500)
Rangeview water system	167,700	(72,800)	167,700	(67,600)
Water supply – other	43,200	(22,400)	25,600	(19,400)
Totals	90,805,200	(2,293,000)	90,505,700	(1,995,300)
Net investments in water and water systems	$ 88,512,200		$ 88,510,400	

Depletion and Depreciation

The Company recorded $500 of depletion charges during each of the three fiscal years ended August 31, 2013, 2012 and 2011, respectively. This related entirely to the Rangeview Water Supply (defined below). No depletion is taken against the Arkansas River water or Sky Ranch Water Supply (all are defined below) because the water located at these locations is not yet being utilized for their intended purpose as of August 31, 2013.

The Company recorded $311,300, $309,200 and $300,800 of depreciation expense in each of the fiscal years ended August 31, 2013, 2012 and 2011, respectively. These figures include depreciation for other equipment not included in the table above.

Arkansas River Assets

Arkansas River Water – The Company owns 60,000 acre feet of senior water rights in the Arkansas River and its tributaries in Southeastern Colorado. The Company anticipates that of this, 40,000 acre feet may be available for non-agricultural uses along the front range of Colorado sometime in the future. The Company acquired its Arkansas River assets from HP A&M pursuant to the Arkansas River Agreement entered into on May 10, 2006.

In order to utilize the Arkansas River water in the Company's service areas, the Company will be required to convert this water to municipal and industrial uses. Change of water use must be done through the Colorado water court and several conditions must be present prior to the water court granting an application for transfer of a water right. A transfer case would be expected to include the following provisions:

(i) a provision of anti-speculation in which the applicant must have contractual obligations to provide water service to customers prior to the water court ruling on the transfer of a water right,

(ii) the applicant can only transfer the "consumptive use" portion of its water rights (the Company expects to face opposition to any consumptive use calculation of the historic agricultural uses of its water),

(iii) applicants likely would be required to mitigate the loss of tax base in the basin of origin,

(iv) applicants would likely have re-vegetation requirements to restore irrigated soils to non-irrigated, and

(v) applicants would be required to meet water quality measures which would be included in the cost of transferring the water rights.

The value of the assets was recorded based on the determined fair value of the consideration paid at the acquisition date, because the value of the consideration was deemed a more reliable criterion of value than the value of the acquired assets. The consideration paid was comprised of equity (3.0 million shares of the Company's common stock) and the Tap Participation Fee. Because the estimated value of the consideration paid was less than the total estimated fair value of the assets acquired by the Company, the relative values assigned to the assets were ratably reduced. For a discussion of promissory notes owed by HP A&M to third parties which are secured by the Company's Arkansas River water rights, see "Arkansas River Land" section below, Note 7 – *Long Term Debt and Operating Lease*, and Note 15 – *Subsequent Events*.

Fort Lyon Canal Company ("FLCC") Shares – The Arkansas River water rights are represented by 21,782 shares of the FLCC, which is a non-profit mutual ditch company established in the late 1800's that operates and maintains the 110 mile Fort Lyon Canal between La Junta, Colorado and Lamar, Colorado. The shares in the FLCC represent the amount of water the Company owns in the Fort Lyon Canal.

Pursuant to the Arkansas River Agreement, the Company pledged to HP A&M: (i) one-half of the FLCC shares purchased by the Company, (ii) all shares of FLCC hereafter issued to the Company by means of any dividend or distribution in respect of the shares pledged hereunder (together with the shares identified in (i), the "Company's Pledged Shares"), (iii) the certificates representing the Company's Pledged Shares, (iv) the land associated with the water represented by the Company's Pledged Shares, and (v) all rights to money or property which the Company now has or hereafter acquires in respect of the Company's Pledged Shares. This pledge agreement will terminate upon payment of the Tap Participation Fee.

Arkansas River Land – The Company owns approximately 16,700 acres of real property which is being used for agricultural purposes and was acquired from HP A&M in 2006 in connection with the water acquisition described above. The land is located in the counties of Bent, Otero and Prowers in southern Colorado. The Company also owns certain contract rights, tangible personal property, mineral rights, and other water interests related to the Arkansas River water and land.

The land owned by the Company is divided into 80 separate properties, each of which is being leased to area farmers. Most of the operating leases expire on December 31, 2014, while the remaining leases have a variety of expiration dates. Pursuant to a property management agreement between HP A&M and the Company (the "Property Management Agreement"), HP A&M had the right to pursue leasing of the land and Arkansas River water to interested parties with all lease income associated with leasing the land and Arkansas River water, together with all costs associated with these activities, being the sole opportunity and obligation of HP A&M. The Property Management Agreement's initial term expired on August 31, 2011 and beginning September 1, 2011, the Property Management Agreement entered into the "Extended Term" which could extend the Property Management Agreement until September 2014 at the latest. During the Extended Term, HP A&M was to continue to manage the leases and receive all lease payments from the lessees as a management fee. Beginning September 1, 2011, until the Property Management Agreement was terminated the Company allocated 26.9% (calculated pursuant to the Property Management Agreement based on consideration paid to HP A&M since the signing of the Arkansas River Agreement) of the net revenues paid to HP A&M (which is the lease payments HP A&M retains less expenses for employees, reasonable overhead and actual expenses paid to manage the farm leases) against the Tap Participation Fee liability. Because the Company did not have the risk of loss associated with the leases (HP A&M's management fee was equal to all lease income and contractually HP A&M had the risk of loss on the leases), the lease income and management fees are reflected on a net basis throughout the initial and Extended Terms of the Property Management Agreement until termination on August 3, 2012.

The Property Management Agreement was terminated on August 3, 2012 due to defaults by HP A&M on certain promissory notes secured by deeds of trust on the Company's land and water. On July 23, 2012, the Company notified all the farm lessees that HP A&M had notified the Company that HP A&M intended to default on its obligations under the promissory notes issued by HP A&M to purchase farms and water rights in the Fort Lyon Canal system. The lessees were informed that all lease payments would be billed directly by and paid directly to the Company from the date of the notice forward. All other terms of the leases remained unchanged. Under the farm lease agreements, the farmers are billed twice a year in November and March. The Company received lease income

from farm leases of approximately $1,241,900 and $71,100 (recorded as revenue for fiscal 2013 and other income for fiscal 2012) for the fiscal years ended August 31, 2013 and 2012, respectively. The allocation of 26.9% of the net revenues against the Tap Participation Fee, the termination of the Property Management and the defaults by HP A&M are described in greater detail in Note 7 – *Long-Term Debt and Operating Lease*.

Land and Water Shares Held for Sale

During fiscal year end 2012, management decided to sell certain farms in order to have the cash flow sufficient to acquire the notes defaulted upon by HP A&M and to meet the future obligations on the promissory notes the Company intends to issue as consideration to purchase the notes owed by HP A&M. Management is anticipating selling approximately 1,603 acres of land along with 3,397 FLCC shares associated with this land. The net book value of the assets held for sale prior to being impaired at August 31, 2012 was $12.2 million. The negotiated sale price for these assets is $5.7 million which resulted in a loss of $6.5 million, which was expensed in fiscal 2012.

Rangeview Water Supply and Water System

The "Rangeview Water Supply" consists of 25,050 acre feet and is a combination of tributary surface water and groundwater rights along with certain storage rights associated with the Lowry Range, a 27,000-acre property owned by the Land Board located 16 miles southeast of Denver, Colorado. The $14.7 million on the Company's balance sheet as of August 31, 2013, represents the costs of assets acquired or facilities constructed to extend water service to customers located on and off the Lowry Range. The recorded costs of the Rangeview Water Supply include payments to the sellers of the Rangeview Water Supply, design and construction costs and certain direct costs related to improvements to the asset including legal and engineering fees.

The Company acquired the Rangeview Water Supply beginning in 1996 when:

(i) The District entered into the Amended and Restated Lease Agreement with the Land Board, which owns the Lowry Range;

(ii) The Company entered into the Agreement for Sale of Export Water with the District, a quasi-municipal political subdivision of the State of Colorado;

(iii) The Company entered into the Service Agreement with the District for the provision of water service to the Lowry Range; and

(iv) In 1997, the Company entered into the Wastewater Service Agreement with the District for the provision of wastewater service to the District's service area (collectively these agreements are referred to as the "Rangeview Water Agreements").

Pursuant to the Rangeview Water Agreements, the Company has the exclusive right, through 2081, to use 13,400 acre feet of the Rangeview Water Supply specifically on the Lowry Range. The Rangeview Water Agreements also provide for the Company to use surface reservoir storage capacity in providing water service to customers both on and off the Lowry Range. The Company owns the rights to use the remaining 11,650 acre feet groundwater, which can be exported off the Lowry Range to serve area users (referred to as "Export Water"). The Company also has the option with the Land Board to exchange an aggregate gross volume of 165,000 acre feet of groundwater for 1,650 acre feet per year of adjudicated surface water and to use this surface water as Export Water.

Services on the Lowry Range – Pursuant to the Rangeview Water Agreements, the Company designs, finances, constructs, operates and maintains the District's water and wastewater systems to provide service to the District's customers on the Lowry Range. The Company will operate both the water and the wastewater systems during the contract period and the District owns both systems. After 2081, ownership of the water system will revert to the Land Board, with the District retaining ownership of the wastewater system.

Rates and charges for all water and wastewater services on the Lowry Range, including tap fees and usage or monthly fees, are governed by the terms of the Rangeview Water Agreements. Rates and charges are required to be

less than the average of similar rates and charges of three surrounding municipal water and wastewater service providers, which are reassessed annually. Pursuant to the Rangeview Water Agreements the Land Board receives a 12% royalty on all gross revenues received from water sales to customers on the Lowry Range. The District retains 5% of the remaining gross revenues and the Company receives 95% of the remaining gross revenues after the Land Board Royalty. The Land Board does not receive a royalty on wastewater fees. The Company receives 100% of the District's wastewater tap fees and 90% of the District's wastewater usage fees (the District retains the other 10%).

Export Water – The Company owns the Export Water and uses and intends to use it to provide water and wastewater services to customers off the Lowry Range. The Company will own all facilities required to extend water and wastewater services using its Export Water. The Company anticipates contracting with third parties for the construction of these facilities. If the Company sells Export Water, the Company is required to pay royalties to the Land Board ranging from 10% of gross revenues to 50% of net revenue after deducting certain costs.

The County Fairgrounds Water and Water System

The Company owns 321 acre feet of groundwater purchased pursuant to the County Agreement. The Company plans to use this water in conjunction with its Rangeview Water Rights in providing water to areas outside the Lowry Range. The $2.9 million of capitalized costs includes the costs to construct various Wholesale and Special Facilities, including a new deep water well, a 500,000 gallon water tank and pipelines to transport water to the Fairgrounds.

Sky Ranch

In 2010 the Company purchased approximately 931 acres of undeveloped land known as Sky Ranch. The property includes the rights to 820 acre feet of water.

Total consideration for the land and water included the $7.0 million purchase price, plus direct costs and fees of $554,100. The Company allocated the total acquisition cost to the land and water rights based on estimates of each asset's respective fair value.

At August 31, 2013 Sky Ranch Metropolitan District #5 owed the Company approximately $57,300 for various costs associated with establishing and operating the district. The Company anticipates these costs will be recovered through property tax assessments.

O&G Lease – On March 10, 2011, the Company entered into the O&G Lease and the Surface Use Agreement with Anadarko. Pursuant to the O&G Lease, the Company received an up-front payment of $1,243,400 from Anadarko for the purpose of exploring for, developing, producing and marketing oil and gas on 634 acres of mineral estate owned by the Company at its Sky Ranch property. The Company also received $9,000 in surface use and damage payments.

Paradise Water Supply

In 1987, the Company acquired water, water wells, and related assets from Paradise Oil, Water and Land Development, Inc., which constitute the "Paradise Water Supply." Every six years the Paradise Water Supply is subject to a finding of reasonable diligence review by the water court and the State Engineer. For a favorable finding, the Company must demonstrate that it is diligently pursuing the development of the water rights. If the Company does not receive a favorable finding of reasonable diligence, it will lose its right to the Paradise Water Supply. The most recent diligence review was started in our fiscal 2005 and was completed in 2008, but not without objectors and not without the Company having to agree to certain stipulations to remove the objections. In order to continue to maintain the Paradise water right, by 2014 the Company must (i) select an alternative reservoir site; (ii) file an application in water court to change the place of storage; (iii) identify specific end users and places of use for the water; and (iv) identify specific source(s) of the water rights for use. Management does not intend to spend the resources needed to find an alternative reservoir site without a specific use for the water. The Company has been unable to find potential customers for this water and cannot be certain that a customer will commit to use the water within the next two years. Since the Company does not have a customer that will commit to use the water and the Company will not commit the resources necessary to move the reservoir site in the absence of a customer, the

Company expects to lose these conditional water rights. Accordingly during the fourth quarter of fiscal 2012, the Company determined the Paradise Water Supply was fully impaired and an impairment charge of $5.5 million was recorded. The Company is currently in the process of disposing of the Paradise Water Supply.

NOTE 5 – PARTICIPATING INTERESTS IN EXPORT WATER

The Company acquired its Rangeview Water Supply through various amended agreements entered into in the early 1990's. The acquisition was consummated with the signing of the CAA in 1996. Upon entering into the CAA, the Company recorded an initial liability of $11.1 million, which represented the cash the Company received from the participating interest holders that was used to purchase the Company's Export Water (described in greater detail in Note 4 – *Water Assets* to the 2013 Annual Report). The Company agreed to remit a total of $31.8 million of proceeds received from the sale of Export Water to the participating interest holders in return for their initial $11.1 million investments. The obligation for the $11.1 million was recorded as debt, and the remaining $20.7 million contingent liability was not reflected on the Company's balance sheet because the obligation to pay this is contingent on the sale of Export Water, the amounts and timing of which are not reasonably determinable.

The CAA obligation is non-interest bearing, and if the Export Water is not sold, the parties to the CAA have no recourse against the Company. If the Company does not sell the Export Water, the holders of the Series B Preferred Stock are also not entitled to payment of any dividend and have no contractual recourse against the Company.

As the proceeds from the sale of Export Water are received and the amounts are remitted to the external CAA holders, the Company allocates a ratable percentage of this payment to the principal portion (the Participating Interests in Export Water Supply liability account) with the balance of the payment being charged to the contingent obligation portion. Because the original recorded liability, which was $11.1 million, was 35% of the original total liability of $31.8 million, 35% of each payment remitted to the CAA holders is allocated to the recorded liability account. The remaining portion of each payment, or 65%, is allocated to the contingent obligation, which is recorded on a net revenue basis.

From time to time the Company repurchased various portions of the CAA obligations in priority. The Company did not make any CAA acquisitions during the fiscal years ended August 31, 2013 and 2012. As a result of the acquisitions, and due to the sale of Export Water, as detailed in the table below, the remaining potential third party obligation at August 31, 2013, is $3.4 million:

	Export Water Proceeds Received	Initial Export Water Proceeds to Pure Cycle	Total Potential Third party Obligation	Paticipating Interests Liability	Contingency
Original balances	$ –	$ 218,500	$ 31,807,700	$ 11,090,600	$ 20,717,100
Activity from inception until August 31, 2012:					
Acquisitions	–	28,077,500	(28,077,500)	(9,790,000)	(18,287,500)
Option payments - Sky Ranch and The Hills at Sky Ranch	110,400	(42,300)	(68,100)	(23,800)	(44,300)
Arapahoe County tap fees *	533,000	(373,100)	(159,900)	(55,800)	(104,100)
Export Water sale payments	111,300	(77,900)	(33,400)	(12,100)	(21,300)
Balance at August 31, 2012	754,700	27,802,700	3,468,800	1,208,900	2,259,900
Fiscal 2013 activity:					
Export Water sale payments	158,000	(110,600)	(47,400)	(16,000)	(31,400)
Balance at August 31, 2013	$ 912,700	$ 27,692,100	$ 3,421,400	$ 1,192,900	$ 2,228,500

* The Arapahoe County tap fees are less $34,522 in royalties paid to the Land Board.

The CAA includes contractually established priorities which call for payments to CAA holders in order of their priority. This means the first three payees receive their full payment before the next priority level receives any

payment and so on until full repayment. The Company will receive $5.1 million of the first priority payout (the remaining entire first priority payout totals $7.3 million as of August 31, 2013).

NOTE 6 – ACCRUED LIABILITIES

At August 31, 2013, the Company had accrued liabilities of $264,700, of which $156,200 was for estimated property taxes on the Sky Ranch property, $56,700 was for professional fees, $30,300 for prepaid farm lease payments and the remaining $21,600 was related to operating payables.

At August 31, 2012, the Company had accrued liabilities of $172,600, of which $60,500 was for estimated property taxes on the Sky Ranch property, $56,800 was for professional fees, $33,500 for prepaid farm lease payments and the remaining $21,500 was related to operating payables.

NOTE 7 – LONG-TERM DEBT AND OPERATING LEASE

As of August 31, 2013, the Company is subject to mortgages with contractual maturity dates as described below.

The Participating Interest in Export Water supply and the Tap Participation Fee payable to HP A&M are obligations of the Company that have no scheduled maturity dates. Therefore, these liabilities are not disclosed in tabular format. However, the Participating Interest in Export Water supply is described in Note 5 – *Participating Interest in Export Water* and the Tap Participation Fee is described below in section "Tap Participation Fee Payable to HP A&M".

Tap Participation Fee Payable to HP A&M

The $59.8 million Tap Participation Fee liability at August 31, 2013, represents the estimated discounted fair value of the Company's obligation to pay HP A&M 20% of the Company's gross proceeds, or the equivalent thereof, from the sale of the next 17,194 water taps sold by the Company.

Initially the obligation was to pay 10% of the Company's gross proceeds, or the equivalent thereof, from the sale of 40,000 water taps sold after the date of the Arkansas River Agreement. The 40,000 water taps were reduced to 17,194 water taps as a result of (i) sales of Arkansas River Valley land in 2006 and 2009, (ii) the sale of unutilized water rights owned by the Company in the Arkansas River Valley in 2007, (iii) the election made by HP A&M, effective September 1, 2011, pursuant to the Arkansas River Agreement, to increase the Tap Participation Fee percentage from 10% to 20%, and to take a corresponding 50% reduction in the number of taps subject to the Tap Participation Fee, (iv) the allocation of 26.9% of the Net Revenues (defined as all lease and related income received from the farms less employee expenses, direct expenses for managing the leases and a reasonable overhead allocation) received by HP A&M from management of the farm leasing operations from September 1, 2011 to August 3, 3012 prior to termination of the Property Management Agreement, and (v) the reduction of 2,233 taps as the result of foreclosures on certain farms pursuant to the remedies outlined in the Arkansas River Agreement.

The fair value of the TPF liability is an estimate prepared by management of the Company. The fair value of the liability is based on discounted estimated cash flows subject to the TPF calculated by projecting future annual water tap sales for the number of taps subject to the TPF at the date of valuation. Future cash flows from water tap sales are estimated by utilizing the following historical information, where available:

- New homes constructed in the area known as the 11-county "Front Range" of Colorado from the 1980's through the valuation date. The Company utilized data for this length of time to provide development information over many economic cycles because the Company anticipates development in its targeted service area to encompass many economic cycles over the development period.
- New home construction patterns for large master planned housing developments along the Front Range. The Company utilized this information because these developments are deemed comparable to projects anticipated to be constructed in the Company's targeted service area (i.e. these master planned communities were located in predominately undeveloped areas on the outskirts of the Front Range).

- Population growth rates for Colorado and the Front Range. Population growth rates were utilized to predict anticipated growth along the Front Range, which was used to predict an estimated number of new homes necessary to house the increased population.
- The Consumer Price Index since the 1980's, which was utilized to project estimated future water tap fees.

Utilizing this historical information, the Company projected an estimated new home development pattern in its targeted service area sufficient to cover the sale of the water taps subject to the Tap Participation Fee at the date of the revaluation, August 31, 2013. The Company revalued the TPF payable as of August 31, 2013 due to the reduction of taps subject to the TPF related to remedies under the Arkansas River Agreement. The estimated proceeds generated from the sale of those water taps resulted in estimated payments to HP A&M over the life of the projected development period of $102.7 million, which is a decrease of $17.9 million from the previous valuation completed in fiscal 2012 ($120.6 million). The estimated payments to HP A&M are then discounted to the current valuation date and the difference between the amount reflected on the Company's balance sheet at the valuation date and the total estimated payments is imputed as interest expense over the estimated development time using the effective interest method. The implied interest rate for the most recent valuation was 5.0%.

Actual new home development in the Company's service area and actual future tap fees inevitably will vary significantly from the Company's estimates, which could have a material impact on the Company's consolidated financial statements. An important component in the Company's estimate of the value of the TPF, which is based on historical trends, is that the Company reasonably expects water tap fees to continue to increase in the coming years. Tap fees are market based and the continued increase in tap fees reflects, among other things, the increasing costs to acquire and develop new water supplies. Tap fees thus are partially indicative of the increasing value of the Company's water assets. The Company continues to assess the value of the TPF liability and updates its valuation analysis whenever events or circumstances indicate the assumptions used to estimate the value of the liability have changed materially. The difference between the net present value and the estimated realizable value will be imputed as interest expense using the effective interest method over the estimated development period utilized in the valuation of the TPF.

Payment of the TPF may be accelerated in the event of a merger, reorganization, sale of substantially all assets, or similar transactions and in the event of bankruptcy and insolvency events. Pursuant to the default provisions of the Company's agreement with HP A&M, the Company reduced the discounted present value of the TPF by $11.7 million during the fiscal year-end August 31, 2013. The Company recorded the decrease in the TPF payable as an equity transaction due to the related party nature of the original transaction. Through August 31, 2013 $26.1 million of interest has been imputed since the acquisition date, recorded using the effective interest method.

Promissory Notes Payable by HP A&M in default

Approximately 60 of the 80 properties the Company originally acquired from HP A&M are subject to outstanding promissory notes payable to third parties that are secured by deeds of trust on the Company's properties and water rights, as well as mineral interests. HP A&M has now defaulted on all of the promissory notes and informed the Company that it does not intend to pay any of the amounts owed. HP A&M owed approximately $9.6 million of principal and accrued interest as of September 1, 2012. These promissory notes are secured by approximately 14,000 acres of land and 16,882 FLCC shares representing water rights owned by the Company.

On July 2, 2012, the Company formally notified HP A&M that its failure to pay the promissory notes constituted an Event of Default under the Seller Pledge Agreement (as defined below) and a default of a material covenant under the Arkansas River Agreement. The Company informed HP A&M that unless such defaults were cured within thirty days, the Property Management Agreement would be terminated and the Company would proceed to exercise certain rights and remedies under the Arkansas River Agreement, the Seller Pledge Agreement, and the Property Management Agreement to protect its assets. The Company's remedies at law and under the Arkansas River Agreement and related agreements include, but are not limited to, the right to (i) foreclose on 1,500,000 shares of Pure Cycle common stock issued to HP A&M and the proceeds therefrom (the "Pledged Shares") which were pledged by HP A&M pursuant to a pledge agreement (the "Seller Pledge Agreement") to secure the payment and performance by HP A&M of the promissory notes described above; (ii) reduce the Tap Participation Fee; (iii)

terminate the Property Management Agreement; and (iv) recover damages caused by the defaults, including certain costs and expenses, including attorneys' fees.

On August 3, 2012, the Company formally terminated the Property Management Agreement. On September 27, 2012, the Pledged Shares were sold at auction in a foreclosure sale for $2.35 per share, yielding approximately $3.42 million of proceeds to the Company (net of fees of $110,000). Pursuant to the Arkansas River Agreement, the Company is reducing the Tap Participation Fee and is entitled to recover damages caused by the defaults, including certain costs and expenses, including attorney fees. The Company is currently pursuing its remedies and will continue to pursue such remedies over the next 12 months.

To protect its land and water interests, during the fiscal ended August 31, 2013, the Company purchased approximately $7.0 million of the $9.6 million notes payable by HP A&M and is negotiating the purchase of the remaining $2.6 million with the holders. HP A&M continues to be liable for making the required payments on the notes, and the Company is pursuing remedies to recover the costs and expenses, including attorneys' fees, incurred by the Company in protecting the rights and title to the land and water rights securing the notes payable by HP A&M, including the costs incurred in purchasing the notes defaulted on by HP A&M. The amount owed on the outstanding notes was approximately $7.9 million, including accrued interest of $122,000, and $9.6 million at August 31, 2013 and August 31, 2012, respectively.

During fiscal year 2013 four of the farms and one FLLC certificate representing water rights only went through foreclosure proceedings due to the defaults by HP A&M. The Company's agreement with HP A&M provides for a reduction of the number of water taps subject to the TPF payable to HP A&M. The Company reduced the number of taps by 2,233 taps and the discounted present value of the Tap Participation Fee by a total of approximately $11.7 million as a result of the foreclosures. As of August 31, 2013 there were 17,194 taps subject to the Tap Participation Fee. Subsequent to the Company's fiscal year end, an additional three farms and one FLCC certificate representing water rights only, collectively including 1,832 FLCC shares, were foreclosed resulting in a reduction of the number of taps subject to the TPF by an additional 3,364 taps (approximately $11.9 million of the TPF), leaving 13,830 taps subject to the Tap Participation Fee.

Future Maturities

Mortgage notes held and defaulted on by HP A&M	$ 2,526,900
Mortgage notes, interest at 5%, due various dates in 2017	5,231,100
Total	7,758,000
Less: current portion	(4,546,900)
Total long-term mortgage payable	$ 3,211,100
Future Maturities	
2014 (including $2,526,900 of HP A&M defaulted notes to third parties)	$ 4,546,900
2015	844,500
2016	887,300
2017	932,200
2018	534,500
2019	12,600
Total	$ 7,758,000

Operating Lease

Effective January 2013, the Company entered into an operating lease for 1,200 square feet of office space. The lease has a two year term with payments of approximately $1,530 per month.

NOTE 8 – SHAREHOLDERS' EQUITY

Sale of common stock and issuance of common stock upon conversion of Convertible Note – Related Party

The Company issued a $5.2 million convertible not on September 28, 2010. The Company's shareholders authorized conversion of the convertible note at the January 11, 2011 annual shareholders' meeting. Following the meeting the note was converted into 1,982,099 unregistered shares of its common stock. From issuance until conversion, the convertible note – Related Party accrued interest at a rate of 10% per annum. During the fiscal year ended August 31, 2011, the Company accrued $151,700 of interest on the Convertible Note – Related Party.

Preferred Stock

The Company's non-voting Series B Preferred Stock has a preference in liquidation of $1.00 per share less any dividends previously paid. Additionally, the Series B Preferred Stock is redeemable at the discretion of the Company for $1.00 per share less any dividends previously paid. In the event that the Company's proceeds from sale or disposition of Export Water rights exceed $36,026,232, the Series B Preferred Stock holders will receive the next $432,513 of proceeds in the form of a dividend.

Equity Compensation Plan

The Company maintains the 2004 Incentive Plan (the "Equity Plan"), which was approved by shareholders in April 2004. Executives, eligible employees and non-employee directors are eligible to receive options and restricted stock grants pursuant to the Equity Plan. Under the Equity Plan, options to purchase shares of stock and restricted stock awards can be granted with exercise prices and vesting periods determined by the Compensation Committee of the Board. The Company initially reserved 1.6 million shares of common stock for issuance under the Equity Plan. At August 31, 2013, the Company had 1,218,311 shares that can be granted to eligible participants pursuant to the Equity Plan.

The Company estimates the fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model ("Black-Scholes model"). Using the Black-Scholes model, the value of the portion of the award that is ultimately expected to vest is recognized as a period expense over the requisite service period in the statement of operations. Option forfeitures are to be estimated at the time of grant and revised if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company does not expect any forfeiture of its option grants and therefore the compensation expense has not been reduced for estimated forfeitures. During fiscal year 2012, 29,500 options were forfeited by option holders and an additional 48,000 options expired. No options were forfeited during the fiscal years ended August 31, 2013 and 2011. The Company attributes the value of share-based compensation to expense using the straight-line single option method for all options granted.

The Company's determination of the estimated fair value of share-based payment awards on the date of grant is affected by the following variables and assumptions:

- The grant date exercise price – is the closing market price of the Company's common stock on the date of grant;
- Estimated option lives – based on historical experience with existing option holders;
- Estimated dividend rates – based on historical and anticipated dividends over the life of the option;
- Life of the option –based on historical experience option grants have lives between 8 and 10 years;
- Risk-free interest rates – with maturities that approximate the expected life of the options granted;

- Calculated stock price volatility – calculated over the expected life of the options granted, which is calculated based on the weekly closing price of the Company's common stock over a period equal to the expected life of the option; and
- Option exercise behaviors – based on actual and projected employee stock option exercises and forfeitures.

In August 2013, the Company granted management options to purchase 100,000 shares of the Company's common stock pursuant to the Equity Plan. The options vest one-third one year from the date of grant, one-third two years from the date of grant, and one-third three years from date of grant. The options expire ten years from the date of grant. The Company calculated the fair value of these options at $427,100 using the Black-Scholes model with the following variables: weighted average exercise price of $5.88 (which was the closing sales price of the Company's common stock on the date of the grant); estimated option lives of ten years; estimated dividend rate of 0%; weighted average risk-free interest rate of 2.71%; weighted average stock price volatility 63.6%; and an estimated forfeiture rate of 0%. The $427,100 of stock-based compensation is being expensed monthly over the vesting periods.

In January 2013, the Company granted its non-employee directors options to purchase a combined 32,500 shares of the Company's common stock pursuant to the Equity Plan. The options vest one year from the date of grant and expire ten years from the date of grant. The Company calculated the fair value of these options at $76,800 using the Black-Scholes model with the following variables: weighted average exercise price of $3.15 (which was the closing sales price of the Company's common stock on the date of the grant); estimated option lives of ten years; estimated dividend rate of 0%; weighted average risk-free interest rate of 1.84%; weighted average stock price volatility 69.2%; and an estimated forfeiture rate of 0%. The $76,800 of stock-based compensation is being expensed monthly over the vesting periods.

In January 2012, the Company granted its non-employee directors options to purchase a combined 12,500 shares of the Company's common stock pursuant to the Equity Plan. The options vest one year from the date of grant and expire ten years from the date of grant. The Company calculated the fair value of these options at $15,400 using the Black-Scholes model with the following variables: weighted average exercise price of $1.85 (which was the closing sales price of the Company's common stock on the date of the grant); estimated option lives of ten years; estimated dividend rate of 0%; weighted average risk-free interest rate of 1.87%; weighted average stock price volatility 73.29%; and an estimated forfeiture rate of 0%. The $15,400 of stock-based compensation is being expensed monthly over the vesting periods.

In January 2011, the Company granted its non-employee directors options to purchase a combined 17,500 shares of the Company's common stock pursuant to the Equity Plan. 12,500 of the options vest one year from the date of grant and expire ten years from the date of grant. 5,000 of the options vest one-half at the first anniversary of the grant date and one-half at the second anniversary of the grant date. The Company calculated the fair value of these options at $54,500 using the Black-Scholes model with the following variables: weighted average exercise price of $3.67 (which was the closing sales price of the Company's common stock on the date of the grant); estimated option lives of ten years; estimated dividend rate of 0%; weighted average risk-free interest rate of 3.37%; weighted average stock price volatility of 84.7%; and an estimated forfeiture rate of 0%. The $54,500 of stock-based compensation is being expensed monthly over the vesting periods.

No options were exercised during the fiscal years ended August 31, 2013, 2012, or 2011.

The following table summarizes the stock option activity for the Equity Plan for the fiscal year ended August 31, 2013:

	Number of Options	Weighted-Average Exercise Price		Weighted-Average Remaining Contractual Term		Approximate Aggregate Instrinsic Value	
Oustanding at beginning of period	215,000	$	5.88				
Granted	132,500	$	5.21				
Exercised	-	$	–				
Forfeited or expired	-	$	-				
Outstanding at August 31, 2013	347,500	$	5.62	$	6.98	$	145,559
Options exercisable at August 31, 2013	215,000	$	5.90	$	4.89	$	121,265

The following table summarizes the activity and value of non-vested options as of and for the fiscal year ended August 31, 2013:

	Number of Options	Weighted-Average Grant Date Fair Value	
Non-vested options oustanding at beginning of period	22,500	$	1.72
Granted	132,500		3.80
Vested	(22,500)		1.72
Forfeited	-		-
Non-vested options outstanding at August 31, 2013	132,500	$	3.80

All non-vested options are expected to vest. The total fair value of options vested during the fiscal years ended August 31, 2013, 2012 and 2011 was $48,700, $66,000 and $74,700, respectively. The weighted average grant date fair value of options granted during the fiscal years ended August 31, 2013, 2012 and 2011 was $3.80, $1.23 and $3.11, respectively.

Share-based compensation expense for the fiscal years ended August 31, 2013, 2012 and 2011, was $66,800, $54,600 and $94,600, respectively.

At August 31, 2013, the Company had unrecognized expenses relating to non-vested options that are expected to vest totaling $453,700. The weighted-average period over which these options are expected to vest is less than three years. The Company has not recorded any excess tax benefits to additional paid in capital.

Warrants

As of August 31, 2013, the Company had outstanding warrants to purchase 92 shares of common stock at an exercise price of $1.80 per share. These warrants expire six months from the earlier of:

(i) The date all of the Export Water is sold or otherwise disposed of,

(ii) The date the CAA is terminated with respect to the original holder of the warrant, or

(iii) The date on which the Company makes the final payment pursuant to Section 2.1(r) of the CAA.

No warrants were exercised during fiscal 2013, 2012 or 2011.

Pledged Common Stock Owned by HP A&M

Pursuant to the Arkansas River Agreement, HP A&M pledged, transferred, assigned and granted to the Company a security interest in and to the Pledged Shares, consisting of 1,500,000 shares of Pure Cycle common stock and the proceeds there from. Due to the HP A&M default the Pledged Shares were sold pursuant to a foreclosure sale for $3.5 million or $2.35 per share.

NOTE 9 – SIGNIFICANT CUSTOMER

The Company sells wholesale water and wastewater services to the District pursuant to the Rangeview Water Agreements. Sales to the District accounted for 34%, 86%, and 91% of the Company's total revenues for the years ended August 31, 2013, 2012 and 2011, respectively. The District had one significant customer, the Ridgeview Youth Services Center. Pursuant to the Rangeview Water Agreements the Company is providing water and wastewater services to this customer on behalf of the District. The District's significant customer accounted for 28%, 53% and 60% of the Company's total revenues for the years ended August 31, 2013, 2012 and 2011, respectively.

Revenues from another customer represented approximately 59% of the Company's water and wastewater revenues for the fiscal year ended August 31, 2013. The Company had no revenues from the other customer for the fiscal years ended August 31, 2012 or 2011.

The Company had accounts receivable from the District which accounted for 20% and 16% of the Company's trade receivables balances at August 31, 2013 and 2012, respectively. Accounts receivable from the District's largest customer accounted for 17% and 13% of the Company's trade receivables as of August 31, 2013, and 2012, respectively.

NOTE 10 – INCOME TAXES

There is no provision for income taxes, because the Company has incurred operating losses. Deferred income taxes reflect the tax effects of net operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets as of August 31 are as follows:

	For the Fiscal Years Ended August 31,	
	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 6,080,000	$ 5,948,300
Imputed interest on Tap Participation Fee	10,074,200	8,852,500
Deferred revenue	494,600	560,700
Impairment charges	-	2,408,800
Depreciation and depletion	4,899,800	2,425,700
Other	43,600	45,000
Valuation allowance	(21,592,200)	(20,241,000)
Net deferred tax asset	$ -	$ -

The Company has recorded a valuation allowance against the deferred tax assets as the Company is unable to reasonably determine if it is more likely than not that deferred tax assets will ultimately be realized.

Income taxes computed using the federal statutory income tax rate differs from our effective tax rate primarily due to the following for the fiscal years ended August 31:

	For the Fiscal Years Ended August 31,		
	2013	2012	2011
Expected benefit from federal taxes at statutory rate of 34%	$ (1,411,200)	$ (5,922,300)	$ (2,045,500)
State taxes, net of federal benefit	(137,000)	(574,800)	(198,500)
Expiration of net operating losses	147,400	90,000	121,000
Permanent and other differences	27,400	25,800	37,800
Change in valuation allowance	1,373,400	6,381,300	2,085,200
Total income tax expense / benefit	$ -	$ -	$ -

At August 31, 2013, the Company has $16.3 million of net operating loss carryforwards available for income tax purposes, which expire between fiscal 2014 and 2028. Utilization of these net operating loss carryforwards may be subject to substantial annual ownership change limitations provided by the Internal Revenue Code. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization.

Net operating loss carryforwards of $395,200, $241,200 and $324,500 expired during the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

NOTE 11 – 401(k) PLAN

Effective July 25, 2006, the Company adopted the Pure Cycle Corporation 401(k) Profit Sharing Plan (the "Plan"), a defined contribution retirement plan for the benefit of its employees. The Plan is currently a salary deferral only plan, and at this time the Company does not match employee contributions. The Company pays the annual administrative fees of the Plan, and the Plan participants pay the investment fees. The Plan is open to all employees, age 21 or older, who have been employees of the Company for at least six months. During the fiscal years ended August 31, 2013, 2012 and 2011, the Company paid fees of $3,300, $3,400 and $2,600, respectively, for the administration of the Plan.

NOTE 12 – LITIGATION LOSS CONTINGENCIES

The Company is involved in various claims, litigation and other legal proceedings that arise in the ordinary course of its business. The Company records an accrual for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome or the minimum amount within a range of possible outcomes. The Company makes such estimates based on information known about the claims and experience in contesting, litigating and settling similar claims. Disclosures are also provided for reasonably possible losses that could have a material effect on the Company's financial position, results of operations or cash flows.

Because each of the lawsuits below involves complex legal issues and uncertainties and are in the early stages of litigation, the Company has determined that no accruals for losses related to the lawsuits are reasonably estimable or deemed reasonably likely at this time.

On December 19, 2011, the Company and the District filed a lawsuit against the State of Colorado by and through the Land Board. The complaint was filed with the District Court, City and County of Denver, State of Colorado. The Company and the District are claiming that the Land Board breached, and will breach, agreements entered into by the Land Board with the Company and the District in connection with a 1996 settlement agreement. Those agreements include (i) the Amended and Restated Water Lease, dated as of April 4, 1996, between the Land Board and the District (the "Lease") and (ii) the Service Agreement of the same date between the Company and the District. As initially reported in a Current Report on Form 8-K filed on November 29, 2011, the Land Board issued a Request for Proposal that included a draft lease agreement related to oil and gas rights at the Land Board's Lowry Range. The Company believes the draft lease agreement did not adequately address or protect the Company's exclusive right to provide water to the Lowry Range. The Land Board subsequently entered into an oil and gas lease for the Lowry Range, which, like the draft lease, does not protect the Company's exclusive rights. As a result of this breach, the Company and the District are claiming damages to be proven at trial.

HP A&M initiated a lawsuit against the Company in District Court, City and County of Denver, State of Colorado on February 27, 2012, alleging breaches of representations made in connection with the Arkansas River Agreement. The HP A&M claims relate to the issues currently being litigated between the Company and the Land Board regarding the Company's exclusive right to provide water service to the Land Board's Lowry Range property. The Company believes the allegations are without merit and intends to vigorously defend against them.

The Land Board asserted certain counterclaims in the lawsuit described above that relate to operational disputes under the Lease. On June 14, 2013, the Company, the District and the Land Board entered into an Arbitration Agreement pursuant to which the parties have agreed to submit three counterclaims under the Lease to binding arbitration: (i) whether revenue from wastewater services are subject to royalties under the Lease and the appropriate payment for a right-of-way for a wastewater reclamation facility, (ii) whether Export Water royalties are owed on a net or gross proceeds basis, and (iii) if, and/or how water from the four aquifers under the Lowry Range should be blended for sale, as well as any related claims of the Company and the District for offset, credit or overpayment of previous royalties paid and defenses to the three claims. The counterclaims have been dismissed from the lawsuit without prejudice. An arbitrator has not yet been selected, so the timing of resolution of these claims is unknown. Because the arbitration has not proceeded past the agreement stage and the outcome is uncertain, the Company has determined that accruals for losses related to the arbitration are not reasonably estimable or deemed reasonably likely at this time. The Company and the District believe that they have been conducting their operations in accordance with the Lease and are prepared to defend their decisions in the arbitration.

During the fiscal year ended August 31, 2013, foreclosure proceedings were commenced against 38 of the properties acquired by the Company from HP A&M which are subject to promissory notes defaulted upon by HP A&M and secured by deeds of trust on the Company's land and water rights. These properties represent approximately 40% of the Company's FLLC shares and over 45% of the Company's Arkansas River land. The proceedings were filed on various dates from January 9, 2013 through July 3, 2013, with the Public Trustees of Bent, Otero and Prowers Counties in Colorado and involve claims against HP A&M for its failure to pay the notes. Foreclosure proceedings in Colorado take at least nine months to conclude. Foreclosure sales were conducted on three of the Company's farm properties on August 28, 2013, and on a fourth property on September 4, 2013, subsequent to fiscal year end. The Company's wholly owned subsidiary, PCY Holding, LLC ("PCY Holdings"), was the successful bidder in the foreclosure sales. Due to statutory protections afforded to the Company as the owner of the properties and the Company's liquidity, the Company had anticipated concluding these foreclosure proceedings on terms which would not have a material adverse effect on its financial position, results of operations or cash flows. On September 16, 2013, HP A&M filed a complaint against PCY Holdings and the Public Trustee for the County of Bent, Colorado. The lawsuit was filed in the District Court, County of Bent, Colorado. HP A&M was seeking (i) a declaratory judgment that it is entitled to redeem the four properties from the foreclosure sales by paying the amount of the outstanding debt, plus fees, which is the amount PCY Holdings bid in the sales, and (ii) preliminary and permanent injunctions against the Public Trustee preventing the Public Trustee from issuing confirmation deeds for the foreclosure sales to PCY Holdings or anyone other than HP A&M. On November 20, 2013 the Complaint was dismissed with prejudice, and judgment was entered in favor of the Public Trustee and PCY Holdings. The District Court ruled that "High Plains' Complaint and Motion are baseless, without statutory authority, and are an attempt to obstruct the proper function of the office of the Public Trustee of Bent County, and PCY Holdings relative to the foreclosures of the four Subject Farms". Further the District Court ruled "that High Plains' Motion and its claims in its Verified Complaint are frivolous and groundless, and awards the Public Trustee of Bent County and PCY Holdings their attorneys' fees and costs incurred in connection with this matter."

HP A&M has 49 days from the date of the judgment in which to file an appeal. If HP A&M appeals this judgment and wins on appeal, the Company could lose these properties, subject to its remedies under the Arkansas River Agreement. The Company intends to vigorously defend any appeal of this ruling.

NOTE 13 – SEGMENT REPORTING

The Company operates primarily in two lines of business: (i) the wholesale water and wastewater business; and (ii) the agricultural farming business. The Company provides wholesale water and wastewater services to customers using water rights owned by the Company and develops infrastructure to divert, treat and distribute that water and collect, treat and reuse wastewater. The Company's agricultural business consists of the Company leasing its

Arkansas River Valley land and water to area farmers under cash leases or in certain cases crop share leases. The following tables show information by operating segment for the fiscal year ended August 31, 2013:

Fiscal Year Ended August 31, 2013

	Business segments			
	Wholesale water and wastewater	Agricultural	All Other	Total
Revenues	$ 544,400	$ 1,241,900	$ 71,200	$ 1,857,500
Gross profit	248,600	1,145,600	70,000	1,464,200
Depletion and depreciation	311,300	-	-	311,300
Other significant noncash items:				
Stock-based compensation	-	-	66,800	66,800
TPF interest expense	3,275,400	-	-	3,275,400
Segment assets	93,522,800	6,697,500	8,398,000	108,618,300
Expenditures for segment assets	-	-	-	-

As of August 31, 2012, the Company had only one operating segment.

NOTE 14 – SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

	For the Fiscal Years Ended August 31,		
	2013	2012	2011
Reduction in Tap Participation Fee Liability resulting from remedies under the Arkansas River Agrement	$ 11,737,300	$ -	$ -
Mortgage payable and related party receivable recorded upon HP A&M default	-	9,550,200	-
Farm revenue allocated against the Tap Participation Fee liability and additional paid in capital thru August 3, 2012	-	189,700	-
Issuance of shares of restricted common stock upon conversion of the Convertible Note - Related Party	-	-	5,351,700
	$ 11,737,300	$ 9,739,900	$ 5,351,700

NOTE 15 – RELATED PARTY TRANSACTIONS

On December 16, 2009, the Company entered into a Participation Agreement with the District, whereby the Company agreed to provide funding to the District in connection with the District joining the South Metro Water Supply Authority ("SMWSA"). The Company provided funding of $139,500, $115,500, and $25,000 for the fiscal years ended August 31, 2013, 2012, and 2011, respectively. The funding was expensed in the general and administrative expenses line in the accompanying statements of operations for the years ended August 31, 2013, 2012, and 2011, respectively.

In 1995, the Company extended a loan to the District, a related party. The loan provided for borrowings of up to $250,000, is unsecured, bears interest based on the prevailing prime rate plus 2% (5.25% at August 31, 2013) and matures on December 31, 2013. The $556,000 balance of the note receivable at August 31, 2013 includes borrowings of $229,300 and accrued interest of $326,700. The $543,900 balance of the note receivable at August 31, 2012 includes borrowings of $229,300 and accrued interest of $314,600. The Company extended the due date to December 31, 2014, and accordingly the note has been classified as non-current.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent to our fiscal year end an additional three farms and 1,832 FLCC shares have been obtained through the foreclosure proceedings resulting in a reduction of the number of taps subject to the TPF by 3,364 taps and a corresponding reduction to the TPF payable of $11.9 million.

Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreement with accountants on accounting and financial disclosures.

Item 9A – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to management, including the principal executive and financial officer as appropriate, to allow timely decisions regarding required disclosures. The President and Chief Financial Officer evaluated the effectiveness of disclosure controls and procedures as of August 31, 2013, pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the President and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, our executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of August 31, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment, we determined that, as of August 31, 2013, our internal control over financial reporting was effective based on those criteria.

(c) Changes in Internal Controls

No changes were made to our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B – Other Information

None

PART III

Information concerning Items 10 through Items 14 will be contained in, and is incorporated herein by reference to, our definitive Proxy Statement pursuant to Regulation 14A promulgated under the Exchange Act for the 2013 Annual Meeting of Shareholders, which is expected to be filed on or about December 6, 2013.

PART IV

Item 15 – Exhibits and Financial Statement Schedules

(a) Financial Statements

1. See “Index to Financial Statements and Supplementary Data” in Part II, Item 8 of this Form 10-K.

2. Financial Statement Schedules: None

3. Exhibits: The exhibits listed in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Form 10-K

Index to Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation of Pure Cycle Corporation. Incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed December 14, 2007.
3.2	Bylaws of Pure Cycle Corporation. Incorporated by reference to Appendix C to the Proxy Statement on Schedule 14A filed December 14, 2007.
4.1	Specimen Stock Certificate. Incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2010.
10.1	2004 Equity Incentive Plan, Incorporated by reference to Exhibit F to the Proxy Statement for the Annual Meeting held April 12, 2004. **
10.2	Service Agreement, dated April 11, 1996, by and between Pure Cycle Corporation and the Rangeview Metropolitan District. Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-QSB for the period ended May 31, 1996.
10.3	Wastewater Service Agreement, dated January 22, 1997, by and between Pure Cycle Corporation and the Rangeview Metropolitan District. Incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-KSB for the fiscal year ended August 31, 1998.
10.4	Comprehensive Amendment Agreement No. 1, dated April 11, 1996, by and among ISC, the Company, the Bondholders, Gregory M. Morey, Newell Augur, Jr., Bill Peterson, Stuart Sundlun, Alan C. Stormo, Beverlee A. Beardslee, Bradley Kent Beardslee, Robert Douglas Beardslee, Asra Corporation, International Properties, Inc., and the Land Board. Incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-QSB for the period ended May 31, 1996.

10.5 Agreement for Sale of Export Water dated April 11, 1996 by and among the Company and the District. Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996.

10.6 Water Service Agreement for the Sky Ranch PUD dated October 31, 2003 by and between Airpark Metropolitan District, Icon Investors I, LLC, the Company and the District. Incorporated by reference to Exhibit 10.9 to the Registration Statement on Form SB-2, filed April 19, 2004, Registration No. 333-114568.

10.7 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 6, 2004. Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

10.8 Agreement to Amend Water Service Agreement for the Sky Ranch PUD dated January 30, 2004. Incorporated by reference to Exhibit 10.14 to Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

10.9 Second Amendment to Water Service Agreement for the Sky Ranch PUD dated March 5, 2004. Incorporated by reference to Exhibit 10.15 to the original Annual Report on Form 10-K for the fiscal year ended August 31, 2007.

10.10 Amended and Restated Lease Agreement between the Land Board and the District dated April 4, 1996. Incorporated by reference to Exhibit 10.17 to Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

10.11 Bargain and Sale Deed among the Land Board, the District and the Company dated April 11, 1996. Incorporated by reference to Exhibit 10.18 to Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

10.12 Mortgage Deed, Security Agreement, and Financing Statement between the Land Board and the Company dated April 11, 1996. Incorporated by reference to Exhibit 10.19 to Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

10.13 Water Service Agreement for the Hills at Sky Ranch Water dated May 14, 2004 among Icon Land II, LLC, a Colorado limited liability company, the Company, and the District. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 21, 2004.

10.14 Agreement for Water Service dated August 3, 2005 among Pure Cycle Corporation, Rangeview Metropolitan District and Arapahoe County incorporated by reference to Exhibit 10.24 to the Current Report on Form 8-K filed on August 4, 2005.

10.15 Arkansas River Agreement dated May 10, 2006, between Pure Cycle Corporation and High Plains A&M, LLC, and the Seller Pledge Agreement, Pure Cycle Corporation Pledge Agreement and Property Management Agreement, attached as exhibits thereto, entered into between Pure Cycle Corporation and High Plains A&M, LLC dated August 31, 2010. Incorporated by reference to Exhibit 10.25 to the Current Report on Form 8-K filed on May 16, 2006.

10.16 Amendment No. 1 to Agreement for Water Service dated August 25, 2008, between Pure Cycle Corporation and Arapahoe County. Incorporated by reference to Exhibit 10.36 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2009.

10.17 Registration Rights Agreement dated September 28, 2010, between Pure Cycle Corporation and PAR Investment Partners, L.P. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on September 29, 2010.

10.18 Paid-Up Oil and Gas Lease dated March 14, 2011, between Pure Cycle Corporation and Anadarko E&P Company, L.P. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 15, 2011.

10.19 Surface Use and Damage Agreement dated March 14, 2011, between Pure Cycle Corporation and Anadarko E&P Company, L.P. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on March 15, 2011.

21.1 Subsidiaries

23.1 Consent of GHP Horwath, P.C. *

31.1 Certification under Section 302 of the Sarbanes-Oxley Act of 2002. *

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

* Filed herewith

** Indicates management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PURE CYCLE CORPORATION

By: /s/ Mark W. Harding
Mark W. Harding, President and Chief Financial Officer
November 27, 2013

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

Signature	Title	Date
/s/ Mark W. Harding Mark W. Harding	President, Chief Financial Officer and Director (Principal Executive Officer, Principal Financial and Accounting Officer)	November 27, 2013
/s/ Harrison H. Augur Harrison H. Augur	Chairman, Director	November 27, 2013
/s/ Arthur G. Epker III Arthur G. Epker III	Director	November 27, 2013
/s/ Richard L. Guido Richard L. Guido	Director	November 27, 2013
/s/ Peter C. Howell Peter C. Howell	Director	November 27, 2013
/s/ George M. Middlemas George M. Middlemas	Director	November 27, 2013

EXHIBIT 21.1

SUBSIDIARIES

PCY Holdings, LLC, a Colorado limited liability company
PCY-DT, LLC, a Colorado limited liability company

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-189166) and Form S-8 (No. 333-115240) of Pure Cycle Corporation of our report dated November 29, 2013 (which expresses an unqualified opinion), which appears on page F-1 of this annual report on Form 10-K for the year ended August 31, 2013.

/s/ GHP HORWATH, P.C.

Denver, Colorado
November 27, 2013

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark W. Harding, certify that:

1. I have reviewed this Annual Report on Form 10-K of Pure Cycle Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 27, 2013

/s/ Mark W. Harding
Mark W. Harding
Principal Executive Officer and Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark W. Harding, the Chief Executive Officer and Chief Financial Officer of Pure Cycle Corporation (the "Company"), hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-K of the Company for the fiscal year ended August 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Mark W. Harding
Mark W. Harding
Principal Executive Officer and Principal Financial Officer
November 27, 2013

Proxy Statement
for the January 15, 2014
Annual Meeting of Shareholders

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant ☒
Filed by a party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material pursuant to Section 240.14a-12

PURE CYCLE CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials:

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: ____________________

(2) Form, Schedule or Registration Statement No.: ____________________

(3) Filing Party: ____________________

(4) Date Filed: ____________________

PURE CYCLE CORPORATION
1490 Lafayette Street, Suite 203
Denver, CO 80218
(303) 292-3456

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on January 15, 2014

TO PURE CYCLE'S SHAREHOLDERS:

You are cordially invited to attend the annual meeting of shareholders' of Pure Cycle Corporation (the "Company"). The meeting will be held at 1550 Seventeenth Street, Suite 500, Denver, Colorado 80202, at the offices of Davis Graham & Stubbs LLP, on January 15, 2014 at 2:00 p.m. Mountain Time. The purposes of the meeting are to:

1. Elect a board of six directors to serve until the next annual meeting of shareholders, or until their successors have been duly elected and qualified;

2. Ratify the appointment of GHP Horwath, P.C. as the Company's independent registered public accounting firm for the 2014 fiscal year;

3. Approve, on an advisory basis, the compensation of the Company's named executive officer;

4. Vote, on an advisory basis, on the frequency of an advisory vote on executive compensation;

5. Approve the Pure Cycle Corporation 2014 Equity Incentive Plan; and

6. Transact such other business as may properly come before the meeting or any adjournment(s) or postponement(s) thereof.

Only shareholders of record as of 5:00 p.m. Mountain Time on November 20, 2013 will be entitled to notice of or to vote at this meeting or any adjournment(s) or postponement(s) thereof.

Whether or not you plan to attend, please vote promptly by following the instructions on the Important Notice Regarding the Availability of Proxy Materials or, if you requested a printed set of proxy materials, by completing, signing and dating the enclosed proxy and returning it in the accompanying postage-paid envelope. Shareholders who attend the meeting may revoke their proxies and vote in person if they so desire.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Scott E. Lehman
Scott E. Lehman, Secretary

December 6, 2013

PURE CYCLE CORPORATION
1490 Lafayette Street, Suite 203
Denver, CO 80218
(303) 292-3456

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS
To be held on January 15, 2014

ABOUT THE MEETING

This proxy statement is being made available to shareholders in connection with the solicitation of proxies by the board of directors of PURE CYCLE CORPORATION (the "Company") for use at the annual meeting of shareholders of the Company (the "Meeting") to be held at 1550 Seventeenth Street, Suite 500, Denver, Colorado 80202, at the offices of Davis Graham & Stubbs LLP on January 15, 2014 at 2:00 p.m. Mountain Time or at any adjournment or postponement thereof. This proxy statement will be made available to shareholders on or about December 6, 2013. The cost of soliciting proxies is being paid by the Company. The Company's officers, directors, and other regular employees may, without additional compensation, solicit proxies personally or by other appropriate means.

How can I get access to the proxy materials?

Instructions on how to access the proxy materials, including this proxy statement and the Company's latest Annual Report on Form 10-K, on-line may be found in the Important Notice Regarding the Availability of Proxy Materials (the "Notice"), as well as instructions to request a printed set of such materials. You may also request the proxy materials by contacting the Company's transfer agent, Broadridge Corporate Issuer Solutions, by calling 1-800-579-1639, by writing the Company's Secretary at the Company's address set forth above, or by visiting www.proxyvote.com and entering the control number from the Notice.

If you would like to receive the Notice via email rather than regular mail in future years, please follow the instructions in the Notice. Choosing to receive future notices by email will help the Company reduce the costs and environmental impact of the Company's shareholder meetings.

What is the purpose of the Meeting?

At the Meeting, shareholders are asked to act upon the matters outlined above in the Notice of Annual Meeting of Shareholders and as described in this proxy statement. The matters to be considered are (i) the election of directors, (ii) the ratification of the appointment of the Company's independent registered public accounting firm for the fiscal year ending August 31, 2014, (iii) the approval, on an advisory basis, of the compensation of the Company's named executive officer, (iv) the recommendation, by advisory vote, on the frequency of advisory voting on executive compensation, (v) the approval of the Pure Cycle Corporation 2014 Equity Incentive Plan (the "2014 Plan"), and (vi) such other matters as may properly come before the Meeting. Management will be available to respond to appropriate questions.

Who is entitled to vote and how many votes do I have?

If you were a shareholder of record as of 5:00 p.m. Mountain Time on November 20, 2013 (the "Record Date"), you will be entitled to vote at the Meeting or any adjournments or postponements thereof. On the Record Date, there were 24,037,598 shares of the Company's 1/3 of $.01 par value common stock ("common stock") issued and outstanding. Each outstanding share of the Company's common stock will be entitled to one vote on each matter acted upon. There is no cumulative voting.

How do I vote?

If your shares are held in an account at a bank, brokerage firm, or other nominee in "street name," you need to submit voting instructions to your bank, brokerage firm, or other nominee in order to cast your vote. If you wish to vote in person at the Meeting, you must obtain a valid proxy from the nominee that holds your shares. If you are the

shareholder of record, you may vote your shares by following the instructions in the Notice mailed on or about December 6, 2013, or, if you have received a printed set of the proxy materials, you may vote your shares by completing, signing and dating the enclosed proxy card and then mailing it to the Company's transfer agent in the pre-addressed envelope provided. You may also vote your shares by calling the transfer agent at the number listed on the proxy card or by attending the Meeting in person.

Can I change or revoke my vote?

A proxy may be revoked by a shareholder any time before it is voted at the Meeting by submission of another proxy bearing a later date, by attending the Meeting and voting in person, or if you are a shareholder of record, by written notice of revocation to the Secretary of the Company.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed within the Company or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. Occasionally shareholders provide written comments on their proxy cards, which are forwarded to management of the Company.

Will my shares held in street name be voted if I do not provide my proxy?

If you hold your shares through a bank, broker, or other nominee, your shares must be voted by the nominee. If you do not provide voting instructions, under the rules of the securities exchanges, the nominee's discretionary authority to vote your shares is limited to "routine" matters. Proposals 1, 3, 4 and 5 are not considered routine matters for this purpose, so if you do not provide your proxy, your shares will not be voted at the Meeting with respect to these proposals. In this case your shares will be treated as "broker non-votes" and will not be counted for purposes of determining the vote on these proposals.

A "broker non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

What is a quorum?

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of common stock constitutes a quorum at the Meeting for the election of directors and for the other proposals. Abstentions and broker non-votes are counted for the purposes of determining whether a quorum is present at the Meeting.

How many votes are required to approve the proposals?

- *Election of Directors* – The election of directors requires the affirmative vote of a plurality of the votes cast by shares represented in person or by proxy and entitled to vote for the election of directors. This means that the nominees receiving the most votes from those eligible to vote will be elected. You may vote "FOR" all of the nominees or your vote may be "WITHHELD" with respect to one or more of the nominees; however, a "withheld" vote or a broker non-vote (defined above) will have no effect on the outcome of the election.

- *Ratification of auditors, advisory vote on executive compensation, approval of the 2014 Plan and other matters* – The number of votes cast in favor of the proposal at the Meeting must exceed the number of votes cast against the proposal for the approval of proposals 2, 3, 5 and other matters. For proposals 2, 3, 5 and any other business matters to be voted on, you may vote "FOR," "AGAINST," or you may "ABSTAIN." Abstentions and broker non-votes will not be counted as votes for or against a proposal and, therefore, have no effect on the vote. Because your vote on executive compensation is advisory, it will not be binding on the board of directors or the Company. However, the board of directors will review the voting results and take them into consideration when making future decisions regarding executive compensation.

- *Frequency of advisory vote on executive compensation* – With respect to the advisory vote regarding the frequency of future executive compensation advisory votes, shareholders may vote for a frequency of every one, two, or three years, or may abstain. The board of directors will consider the option that receives the most votes to be the option selected by our shareholders. Although the vote is advisory and not binding, the board of directors will review and consider the voting results when determining the frequency of shareholder voting on executive compensation. Abstentions and "broker non-votes" will be excluded from the vote and will have no effect on the outcome of the vote.

If no specification is made, then the shares will be voted "FOR" the election as directors of the persons nominated by the board of directors, "FOR" proposal 2, "FOR" proposal 3, as an abstention on proposal 4, "FOR" proposal 5 and otherwise, in accordance with the recommendations of the board of directors.

Does the Company expect there to be any additional matters presented at the Meeting?

Other than the items of business described in this proxy statement, the Company is not aware of any other business to be acted upon at the Meeting. If you grant a proxy, the persons named as proxy-holders, Mark W. Harding and Harrison H. Augur, have the discretion to vote your shares on any additional matter properly presented for a vote at the Meeting. If for any unforeseen reason any of the director nominees are not available for election at the date of the Meeting, the named proxy-holders will vote your shares for such other candidates as may be nominated by the board.

When will the results of the voting being announced?

The Company will announce preliminary results at the Meeting and will publish final results in a current report on Form 8-K to be filed within 4 days of the date of the Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The following table sets forth information as of November 20, 2013, as to the beneficial ownership of shares of the Company's common stock by (i) each person (or group of affiliated persons) known to the Company to own beneficially 5% or more of the common stock, (ii) each director of the Company and each nominee for director, (iii) each executive officer and (iv) all directors and executive officers as a group. All information is based on information filed by such persons with the Securities and Exchange Commission (the "SEC") and other information provided by such persons to the Company. Except as otherwise indicated, the Company believes that each of the beneficial owners listed has sole investment and voting power with respect to such shares. On November 20, 2013, there were 24,037,598 common shares outstanding. Shares not outstanding but deemed beneficially owned by virtue of the right of a person to acquire shares within 60 days of November 20, 2013, are included as outstanding and beneficially owned for that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Mark W. Harding **	727,243 [1]	3.03%
Harrison H. Augur **	139,781 [2]	*
Arthur G. Epker III - One International Place, Suite 2401, Boston, MA 02110	24,000 [3]	*
Richard L. Guido **	31,500 [4]	*
Peter C. Howell **	29,500 [5]	*
George M. Middlemas - 225 W. Washington, #1500, Chicago, IL 60606	31,500 [6]	*
All officers and directors as a group (6 persons)	*983,524* [7]	4.07%
PAR Capital Management, Inc. / PAR Investment Partners, L.P. / PAR Group, L.P. One International Place, Suite 2401, Boston, MA 02110	5,982,970 [8]	24.89%
High Plains A&M, LLC - 301 St. Charles Ave., 3rd Floor, New Orleans, LA 70130	1,500,000 [9]	6.24%
Trigran Investments, Inc. / Trigran Investments, L.P. 630 Dundee Road, Suite 230, Northbrook, IL 60062	2,269,977 [10]	9.44%
Riley McCormack Revocable Trust - 2555 Lake Avenue, Miami Beach, FL 33140	1,650,000 [11]	6.86%
RMB Capital Management, LLC - 115 S. LaSalle Street, 34th Floor, Chicago, IL 60603	1,663,529 [12]	6.92%
Tealwood Asset Management, Inc. - 80 South 8th Street, Suite 1225, Minneapolis, MN	1,248,156 [13]	5.19%

* Less than 1%

** Address is the Company's address: 1490 Lafayette Street, Suite 203, Denver, CO 80218

1. Includes 210,000 shares of common stock held by SMA Investments, LLLP, a limited liability limited partnership controlled by Mr. Harding.

2. Includes 31,500 shares purchasable by Mr. Augur under options exercisable within 60 days. Includes 10,000 shares of common stock held by Patience Partners, LLC, a limited liability company in which a foundation controlled by Mr. Augur is a 60% member and Mr. Augur is a 20% managing member. Includes 46,111 shares of common stock held by Auginco, a Colorado partnership, which is owned 50% by Mr. Augur and 50% by his wife.

3. Includes 24,000 shares purchasable by Mr. Epker under options exercisable within 60 days. Excludes all shares of common stock held directly by PAR Investment Partners, L.P. ("PIP"). PAR Capital Management, Inc. ("PCM"), as the general partner of PAR Group, L.P. ("PGL"), which is the general partner of PIP, has investment discretion and voting control over shares held by PIP. No shareholder, director, officer or employee of PCM has beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) of any shares held by PIP. Mr. Epker is an officer of PCM and has been a director of the Company since 2007. In his capacity as an officer of PCM, Mr. Epker has sole voting and dispositive power with respect to the shares of common stock held by PIP; however, Mr. Epker disclaims beneficial ownership of the shares held by PIP.

4. Includes 31,500 shares purchasable by Mr. Guido under options exercisable within 60 days.

5. Includes 29,000 shares purchasable by Mr. Howell under options exercisable within 60 days.

6. Includes 31,500 shares purchasable by Mr. Middlemas under options exercisable within 60 days.

7. Includes the following shares:

    a. 210,000 shares held by SMA Investments, LLLP as described in number 1 above,
    b. 147,500 shares purchasable by directors and officers under options exercisable within 60 days, and

c. 10,000 shares of common stock held by Patience Partners, LLC, and 46,111 shares of common stock held by Auginco, as described in number 2 above.

8. PIP owns directly 5,892,970 shares. PGL, through its control of PIP as general partner, has sole voting and dispositive power with respect to all 5,892,970 shares owned beneficially by PIP. PCM, through its control of PGL as general partner, has sole voting and dispositive power with respect to all 5,892,970 shares owned beneficially by PIP.

9. This disclosure is based on a Schedule 13G filed by High Plains A&M, LLC ("HP A&M") on September 11, 2006, and the Company's knowledge that 1,500,000 shares previously held by HP A&M were sold by the Company in a foreclosure sale on September 27, 2012. By reason of the status of each of H. Hunter White, Mark D. Campbell and M. Walker Baus as a member and manager of HP A&M, each of them is deemed a beneficial owner of these shares. Each of them disclaims beneficial ownership of the shares held by HP A&M except to the extent of his pecuniary interest in the limited liability company.

10. This disclosure is based on a Schedule 13G/A filed by Trigran Investments, Inc. ("TII"), Trigran Investments, L.P. ("TIL"), Douglas Granat, Lawrence A. Oberman and Steven G. Simon on February 14, 2013. It includes 2,269,977 shares of common stock owned by TIL. By reason of its role as the general partner of TIL, TII may be considered the beneficial owner of the shares owned by TIL. By reason of their role as controlling shareholders and sole directors of TII, each of Douglas Granat, Lawrence A. Oberman and Steven G. Simon may be considered the beneficial owners of shares beneficially owned by TII.

11. This disclosure is based on a Schedule 13G/A filed by Riley McCormack on January 18, 2013.

12. This disclosure is based on a Schedule 13G filed by RMB Capital Management, LLC on February 9, 2011.

13. This disclosure is based on a Schedule 13G filed by Tealwood Asset Management, Inc. ("Tealwood") on January 17, 2012. Tealwood has sole dispositive power over 1,248,156 and sole voting power over 983,605 shares.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the Company's directors, director nominees, and executive officer and their positions currently held with the Company.

Name	Age	Position
Mark W. Harding	50	Director, President, CEO and CFO *
Harrison H. Augur	71	Chairman of the Board *
Arthur G. Epker, III	51	Director *
Richard L. Guido	69	Director *
Peter C. Howell	64	Director *
George M. Middlemas	67	Director *

* Director nominee

The principal occupation and other information about each of the individuals listed above, including the period during which each has served as director or officer can be found beginning on page 17.

CORPORATE GOVERNANCE AND BOARD MATTERS

Board Leadership Structure

The Company's board of directors has chosen to separate the positions of Chief Executive Officer ("CEO") and Chairman of the board. Keeping these positions separate allows the Company's CEO to focus on developing and implementing the Company's business plans and supervising the Company's day-to-day operations and allows the Company's Chairman to lead the board of directors in its oversight and advisory roles. Because of the many responsibilities of the board of directors and the significant time and effort required by each of the Chairman and the

CEO to perform their respective duties, the Company believes that having separate persons in these roles enhances the ability of each to discharge those duties effectively and, as a corollary, enhances the Company's prospects for success. The board of directors also believes that having separate positions provides a clear delineation of responsibilities for each position and fosters greater accountability of management.

Board Risk and Oversight

Our board of directors, as a whole and through its committees, has responsibility for the oversight of risk management. With the oversight of the Company's full board of directors, the Company's CEO is responsible for the day-to-day management of the material risks the Company faces. In its oversight role, the board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Annually, the board of directors holds strategic planning sessions with management to discuss strategies, key challenges, risks and opportunities for the Company. This involvement of the board of directors in setting the Company's business strategy is a key part of its oversight of risk management, its assessment of management's appetite for risk, and its determination of what constitutes an appropriate level of risk for the Company. Additionally, the board of directors regularly receives updates from management regarding certain risks the Company faces, including various operating risks. Management attends meetings of the board of directors and its committees on a regular basis, and as is otherwise needed, and are available to address any questions or concerns raised by the board on risk management and any other matters.

The Audit Committee is responsible for overseeing risk management of financial matters, financial reporting, the adequacy of the Company's risk-related internal controls, internal investigations, and enterprise risks, generally. The Nominating and Corporate Governance Committee (the "Nominating Committee") oversees the Company's corporate governance guidelines and governance-related risks, such as board independence, as well as management and director succession planning. The Compensation Committee oversees risks related to compensation policies and practices and is responsible for establishing and maintaining compensation policies and programs designed to create incentives consistent with the Company's business strategy that do not encourage excessive risk-taking.

Board Membership and Director Independence

Director Independence – At least a majority of the members of the board and all members of the board's Audit, Compensation, and Nominating Committees must be independent in accordance with the listing standards of The NASDAQ Stock Market. The board has determined that five of the six current members, Messrs. Augur, Epker, Guido, Howell, and Middlemas, are independent pursuant to the standards of The NASDAQ Stock Market.

Terms of Directors and Officers – All directors are elected for one-year terms which expire at the annual meeting of shareholders or when their successors are duly elected and qualified. The Company's officers are elected annually by the board of directors and hold office until their successors are duly elected and qualified.

Family Relationships of Directors and Officers – None of the current directors or officers, or nominees for director, is related to any other officer or director of the Company or to any nominee for director.

Board Meetings Held – The board of directors and each of the standing committees described below meet throughout the fiscal year on a set schedule. They also hold special meetings and act by written consent from time to time as appropriate. The Company's independent directors meet regularly in executive sessions without management present. The executive sessions of independent directors are held in conjunction with each regularly scheduled board meeting.

During the fiscal year ended August 31, 2013, the board of directors held two (2) meetings. All board members attended 75% or more of the aggregate of the total number of meetings of the board of directors and the total number of meetings held by all committees of the board on which the director served. All of the Company's board members are expected to attend the annual meeting. All of the Company's board members attended the 2013 Annual Meeting except Mr. Guido.

Committees

The Board has three standing committees: Audit Committee, Compensation Committee and Nominating Committee. Each of the committees regularly reports on its activities and actions to the full board of directors.

Membership in the standing committees for 2013 is set forth below:

Fiscal 2013 Committee Membership			
Director	Audit Committee	Compensation Committee	Nominating Committee
M. Harding	–	–	–
H. Augur	X	X	X
A. Epker	–	X	X
R. Guido	X	–	Chair
P. Howell	Chair	–	–
G. Middlemas	–	Chair	–

Audit Committee – The Audit Committee consists of Mr. Howell (Chair) and Messrs. Augur and Guido. The board of directors has determined that all of the members of the Audit Committee are "independent" within the meaning of the listing standards of The NASDAQ Stock Market and the SEC rules governing audit committees. In addition, the board has determined that Mr. Howell meets the SEC criteria of an "audit committee financial expert" by reason of his understanding of Accounting Principles Generally Accepted in the United States of America ("GAAP") and the application of GAAP, his education, his experiences as an auditor and chief financial officer, and his understanding of financial statements. See Mr. Howell's biography under *Election of Directors (Proposal No. 1)* for additional information.

The functions to be performed by the Audit Committee include the appointment, retention, compensation and oversight of the Company's independent auditors, including pre-approval of all audit and non-audit services to be performed by such auditors. The Audit Committee Charter is available on the Company's website at www.purecyclewater.com. The Audit Committee held five (5) meetings during the fiscal year ended August 31, 2013. In addition, the Audit Committee Chair met twice with the auditors during the fiscal year ended August 31, 2013.

Compensation Committee – The Compensation Committee consists of Mr. Middlemas (Chairman) and Messrs. Augur and Epker. The board of directors has determined that all members of the Compensation Committee are "independent" with the meaning of the listing standards of The NASDAQ Stock Market. The functions to be performed by the Compensation Committee include establishing the compensation of officers, evaluating the performance of officers and key employees, and administering employee incentive compensation plans. The Compensation Committee typically meets with the CEO to obtain information about employee performance and compensation recommendations. It also has the authority to engage outside advisors to assist the committee with its functions. The Compensation Committee has the power to delegate authority to the CEO or a subcommittee to make certain determinations with respect to compensation for employees who are not executive officers. The Company's Compensation Committee Charter is available on the Company's website at www.purecyclewater.com. The Compensation Committee held two (2) meetings during the fiscal year ended August 31, 2013.

Nominating and Corporate Governance Committee – The Nominating Committee consists of Messrs. Guido (Chairman), Epker and Augur. The board of directors has determined that all the members of the Nominating Committee are "independent" within the meaning of the listing standards of The NASDAQ Stock Market. The principal responsibilities of the Nominating Committee are to identify and nominate qualified individuals to serve as members of the board and to make recommendations to the board with respect to director compensation. In addition, the Nominating Committee is responsible for establishing the Company's Corporate Governance Guidelines and evaluating the board and its processes. In selecting nominees for the board, the Nominating Committee is seeking a board with a variety of experience and expertise, and in selecting nominees it will consider business experience in the industry in which the Company operates, financial expertise, independence from the Company, experience with publicly traded companies, experience with relevant regulatory matters in which the Company is involved, and a

reputation for integrity and professionalism. The Company does not have a formal policy with respect to the consideration of diversity in identifying director nominees, but it considers diversity as part of its overall assessment of the board's functions and needs. Nominees must be at least 21 years of age and less than 75 on the date of the annual meeting, unless the Nominating Committee waives such requirements. Identification of prospective board members is done by a combination of methods, including word-of-mouth in industry circles, inquiries of outside professionals and recommendations made to the Company. The Nominating Committee Charter is available on the Company's website at www.purecyclewater.com. The Nominating Committee held two (2) meetings during the fiscal year ended August 31, 2013.

The Nominating Committee will consider nominations for director made by shareholders of record entitled to vote. In order to make a nomination for election at the 2014 annual meeting, a shareholder must provide notice, along with supporting information (discussed below) regarding such nominee, to the Company's Secretary by August 7, 2013, in accordance with the Company's bylaws. The Nominating Committee evaluates nominees recommended by shareholders utilizing the same criteria it uses for other nominees.

Each shareholder recommendation should be accompanied by the following:

- The full name, address, and telephone number of the person making the recommendation, and a statement that the person making the recommendation is a shareholder of record (or, if the person is a beneficial owner of the Company's shares but not a record holder, a statement from the record holder of the shares verifying the number of shares beneficially owned), and a statement as to whether the person making the recommendation has a good faith intention to continue to hold those shares through the date of the Company's next annual meeting;

- The full name, address, and telephone number of the candidate being recommended, information regarding the candidate's beneficial ownership of the Company's equity securities, any business or personal relationship between the candidate and the person making the recommendation, and an explanation of the value or benefit the person making the recommendation believes the candidate would provide as a director;

- A statement signed by the candidate that he or she is aware of and consents to being recommended to the Nominating Committee and will provide such information as the Nominating Committee may request for its evaluation of candidates;

- A description of the candidate's current principal occupation, business or professional experience, previous employment history, educational background, and any areas of particular expertise;

- Information about any business or personal relationships between the candidate and any of the Company's customers, suppliers, vendors, competitors, directors or officers, or other persons with any special interest regarding any transactions between the candidate and the Company; and

- Any information in addition to the above about the candidate that would be required to be included in the Company's proxy statement (including without limitation information about legal proceedings in which the candidate has been involved within the past ten years).

Compensation Committee Interlocks and Insider Participation – No interlocking relationship exists between any member of the board of directors or the Compensation Committee and any other company's board of directors or compensation committee.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics for its directors, officers and employees, which is available on the Company's website at www.purecyclewater.com.

Shareholder Communications with the Board

The board of directors has adopted a policy for shareholders to send communications to the board. The policy is available on the Company's website. Shareholders wishing to send communications to the board may contact the Chairman of the board at the Company's principal place of business or e-mail chairman@purecyclewater.com. All

such communications shall be shared with the members of the board, or if applicable, a specified committee or director.

Director Compensation

Directors who are employees of the Company receive no fees for board service. Currently, Mr. Harding is the only director who is also an employee. Each non-employee director receives a payment of $10,000 for each full year in which he or she serves as a director, with an additional payment of $1,000 for each committee on which he or she serves, and $1,000 for serving as chairman of the board. Directors receive $500 for attendance at each board meeting and, if committee meetings are held separately from board meetings, each director receives $500 for attendance at such committee meetings.

The following table sets forth summary information concerning the compensation paid to the Company's non-employee directors in fiscal 2013 for services to the Company:

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Option Awards (1) ($)	Total ($)
H. Augur (2)	15,500	15,400	30,900
A. Epker (3)	13,000	15,400	28,400
R. Guido (4)	14,000	15,400	29,400
P. Howell (5)	14,500	15,400	29,900
G. Middlemas (6)	12,000	15,400	27,400

(1) In addition to cash compensation, pursuant to the Pure Cycle Corporation 2004 Incentive Plan, as amended (the "2004 Plan"), each non-employee director receives an option to purchase 5,000 shares of common stock upon initial election or appointment to the board (which vest one half at each of the first and second anniversary dates of the grant) and an option to purchase 6,500 shares for each subsequent full year in which he or she serves as a director, which options vest one year from the date of grant. The amounts in this column represent the aggregate grant date fair value of options granted during the Company's fiscal year ended August 31, 2013, as computed in accordance with FASB ASC Topic 718. For more information about how the Company values and accounts for share-based compensation see *Note 8 – Shareholders' Equity* to the Company's audited consolidated financial statements for the year ended August 31, 2013, which are included in the Company's 2013 Annual Report on Form 10-K.

(2) The $15,500 earned by Mr. Augur is comprised of: $10,000 for serving on the board, $1,000 for being chairman of the board, $3,000 for serving on three committees, and $1,500 for attendance at board and committee meetings ($500 per meeting). Mr. Augur had 31,500 options outstanding as of August 31, 2013, all of which are exercisable within 60 days of the filing of this proxy statement.

(3) The $13,000 earned by Mr. Epker is comprised of: $10,000 for serving on the board, $2,000 for serving on two committees, and $1,000 for attendance at board and committee meetings ($500 per meeting). Mr. Epker had 24,000 options outstanding as of August 31, 2013, all of which are exercisable within 60 days of the filing of this proxy statement.

(4) The $14,000 earned by Mr. Guido is comprised of: $10,000 for serving on the board, $2,000 for serving on two committees, and $2,000 for attendance at board and committee meetings ($500 per meeting). Mr. Guido had 31,500 options outstanding as of August 31, 2013, all of which are exercisable within 60 days of the filing of this proxy statement.

(5) The $14,500 earned by Mr. Howell is comprised of: $10,000 for serving on the board, $1,000 for serving on one committee, and $3,000 for attendance at board and committee meetings ($500 per meeting). Mr. Howell had 29,000 options outstanding as of August 31, 2013, all of which are exercisable within 60 days of the filing of this proxy statement.

(6) The $12,000 earned by Mr. Middlemas is comprised of: $10,000 for serving on the board, $1,000 for serving on one committee, and $1,000 for attendance at board and committee meetings ($500 per meeting). Mr. Middlemas had 31,500 options outstanding as of August 31, 2013, all of which are exercisable within 60 days of the filing of this proxy statement.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Persons Covered

This compensation discussion and analysis addresses compensation for fiscal 2013 for Mark W. Harding, the Company's President, CEO and Chief Financial Officer ("CFO") and its only executive officer.

Summary

The Company's compensation plan is designed to attract, retain and motivate quality executive talent critical to the Company's growth and success. The compensation plan is structured to reward the executive officer of the Company with competitive total pay opportunities through a compensation mix that emphasizes cash and non-cash incentives and merit-based salary increases, while de-emphasizing entitlements and perquisites.

Due to modest achievements in fiscal 2012, in August 2012 the Compensation Committee recommended and the board of directors approved maintaining Mr. Harding's salary for fiscal 2013 at the same level as it had been for fiscal 2012. In August 2013, in recognition of the many positive achievements in fiscal 2013, the Compensation Committee recommended and the board approved a cash bonus award and a stock option award for Mr. Harding and a salary increase for fiscal 2014 from $262,500 to $275,000.

2013 Achievements

The Company's 2013 financial results improved compared to 2012, although it continues to operate at a loss in part due to the significant decline in new home construction in Colorado which started in 2006 and only recently has begun to improve. Due in large part to the efforts and leadership of Mr. Harding, the Company achieved a number of financial and strategic objectives during fiscal 2013, including:

- A 175% increase in water revenues due to an increase in water sold for hydraulic fracturing ("fracking");
- The acquisition of approximately $7 million of defaulted promissory notes payable by HP A&M and initiation of foreclosure proceedings on 38 properties to clear title to the properties and obtain any mineral rights owned by HP A&M to recover amounts paid by the Company to resolve the HP A&M defaults;
- The addition of farm income of approximately $1,241,900 due to the termination of the property management agreement with HP A&M;
- Entry into a strategic service agreement with the Town of Bennett;
- The Company has rehabilitated or is in the process of rehabilitating five of the East Cherry Creek Valley Water and Sanitation District System ("ECCV") wells and has added approximately 2,500 ft of 8" buried line so that the Company can deliver water directly to the fracking industry both on and off of the Lowry range;
- Expansion of water delivery capacity to approximately 500,000 gallons per day to meet customer demand for frack water;

- Negotiation of agreements to sell approximately 1,603 acres of land along with 3,397 Fort Lyon Canal Company shares associated with this land for approximately $5.7 million;
- Through an agreement with the Rangeview Metropolitan District, the Company has worked with regional water suppliers, including Denver Water and Aurora Water, to participate in a cooperative water project known as the Water Infrastructure Supply Efficiency partnership ("WISE") which seeks to develop regional infrastructure which would interconnect water transmission systems of members to develop additional water supplies for the Denver region; and
- Completion of a multi-truck load out facility to provide frack water.

Compensation Philosophy

The Company's executive compensation program is administered by the Compensation Committee of the board of directors. The Compensation Committee is composed of Messrs. Middlemas, Augur and Epker, three independent, non-employee directors. The Compensation Committee reviews the performance and compensation level for the CEO and makes recommendations to the board of directors for final approval. The Compensation Committee also determines equity grants under the 2004 Incentive Plan, if any. The CEO may provide information to the Compensation Committee regarding his compensation; however, the Compensation Committee makes the final determination on the executive compensation recommendation to the board. Final compensation determinations are generally made in August at the end of the Company's fiscal year. The following outlines the philosophy and objectives of the Company's compensation plan.

The objectives of the Company's compensation plan are to correlate executive compensation with the Company's objectives and overall performance and to enable the Company to attract, retain and reward executive officers who contribute to its long-term growth and success. The compensation plan is designed to create a mutuality of interest between executive and shareholders through equity ownership programs and to focus the executive's attention on overall corporate objectives, in addition to the executive's personal objectives.

The goal of the Compensation Committee is to provide a compensation package that is competitive with compensation practices of companies with which the Company competes, provides variable compensation that is linked to achievement of the Company's operational performance goals, and aligns the interests of the executive officer and employees with those of the shareholders of the Company. Additionally, the Compensation Committee's goal is to design a compensation package that falls within the mid-range of the packages provided to executives of similarly sized corporations in like industries.

Generally, the executive officer receives a base cash salary and an opportunity to earn a cash bonus based on attainment of predetermined objectives at the discretion of the Compensation Committee. Long-term equity incentives are also considered. The mixture of cash and non-cash compensation items is designed to provide the executive with a competitive total compensation package while not using an excessive amount of the Company's cash or overly diluting the equity positions of its shareholders. The Company's executive officer does not receive any perquisites or personal benefits. The executive officer is eligible for the same benefits available to all Company employees. Currently, this includes participation in a tax-qualified 401(k) plan, health and dental plans.

Compensation of the Company's CEO

The current compensation program for the Company's CEO consists of the following:

Base Salary – In August 2012, the Compensation Committee reviewed and recommended a salary for the CEO for the fiscal year ended August 31, 2013. Mr. Harding's base salary was established by the Compensation Committee based upon publicly available compensation data for executive officers in comparable companies in the water development industry, job responsibilities, level of experience, individual performance and contributions to the business throughout his career with the Company, and Mr. Harding's achievements in fiscal 2012.

In making the base salary decision, the Compensation Committee exercised its discretion and judgment based upon these factors. No specific formula was applied to determine the weight of each factor. While the Compensation Committee reviewed competitive compensation data, it did not benchmark Mr. Harding's compensation to that of

any other company. In August 2012, the Compensation Committee recommended that Mr. Harding's salary remain at $262,500 for fiscal 2013. The board approved the Compensation Committee's recommendation. In August 2013 the Compensation Committee recommended and the board of directors approved a salary increase to $275,000 to be effective for fiscal 2014.

Incentive Bonus – The Compensation Committee's goal in granting incentive bonuses is to tie a portion of the CEO's compensation to the operating performance of the Company and to the CEO's individual contribution to the Company. The Compensation Committee did not benchmark the CEO's bonus to that of executive officers at other companies. In formulating recommendations for bonus compensation for Mr. Harding, the Compensation Committee considered a number of factors, including, among other things: (i) the extraordinary efforts put forth by Mr. Harding in handling the defaults by HP A&M on $9.6 million of promissory notes secured by deeds of trust on the Company's Arkansas River land and water rights and the foreclosures and lawsuits associated with these defaults; (ii) the progress made by Mr. Harding and the Company in achieving the objectives established by the Compensation Committee for fiscal 2013 (as discussed below); (iii) Mr. Harding's experience, talents and skills, and the importance thereof to the Company; and (iv) the potential availability of better paying positions for officers with Mr. Harding's experience and skills.

Development and operation of water and wastewater systems requires long-term planning to meet anticipated future needs of customers, balancing concerns of constructing expensive infrastructure in advance of customer demand with concerns of not being prepared for increased customer demands. The strategy and objectives of the Company must of necessity address the needs of customers over a lifetime. Additionally, development of the areas to be served by the Company's water systems is a process that is anticipated to take many years and involves many factors which are not within the Company's control, including, but not limited to the decisions of the State Land Board of Colorado (the "Land Board") with respect to development of the Lowry Range; housing markets; and competing agendas of governmental entities, developers, environmental groups, conservation groups and agricultural interests. Therefore, performance plan objectives established by the Compensation Committee for the CEO and other key personnel tend to be long range objectives which cannot reasonably be expected to be completed in the course of a single year. Additionally, the Compensation Committee designs the plan to award performance without encouraging inappropriate risk taking.

In August 2012, the Compensation Committee recommended and the board of directors approved establishing a performance plan for fiscal 2013. The Compensation Committee structured the performance plan to provide for a maximum bonus payout for Mr. Harding based on a potential award equal to 100% of his salary with the following targets:

Less than Substantial Progress	***Substantial Progress on Plan***	***Meet Plan***	***Exceed Plan***
Discretionary	75% – 99%	100%	Up to 150%

The 2013 performance plan was comprised of a number of corporate, nonfinancial objectives, long-term and strategic in nature, including the following objectives: (i) entering into agreements to sell fracking water; (ii) expansion of water delivery capabilities; (iii) negotiations with the Land Board to obtain certain corporate objectives and protect the Company's rights on the Lowry Range; (iv) evaluating transactions regarding Sky Ranch; (v) executing an agreement with a municipality on favorable terms to the Company; (vi) repurchasing debt defaulted on by HP A&M; (vii) selling certain farms and FLCC shares; (viii) initiating foreclosure remedies against the properties subject to the HP A&M notes and deeds of trust; and (ix) entering into the WISE agreement. The plan also included corporate strategic objectives the disclosure of which the Company believes would cause competitive harm. The Compensation Committee believed that the achievement of each performance objective, including the undisclosed goals, would be extraordinarily difficult and that it was unlikely that the CEO and key employees would be able to fully achieve them.

In August 2013, the Compensation Committee reviewed the Company's operating results for fiscal 2013 and evaluated the Company's success in achieving the performance plan objectives. The Compensation Committee determined that a bonus was warranted in recognition of Mr. Harding's success in achieving or making significant progress toward achieving 85% of the objectives established in the 2013 performance plan. The Compensation

Committee recommended awarding, and the board authorized awarding, Mr. Harding a discretionary bonus of $80,000 in fiscal 2013, as well as a stock option to purchase 100,000 shares of common stock, as described below.

Long-Term Equity Incentives – The goal of long-term equity incentive compensation is to align the interests of the CEO with those of the Company's shareholders and to provide the CEO with a long-term incentive to manage the Company from the perspective of an owner with an equity stake in the business. It is the belief of the Compensation Committee that stock options and other equity based awards directly motivate an executive to maximize long-term shareholder value. The philosophy of the Compensation Committee in administering the Company's 2004 Plan is to tie the number of stock options and shares of stock awarded to each employee in the plan to the performance of the Company and to the individual contribution of each employee to the Company. The Compensation Committee recommended awarding, and the board authorized awarding, Mr. Harding a non-statutory stock option to purchase 100,000 shares of the Company's common stock in recognition of his performance during the fiscal year ended August 31, 2013, noting that Mr. Harding had not received any equity incentive awards since 2007 and determining that it would be preferable to recognize his achievements with a mix of cash and long-term incentives.

Discussion with Respect to Qualifying Compensation for Deductibility

Section 162(m) of the Internal Revenue Code imposes a limit on tax deductions for annual compensation (other than performance-based compensation) in excess of one million dollars paid by a corporation to its CEO and its other four most highly compensated executive officers. The Company has not established a policy with regard to Section 162(m) of the Internal Revenue Code, because the Company does not currently anticipate paying cash compensation in excess of one million dollars per annum to any employee. The Compensation Committee will continue to assess the impact of Section 162(m) on its compensation practices and determine what further action, if any, is appropriate.

Stock Ownership Requirements for Executive Officers

While the Company has not established stock ownership guidelines for its executive officer, at August 31, 2013, the Company's CEO owned stock with a market value of approximately of fourteen times his base salary, which is in excess of the five times base salary multiple that is the median multiple for the Top 100 of S&P 500 companies and excess of the six times base salary that the Institutional Shareholder Services ("ISS") defines as "robust" ownership, earning such companies the highest score on the item form ISS.

Executive Compensation Tables

The Company's CEO, Mr. Harding, is the Principal Executive Officer and the Principal Financial Officer of the Company and its only executive officer. Therefore, all tables contained in this section relate solely to Mr. Harding.

Summary Compensation Table

Summary Compensation Table

Name and Principal Position	Fiscal Year	Base Salary ($)	Bonus ($)	Option Awards (1) ($)	Total ($)
Mark W. Harding	2013	262,500	80,000	427,099	769,599
President,	2012	262,500	25,000	-	287,500
CEO and CFO	2011	250,000	135,000	-	385,000

(1) The amount in this column represents the aggregate grant date fair value of stock options awarded in fiscal 2013 as computed in accordance with FASB ASC Top 718. See *Note 8 – Shareholders' Equity* to the Company's audited consolidated financial statements for the year ended August 31, 2013, which are included in our 2013 Annual Report on Form 10 K for a description of the assumptions used to value option awards and the manner in which the Company recognizes the related expense pursuant to FASB ASC Topic 718.

Grants of Plan Based Awards – The following table sets forth certain information regarding option awards granted to the named executive officer pursuant to the 2004 Plan during the year ended August 31, 2013:

Grants of Plan-Based Awards				
Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (1)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards (2)
Mark W. Harding 8	8/14/2013	100,000	$ 5.88	$ 427,099

(1) The option award was granted and approved on the same date with an exercise price equal to the closing market price of the Company's common stock on the date of grant. The option award vests in three equal installments on each of the first, second and third anniversary dates of the grant and will expire ten years from date of grant.

(2) Reflects the grant date fair value estimated using the Black-Scholes option pricing model as computed in accordance with FASB ASC 718.

Outstanding Equity Awards at Fiscal Year-End – The following table summarizes certain information regarding outstanding option awards held by the named executive officer at August 31, 2013. There are no other types of equity awards outstanding.

Outstanding Equity Awards at Fiscal Year-End				
Name	Number of Securities Underlying Unexercised Options (#) Exerciseable	Number of Securities Underlying Unexercised Options (#) Unexerciseable (1)	Option Exercise Price	Option Expiration Date
Mark W. Harding	-	100,000	$ 5.88	8/14/2023

(1) One-third of the total number of s hares of common stock subject to the option will vest on each of the first, second and third anniversary of the grant date, August 14, 2013.

Option Exercises and Stock Vested – Mr. Harding did not exercise any options or have any stock vest during the year ended August 31, 2013. Therefore, the Company omitted the Option Exercise and Stock Vested table.

Pension Benefits – The Company does not offer pension benefits. Therefore, the Company omitted the Pension Benefits Table.

Non-Qualified Deferred Compensation – The Company does not have any non-qualified deferred compensation plans. Therefore, the Company has omitted the Non-Qualified Deferred Compensation Table.

Termination or Change-in-Control Payments – The Company does not have any plan or arrangement that provides for payments to the executive officer in connection with a termination or change of control.

Compensation Committee Report[1]

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the Committee's review and discussion with management, has recommended to the full board of directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement for the Annual Meeting.

Respectfully submitted by the Compensation Committee of the Board of Directors

/s/ George M. Middlemas (Chairman)
/s/ Harry H. Augur
/s/ Arthur G. Epker, III

REPORT OF THE AUDIT COMMITTEE[1]

The Audit Committee of the board of directors is comprised of independent directors and operates under a written charter adopted by the board of directors. The Audit Committee charter is reassessed and updated as needed in accordance with applicable rules of the SEC and The NASDAQ Stock Market.

The Audit Committee serves in an oversight capacity. Management is responsible for the Company's internal controls over financial reporting. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and issuing a report thereon. The Audit Committee's primary responsibility is to monitor and oversee these processes and to select and retain the Company's independent auditors. In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the Company's audited financial statements and discussed not only the acceptability but also the quality of the accounting principles, the reasonableness of the significant judgments and estimates, critical accounting policies and the clarity of disclosures in the audited financial statements prior to issuance.

The Audit Committee reviewed and discussed the audited financial statements as of and for the year ended August 31, 2013 with the Company's independent auditors, GHP Horwath, P.C. ("GHP"), and discussed not only the acceptability but also the quality of the accounting principles, the reasonableness of the significant judgments and estimates, critical accounting policies and the clarity of disclosures in the audited financial statements prior to issuance. The Audit Committee meets with GHP, with and without management present, to discuss the results of their examination and the overall quality of the Company's financial reporting. The Audit Committee discussed and reviewed with GHP all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards (SAS) No. 61, as amended (AICPA, *Professional Standards, Vol. 1*, AU Section 380), as adopted by the PCAOB in Rule 3200T. GHP also provided the Audit Committee the written disclosures and the letter required by the applicable requirements of the PCAOB for independent auditor communications with the Audit Committee concerning independence. The Audit Committee also confirmed GHP's independence with GHP.

Based on the foregoing, the Audit Committee recommended to the board of directors that the Company's audited financial statements be included in the Company's Form 10-K for the fiscal year ended August 31, 2013.

/s/ Peter C. Howell (Chairman)
/s/ Harrison H. Augur
/s/ Richard L. Guido

[1] These reports are not "soliciting material," are not deemed "filed" with the Commission and are not to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language in any such filing, except to the extent the Company specifically references one of these reports.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Agreements with Related Parties

Arkansas River Transaction with HP A&M – The Company owns approximately 60,000 acre feet of water rights in the Arkansas River together with approximately 16,700 acres of irrigated farm land in southeastern Colorado. The Company acquired this water and land from HP A&M pursuant to an asset purchase agreement dated May 10, 2006 (the "Arkansas River Agreement"). As consideration for these assets, the Company issued HP A&M 3,000,000 shares of its common stock. As a result of this acquisition HP A&M owned more than 5% of the outstanding shares of common stock of the Company and became a related party. The Company also granted HP A&M the right to receive ten percent (10%) of gross proceeds, or the equivalent thereof, from the sale of the next 40,000 water taps (the "Tap Participation Fee" or "TPF"), which was valued at approximately $45.6 million at the acquisition date. The Tap Participation Fee is due and payable once the Company sells a water tap and receives the consideration due for such water tap. In conjunction with the Arkansas River Agreement the Company also entered into a property management agreement pursuant to which HP A&M agreed to manage the farm properties (the "Property Management Agreement"). Effective as of September 1, 2011, (i) HP A&M elected to increase the Tap Participation Fee percentage from 10% to 20% and take a corresponding 50% reduction in the number of taps subject to the Tap Participation Fee and (ii) pursuant to the Property Management Agreement, the Company began allocating 26.9% of the Net Revenues (defined as all lease and related income received from the farms less employee expenses, direct expenses for managing the leases and a reasonable overhead allocation) paid to HP A&M against the Tap Participation Fee. Although the Company did not sell any water taps during the years ended August 31, 2013 or 2012, the Company allocated Net Revenues in the amount of $189,700 in fiscal 2012 to the Tap Participation Fee liability and additional paid-in capital (due to HP A&M being a related party).

60 of the 80 properties the Company acquired from HP A&M are subject to outstanding promissory notes payable to third parties with principal and accrued interest totaling $7.9 million and $9.6 million at August 31, 2013 and 2012, respectively. These promissory notes are secured by deeds of trust on the Company's Arkansas River properties and water rights. Commencing in the third quarter of fiscal year 2012 and since that date, HP A&M has defaulted on all of the notes and deeds of trust. Although the Company is not legally responsible for paying these notes, if the Company does not cure the defaults, it would lose over 75% of the Arkansas River properties and a comparable percentage of water rights. The Company has a right to collect from HP A&M any amounts the Company spends to cure the defaulted notes. As a consequence of these defaults, the Company terminated the Property Management Agreement in August 2012 and, in September 2013, sold 1.5 million shares of Company common stock owned by HP A&M which were pledged by HP A&M to secure the payment and performance of the promissory notes.

In fiscal 2013, the Company acquired from third parties approximately $7 million of the promissory notes that are payable by HP A&M in exchange for a combination of cash and secured notes payable by the Company. The majority of the notes issued by the Company have a five-year term, bear interest at an annual rate of 5% and require semi-annual payments with a straight-line amortization schedule. The notes purchased by the Company continue to be due and payable by HP A&M to the Company as the new holder. Accordingly, the Company has recorded the entire amount of the HP A&M notes as a receivable from HP A&M.

During the 2013 fiscal year four farms and one FLCC certificate representing water only went through foreclosure proceedings. In accordance with the Company's remedies pursuant the Arkansas River Agreement, the Company exercised its right to reduce the TPF as a result of these foreclosures. The Company reduced the number of taps subject to the TPF by 2,233 and the discounted present value of the TPF by approximately $10.3 million. Subsequent to fiscal 2013, an additional three farms and 1,832 FLCC shares went through foreclosure proceedings resulting in a further reduction of taps subject to the TPF by 3,364 taps and the discounted present value of the TPF by approximately $11.9 million, leaving 13,830 taps subject to the TPF.

Review and Approval of Related Party Transactions

It is the Company's policy as set forth in its Code of Business Conduct and Ethics that actual or apparent conflicts of interest are to be avoided if possible and must be disclosed to the board of directors. Pursuant to the Code of Business Conduct and Ethics, any transaction involving a related party must be reviewed and approved by the Audit Committee. Additionally, the Audit Committee Charter requires the Audit Committee to review any transaction involving the Company and a related party at least once a year or upon any significant change in the transaction or

relationship. The Code also provides non-exclusive examples of conduct which would involve a potential conflict of interest and requires any material transaction involving a potential conflict of interest to be approved in advance by the board. If a waiver from the Code is granted to an executive officer or director, the nature of the waiver will be disclosed on the Company's website, in a press release, or on a current report on Form 8-K.

The Company annually requires each of its directors and executive officers to complete a directors' and officers' questionnaire that solicits information about related party transactions. The Company's board of directors and outside legal counsel review all transactions and relationships disclosed in the directors' and officers' questionnaire, and the board makes a formal determination regarding each director's independence. If a director is determined to no longer be independent, such director, if he or she serves on any of the Audit Committee, the Nominating Committee, or the Compensation Committee, will be removed from such committee prior to (or otherwise will not participate in) any future meeting of the committee. If the transaction presents a conflict of interest, the board of directors will determine the appropriate response.

ELECTION OF DIRECTORS
(Proposal No. 1)

As of the date of the Meeting, the number of members of the board of directors will be fixed at six. The board of directors nominates the following persons currently serving on the board for reelection to the board: Mark W. Harding, Harrison H. Augur, Arthur G. Epker, III, Richard L. Guido, Peter C. Howell, and George M. Middlemas.

Set forth below are the names of all nominees for director, all positions and offices with the Company held by each such person, the period during which each has served as such, and the principal occupations and employment of and public company directorships held by such persons during at least the last five years, as well as additional information regarding the skills, knowledge and experience with respect to each nominee which has led the board of directors to conclude that each such nominee should be elected or re-elected as a director of the Company.

Mark W. Harding. Mr. Harding joined the Company in April 1990 as Corporate Secretary and Chief Financial Officer. He was appointed President of the Company in April 2001, CEO in April 2005, and a member of the board of directors in February 2004. Mr. Harding brings a background in investment banking and public finance, having worked from 1988 to 1990 for Price Waterhouse's management consulting services where he assisted clients in public finance and other investment banking related services. In determining Mr. Harding's qualifications to be on the board of directors, the board of directors considered, among other things, that Mr. Harding is the President and a board member of the Rangeview Metropolitan District and serves on a number of advisory boards relating to water and wastewater issues in the Denver region, including a statewide roundtable created by the Colorado legislature charged with identifying ways in which Colorado can address the water shortages facing Front Range cities including Denver and Colorado Springs. Mr. Harding earned a B.S. Degree in Computer Science and a Masters in Business Administration in Finance from the University of Denver.

Harrison H. Augur. Mr. Augur joined the board and was elected Chairman in April 2001. For more than 20 years, Mr. Augur has been involved with investment management and venture capital investment groups. Mr. Augur has been a managing member of Patience Partners, LLC since 1999. Mr. Augur received a Bachelor of Arts degree from Yale University, an LLB degree from Columbia University School of Law, and an LLM degree from New York University School of Law. In determining Mr. Augur's qualifications to serve on the board of directors, the board of directors has considered, among other things, his extensive experience and expertise in finance and law.

Arthur G. Epker, III. Mr. Epker was appointed to the board in August 2007. Since 1992, Mr. Epker has been a Vice President and partner of PAR Capital Management, Inc., an investment adviser. In that capacity, Mr. Epker manages a portion of the assets of PAR Investment Partners, L.P., a private investment fund. Mr. Epker is also a director of Champions Oncology, Inc. and The Steppingstone Foundation. Mr. Epker received his undergraduate degree in computer science and economics with highest distinction from the University of Michigan and received a Master of Business Administration from Harvard Business School. In determining Mr. Epker's qualifications to serve on the board of directors, the board of directors has considered, among other things, his extensive experience and expertise in finance and investment management.

Richard L. Guido. Mr. Guido served as a member of the Company's board from July 1996 through August 31, 2003, and rejoined the board in 2004. Mr. Guido was Associate General Counsel of DeltaCom, Inc., a

telecommunications company, from March 2006 to March 2007. From 1980 through 2004, Mr. Guido was an employee of Inco Limited, a Canadian mining company (now known as Vale). While at Inco Mr. Guido served as Associate General Counsel of Inco Limited and served as President, Chief Legal Officer and Secretary of Inco United States, Inc., now known as Vale Americas, Inc. Mr. Guido received a Bachelor of Science degree from the United States Air Force Academy, a Master of Arts degree from Georgetown University, and a Juris Doctor degree from the Catholic University of America. In determining Mr. Guido's qualifications to serve on the board of directors, the board of directors has considered, among other things, his extensive experience and expertise in finance, law and natural resource development.

Peter C. Howell. Mr. Howell was appointed to fill a vacancy on the board in February 2005. From 1997 to present, Mr. Howell has served as an officer, director or advisor to various business enterprises in the area of acquisitions, marketing and financial reporting. From August 1994 to August 1997, Mr. Howell served as the Chairman and Chief Executive Officer of Signature Brands USA, Inc. (formerly known as Health-O-Meter), and from 1989 to 1994 Mr. Howell served as Chief Executive Officer and a director of Mr. Coffee, Inc. Mr. Howell is a member of the board of directors of Libbey, Inc., Global Lite Array Inc. (a subsidiary of Global-Tech Advanced Innovations Inc.) and Great Lakes Cheese, Inc., a privately held company. Mr. Howell received a Master of Arts degree in Economics from Cambridge University. In determining Mr. Howell's qualifications to serve on the board of directors, the board of directors has considered, among other things, his extensive experience and expertise in finance and financial reporting as well as his general business expertise.

George M. Middlemas. Mr. Middlemas has been a director since April 1993. Mr. Middlemas has been a general partner with Apex Venture Partners, a diversified venture capital management group, since 1991. From 1985 to 1991, Mr. Middlemas was Senior Vice President of Inco Venture Capital Management, primarily involved in venture capital investments for Inco Securities Corporation. From 1979 to 1985, Mr. Middlemas was Vice President and a member of the Investment Committee of Citicorp Venture Capital Ltd., where he sourced, evaluated and completed investments for Citicorp. Mr. Middlemas is a director of Advanced Equities Financial Corporation and Combinenet and previously served 15 years as a director of the Joffrey Ballet of Chicago. Mr. Middlemas received a Bachelor's degree in History and Political Science from Pennsylvania State University, a Masters degree in Political Science from the University of Pittsburgh and a Master of Business Administration from Harvard Business School. In determining Mr. Middlemas's qualifications to serve on the board of directors, the board of directors has considered, among other things, his extensive experience and expertise in finance and investment management, as well as his Certified Public Accountant ("CPA") Certificate.

The proxy cannot be voted for more than the six nominees named. Directors are elected for one-year terms or until the next annual meeting of the shareholders and until their successors are elected and qualified. All of the nominees have expressed their willingness to serve, but if because of circumstances not contemplated, one or more nominees is not available for election, the proxy holders named in the enclosed proxy card intend to vote for such other person or persons as the Nominating Committee may nominate.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE ELECTION AS DIRECTORS OF THE PERSONS NOMINATED.

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Proposal No. 2)

Action is to be taken by the shareholders at the Meeting with respect to the ratification and approval of the selection by the Audit Committee of the Company's board of directors of GHP Horwath, P.C. ("GHP") to be the independent registered public accounting firm of the Company for the fiscal year ending August 31, 2014. In the event of a negative vote on such ratification, the Audit Committee of the board of directors will reconsider its selection. A representative of GHP is expected to be present at the Meeting. The GHP representative will have the opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions.

The Audit Committee reviews and approves in advance the audit scope, the types of non-audit services, if any, and the estimated fees for each category for the coming year. For each category of proposed service, GHP is required to

confirm that the provision of such services does not impair the auditors' independence. Before selecting GHP, the Audit Committee carefully considered that firm's qualifications as an independent registered public accounting firm for the Company. This included a review of its performance in prior years, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Audit Committee has expressed its satisfaction with GHP in all of these respects. The Audit Committee's review included inquiry concerning any litigation involving GHP and any proceedings by the SEC against the firm.

GHP has no direct or indirect financial interest in the Company and does not have any connection with the Company in the capacity of promoter, underwriter, voting trustee, director, officer or employee. Neither the Company, nor any officer, director nor associate of the Company has any interest in GHP.

Fees – For the fiscal years ended August 31, 2013 and 2012, the Company was billed the following audit, audit-related, tax and other fees by its independent registered public accountant. The audit related fees are comprised entirely of fees for additional procedures performed on subsequent events. The tax fees are comprised entirely of fees for the preparation of the federal and state corporate tax returns. The Audit Committee approved 100% of these fees in accordance with the Audit Committee Charter.

	For the Fiscal Years Ended:	
	August 31, 2013	August 31, 2012
Audit Fees	$ 62,000	$ 44,600
Audit Related Fees	$ –	$ 1,750
Tax	$ 8,500	$ 9,000
All Other Fees	$ 3,640	$ –

Pre-Approval Policy – The Audit Committee has established a pre-approval policy in its charter. In accordance with the policy, the Audit Committee pre-approves all audit, non-audit and internal control related services provided by the independent auditors prior to the engagement of the independent auditors with respect to such services.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS.

ADVISORY VOTE ON EXECUTIVE COMPENSATION
(Proposal No. 3)

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted in July 2010, requires that we provide our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officer as disclosed in the Proxy Statement in accordance with the compensation disclosure rules of the SEC.

We urge shareholders to read the "Executive Compensation" section beginning on page 10 of this Proxy Statement, as well as the Summary Compensation Table and other related compensation tables and narrative, beginning on page 13 of the Proxy Statement, which provide detailed information on the compensation of our named executive officer. The Company's compensation programs are designed to support its business goals and promote short- and long-term profitable growth of the Company. Our 2004 Plan and our proposed 2014 Plan are intended to align compensation with the long-term interests of our shareholders.

We are asking shareholders to approve the following advisory resolution at the Meeting:

> RESOLVED, that the shareholders of the Company approve, on an advisory basis, the compensation of the Company's named executive officer, as disclosed pursuant to Item 402 of Regulation S-K, including the disclosure under the heading "Executive Compensation" and in the compensation tables and accompanying narrative discussion in the Company's Definitive Proxy Statement.

This advisory resolution, commonly referred to as a "say-on-pay" resolution, is not binding on the Company or the board of directors. The say-on-pay proposal is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officer and the executive compensation policies, practices, and plans described in this Proxy Statement. Although non-binding, the board of directors will carefully review and consider the voting results when making future decisions regarding the Company's executive compensation program.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICER.

FREQUENCY OF ADVISORY VOTE ON EXECUTIVE COMPENSATION (Proposal No. 4)

The Dodd-Frank Act also provides that shareholders must be given the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently we should seek advisory votes on the compensation of our named executive officer as disclosed in accordance with the compensation disclosure rules of the SEC. By voting with respect to this Proposal 4, shareholders may indicate whether they would prefer that we conduct advisory votes on executive compensation every one, two, or three years. Shareholders also may, if they desire, abstain from casting a vote on this proposal.

After consideration of the various arguments supporting each frequency level, the board of directors has determined that it will not make a recommendation regarding the frequency of the shareholders' advisory vote on the compensation of the company's named executive officer. The board of directors will determine the frequency of future votes on executive compensation after taking into consideration the preferences of the shareholders as reflected by the results of the advisory vote at the Meeting. The proxy card provides shareholders with the opportunity to choose among four options (holding the vote every one, two, or three years, or abstaining).

We are asking shareholders to approve the following advisory resolution at the Meeting:

> RESOLVED, that the option of every one year, two years, or three years that receives the most votes cast by shareholders present in person or by proxy and entitled to vote at the Annual Meeting will be determined to be the preferred frequency of the shareholders for holding an advisory shareholder vote to approve the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the disclosure under the heading "Executive Compensation" and in the compensation tables and accompanying narrative discussion in the Company's Definitive Proxy Statement.

This vote is advisory and not binding on the Company or the board of directors. Although non-binding, the board of directors will take into account the outcome of the vote when considering the frequency of future advisory votes on executive compensation. Notwithstanding the outcome of the shareholder vote, the board of directors may decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with shareholders and the adoption of material changes to compensation programs.

THE BOARD OF DIRECTORS IS NOT MAKING A RECOMMENDATION ON PROPOSAL NO. 4 REGARDING THE FREQUENCY OF THE SHAREHOLDER ADVISORY VOTE ON APPROVAL OF COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS.

APPROVAL OF PURE CYCLE CORPORATION 2014 EQUITY INCENTIVE PLAN (Proposal No. 5)

Background

In 2004 the shareholders approved the 2004 Plan that provided for option and stock grants to officers, employees,

consultants and directors of the Company. The 2004 Plan expires on April 12, 2014. In order to enable the Company to continue its historic practice of providing long-term incentives to officers, employees, consultants and directors, the board of directors is submitting the Pure Cycle Corporation 2014 Equity Incentive Plan to the shareholders for approval. The board of directors believes that it is in the best interest of the Company and the shareholders to approve the 2014 Plan. The board of directors approved the 2014 Plan on October 21, 2013, subject to approval by the shareholders at the Meeting. The 2014 Plan will become effective on April 12, 2014, or on the date it is approved by the shareholders, whichever is later. The 2014 Plan will replace the 2004 Plan, which expires on April 12, 2014. If the shareholders do not approve the 2014 Plan, the Company will be limited in its ability to offer equity incentive awards to officers, employees, consultants and directors after April 12, 2014, the expiration date of the 2004 Plan.

Summary Description of the 2014 Plan

The material provision of the 2014 Plan are summarized below: The following description of the 2014 Plan is a summary and is qualified in its entirety by reference to the 2014 Plan, a copy of which is attached as Appendix A to this Proxy Statement. Shareholders are urged to review the 2014 Plan before determining how to vote on this proposal.

Purpose – The purpose of the 2014 Plan is to attract, motivate and retain officers, employees, consultants, and directors by issuing common stock based incentives to directors, officers, employees and consultants who are selected for participation. By relating incentive compensation to increases in shareholder value, it is hoped that these individuals will both continue in the long-term service of the Company and be motivated to experience a heightened interest and participate in the future success of Company operations. The 2014 Plan is designed so that the interests of individuals selected to receive the award will be more closely aligned with that of the Company's shareholders.

Participation – Participants in the 2014 Plan shall be those officers, full and part-time employees, consultants and non-employee directors who, in the judgment of the Committee are performing, or during the term of their incentive arrangement, will perform important services in the management, operation and development of the Company, and are expected to significantly contribute to long term corporate economic objectives. The 2014 Plan is administered by the board of directors or the Compensation Committee of the board of directors (the "Administrator"). Subject to the terms of the 2014 Plan, the Administrator determines the persons to whom awards are granted, the types of awards granted, the number of shares subject to the awards, the vesting schedules, the type of consideration to be paid to the Company upon exercise of awards and the term of any award (which cannot exceed ten years). No single participant may be granted an award in excess of 300,000 shares in a twelve-month period. The Administrator may delegate to officers the power to make these determinations, except with respect to grants to executive officers and directors. There are currently one officer, four employees, six non-employee directors and no consultants eligible to participate in the 2014 Plan.

Form of Awards – Awards under the 2014 Plan may be granted in any one or all of the following forms: (i) incentive stock options ("ISOs") intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) non-qualified stock options ("NSOs"); (iii) stock appreciation rights, which may be granted in tandem with options or on a stand-alone basis; (iv) shares of restricted stock; (v) shares of unrestricted stock; (vi) performance shares, and (vii) performance units.

Maximum Shares Available – The maximum aggregate number of shares of common stock available for award under the 2014 Plan is 1,600,000, subject to adjustment as provided in the 2014 Plan. Shares that are subject to an award which are not used because the terms of the award are not met, including shares which expire, terminate or are forfeited, shares used for full or partial payment of the purchase price of an award, and shares retained by the Company for withholding tax purposes will be available for subsequent awards under the 2014 Plan.

Options – Under the 2014 Plan, the Administrator may grant both ISOs and NSOs. Options may not be granted under the 2014 Plan at an exercise price of less than the fair market value of the common stock on the date of grant and the term of options cannot exceed ten years. ISOs may only be granted to persons who are employees of the Company. The exercise price of an ISO granted to a holder of more than 10% of the common stock must be at least 110% of the fair market value of the common stock on the date of grant, and the term of these options cannot exceed five years. No more than 1,600,000 shares are available for grant as ISOs. The aggregate market price (determined

at the date of grant) of common stock with respect to which ISO's are exercisable for the first time by any option holder during any year under all Company plans may not exceed $100,000. ISOs granted pursuant to the 2014 Plan may not be exercised more than three months after the option holder ceases to be an employee of the Company, except that in the event of the death, disability, or retirement of the option holder, the option may be exercised by the holder (or such holder's estate, as the case may be), for a period of up to one year after the date of death, disability or retirement.

Stock Appreciation Rights – The Administrator may grant free standing stock appreciation rights or stock appreciation rights in tandem with option awards. Stock appreciation rights represent the right to receive upon exercise an amount payable in cash or common stock equal to (A) the number of shares with respect to which the stock appreciation right is being exercised multiplied by (B) the excess of (i) the fair market value of a share of common stock on the date the award is exercised over (ii) the exercise price specified in the award agreement.

Tandem stock appreciation rights may be exercisable only to the extent that the related option is exercisable and will be exercisable only for such period as the Administrator determines, which may expire prior to the expiration of the related option. If a stock appreciation right is issued in tandem with an option, the exercise of the stock appreciation right or the related option will result in an equal reduction in the number of corresponding shares subject to the option or stock appreciation right, as applicable, that were granted in tandem with such stock appreciation right or option. Nontandem stock appreciation rights will be exercisable during such period as the Administrator determines.

At the discretion of the Administrator, payment upon exercise may be in cash, shares of common stock (with or without restrictions), or any combination thereof, as determined by the Administrator in its sole discretion.

Performance Awards – Under the performance award component of the 2014 Plan, participants may be granted an award denominated in shares of common stock ("performance shares") or in dollars ("performance units"). Achievement of the performance targets, or multiple performance targets established by the Administrator relating to corporate, group, unit or individual performance based upon standards set by the Administrator shall entitle the participant to payment at the full amount or a portion of the amount specified with respect to the award, at the discretion of the Administrator based on its evaluation of the performance of the target goals applicable to such award. Payment may be made in cash, common stock or any combination thereof, as determined by the Administrator, and shall be adjusted in the event the participant ceases to be an employee of the Company before the end of a performance cycle by reason of death, disability or retirement.

Stock Awards – Under the stock component of the 2014 Plan, the Administrator may, in selected cases, grant to a plan participant a given number of shares of restricted stock or unrestricted stock. Restricted stock under the 2014 Plan is common stock restricted as to sale pending fulfillment of such vesting schedule and employment requirements as the Administrator shall determine. Prior to the lifting of the restrictions, the participant will nevertheless be entitled to receive distributions in liquidation and dividends on, and to vote the shares of, the restricted stock. The 2014 Plan provides for forfeiture of restricted stock for breach of conditions of grant.

Non-Employee Director Awards – The 2014 Plan also permits the board of directors (and not the Compensation Committee) to grant awards of NSOs, restricted stock or unrestricted stock to non-employee directors. The board may authorize individual grants or adopt one or more formulas for grants of awards to the non-employee directors. All options granted to non-employee directors must have an exercise price equal to the fair market value at the date of grant.

Exercise Price – The exercise price of awards may be paid in cash, in shares of common stock (valued at fair market value at the date of exercise), by delivery of a notice of exercise together with irrevocable instructions to a broker to deliver to the Company the proceeds of the sale of common stock or of a loan from the broker sufficient to pay the exercise price, by having the Company withhold from shares being exercised the number of shares having a fair market value equal to the exercise price for all shares being exercised, or by a combination of the foregoing means of payment, as may be determined by the Administrator. The Company may guarantee a third-party loan or make a loan to a participant that is not an officer or director if all or part of the exercise price of such loan is secured by the stock underlying the award and the loan bears a market interest rate.

162(m) Awards – Generally the Company cannot deduct compensation paid to the named executive officers in

excess of $1,000,000. An exemption is available for "qualified performance based" compensation that satisfies the requirements of Section 162(m) of the Code. The 2014 Plan permits the Administrator to establish awards which qualify for the exemption. In order to qualify, an award must be based on the achievement of one or more objective performance goals selected by the Administrator which shall be based on one or any combination of the following: specified levels of earnings per share, operating income (before or after taxes), production or production growth, resource replacement or resource growth, revenues, gross margin, return on operating assets, return on equity, economic value added, stock price appreciation, total shareholder return (measured in terms of stock price appreciation and dividend growth), successful completion of financing, cash flows, or cost control, of the Company, an affiliate, or a division for or within which the participant is primarily employed. Such performance goals may also be based upon the attaining of specified levels of Company performance under one or more of the measures described above relative to the performance of other companies. The Administrator may not adjust such an award upwards, nor may it waive the achievement of goals except in the case of death or disability of the participant.

Adjustments – The 2014 Plan provides that the total number of shares covered by such 2014 Plan, the number of shares covered by each award and the exercise price per share may be proportionately adjusted by the Administrator in the event of a stock split, reverse stock split, stock dividend or similar capital adjustment effected without receipt of consideration by the Company. Upon a merger or sale of substantially all assets of the Company, the Administrator will have the power and discretion to prescribe the terms for exercise or modification of outstanding awards under the 2014 Plan. In addition, upon a change of control, the Administrator is authorized to make adjustments in outstanding awards, including acceleration of exercise dates and vesting schedules, granting cash bonuses to award holders equal to the exercise price, making cash payments to holders equal to the difference between the fair market value and the exercise price of awards in exchange for cancellation of the awards, and elimination of restrictions on vesting of restricted stock or performance shares.

Amendments – The board of directors may amend or discontinue the 2014 Plan at any time, provided that no such amendment may become effective without approval of the shareholders if shareholder approval is necessary to satisfy statutory or regulatory requirements or if the board of directors, on advice of counsel, determines that shareholder approval is otherwise necessary or desirable. No amendment or discontinuance shall adversely affect the rights and obligations with respect to outstanding awards under the 2014 Plan without the consent of award holders.

Registration of Underlying Common Stock – If the 2014 Plan is approved by the shareholders, the Company expects to file a registration statement on Form S-8 to register up to the 1,600,000 shares of common stock that will be reserved for issuance under the 2014 Plan.

Comparison of 2014 Plan to 2004 Plan

The provisions of the 2014 Plan are substantially similar to the provisions of the expiring 2004 Plan. The 2014 Plan varies in substance from the expiring 2004 Plan as follows:

- The repricing provisions were revised to eliminate the ability of the Administrator to reprice outstanding awards unless shareholder approval is obtained;
- Stock appreciation rights were added as a type of award available for grant under the 2014 Plan; and
- The section governing awards to non-employee directors was revised to eliminate the specific formula grants awarded to non-employee directors upon initial election to the board and upon reelection to the board. Instead, subject to certain limitations, the board of directors has discretion to determine the nature of awards, the number of shares subject to awards, and the other terns of awards granted to non-employee directors, including the discretion to adopt one or more formulas for the determination of non-employee director awards.

Current Plan Benefits

The following table sets forth information as of August 31, 2013, with respect to the Company's 2004 Plan. The Company does not have any other equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	347,500	$5.62	1,218,311
Equity compensation plans not approved by security holders	–	–	–
Total	347,500	$5.62	1,218,311(1)

(1) The securities available for issuance under the 2004 Plan will cease to be available on April 12, 2014, the expiration date of the 2004 Plan.

New Plan Benefits

No awards have been proposed or are determinable at this time for the 2014 Plan. However, if the 2014 Plan had been in effect during the last fiscal year, the non-employee directors would have received 6,500 shares each at the annual meeting upon reelection to the board. Such grants are reflected below.

2014 Equity Incentive Plan

Position	Dollar Value ($)(1)	Number of Units
Executive Group (1 person)	(2)	(2)
Non-Executive Director Group (5 persons)	76,800	32,500(3)
Non-Executive Officers (none)	(2)	(2)
Employee Group (5 persons)	(2)	(2)

(1) Dollar value based on the fair market value on January 16, 2013, the date of the 2013 annual meeting.

(2) If the proposed 2014 Plan is approved, the shares authorized for the 2014 Plan will be used only for future grants. No awards have been proposed or are determinable at this time for these groups.

(3) The board of directors anticipates continuing the practice under the 2004 Plan of awarding an NSO to purchase 6,500 shares of common stock to each non-employee director on the date of the annual meeting for service on the board of directors. Such options are expected to vest on the first anniversary of the date of grant.

Federal Income Tax Consequences of the Equity Incentive Plan

The following is a general summary of the federal income tax consequences that may apply to recipients of options, stock appreciation rights, stock, performance shares and performance units under the 2014 Plan. Because the application of the tax laws may vary according to individual circumstances, each participant is urged to seek professional tax advice concerning the tax consequences to him or her of participation in the 2014 Plan including the potential application and effect of state, local and foreign tax laws and estate and gift tax considerations.

Incentive Stock Options – A participant who is granted an ISO recognizes no taxable income when the ISO is

granted and generally recognizes no taxable income upon exercise of the ISO unless the alternative minimum tax applies (see below). A participant who exercises an ISO recognizes taxable gain or loss when the participant sells the shares purchased pursuant to the ISO. Any gain or loss recognized on the sale of shares acquired upon exercise of an ISO is taxed as capital gain or loss if the shares have been held for more than one year from the date the option was exercised and for more than two years after the option was granted. In this event, the Company receives no deduction with respect to the ISO shares. If the participant disposes of the shares before the required holding periods have elapsed (a "disqualifying disposition"), the participant recognizes ordinary income on disposition of the shares, to the extent of the difference between the fair market value on the date of exercise (or potentially up to six months thereafter if the option holder is subject to Section 16(b) of the Securities Exchange Act of 1934 (the "Act") as a director, officer or greater than 10% shareholder) and the exercise price, but, in the case of a disposition in which a loss (if sustained) would be recognized, not exceeding the net gain upon such disposition. The Company generally receives a corresponding deduction in the year of the disqualifying disposition equal to the amount of ordinary income recognized by the option holder. Long-term capital gain is currently taxed at a more favorable rate than ordinary income, but the deduction of capital losses is subject to limitation.

Certain taxpayers who have significant tax preferences (and other items allowed favorable treatment for regular tax purposes) may be subject to the alternative minimum tax ("AMT"). The AMT is payable only if and to the extent that it exceeds the taxpayer's regular tax liability, and AMT paid generally may be credited against subsequent regular tax liability. For purposes of the AMT, an incentive stock option is treated as if it were a non-statutory option (see below). Thus, the difference between fair market value on the date of exercise (or potentially up to six months thereafter if the option holder is subject to Section 16(b) of the Act) and the option price is included in income for AMT purposes, and the taxpayer receives a basis equal to such fair market value for subsequent AMT purposes. However, regular tax treatment (see above) will apply for AMT purposes if a disqualifying disposition occurs in the same taxable year as the options are exercised.

Non-Statutory Stock Options – The tax treatment of NSOs differs significantly from the tax treatment of ISOs. Similar to an ISO, no taxable income is recognized when an NSO is granted. However, upon the exercise of an NSO, the difference between the fair market value of the shares on the date of exercise and the exercise price of the option is taxable as ordinary compensation income to the recipient. In addition, the Company is entitled to a compensation deduction for the amount of ordinary income recognized by the option holder. If the option holder is subject to Section 16(b) of the Act, the date for measuring taxable income potentially may be deferred for up to six months (unless the employee makes an election under Section 83(b) of the Code within 30 days after the exercise date).

Stock Appreciation Rights – No income will be recognized by a participant in connection with the grant of a tandem stock appreciation right or a nontandem stock appreciation right. When the stock appreciation right is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted shares of common stock received on the exercise of the stock appreciation right. The Company is entitled to a compensation deduction for the amount of ordinary income recognized by the participant.

Unrestricted Stock – Grantees of unrestricted stock awards generally will recognize taxable income in an amount equal to the fair market value of the stock at the time of the grant (or potentially up to six months thereafter if the grantee is subject to Section 16(b) of the Act) less the amount, if any, paid for the stock.

Restricted Stock – Grantees of restricted stock awards generally do not recognize income at the time of the grant of such awards. However, when shares of restricted stock are no longer subject to a substantial risk of forfeiture (or potentially up to six months thereafter if the grantee is subject to Section 16(b) of the Act), grantees recognize ordinary income in an amount equal to the fair market value of the stock less the amount, if any, paid for the stock. Alternatively, the grantee of restricted stock may elect, under Section 83(b) of the Code to recognize income upon the grant of the stock and not at the time the restriction lapses, provided this election is properly made within 30 days after the grant. The Company is entitled to deduct an amount equal to the fair market value of the stock at the time the grantee recognizes income related to the grant.

Performance Awards – Generally no income will be recognized by a participant upon the grant of a performance award. When payment is made with respect of the earn-out of a performance award (or, with respect to performance

shares, potentially up to six months thereafter if the grantee is subject to section 16(b) of the Act), the recipient generally will be required to recognize ordinary income in an amount equal to the cash received and the fair market value of any unrestricted shares of common stock received. The Company is entitled to a compensation deduction for the amount of ordinary income recognized by the participant.

Withholding – The Company may withhold any taxes required by any law or regulation of any governmental authority, whether federal, state or local, in connection with any award under the 2014 Plan, including, but not limited to withholding of any portion of any payment or withholding from other compensation payable to the participant, unless such person reimburses the Company for such amount.

Compliance with Section 409A of the Code – To the extent applicable, it is intended that the 2014 Plan and any grants made thereunder comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to the participants. The 2014 Plan and any grants made under the 2014 Plan will be administered in a manner consistent with this intent.

Limitations on the Company's compensation deduction – The Company's ability to take a compensation deduction based on the amount of ordinary income recognized by a participant is subject to certain limitations attributable to payments of excess compensation such as Sections 162(m) and 280G of the Code.

Effective Date

If the proposed 2014 Incentive Plan is approved by the shareholders, it will become effective on April 12, 2014, or the date of approval by the shareholders, whichever is later.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF PURE CYCLE CORPORATION 2014 EQUITY INCENTIVE PLAN

ACTION TO BE TAKEN UNDER THE PROXY

The proxy will be voted "FOR" the individuals nominated by the board and "FOR" approval of proposals 2, 3, and 5, and as an abstention on proposal 4, unless the proxy is marked in such a manner as to withhold authority to so vote. The proxy will also be voted in connection with the transaction of such other business as may properly come before the Meeting or any adjournments or postponements thereof. Management knows of no other matters, other than the matters set forth above, to be considered at the Meeting. If, however, any other matters properly come before the Meeting or any adjournment thereof, the persons named in the accompanying proxy will vote such proxy in accordance with their best judgment on any such matter. The persons named in the accompanying proxy will also, if in their judgment it is deemed to be advisable, vote to adjourn the Meeting from time to time.

OTHER INFORMATION

Section 16 (a) Beneficial Ownership Reporting Compliance

The Company's directors and executive officers and persons who are beneficial owners of more than 10% of common stock are required to file reports of their holdings and transactions in common stock with the SEC and furnish the Company with such reports. Based solely upon the review of the copies of the Section 16(a) reports received by the Company and written representations from these persons, the Company believes that during the fiscal year ended August 31, 2013, all the directors, executive officers and 10% beneficial owners complied with the applicable Section 16(a) filing requirements. The Company files the Form 4s on behalf of directors with respect to stock option grants awarded by the Company.

Shareholder Proposals

Shareholder proposals for inclusion in the Proxy Statement for the 2015 annual meeting of shareholders must be received at the principal executive offices of the Company by August 7, 2014 but not before June 9, 2014. For more information refer to the Company's Bylaws which were filed as Appendix C to the Proxy Statement on Schedule 14A filed with the SEC on December 14, 2007. The Company is not required to include proposals received outside

of these dates in the proxy materials for the 2015 annual meeting of shareholders, and any such proposals shall be considered untimely. The persons named in the proxy will have discretionary authority to vote all proxies with respect to any untimely proposals.

Delivery of Materials to Shareholders with Shared Addresses

The Company utilizes a procedure approved by the SEC called "householding", which reduces printing and postage costs. Shareholders who have the same address and last name will receive one copy of the Important Notice Regarding the Availability of Proxy Materials or one set of printed proxy materials unless one or more of these shareholders has provided contrary instructions.

If you wish to receive a separate copy of the proxy statement, the Notice, or the Company's Annual Report on Form 10-K, or if you are receiving multiple copies and would like to receive a single copy, please contact the Company's transfer agent at 1-855-418-5058, or write to or call the Company's Secretary at the Company's address or phone number set forth above, and the Company will undertake to deliver such documents promptly. If your shares are owned through a bank, broker or other nominee, you may request householding by contacting the nominee.

Form 10-K and Related Exhibits

The Company's Annual Report on Form 10-K is available, free of charge, at the Company's website, www.purecyclewater.com, or at the SEC's website, www.sec.gov. In addition, the Company will furnish a copy of its Form 10-K to any shareholder free of charge and a copy of any exhibit to the Form 10-K upon payment of the Company's reasonable expenses incurred in furnishing such exhibit(s). You may request a copy of the Form 10-K or any exhibit thereto by writing the Company's Secretary at: Pure Cycle Corporation, 1490 Lafayette Street, Suite 203, Denver, CO 80218, or by sending an email to info@purecyclewater.com. The information on the Company's website is not part of this proxy statement.

Appendix A

2014 Equity Incentive Plan

PURE CYCLE CORPORATION
2014 EQUITY INCENTIVE PLAN
To be effective as of April 12, 2014

SECTION 1
INTRODUCTION

1.1 *Establishment.* Pure Cycle Corporation hereby establishes the Pure Cycle Corporation 2014 Equity Incentive Plan (the "Plan") for certain officers, employees, consultants, and directors of the Company.

1.2 *Purposes*. The purposes of the Plan are to provide the officers, employees, consultants, and directors of the Company selected for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such persons a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in shareholder value, so that the income of such persons is more closely aligned with the income of the Company's shareholders. The Plan is also designed to enhance the ability of the Company to attract, retain and motivate officers, employees, consultants, and directors by providing an opportunity for investment in the Company.

SECTION 2
DEFINITIONS

2.1 *Definitions.* The following terms shall have the meanings set forth below:

(a) *"Administrator"* means (i) the Board, or (ii) one or more committees of the Board or another committee (within its delegated authority) to whom the Board or such committee has delegated all or part of its authority under this Plan. Any committee under clause (ii) hereof which makes grants to "officers" of the Company (as that term is defined in Rule 16a-1(f) promulgated under the Exchange Act) shall be composed of not less than the minimum number of persons from time to time required by Rule 16b-3, each of whom, to the extent necessary to comply with Rule 16b-3 only, shall be a Non-Employee Director. Further, if the Administrator consists of less than the entire Board, then to the extent necessary for any Award to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, each member of the Administrator will be an Outside Director. To the extent required by any applicable stock exchange, this Plan shall be administered by a committee composed entirely of independent directors (within the meaning of the applicable stock exchange). For purposes of the preceding provisions, if one or more members of the Administrator is not a Non-Employee or not an Outside Director, but recuses himself or herself or abstains from voting with respect to a particular action taken by the Administrator, then the Administrator, with respect to the action, will be deemed to consist only of the members of the Administrator who have not recused themselves or abstained from voting.

(b) *"Affiliated Entity"* means (i) any corporation or other entity (including but not limited to a partnership) that directly, or through one or more intermediaries controls, is controlled by, or is under common control with, Pure Cycle Corporation, or (ii) any entity in which the Company has a significant equity interest, as determined by the Administrator.

(c) *"Award"* means a grant made under this Plan in the form of Options, Stock Appreciation Rights, unrestricted Stock, Restricted Stock, Performance Shares, or Performance Units.

(d) *"Award Holder"* has the meaning set forth in Section 3.4.

(e) "*Award Agreement*" means a written document delivered by the Company to the recipient of an Award specifying the terms of such Award. Such document must specify, at a minimum, the number of Shares subject to the Award, and to the extent applicable, the exercise price, vesting schedule, restrictions, performance targets, and with respect to Options and Stock Appreciation Rights, any terms which vary from the default provisions provided in the Plan. Such document need not be signed by the Award recipient.

(f) *"Board"* means the board of directors of the Company.

(g) "*Company*" means Pure Cycle Corporation, a Colorado corporation, together with its Affiliated Entities except where the context otherwise requires.

(h) "*Consultant*" means any person, including an advisor, engaged by the Company to render consulting or advisory services and who is compensated for such services and such person is eligible to receive shares registered on Form S-8 under the Securities Act. Mere service as a Director or payment of a director's fee by the Company or an Affiliated Entity shall not be sufficient to constitute "consulting or advisory services" rendered to the Company or an Affiliated Entity.

(i) *"Covered Employee"* has the meaning set forth in Section 162(m)(3) of the Internal Revenue Code.

(j) *"Director"* means a member of the Board.

(k) *"Effective Date"* means April 12, 2014, or the date on which the Plan is initially approved by a vote of the shareholders of the Company, whichever is later.

(l) *"Employee"* means any person who is a full or part-time employee (including, without limitation, an officer or director who is also an employee) of the Company or any Affiliated Entity or any division thereof. The term also includes future employees who have received a formal offer of employment.

(m) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.

(n) "*Executive Officer*" shall mean an officer as defined in Exchange Act Rule 16a-1(f) and any person deemed to be an "executive officer" within the scope of Section 13(k) of the Exchange Act.

(o) *"Exercise Period"* means the period of time within which an Option or Stock Appreciation Right must be exercised.

(p) *"Exercise Price"* means the price at which Shares subject to an Award may be purchased.

(q) *"Fair Market Value"* means, as of any date, the value of the Stock determined as follows:

(i) If the Stock is listed on any established stock exchange, its Fair Market Value shall be the closing sales price for such Stock as quoted on such exchange for the last market trading day prior to the time of determination (or, if there are no actual sales of such Stock on such date, the latest sales price of such Stock preceding such date);

(ii) If the Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Stock on the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Stock, the Fair Market Value shall be determined in good faith by the Administrator by the reasonable application of a reasonable valuation method in accordance with Section 409A of the Internal Revenue Code and the regulations thereunder.

(r) *"Incentive Stock Option"* means any Option designated as such and granted in accordance with the requirements of Section 422 of the Internal Revenue Code.

(s) *"Internal Revenue Code"* means the Internal Revenue Code of 1986, as it may be amended from time to time, and the rules and regulations promulgated thereunder.

(t) "*Non-Employee Director*" means a Director who is a "non-employee director" within the meaning of Rule 16b-3 promulgated under the Exchange Act.

(u) *"Non-Statutory Option"* means any Option other than an Incentive Stock Option.

(v) *"Option"* means a right to purchase Stock at a stated price for a specified period of time.

(w) "*Outside Director*" means a Director who is an "outside director" within the meaning of Internal Revenue Code Section 162(m).

(x) *"Participant"* means an Employee or Director of, or Consultant to, the Company designated by the Administrator from time to time during the term of the Plan to receive one or more Awards under the Plan.

(y) *"Performance Cycle"* means the period of time as specified by the Administrator over which Performance Share or Performance Units are to be earned.

(z) *"Performance Shares"* means an Award made pursuant to Section 9 which entitles a Participant to receive Shares, their cash equivalent or a combination thereof based on the achievement of performance targets during a Performance Cycle.

(aa) *"Performance Units"* means an Award made pursuant to Section 9 which entitles a Participant to receive cash, Stock or a combination thereof based on the achievement of performance targets during a Performance Cycle.

(bb) *"Plan Year"* means each 12-month period beginning September 1 and ending the following August 31, except that for the first year of the Plan it shall begin on the Effective Date and extend to August 31 of that year.

(cc) *"Qualifying Awards"* means Options and Stock Appreciation Rights granted with an Exercise Price of not less than the Fair Market Value of a share of Stock on the date of grant.

(dd) *"Restricted Stock"* means Stock granted under Section 8 that is subject to restrictions imposed pursuant to such Section.

(ee) "*Service Provider*" means an Employee or Director of, or Consultant to, the Company or an Affiliated Entity.

(ff) *"Share"* means a share of Stock.

(gg) *"Stock"* means the common stock, $.01 par value, of the Company.

(hh) *"Stock Appreciation Right"* means the right pursuant to an Award granted under Section 7 to receive, upon exercise, an amount payable in cash or Shares equal to the number of Shares with respect to which the Stock Appreciation Right is being exercised multiplied by the excess of (i) the Fair Market Value of a Share on the date the Award is exercised, over (ii) the Exercise Price specified in the Award Agreement.

2.2 *Gender and Number.* Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural

SECTION 3
PLAN ADMINISTRATION

3.1 *Authority of Administrator*. The Plan shall be administered by the Administrator. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Administrator by the Plan, the Administrator shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to eligible Participants; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or

methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Administrator; (vii) subject to the limitations in Sections 6 and 15, to make any adjustment in the Exercise Price, the number of Shares subject to, or the terms of, an outstanding Award by amendment, substitution, or regrant, provided that if the amendment, substitution, or regrant effects a repricing (which shall not include adjustments contemplated by Sections 4 and 11), shareholder approval shall be required before repricing is effective; (viii) determine whether, to what extent, and under what circumstances to accelerate the exercisability of any Award or the end of a Performance Cycle or the termination of the restriction period for any Restricted Stock Award; (ix) correct any defect, supply any omission, reconcile any inconsistency and otherwise interpret and administer the Plan and any instrument or agreement relating to the Plan or any Award hereunder; (x) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (xi) make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan. To the extent necessary or appropriate, the Administrator may adopt sub-plans consistent with the Plan to conform to applicable state or foreign securities or tax laws.

3.2 *Determinations Under the Plan*. Unless otherwise expressly provided in the Plan all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Administrator, may be made at any time and shall be final, conclusive, and binding upon all persons, including the Company, any Affiliated Entity, any Participant, any holder or beneficiary of any Award, and any shareholder. No member of the Administrator shall be liable, in the absence of bad faith, for any act or omission with respect to his or her services as an Administrator. Service on a committee acting as the Administrator shall constitute service as a director of the Company entitling members to any indemnification of liability benefits applicable to directors with respect to their services as Administrator.

3.3 *Delegation of Certain Responsibilities*. The Administrator may, in its sole discretion, delegate to appropriate officers of the Company the administration of the Plan under this Section 3; provided, however, that no such delegation by the Administrator shall be made (i) if such delegation would not be permitted under applicable law or (ii) with respect to the administration of the Plan as it affects Executive Officers, Covered Employees, or Directors of the Company, and provided further that the Administrator may not delegate its authority to correct errors, omissions or inconsistencies in the Plan. Subject to the above limitations, the Administrator may delegate to the Chief Executive Officer of the Company its authority under this Section 3 to grant Awards to employees who are not Executive Officers, Covered Employees, or Directors of the Company. All authority delegated by the Administrator under this Section 3.3 shall be exercised in accordance with the provisions of the Plan and any guidelines for, conditions on, or limitations to the exercise of such authority that may from time to time be established by the Administrator.

3.4 *Award Agreement*. Each Award granted under the Plan shall be evidenced by an Award Agreement which shall be delivered to the Participant to whom the Award is granted (the "Award Holder").

3.5 *Date of Grant.* An Award shall be considered as having been granted on the date specified in the grant resolution of the Administrator.

SECTION 4
STOCK SUBJECT TO THE PLAN

4.1 *Number of Shares.* Subject to adjustment as provided in Section 4.3, one million six hundred thousand (1,600,000) Shares are initially authorized for issuance under the Plan in accordance with the provisions of the Plan and subject to such restrictions or other provisions as the Administrator may from time to time deem necessary. Subject to adjustment as provided in Section 4.3, no Participant may be granted Awards in any twelve-month period with respect to more than three hundred thousand (300,000) Shares. If an Award is to be settled in cash, the number of Shares on which the Award is based shall not count toward the individual share limit set forth in this Section 4.1. The Shares may be divided among the various Plan components as the Administrator shall determine, except that no more than one million six hundred thousand (1,600,000) Shares as calculated pursuant to Section 4.2 shall be cumulatively available for the grant of Incentive Stock Options under the Plan. Shares which may be issued upon the vesting or exercise of Awards shall be applied to reduce the maximum number of Shares remaining available for use under the Plan. The Company shall at all times during the term of the Plan and while any Awards are outstanding retain as authorized and unissued Stock, or as treasury Stock, at least the number of Shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 *Unused and Forfeited Stock.* Any Shares that are subject to an Award under this Plan which are not used because the terms and conditions of the Award are not met, including any Shares that are subject to an Award which expires or is terminated for any reason, any Shares which are used for full or partial payment of the purchase price of Shares with respect to which an Award is exercised and any Shares retained by the Company pursuant to Section 16.2 shall automatically become available for use under the Plan. Notwithstanding the foregoing, any Shares used for full or partial payment of the purchase price of the Shares with respect to which an Award is exercised and any Shares retained by the Company pursuant to Section 16.2 that were originally Incentive Stock Option Shares shall still be considered as having been granted for purposes of determining whether the Share limitation provided for in Section 4.1 has been reached for purposes of Incentive Stock Option grants.

4.3 *Adjustments for Stock Split, Stock Dividend, etc.* If the Company shall at any time increase or decrease the number of its outstanding Shares of Stock or change in any way the rights and privileges of such Shares by means of the payment of a stock dividend or any other distribution upon such Shares payable in Stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock, then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of (i) the Shares of Stock as to which Awards may be granted under the Plan, and (ii) the Shares of Stock then included in each outstanding Award granted hereunder, shall be

increased, decreased or changed in like manner as if they had been issued and outstanding, fully paid and nonassessable at the time of such occurrence.

4.4 *Dividend Payable in Stock of Another Corporation, etc.* Except as set forth in Section 4.5 below, if the Company shall at any time pay or make any dividend or other distribution upon the Stock payable in securities of another corporation or other property (except money or Stock), a proportionate part of such securities or other property shall be set aside and delivered to any Participant then holding an Award for the particular type of Stock for which the dividend or other distribution was made, upon exercise thereof or vesting thereof, as applicable. Prior to the time that any such securities or other property are delivered to a Participant in accordance with the foregoing, the Company shall be the owner of such securities or other property and shall have the right to vote the securities, receive any dividends payable on such securities, and in all other respects shall be treated as the owner. If securities or other property which have been set aside by the Company in accordance with this Section are not delivered to a Participant because an Award is not exercised or otherwise vested, then such securities or other property shall remain the property of the Company and shall be dealt with by the Company as it shall determine in its sole discretion.

4.5 *Spin-offs.* If the Company shall at any time pay or make any dividend or other distribution upon the Stock in the nature of a spin-off, for example a dividend payable in securities of an Affiliated Entity, the Administrator shall in its discretion determine what changes are equitably required to outstanding Awards to effect the spin-off, including but not limited to treating Awards of Employees remaining with the Company differently from Awards to Employees of the newly spun-off entity, substituting Awards for Company Stock for Awards of stock in the spun-off entity, and allowing either the Company, the spun-off entity or both to hold the securities or property set aside for Award participants.

4.6 *Other Changes in Stock.* In the event there shall be any change, other than as specified in Sections 4.3, 4.4 and 4.5, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Administrator shall in its discretion determine that such change equitably requires an adjustment in the number or kind of Shares subject to outstanding Awards or which have been reserved for issuance pursuant to the Plan but are not then subject to an Award, then such adjustments shall be made by the Administrator and shall be effective for all purposes of the Plan and on each outstanding Award that involves the particular type of stock for which a change was effected.

4.7 *General Adjustment Rules.* If any adjustment or substitution provided for in this Section 4 shall result in the creation of a fractional Share under any Award, the Company shall, in lieu of selling or otherwise issuing such fractional Share, pay to the Participant a cash sum in an amount equal to the product of such fraction multiplied by the Fair Market Value of a Share on the date the fractional Share would otherwise have been issued. In the case of any such substitution or adjustment affecting an Award with an Exercise Price, the total Exercise Price for the shares of Stock then subject to the Award shall remain unchanged but the Exercise Price per share under each such Award shall be equitably adjusted by the Administrator to reflect the greater or lesser number of shares of Stock or other securities into which the Stock subject to the Award may have been changed.

4.8 *Determination by Administrator.* Adjustments under this Section 4 shall be made by the Administrator, whose determinations with regard thereto shall be final and binding upon all persons.

SECTION 5
PARTICIPATION

Participants in the Plan shall be those Employees, Directors, or Consultants who, in the judgment of the Administrator, are performing, or during the term of their incentive arrangement will perform, important services in the management, operation and development of the Company, and significantly contribute, or are expected to significantly contribute, to the achievement of long-term corporate economic objectives. Participants may be granted from time to time one or more Awards; provided, however, that the grant of each such Award shall be separately approved by the Administrator, receipt of one such Award shall not result in automatic receipt of any other Award, and written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto; and further provided that Incentive Stock Options shall not be granted to (i) Consultants, (ii) part-time employees, (iii) Non-Employee Directors, or (iv) Employees of any partnership or other entity which is included within the definition of an Affiliated Entity but whose employees are not permitted to receive Incentive Stock Options under the Internal Revenue Code. Each Participant shall enter into an agreement with the Company, in such form as the Administrator shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Awards shall be deemed to be granted as of the date specified in the grant resolution of the Administrator, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

SECTION 6
STOCK OPTIONS TO EMPLOYEES AND CONSULTANTS

6.1 *Grant of Options to Employees and Consultants.* Coincident with or following designation for participation in the Plan, a Participant (other than a Non-Employee Director) may be granted one or more Options. The Administrator in its sole discretion shall designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Option. The Administrator may grant both an Incentive Stock Option and a Non-Statutory Option to the same Participant at the same time or at different times. Incentive Stock Options and Non-Statutory Options, whether granted at the same or different times, shall be deemed to have been awarded in separate grants, shall be clearly identified, and in no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of Shares for which any other Option may be exercised.

6.2 *Option Agreements.* Except as otherwise set forth in an Award Agreement delivered to the Participant, each Option shall be governed by the following terms and conditions, as well as such other terms and conditions not inconsistent therewith as the Administrator may consider appropriate in each case.

(a) *Number of Shares.* Each Award Agreement shall state that it covers a specified number of Shares, as determined by the Administrator. To the extent that the aggregate

Fair Market Value of Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Participant during any year (under all plans of the Company and any Affiliated Entity) exceeds $100,000, such Options shall be treated as not being Incentive Stock Options. The foregoing shall be applied by taking Options into account in the order in which they were granted. For the purposes of the foregoing, the Fair Market Value of any Share shall be determined as of the time the Option with respect to such Share is granted. In the event the foregoing results in a portion of an Option designated as an Incentive Stock Option exceeding the $100,000 limitation, only such excess shall be treated as not being an Incentive Stock Option.

(b) *Price.* Except for the limitations on Incentive Stock Options set forth below, the price at which each Share covered by an Option may be purchased shall be determined in each case by the Administrator and set forth in the Award Agreement. In no event shall the Exercise Price for each Share covered by an Option be less than the Fair Market Value of the Stock on the date the Option is granted. Further, the Exercise Price for each Share covered by an Incentive Stock Option granted to an Employee who then owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company must be at least 110% of the Fair Market Value of the Stock subject to the Incentive Stock Option on the date the Option is granted.

(c) *Duration of Options.* The Administrator shall determine the period of time within which the Option may be exercised by the Award Holder. The Exercise Period must expire, in all cases, not more than ten years from the date an Option is granted; provided, however, that the Exercise Period of an Incentive Stock Option granted to an Employee who then owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company must expire not more than five years from the date such Option is granted. Any Exercise Period determined by the Administrator to be shorter than the ten or five-year term set forth above, must be set forth in an Award Agreement. Each Award Agreement shall also state the periods of time, if any, as determined by the Administrator, when incremental portions of each Option shall vest. If any Option is not exercised during its Exercise Period, it shall be deemed to have been forfeited and of no further force or effect.

(d) *Termination of Service, Retirement, Death or Disability.* Except as otherwise determined by the Administrator, each Option shall be governed by the following terms with respect to the exercise of the Option if an Award Holder ceases to be a Service Provider:

(i) If the Award Holder ceases to be a Service Provider within the Exercise Period for cause, as determined by the Company, the Option shall thereafter be void for all purposes. As used in this Section 6.2(d), "cause" shall mean (A) if applicable, "cause" as defined on a written contract between the Award Holder and the Company, or (B) in any other case, a gross violation, as determined by the Company, of the Company's established policies and procedures. The effect of this Section 6.2(d)(i) shall be limited to determining the consequences of a termination, and nothing in this Section 6.2(d)(i) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any Service Provider.

(ii) If the Award Holder ceases to be a Service Provider with the Company in a manner determined by the Board, in its sole discretion, to constitute retirement (which determination shall be communicated to the Award Holder within 10 days of such termination), the Option may be exercised by the Award Holder, or in the case of death, by the persons specified in clause (iii) of this Section 6.2(d), within three months following his or her retirement if the Option is an Incentive Stock Option or within twelve months following his or her retirement if the Option is a Non-Statutory Stock Option (provided in each case that such exercise must occur within the Exercise Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date the Award Holder ceased to be a Service Provider.

(iii) If the Award Holder dies (A) while he or she is a Service Provider, (B) within the three-month period referred to in clause (v) below, or (C) within the three or twelve-month period referred to in clause (ii) above, the Option may be exercised by those entitled to do so under the Award Holder's will or by the laws of descent and distribution within twelve months following the Award Holder's death (provided that such exercise must occur within the Exercise Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date the Award Holder ceased to be a Service Provider.

(iv) If the Award Holder becomes disabled (within the meaning of Section 22(e) of the Internal Revenue Code) while a Service Provider, Incentive Stock Options held by the Award Holder may be exercised by the Award Holder within twelve months following the date the Award Holder ceased to be a Service Provider (provided that such exercise must occur within the Exercise Period), but not thereafter. If the Award Holder becomes disabled (within the meaning of Section 22(e) of the Internal Revenue Code) while a Service Provider or within three-month period referred to in clause (v) below or within the twelve-month period following his or her retirement as provided in clause (ii) above, Non-Statutory Options held by the Award Holder may be exercised by the Award Holder within twelve months following the date of the Award Holder's disability (provided that such exercise must occur within the Exercise Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date the Award Holder ceased to be a Service Provider.

(v) If the Award Holder ceases to be a Service Provider within the Exercise Period for any reason other than cause, retirement as provided in clause (ii) above, disability as provided in clause (iv) above or the Award Holder's death, the Option may be exercised by the Award Holder within three months following the date of such cessation (provided that such exercise must occur within the Exercise Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date that the Award Holder ceased to be a Service Provider.

(e) *Exercise, Payments, etc.* The method for exercising and paying the Exercise Price of each Option granted under the Plan shall be as set forth in Section 16.

SECTION 7
STOCK APPRECIATION RIGHTS

7.1 *Awards Granted by Administrator.* Coincident with or following designation for participation in the Plan, a Participant may be granted one or more Stock Appreciation Rights. The Administrator may grant free standing Stock Appreciation Rights, Stock Appreciation Rights in tandem with an Option, or any combination thereof.

7.2 *Award Agreement.* Except as otherwise set forth in an Award Agreement delivered to the Participant, each Stock Appreciation Right shall be governed by the following terms and conditions, as well as such other terms and conditions not inconsistent therewith as the Administrator may consider appropriate in each case.

(a) *Number of Shares.* Each Award Agreement shall state that it covers a specified number of Shares, as determined by the Administrator.

(b) *Price.* The Exercise Price of a Stock Appreciation Right shall be determined in each case by the Administrator and set forth in the Award Agreement. In no event shall the Exercise Price for a Stock Appreciation Right be less than the Fair Market Value of the Stock on the date the Award is granted.

(c) *Term.* The Administrator shall determine the period of time within which the Stock Appreciation Right may be exercised by the Award Holder. The Exercise Period must expire, in all cases, not more than ten years from the date an Award is granted. If any Stock Appreciation Right is not exercised during its Exercise Period, it shall be deemed to have been forfeited and of no further force or effect.

(d) *Vesting*. Each Stock Appreciation shall become exercisable and vest over such period of time or upon such events as determined by the Administrator (including based on achievement of performance goals or future service requirements), which vesting or other terms shall be set forth in an Award Agreement.

(e) *Termination of Service, Retirement, Death or Disability.* Except as otherwise determined by the Administrator, each Stock Appreciation Award shall be governed by the terms set forth in Section 6.2(d) with respect to the exercise of the Stock Appreciation Right if an Award Holder ceases to be a Service Provider.

7.3 *Exercise of Stock Appreciation Right*. An Award Holder desiring to exercise a Stock Appreciation Right shall deliver notice to the Company in the manner set forth in Section 16.1(a) except that such notice need not be accompanied by payment. Upon the exercise of a Stock Appreciation Right, the Award Holder shall be entitled to receive from the Company an amount determined by multiplying:

(a) The excess of the Fair Market Value of a Share on the date the Award is exercised over the Exercise Price specified in the Award Agreement; by

(b) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, payment upon exercise may be in cash, shares of Stock (with or without restrictions), or any combination thereof, as determined by the Administrator in its sole discretion.

7.4 *Effect of Exercise of Tandem Right*. If a Stock Appreciation Right is issued in tandem with an Option, the exercise of the Stock Appreciation Right or the related Option will result in an equal reduction in the number of corresponding Shares subject to the Option or Stock Appreciation Right, as applicable, that were granted in tandem with such Stock Appreciation Right or Option.

SECTION 8
STOCK AWARDS

8.1 *Awards Granted by Administrator*. Coincident with or following designation for participation in the Plan, a Participant may be granted one or more unrestricted Stock Awards or Restricted Stock Awards consisting of Shares. A Stock Award may be paid by delivery of Stock, in cash or in a combination of Stock and cash, as determined by the Administrator.

8.2 *Restrictions*. A Participant's right to retain a Restricted Stock Award granted to such Participant under Section 8.1 shall be subject to such restrictions, including but not limited to the Participant's continuing to perform as a Service Provider for a restriction period specified by the Administrator, or the attainment of specified performance goals and objectives, as may be established by the Administrator with respect to such Award. The Administrator may, in its sole discretion, require different periods of service or different performance goals and objectives with respect to (i) different Participants, (ii) different Restricted Stock Awards, or (iii) separate, designated portions of the Shares constituting a Restricted Stock Award.

8.3 *Transferability*. The Participant's right to sell, encumber or otherwise transfer Restricted Stock shall be subject to the limitations of Section 12.2 hereof.

8.4 *Privileges of a Shareholder*. Unless otherwise determined by the Administrator and set forth in the Award Agreement, a Participant holding Shares of Restricted Stock shall become the holder of record of the Restricted Stock on the date the Award is granted.

8.5 *Enforcement of Restrictions*. The Administrator may in its sole discretion require one or more of the following methods of enforcing the restrictions referred to in Section 8.2 and 8.3:

(a) placing a legend on the stock certificates referring to the restrictions as follows:

> **THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE AND TRANSFERABILITY RESTRICTIONS AS SET FROTH IN THE RESTRICTED STOCK AGREEMENT BETWEEN THE SHAREHOLDER AND PURE CYCLE CORPORATION DATED _____________. A COPY OF THE RESTRICTED STOCK AGREEMENT IS ON FILE AT THE EXECUTIVE OFFICE OF PURE CYCLE CORPORATION.**

(b) requiring the Participant to keep the stock certificates, duly endorsed, in the custody of the Company while the restrictions remain in effect; or

(c) requiring that the stock certificates, duly endorsed, be held in the custody of a third party while the restrictions remain in effect.

8.6 *Termination of Service, Death or Disability.* In the event of the death or disability (within the meaning of Section 22(e) of the Internal Revenue Code) of a Participant, or the retirement of a Participant as provided in Section 6.2(d)(ii), all service period and other restrictions applicable to Restricted Stock Awards then held by him shall lapse, and such Awards shall become fully nonforfeitable. Subject to Section 11, in the event a Participant ceases to be a Service Provider for any other reason, any Restricted Stock Awards as to which the service period or other restrictions have not been satisfied shall be forfeited.

SECTION 9
PERFORMANCE SHARES AND PERFORMANCE UNITS

9.1 *Awards Granted by Administrator.* Coincident with or following designation for participation in the Plan, a Participant (other than a Non-Employee Director) may be granted Performance Shares or Performance Units.

9.2 *Amount of Award.* The Administrator shall establish a maximum amount of a Participant's Award, which amount shall be denominated in Shares in the case of Performance Shares or in dollars in the case of Performance Units.

9.3 *Communication of Award.* Written notice of the maximum amount of a Participant's Award and the Performance Cycle determined by the Administrator shall be given to a Participant as soon as practicable after approval of the Award by the Administrator.

9.4 *Amount of Award Payable.* The Administrator shall establish maximum and minimum performance targets to be achieved during the applicable Performance Cycle. Performance targets established by the Administrator shall relate to corporate, group, unit or individual performance and may be established in terms of earnings, growth in earnings, ratios of earnings to equity or assets, or such other measures or standards determined by the Administrator. Multiple performance targets may be used and the components of multiple performance targets may be given the same or different weighting in determining the amount of an Award earned, and may relate to absolute performance or relative performance measured against other groups, units, individuals or entities. Achievement of the maximum performance target shall entitle the Participant to payment (subject to Section 9.6) at the full or maximum amount specified with respect to the Award; provided, however, that notwithstanding any other provisions of this Plan, in the case of an Award of Performance Shares the Administrator in its discretion may establish an upper limit on the amount payable (whether in cash or Stock) as a result of the achievement of the maximum performance target. The Administrator may also establish that a portion of a full or maximum amount of a Participant's Award will be paid (subject to Section 9.6) for performance which exceeds the minimum performance target but falls below the maximum performance target applicable to such Award.

9.5 *Adjustments*. At any time prior to payment of a Performance Share or Performance Unit Award, the Administrator may adjust previously established performance targets or other terms and conditions to reflect events such as changes in laws, regulations, or accounting practice, or mergers, acquisitions or divestitures.

9.6 *Payments of Awards*. Following the conclusion of each Performance Cycle, the Administrator shall determine the extent to which performance targets have been attained, and the satisfaction of any other terms and conditions with respect to an Award relating to such Performance Cycle. The Administrator shall determine what, if any, Exercise Price is due with respect to an Award and whether such Exercise Price shall be made in cash, Stock or some combination. Payment shall be made in a lump sum or installments, as determined by the Administrator, commencing as promptly as practicable following the end of the applicable Performance Cycle, subject to Section 16 or such other terms and conditions as may be prescribed by the Administrator; provided, however, that, subject to Section 20.4, all payments shall be made no later than (i) March 15 of the year following the end of the Performance Cycle if such Performance Cycle ends on or before August 31 of a year, or (ii) November 15 of the year following the end of the Performance Cycle if such Performance Cycle ends on or after September 1 of a year.

9.7 *Termination of Employment*. If a Participant ceases to be a Service Provider before the end of a Performance Cycle by reason of his or her death, disability as provided in Section 6.2(d)(iv), or retirement as provided in Section 6.2(d)(ii), the Performance Cycle for such Participant for the purpose of determining the amount of the Award payable shall end at the end of the calendar quarter immediately preceding the date on which such Participant ceased to be a Service Provider. Subject to Section 20.4, the amount of an Award payable to a Participant to whom the preceding sentence is applicable shall be paid at the end of the Performance Cycle and shall be that fraction of the Award computed pursuant to the preceding sentence the numerator of which is the number of calendar quarters during the Performance Cycle during all of which said Participant was a Service Provider and the denominator of which is the number of full calendar quarters in the Performance Cycle. Upon any other termination of Participant's services as a Service Provider during a Performance Cycle, participation in the Plan shall cease and all outstanding Awards of Performance Shares or Performance Units to such Participant shall be canceled.

SECTION 10
AWARDS TO NON-EMPLOYEE DIRECTORS

10.1 *Board Grants*. The Board (and not a committee of the Board), in its sole discretion, may grant Awards to Non-Employee Directors in the form of Non-Statutory Options, unrestricted Stock or Restricted Stock. The Board (and not a committee of the Board), in its sole discretion, may also adopt one or more formulas that provide for granting a specified Award to each Non-Employee Director for attendance at each meeting of designated committees of the Board. The Board may adopt different formulas for the various committees of the Board, and it may choose to adopt formulas for some committees and not others. Further, any formula may provide for a different grant to members of the committee charged with additional responsibilities on the committee, such as the chairman.

10.2 *Administrator*. The Administrator shall have no authority, discretion or power to select the Non-Employee Directors who will receive any Award, determine the number of Shares to be issued or the time at which such Awards are to be granted, establish the duration of the Awards or alter any other terms or conditions specified in the Plan or by the Board, except in the sense of administering the Plan pursuant to the provisions of the Plan and the grant resolution of the Board.

10.3 *Price of Option Shares*. The exercise price per Share for any Option granted pursuant to this Section 10 shall be 100% of the Fair Market Value of the Stock on the date on which the Non-Employee Director is granted the Option.

10.4 *Termination*. If the Non-Employee Director ceases to be a Director for any reason, an Award which is exercisable may be exercised by the Non-Employee Director at any time following the date of such cessation provided that such exercise must occur prior to the Award expiration date. In any such case, the Award may be exercised only as to the Shares as to which the Award had become exercisable on or before the date that the Non-Employee Director ceased to be a Director.

10.5 *Other Terms*. Except for the limitations set forth in Sections 5, 10.3, 10.4, and 11, the terms and provisions of Awards shall be as determined from time to time by the Administrator, and Awards issued may contain terms and provisions different from other Awards granted to the same or other Award recipients. Awards shall be evidenced by an Award Agreement containing such terms and provisions as the Administrator may determine, subject to the provisions of the Plan.

SECTION 11
CHANGE IN CONTROL, REORGANIZATION OR LIQUIDATION

11.1 *Change In Control*. In the event of a change in control of the Company as defined in Section 11.3, then the Administrator may, in its sole discretion, without obtaining shareholder approval, to the extent permitted in Section 15, take any or all of the following actions: (a) accelerate the exercise dates of any outstanding Awards or make all such Awards fully vested and exercisable; (b) grant a cash bonus award to any Award Holder in an amount necessary to pay the Exercise Price of all or any portion of the Award then held by such Award Holder; (c) pay cash to any or all Award Holders in exchange for the cancellation of their outstanding Awards in an amount equal to the difference between the Exercise Price of such Awards and the greater of the tender offer price for the underlying Stock or the Fair Market Value of the Stock on the date of the cancellation of the Awards; (d) make any other adjustments or amendments to the outstanding Awards; and (e) eliminate all restrictions with respect to Awards of Restricted Stock and deliver Shares free of restrictive legends to any Participant; provided, however, that the Administrator shall not make any adjustment or amendment that would constitute a “modification” of an Award, as such term is used in Internal Revenue Code regulation § 1.409A-1(b)(5)(v), that would result in such Award being subject to additional tax pursuant to Section 409A of the Internal Revenue Code.

11.2 *Performance Shares and Performance Units*. Under the circumstances described in Section 11.1, the Administrator may, in its sole discretion, and without obtaining shareholder approval, to the extent permitted in Section 15, provide for payment of outstanding Performance

Shares and Performance Units at the maximum award level or any percentage thereof; provided, however, that to the extent permitted by Section 20.4 herein, all payments shall be made no later than (i) March 15 of the year following the end of the Performance Cycle to which the Performance Shares or Performance Units relate if such Performance Cycle ends on or before August 31 of a year, or (ii) November 15 of the year following the end of the Performance Cycle to which the Performance Shares or Performance Units relate if such Performance Cycle ends on or after September 1 of a year.

11.3 *Definition.* For purposes of the Plan, a "change in control" shall be deemed to have occurred if: (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 33-1/3% of the then outstanding voting stock of the Company; or (b) at any time during any period of three consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (and any new director whose election by the Board or whose nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof; or (c) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

11.4 *Reorganization or Liquidation.* In the event that the Company is merged or consolidated with another corporation (other than a merger or consolidation in which the Company is the continuing corporation and which does not result in any reclassification or change of outstanding Shares), or if all or substantially all of the assets or more than 50% of the outstanding voting stock of the Company is acquired by any other corporation, business entity or person (other than a sale or conveyance in which the Company continues as a holding company of an entity or entities that conduct the business or businesses formerly conducted by the Company), or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, and if the provisions of Section 11.1 do not apply, the Administrator, or the board of directors of any corporation assuming the obligations of the Company, shall, have the power and discretion to prescribe the terms and conditions for the exercise, or modification, of any outstanding Awards granted hereunder. By way of illustration, and not by way of limitation, the Administrator may provide for the complete or partial acceleration of the dates of exercise of the Options, or may provide that such Options will be exchanged or converted into options to acquire securities of the surviving or acquiring corporation, or may provide for a payment or distribution in respect of outstanding Options (or the portion thereof that is currently exercisable) in cancellation thereof. The Administrator may remove restrictions on Restricted Stock and may modify the performance requirements for any

other Awards. The Administrator may provide that Stock or other Awards granted hereunder must be exercised in connection with the closing of such transaction, and that if not so exercised such Awards will expire. Any such determinations by the Administrator may be made generally with respect to all Participants, or may be made on a case-by-case basis with respect to particular Participants. The provisions of this Section 11.4 shall not apply to any transaction undertaken for the purpose of reincorporating the Company under the laws of another jurisdiction, if such transaction does not materially affect the beneficial ownership of the Company's capital stock.

SECTION 12
CONTINUATION OF SERVICES; TRANSFERABILITY

12.1 *Continuation of Services*. Nothing contained in the Plan or in any Award granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her services as a Service Provider, or interfere in any way with the right of the Company, subject to the terms of any separate employment or consulting agreement to the contrary, at any time to terminate such services or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Award. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of Participant's services as a Service Provider shall be determined by the Administrator at the time of such leave in accordance with then current laws and regulations.

12.2 *Nontransferability*. Except as provided in Section 12.3, no right or interest of any Participant in an Award granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, except (if otherwise permitted under Section 12.4) pursuant to a domestic relations order, either voluntarily or involuntarily, or be subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant's death, a Participant's rights and interests in Options and Stock Appreciation Rights shall, if otherwise permitted under Section 12.4, be transferable by testamentary will or the laws of descent and distribution, and payment of any amounts due under the Plan shall be made to, and exercise of any Options and Stock Appreciation Rights may be made by, the Participant's legal representatives, heirs or legatees. If, in the opinion of the Administrator, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Administrator with evidence satisfactory to the Administrator of such status. Transfers shall not be deemed to include transfers to the Company or "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of Awards consistent with applicable laws and the authorization of the Administrator.

12.3 *Permitted Transfers*. Pursuant to conditions and procedures established by the Administrator from time to time, the Administrator may permit Awards (other than Incentive Stock Options) to be transferred to, exercised by and paid to certain persons or entities related to a Participant, including but not limited to members of the Participant's immediate family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's immediate family and/or charitable institutions. In the case of initial Awards, at the request of the Participant, the Administrator may permit the naming of the

related person or entity as the Award recipient. Any permitted transfer shall be subject to the condition that the Administrator receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes on a gratuitous or donative basis and without consideration (other than nominal consideration).

12.4 *Limitations on Incentive Stock Options*. Notwithstanding anything in this Agreement (or in any Award Agreement evidencing the grant of an Option hereunder) to the contrary, Incentive Stock Options shall be transferable only to the extent permitted by Section 422 of the Internal Revenue Code and the treasury regulations thereunder without affecting the Option's qualification under Section 422 as an Incentive Stock Option.

SECTION 13
GENERAL RESTRICTIONS

13.1 *Investment Representations*. The Company may require any person to whom an Award is granted, as a condition of exercising such Award or receiving Stock under the Award, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Stock subject to the Award for such person's own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws. Legends evidencing such restrictions may be placed on the certificates evidencing the Stock.

13.2 *Compliance with Securities Laws*. Each Award shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the Shares subject to such Award upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of Shares thereunder, such Award may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Administrator. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration or qualification.

13.3 *Stock Restriction Agreement*. The Administrator may provide that shares of Stock issuable pursuant to an Award shall, under certain conditions, be subject to restrictions whereby the Company has a right of first refusal with respect to such shares or a right or obligation to repurchase all or a portion of such shares, which restrictions may survive a Participant's cessation or termination as a Service Provider.

13.4 *Shareholder Privileges.* No Award Holder shall have any rights as a shareholder with respect to any Shares covered by an Award until the Award Holder becomes the holder of record of such Stock, and no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date such Award Holder becomes the holder of record of such Stock, except as provided in Section 4.

SECTION 14
OTHER EMPLOYEE BENEFITS

The amount of any compensation deemed to be received by a Participant as a result of the exercise of an Option or the grant or vesting of any other Award shall not constitute "earnings" with respect to which any other benefits of such Participant are determined, including without limitation benefits under any pension, profit sharing, life insurance or salary continuation plan.

SECTION 15
PLAN AMENDMENT, MODIFICATION AND TERMINATION

The Board may at any time terminate, and from time-to-time may amend or modify, the Plan; provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the shareholders if shareholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if the Company, on the advice of counsel, determines that shareholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Awards theretofore granted under the Plan, without the consent of the Participant holding such Awards.

SECTION 16
EXERCISE AND WITHHOLDING

16.1 *Exercise, Payments, etc.*

(a) The method for exercising each Award granted under the Plan shall be by delivery to the Corporate Secretary of the Company or an agent designated pursuant to Section 18 of a notice specifying the number of Shares with respect to which such Award is exercised and payment of the Exercise Price. Such notice shall be in a form satisfactory to the Administrator and shall specify the particular Award (or portion thereof) which is being exercised and the number of Shares with respect to which the Award is being exercised. The exercise of the Award shall be deemed effective upon receipt of such notice by the Corporate Secretary or a designated agent and payment to the Company. The purchase of such Stock shall be deemed to take place at the principal office of the Company upon delivery of such notice, at which time the purchase price of the Stock shall be paid in full by any of the methods or any combination of the methods set forth in (b) below. A properly executed certificate or certificates representing the Stock shall be issued by the Company and delivered to the Award Holder. If certificates representing Stock are used to pay all or part of the Exercise Price, separate certificates for the same number of shares of Stock shall be issued by the Company and delivered to the Award Holder representing each certificate used to pay the Exercise Price, and an additional certificate shall be issued by the Company and delivered to the Award Holder representing the additional Shares, in excess of the Exercise Price, to which the Award Holder is entitled as a result of the exercise of the Award.

(b) The exercise price shall be paid by any of the following methods or any combination of the following methods:

(i) in cash;

(ii) by certified or cashier's check payable to the order of the Company;

(iii) if authorized by the Administrator, in its sole discretion, by delivery to the Company of certificates representing the number of Shares then owned by the Award Holder, the Fair Market Value of which equals the purchase price of the Stock purchased pursuant to the Award, properly endorsed for transfer to the Company; provided however, that Shares used for this purpose must have been held by the Award Holder for more than six months; and provided further that the Fair Market Value of any Shares delivered in payment of the purchase price upon exercise of the Award shall be the Fair Market Value as of the exercise date, which shall be the date of delivery of the certificates for the Stock used as payment of the Exercise Price;

(iv) if authorized by the Administrator, in its sole discretion, by requesting to receive the number of Shares being exercised less the number of Shares having a Fair Market Value as of the exercise date equal to the aggregate Exercise Price for all Shares being exercised at the time;

(v) if authorized by the Administrator, in its sole discretion, and subject to applicable law, including Section 402 of the Sarbanes-Oxley Act, by delivery by a Participant (other than an Executive Officer or Director) to the Company of a properly executed notice of exercise together with irrevocable instructions to a broker to deliver to the Company promptly the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Award Holder necessary to pay the exercise price; or

(vi) if authorized by the Administrator, in its sole discretion, any combination of these methods.

(c) In the sole discretion of the Administrator, the Company may, subject to applicable law, including Section 402 of the Sarbanes-Oxley Act, guaranty a third-party loan obtained by a Participant (other than an Executive Officer or Director) to pay part or all of the Exercise Price of the Shares provided that such loan or the Company's guaranty is secured by the Shares and the loan bears interest at a market rate. The Company may not make or guaranty loans to Executive Officers or Directors.

16.2 *Withholding Requirement*. The Company's obligations to deliver Shares upon the exercise of an Option or Stock Appreciation Right, or upon the vesting of any other Award, shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements. The Company may defer exercise of an Award unless indemnified by the Participants to the Administrator's satisfaction against the payment of any such amount. Further, the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind due to the Participant by the Company.

16.3 *Withholding with Stock*. At the time the Administrator grants an Award, it may, in its sole discretion, grant the Participant an election to pay all such amounts of tax withholding, or any part thereof, by electing to transfer to the Company, or to have the Company withhold

from Shares otherwise issuable to the Participant, Shares having a value equal to the amount required to be withheld or such lesser amount as may be elected by the Participant. All elections shall be subject to the approval or disapproval of the Administrator. The value of Shares to be withheld shall be based on the Fair Market Value of the Stock on the date that the amount of tax to be withheld is to be determined (the "Tax Date"). Any such elections by Participants to have Shares withheld for this purpose will be subject to the following restrictions:

(a) All elections must be made prior to the Tax Date;

(b) All elections shall be irrevocable; and

(c) If the Participant is an "officer" or "director" of the Company within the meaning of Section 16 of the Exchange Act, the Participant must satisfy the requirements of such Section 16 of the Exchange Act and any applicable rules thereunder with respect to the use of Stock to satisfy such tax withholding obligation.

16.4 *Incentive Options.* In the event that an Award Holder makes a disposition (as defined in Section 424(c) of the Internal Revenue Code) of any Stock acquired pursuant to the exercise of an Incentive Stock Option prior to the later of (i) the expiration of two years from the date on which the Incentive Stock Option was granted or (ii) the expiration of one year from the date on which the Option was exercised, the Award Holder shall send written notice to the Company at its principal office (Attention: Corporate Secretary) of the date of such disposition, the number of Shares disposed of, the amount of proceeds received from such disposition, and any other information relating to such disposition as the Company may reasonably request. The Award Holder shall, in the event of such a disposition, make appropriate arrangements with the Company to provide for the amount of additional withholding, if any, required by applicable federal and state income tax laws.

SECTION 17
SECTION 162(M) PROVISIONS

17.1 *Limitations*. Notwithstanding any other provision of this Plan, if the Administrator determines at the time any Award of Stock, Performance Shares, or Performance Units is granted to a Participant that such Participant is, or is likely to be at the time he or she recognizes income for federal income tax purposes in connection with such Award, a Covered Employee, then the Administrator may provide that this Section 17 is applicable to such Award.

17.2 *Performance Goals*. If an Award is subject to this Section 17, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Administrator, which shall be based on the attainment of one or any combination of the following: specified levels of earnings per share, operating income (before or after taxes), production or production growth, resource replacement or resource growth, revenues, gross margin, return on operating assets, return on equity, economic value added, stock price appreciation, total shareholder return (measured in terms of stock price appreciation and dividend growth), successful completion of financing, cash flow, or cost control, of the Company or Affiliated Entity (or any division thereof) for or within which the Participant is primarily employed. Such performance goals also may be based upon the attaining of specified levels of

Company performance under one or more of the measures described above relative to the performance of other companies. Such performance goals shall be set by the Administrator within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Internal Revenue Code and the regulations thereunder.

17.3 *Adjustments*. Notwithstanding any provision of the Plan other than Sections 5 and 11, with respect to any Award that is subject to this Section 17, the Administrator may not adjust upwards the amount payable pursuant to such Award, nor may it waive the achievement of the applicable performance goals except in the case of the death or disability of the Participant.

17.4 *Expiration of Grant Authority*. The Administrator's authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of 162(m) of the Internal Revenue Code (other than Qualifying Awards) shall terminate upon the first meeting of the Company's shareholders that occurs in the fifth year following the year in which the Company's shareholders first approve this Plan.

17.5 *Other Restrictions*. The Administrator shall have the power to impose such other restrictions on Awards subject to this Section 17 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for "performance-based compensation" within the meaning of Section 162(m)(4)(B) of the Internal Revenue Code or any successor thereto.

SECTION 18
BROKERAGE ARRANGEMENTS

The Administrator, in its discretion, may enter into arrangements with one or more banks, brokers or other financial institutions to facilitate the exercise of Options or the disposition of Shares acquired upon exercise of Stock Options, including, without limitation, arrangements for the simultaneous exercise of Stock Options and sale of the Shares acquired upon such exercise.

SECTION 19
NONEXCLUSIVITY OF THE PLAN

Neither the adoption of the Plan by the Board nor the submission of the Plan to shareholders of the Company for approval shall be construed as creating any limitations on the power or authority of the Board to adopt such other or additional incentive or other compensation arrangements of whatever nature as the Board may deem necessary or desirable or preclude or limit the continuation of any other plan, practice or arrangement for the payment of compensation or fringe benefits to Employees or Consultants generally, or to any class or group of Employees or Consultants, which the Company or any Affiliated Entity now has lawfully put into effect, including, without limitation, any retirement, pension, savings and stock purchase plan, insurance, death and disability benefits and executive short-term incentive plans.

SECTION 20
REQUIREMENTS OF LAW

20.1 *Requirements of Law*. The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

20.2 *Rule 16b-3*. Transactions under the Plan and within the scope of Rule 16b-3 of the Exchange Act are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or any action by the Administrator under the Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3; provided, however, that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void to the extent permitted by law and deemed advisable by the Administrator.

20.3 *Governing Law*. The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Delaware.

20.4 *Specified Employees Under Regulation 409A*. For purposes of this Plan, the term "termination of employment" shall mean, with respect to any Award that constitutes a deferral of compensation within the meaning of Section 409A of the Internal Revenue Code, "separation from service" within the meaning of Section 409A of the Internal Revenue Code. Payment of any amount due a Participant after a termination of employment with the Company shall generally be made as soon as practical after such termination. However, if a Participant is a "specified employee" on the date of his or her termination of employment, as that term is defined under Sections 409A(a)(2)(A)(i) and 409A(a)(2)(B)(i) of the Internal Revenue Code, then, to the extent necessary to avoid imposition of additional taxes and interest under Section 409A of the Internal Revenue Code, any such payment shall be made on the date that is the earliest of: (i) six (6) months after the Participant's termination of employment, (ii) the Participant's date of death, if applicable, or (iii) such other earliest date for which such payment will not be subject to the constructive receipt, interest, and additional tax provisions of Section 409A of the Internal Revenue Code.

20.5 *Regulation 409A*. The payments and benefits payable under the Plan are intended to not be subject to the additional tax imposed pursuant to Section 409A of the Internal Revenue Code, and the Plan shall be construed in accordance with such intent.

SECTION 21
DURATION OF THE PLAN

No Award shall be granted under the Plan after ten years from the Effective Date; provided, however, that any Award theretofore granted may, and the authority of the Board or the Administrator to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under any such Award shall, extend beyond such date.

Dated: April 12, 2014

PURE CYCLE CORPORATION

By: ____________________________________
Mark W. Harding
President

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This Annual Report to Shareholders, including the letter to the shareholders from President Mark W. Harding, contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 1934, as amended. The words “will”, “expect”, “should”, “scheduled”, “plan”, “believe”, “promise”, “anticipate”, “could” and similar expressions are intended to identify forward-looking statements. Pure Cycle expectations regarding these matters are only its forecasts. These forecasts may be substantially different from actual results, which are affected by many factors. The use of “Pure Cycle”, “our”, “we”, and similar terms are not intended to describe or imply particular corporate organizations or relationships.

Executive Officer and Directors

Mark W. Harding President, Chief Executive / Financial Officer, Director
Harrison H. Augur Chairman of the Board
Arthur G. Epker, III Director
Richard L. Guido Nominating and Governance Committee Chairman
Peter C. Howell Audit Committee Chairman
George M. Middlemas Compensation Committee Chairman

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Our stock is traded on the NASDAQ Capital Market under the symbol “PCYO”.
For more information please visit our website at ***www.purecyclewater.com***