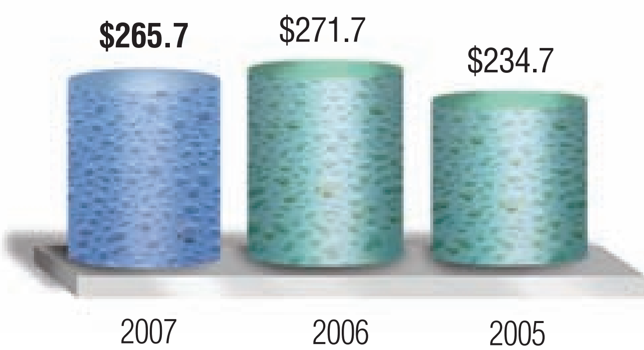
PureCycle Corporation

2007 Annual Report
and Proxy Statement

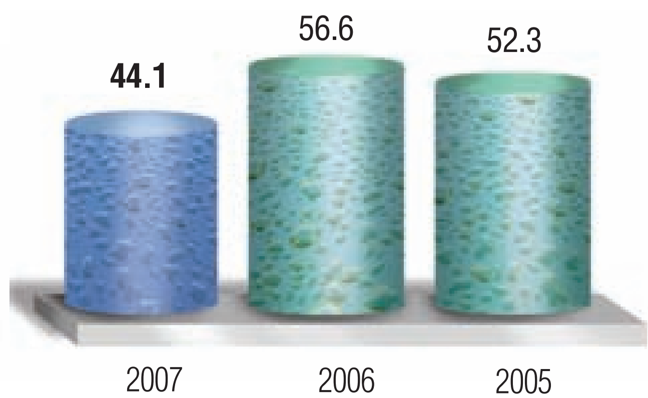
FINANCIAL HIGHLIGHTS

	For the years ended August 31:		
	2007	**2006**	**2005**
Total revenue ('000s)	$ 265.7	$ 271.7	$ 234.7
Gross margin ('000s)	$ 100.5	$ 197.8	$ 171.5
Investments in water and water systems ('000s)	$ 103,248.4	$ 104,455.9	$ 19,871.3
Total assets ('000s)	$ 111,891.9	$ 108,833.9	$ 26,046.5
Stockholder's Equity	$ 57,844.8	$ 54,664.7	$ 15,352.7
Millions of gallons of water delivered	44.4	56.6	52.3

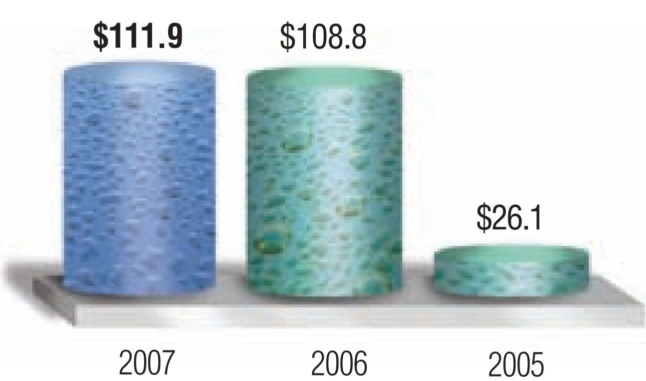
Revenues (thousands)



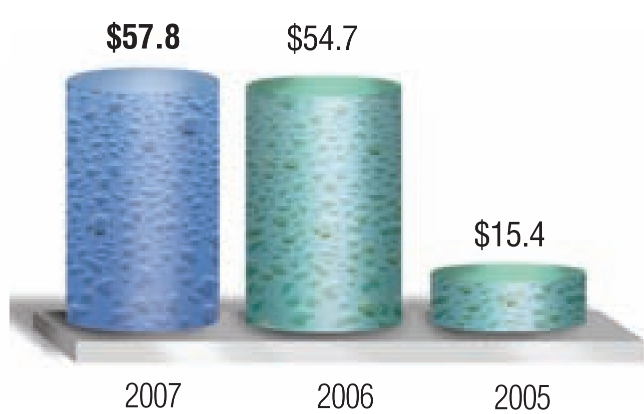
Millions of Gallons of Water Delivered



Total Assets (thousands)



Stockholders' Equity (thousands)



Dear Fellow Shareholders,

The experiences of 2007 again reinforced the basic fundamentals of our business. Water continues to be one of the most significant issues facing continued development in the west and particularly along the Front Range of Colorado. Water prices continued their fifth straight year of double-digit appreciation with tap fees increasing 18% from prior year levels. We continued to expand and diversify our water assets through our acquisition of over 60,000 acre feet of Arkansas River water in 2006, along with smaller acquisitions resulting from our service agreements with Arapahoe County and Sky Ranch. As our assets continue to build equity value for our stockholders, we continue to work to monetize these assets through service agreements with area developers and water service providers.

During the past year, much attention has been focused on the health of the housing industry and interest rates. Much like the national picture, Denver has experienced a decrease in housing starts with year over year starts down approximately 30% through the third calendar quarter. This has impacted our operations, most notably the delay of development at Sky Ranch and the filing for Chapter 11 bankruptcy protection by an affiliate of the Sky Ranch development, Neumann Homes. Even so, the Denver economy continues to demonstrate significant strengths, with unemployment rates at a remarkably low 3.4% compared to a strong national unemployment picture of 4.7%. Early area forecasts for housing starts in 2008 appear to be in line with 2007, with optimism of a strengthening in 2009. The Colorado Front Range has experienced a more sustainable growth pattern when compared to the boom/bust cycle of several other major metropolitan regions and we expect this trend to continue.

While new home starts enhance our opportunities to monetize our water assets, with the addition of the Arkansas River asset we have found significant interest in augmenting, adding to, and in some cases replacing existing water supplies of other established area water providers in need of new reliable water supplies to meet both current and future water demands. Water supply in Colorado has significant barriers to entry since new water supplies are costly to acquire and difficult to develop. Economies of scale play a significant role in developing new water supplies. Pure Cycle's extensive portfolio, with a large Denver-based component, provides significant advantages to incrementally develop new water supplies that are backed up by large senior surface water supplies for long term growth and sustainability.

During fiscal 2007, we achieved several significant milestones including finalizing the accounting for our Arkansas River acquisition through an SEC consultation/review, completing a registered public offering which strengthened our operating assets, and repurchasing over 81% of the remaining "CAA" obligations (when combined with our October 2007 repurchases). In addition to our balance sheet enhancements, during the past year we saw water tap fees reaching the $20,000 threshold, we added a highly experienced new board member, and we hired new auditors. These significant events are summarized below and are explained in greater detail in the attached Annual Report on Form 10-K.

Also of significance was the June 22, 2007 *Development and Management Services Agreement* entered into by the Colorado State Land Board and Lend Lease Communities, LLC. The Land Board owns the approximately 27,000-acre Lowry Range property, for which we provide water and wastewater service to 24,000 acres. Lend Lease Communities is in the investigatory phase of their development planning for about 3,900 acres at the Lowry Range and we look forward to working with them and the Land Board on this exciting project.

Benchmarking this year's 2007 Annual Report finds our Company in very good condition. With a strengthened cash position, continued prudent fiscal management, elimination of all current maturity debt, and continued growth of the value of our assets, we are well positioned to provide cost effective water and wastewater service to our customers and expand our service to area water providers and developers in need of new supplies. I would like to express my continued appreciation for our shareholders support and we look forward to our future success.

SEC Consultations

At the end of our fiscal 2006, we completed the acquisition of the Arkansas River Water rights. In the 2006 financial statements, we initially recorded a liability for certain promissory notes that were deemed indirect guarantees. Although these promissory notes remained the seller's obligation, due to certain clauses it was deemed that we indirectly guaranteed the notes. The subsequent accounting for this balance could not be agreed upon with our former auditors, so we consulted with the Staff of the SEC. The result of this consultation was a restatement of our Form 10-K for the year ended August 31, 2006. As ominous as a restatement sounds, the results proved beneficial to our shareholders. Because the likelihood of us paying these promissory notes is considered remote, we removed approximately $14.6 million of debt from our 2006 financial statements. The entire restatement is described in greater detail in the amendment to our August 31, 2006 Form 10-K available through our website.

During the SEC consultation, it was also determined that the way we initially accounted for the "Tap Participation Fee Payable to HP A&M" was incorrect. Therefore, we restated the amount recorded on our balance sheet to reflect the fair market value of the Tap Participation Fee. As a result of this restatement, on September 1, 2006, we began imputing interest expense on the balance of the Tap Participation Fee payable, which amounted to approximately $4.7 million in interest for fiscal 2007. It is important to note, that none of this will be paid to the seller until we sell water taps.

Equity Offering and CAA Extinguishment

Following the conclusion of the consultation and reviews with the SEC, we completed a 1.2 million share registered offering, whereby we raised approximately $9.0 million. Approximately $2.6 million of the proceeds were used to acquire approximately $10.5 million of "CAA" interests. The CAA is described in greater detail in the attached Form 10-K, but in general the CAA is the financing instrument used to acquire our "Rangeview Water Assets" and required payments to the CAA holders as we sold Export Water. As a result of this purchase of CAA interests, we recognized a gain of approximately $1.0 million ($765,000 of which was recorded directly into equity as a result of certain accounting rules applicable to related party transactions). The remaining funds from the offering will be used to fund our operations until such time as our operations become self-sustaining. Subsequent to fiscal year end we repurchased an additional $4.7 million of CAA interests for approximately 211,000 shares of restricted common stock, resulting in a loss of approximately $273,000. Following this acquisition, approximately $3.5 million of CAA interests remain payable to third parties.

Water Tap Fees

Our water tap fees and usage fees are market based, computed considering the rates charged by three surrounding water providers. As a result of increases in fees at these "rate-based districts," effective July 1, 2007 our water tap fees increased to $20,000, an 18.8% increase. For comparison, our rate-based districts increased their water tap fees to $19,000, $22,000 and $22,686. We also saw increases in our water and wastewater service charges.

New Additions

This past year we welcomed two significant additions to our business. First, in August, Mr. Arthur "Bart" Epker joined our board of directors. Mr. Epker is a partner at Par Capital Management in Boston and brings over 25 years of financial experience and industry leadership. I would also like to welcome our new auditors, GHP Horwath, P.C. (contact information for GHP is located on the inside of the back cover of our Annual Report). GHP is a regional firm with operations in several western states and is affiliated with Horwath International, a global organization with more than 120 independent firms operating from 430 offices worldwide. We welcome the experience and dedication that GHP offers and look forward to a long and productive relationship.

Included with this Annual Report is our Proxy Statement for the Annual Stockholders' Meeting scheduled for January 15, 2008. I hope you find the information in the Form 10-K and Proxy Statement insightful and helpful in making your investment decisions and I welcome any comments or questions you may have.

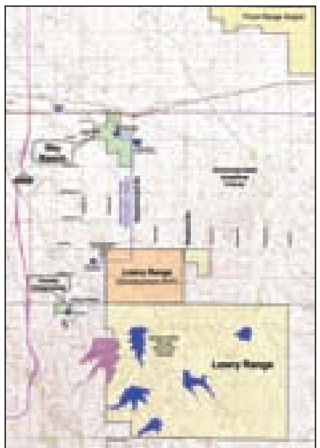
If you would like to read more about Pure Cycle, please visit our web site at www.purecyclewater.com.

Sincerely,

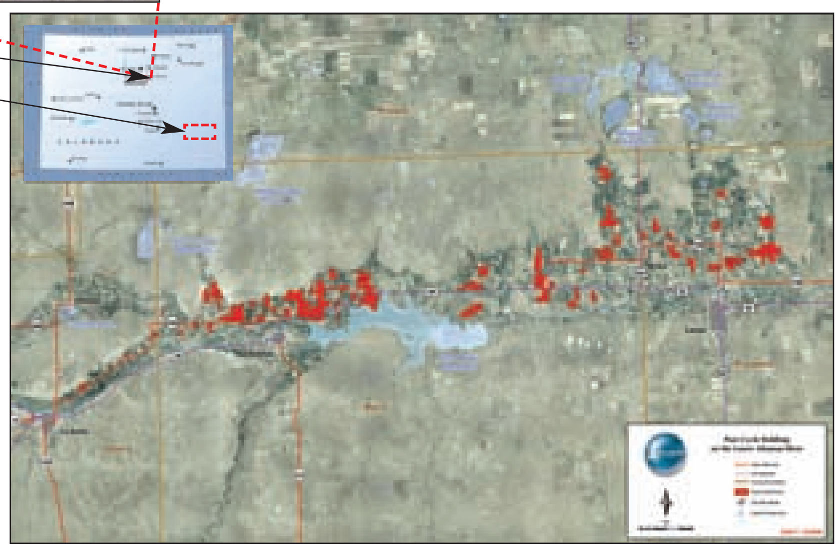
Mark W. Harding , *President*

O U R   B U S I N E S S

We are an investor-owned water company operating in the Denver, Colorado metropolitan area. The water assets we own or have exclusive rights to use generate proceeds through the sale of water taps and through recurring monthly service and usage fees. In fiscal 2007, we did not sell any water taps, but we did recognize approximately $14,300 of water tap fee revenues (which is a portion of the water taps sold to Arapahoe County in 2005 which are being recorded as revenue over 30 years) and we also recognized approximately $149,500 of water usage fees in 2007.



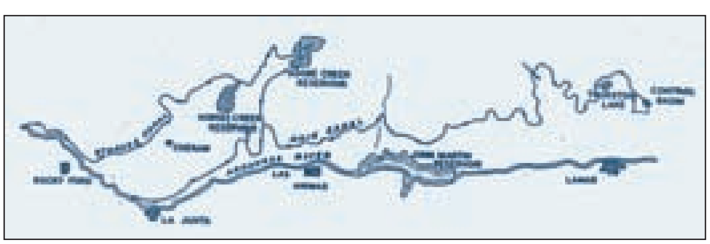
In addition to water taps and water usage fees, we also generate revenue from wastewater tap sales, wastewater monthly service fees and construction fees. In fiscal 2007, we did not have any wastewater tap sales, but we did have approximately $60,300 of wastewater monthly fees. We also recognized approximately $41,500 of construction fees, which is a portion of the $1.25 million of construction revenues to be recognized from projects completed for Arapahoe County in 2005 which are being recorded as revenue over 30 years.



We design, construct and maintain our water systems under the belief that water is a scarce and often misused natural resource. We currently hold one of the largest unallocated portfolios of water in Colorado and intend to utilize this water for municipal and industrial purposes primarily along the metropolitan Front Range extending from Denver south to Colorado Springs.

Arkansas River Water

In 2006, we acquired approximately 60,000 acre-feet of senior 1883 water rights in the Arkansas River This water is currently being utilized for irrigation on over 17,500 acres of real property we acquired. The properties are located in the counties of Bent, Otero and Prowers, Colorado, and are irrigated by the Fort Lyon Canal. The Fort Lyon Canal, of which we own approximately 21,600 shares, is a 110-mile irrigation canal constructed in the 1800's.



This water can be used to serve an additional 100,000 single family equivalent units (SFE's). An SFE is the measure of demand placed on the water system by a typical single family residence and is used as a common basis for other water system customers such as apartments, offices, schools, businesses, etc. Based on current water tap fees, an additional $2.0 billion of water tap fee revenue could be realized if the Arkansas River water asset is fully utilized.

While we seek to transfer water currently being used for agricultural purposes to municipal uses, we are working with the agricultural community to find cooperative ways to continue to maintain agricultural operations on significant portions of our farms. We are exploring rotational fallowing programs under which only portions of our farms will fallow lands during a given year. We are active participants in discussions that envision multiple ditch companies cooperatively participating in a rotational fallowing program to free up additional water supplies. Forging partnerships between rural and urban interests, as well as municipal and agricultural interests, will enhance continued agricultural production while freeing up new water supplies for municipal uses in a more cost effective cooperative effort.

The Lowry Range

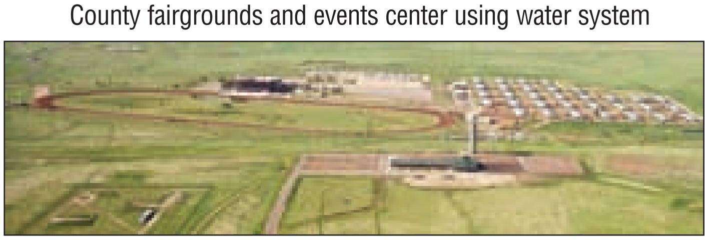
Our Denver-based water assets, which we use to serve our existing customers, have the capacity to serve up to 80,000 SFEs. The Lowry Range consists of 27,000 acres of undeveloped land located in the southeastern portion of the Denver metropolitan area about 12 miles south of the Denver International Airport. As described by the Land Board, "the Lowry Range is one of the largest parcels under single ownership next to a major metropolitan area in the nation."

The area surrounding the Lowry Range has experienced tremendous growth in recent years. Development is occurring along three borders of the property. Recognizing this heightened development activity in the immediate vicinity of the Lowry Range, in June 2007, the Land Board entered into a Development and Management Services Agreement with Australian-based Lend Lease Communities, LLC (see www.lendlease.com for more information on Lend Lease Communities) for the development of approximately 3,900 acres of the Lowry Range. Of this, we have the exclusive right to provide water and wastewater services to approximately 1,300 acres.

Under agreements with the Land Board and the Rangeview Metropolitan District, we own or have the exclusive rights to use nearly 27,000 acre-feet per year of groundwater, approximately 3,200 acre-feet per average year of surface water, and 25,000 acre-feet of surface storage. Approximately 15,000 acre-feet per year of the groundwater and one-half of the surface water is reserved for use exclusively at the Lowry Range, which can provide service to approximately 47,000 SFE. The remaining water, the "Export Water", has a capacity to serve approximately 33,000 SFE and can be exported off the Lowry Range to serve other areas in the Denver metropolitan region.

Arapahoe County Fairgrounds

We continue to provide water service to the Arapahoe County fairgrounds and events center using water system



Arapahoe County Fairgrounds (in foreground)

facilities completed in 2006. The fairgrounds, located about 1 1/2 miles west of the Lowry Range, provide year-round access to open space and multipurpose buildings that serve a variety of uses.

The facilities we constructed to serve the fairgrounds extended from our existing system at the Ridgeview Youth Services Campus (our largest customer) and included a half-million gallon elevated water tank, new groundwater well, and pipelines. We invested in additional capacity in these facilities, beyond that required just for the fairgrounds, which will facilitate our providing water service in the future to neighboring developments including the initial phases of development at the Lowry Range.

Ridgeview Youth Services Campus

Sky Ranch

Sky Ranch is a 950-acre development located four miles north of the Lowry Range near Interstate 70. Sky Ranch is a mixed use master planned community slated for up to approximately 4,800 residences (comprised of a mixture of single family detached homes, single family attached homes and multifamily units). In addition to the residential development, Sky Ranch includes up to one million square feet of retail and commercial development, schools, open space, and other community facilities. Under the Sky Ranch water service agreements, we have acquired 89 acre-feet of water from the developer with the rights to acquire an additional 671 acre-feet. This water will be used to serve the first 1,500 taps at Sky Ranch. The remaining taps will be served with our Export Water.

During 2007, we learned that Neumann Homes, Inc., which is affiliated with the developer of Sky Ranch, filed for Chapter 11 Bankruptcy protection. We continue to work with the developers of Sky Ranch, however we do not know what the status of the property is at this time. As of the date of the accompanying Form 10-K, we have not received the option payments owed to us by the developer of Sky Ranch. We are discussing the status of the water rights deeds owed to us for the most recent groundwater acquisitions we initiated in our fiscal 2007 and 2006. As of the date of the Form 10-K filing, the developer has not begun construction of the development and therefore we have not received any tap fees or usage fees from Sky Ranch.

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, 2007

[ ] 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)

Delaware	**84-0705083**
(State of incorporation)	(I.R.S. Employer Identification No.)

8451 Delaware Street, Thornton, CO 80260
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: **(303) 292-3456**

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 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 if disclosure of delinquent filers in response 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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer [ ] Accelerated filer [X] Non-accelerate filer [ ]

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

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates on February 28, 2007, the last business day of the registrants most recently completed second fiscal quarter was: $84,289,000

Number of shares of Common Stock outstanding, as of October 31, 2007: 20,206,566

Documents incorporated by reference: The information required by Part III is incorporated by reference from the registrant's definitive proxy statement for the 2007 annual meeting of stockholders, which will be filed with the SEC within 120 days of the close of the fiscal year ended August 31, 2007.

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"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 are forward looking statements that involve risk and uncertainties that could cause actual results to differ 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. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, without limitation, the timing of development of the areas where we may sell our water, including uncertainties related to the development of projects we currently have under contract, the market price of water, changes in applicable statutory and regulatory requirements, uncertainties in the estimation of water available under decrees, costs of delivery of water and treatment of wastewater, 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, labor relations, availability and cost of material and equipment, delays in anticipated permit and construction dates, environmental risks, the results of financing efforts and the ability to meet capital requirements, and general economic conditions.

PART I

Item 1. Business

Summary of our business

Pure Cycle Corporation was incorporated in Delaware in 1976. We are a vertically integrated water and wastewater service provider engaged in the design, construction, operation and maintenance of water and wastewater systems. Our philosophy is that water is a precious commodity, one which is often undervalued and used inefficiently. We have assets located in the Denver, Colorado metropolitan area, in southeastern Colorado in the Arkansas River, and on the western slope of Colorado; however, we primarily operate in metropolitan Denver, Colorado. We center our business practices around efficient and environmentally responsible water management programs to ensure we have high quality water to meet the long-term needs of our customers. This means we withdraw, treat, store and deliver water to our customers, then collect wastewater from our customers, treat it, and reuse that water through our dual distribution delivery systems. A dual distribution system is one in which domestic water demands and irrigation water demands are provided through separate independent infrastructure which promotes efficient water resource management and reduces the amount of water that is "wasted" by traditional water systems. This enables us to maximize our water supplies and allows us the ability to provide long-term water solutions on a regional basis.

The Denver metropolitan region continues to experience growth, even in the slow housing construction market experienced throughout 2007. In recent years, cities and municipalities have begun requiring property developers to demonstrate they have sufficient water supplies for their proposed projects before the cities and municipalities will consider rezoning or annexation applications. Our water marketing activities focus on developers and homebuilders developing new areas along the Front Range, which includes the greater Denver and Colorado Springs metropolitan areas. Our groundwater supplies are largely undeveloped and are located in the southeast portion of the greater Denver area in Arapahoe County. The majority of our surface water is located in the Arkansas River Valley, and we anticipate using it in our target service market and throughout the Front Range of Colorado.

We work with area developers to investigate water supply constraints, water and wastewater utility issues and other issues related to water and wastewater services in order to identify suitable areas for development. We negotiate individual service agreements with developers and/or homebuilders and cities and municipalities to design, construct and operate water and wastewater systems and services. These service agreements address all aspects of the development of the water and wastewater systems, which are more specifically discussed below, but include: (i) the purchase of water and wastewater taps in exchange for our obligation to construct the "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.

Our Water Assets

We own the following water assets in Colorado, which are described in greater detail below:

- Approximately 60,000 acre-feet of senior 1883 water rights in the Arkansas River and its tributaries represented by over 21,600 shares of the Fort Lyon Canal Company (“FLCC”);
- Approximately 11,650 acre-feet of water located in Arapahoe County, Colorado at property known as the Lowry Range (described below), which we can “export” from the Lowry Range to supply water to nearby communities and developers in need of additional water supplies (this water asset is referred to as our “Export Water”);
- Approximately 363 acre-feet of groundwater pursuant to an Agreement for Water Service (the “County Agreement”) with Arapahoe County (the “County”), which will be added to our overall Denver metropolitan water supply portfolio (we are awaiting the delivery of a water rights deed for approximately 336 acre-feet of this water valued at approximately $240,000, the value of which is included in the *construction proceeds receivable* account on our balance sheet as of August 31, 2007, until the water rights deed is received); and
- Approximately 89 acre-feet of water located beneath Sky Ranch together with the right to purchase an additional 671 acre-feet of water (for a total of 760 acre-feet), which will be used to provide water service to the initial 1,500 taps purchased at Sky Ranch.

In addition to the water we own, we also control the following water assets in Colorado, which are described in greater detail below:

- We have the exclusive rights to use, through 2081, approximately 15,050 acre-feet of water located at the Lowry Range. This water is required to be used specifically on the Lowry Range (collectively we refer to the 15,050 acre-feet of water designated for use on the Lowry Range and the 11,650 acre-feet of Export Water as our “Rangeview Water Supply”);
- We own conditional water rights in western Colorado that entitle us 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 the “Paradise Water Supply”).

Arkansas River Water

On August 31, 2006, we acquired approximately 60,000 acre-feet of Arkansas River water from High Plains A&M, LLC (“HP A&M”), in exchange for 3.0 million shares of our common stock, pursuant to an acquisition agreement (the “Arkansas River Agreement”). Of this, we anticipate that approximately 40,000 acre-feet will be available for non-agricultural uses along the front range of Colorado. This acquisition allows us to more effectively market our water and wastewater services to customers in the Denver metropolitan market as well as other markets such as the Colorado Springs region. It also expands our service capacities from approximately 78,000 Single Family Equivalent units (“SFE”) to over 180,000 SFE units. An SFE is defined in our water and wastewater service rules and regulations applicable to our services (the “Rules and Regulations”) as the amount of water required each year by a family of four persons living in a single family house on a standard sized lot, which is equivalent to approximately 0.4 acre-feet of water per year. The Arkansas River water rights we own are represented by approximately 21,600 shares of the FLCC. The FLCC is a non-profit mutual ditch company established in the 1800’s that operates and maintains the 110 mile Fort Lyon Canal between La Junta, Colorado and Lamar, Colorado.

Along with these water rights, we also acquired approximately 17,500 acres of real property located in the counties of Bent, Otero and Prowers, Colorado, and certain contract rights, tangible personal property, mineral rights, and other water interests associated with the real property. The real and personal property and other non-water assets were acquired because the water we intend to ultimately develop for municipal purposes is based on the current and historical “consumptive use” of such water on the land. By owning the land and having the water continue to be used for agricultural purposes, we ensure that there is continued beneficial use of the water.

The real property is comprised of approximately 80 separate parcels, which are subject to operating lease agreements permitting the lessees to farm the land, in return for defined lease payments, and use the water rights for irrigation purposes. These properties are subject to a management agreement which is described below. Additionally, certain of the properties are subject to outstanding promissory notes which are secured by deeds of trust on the properties. We did not assume these promissory notes and are not responsible for making any of the required payments. This responsibility remained with HP A&M. In the event of default by HP A&M, we may choose to pay HP A&M's obligations in order to protect our water interests. As collateral on HP A&M's obligation to pay the promissory notes, HP A&M placed 1.5 million shares of our common stock in escrow, pursuant to a stock pledge agreement, which stock will only be released upon the circumstances described in the pledge agreement. In the event of default, we could foreclose on this stock and the payments required under the Tap Participation Fee (described in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* below) could be reduced.

Timing of the development of the Arkansas River water will depend on the timing of connections added to our existing water and wastewater systems along the Front Range. We will fund the development of the Arkansas River water, much like the other water we own, by using proceeds generated from the sale of taps or connection fees associated with new connections to our system. In addition to increasing our service capacities, this additional water may present other market opportunities for us to assist existing water providers in solving their long-term water supply needs for their existing and new connections. Along the Front Range, there are over 70 separate independent water providers with varying needs for replacement and new water supplies, which presents an opportunity for us to assist these water providers in meeting their existing and future water needs.

We are working with the FLCC and other interested parties in the Arkansas River Valley to mitigate any impact to the community and to make investments and decisions on farming operations which benefit our water as well as the traditional water users. If any of our real property is converted to non-irrigated uses, we will be required to re-vegetate the land to its natural state.

In addition to the Arkansas River Agreement and the stock pledge agreement with HP A&M noted above, we also signed various other agreements with HP A&M, including:

- A pledge agreement, whereby the Company pledged to HP A&M a defined number of FLCC shares acquired pursuant to the Arkansas River Agreement which will be released as the consideration (the value of the stock and the Tap Participation Fees paid) exceeds certain defined amounts;
- A property management agreement with HP A&M whereby HP A&M will manage the real estate leases in exchange for all the rental income from the assumed leases for a period of five years (through August 31, 2011), which can be extended under defined circumstances;
- A registration rights agreement, pursuant to which we granted HP A&M one demand right to register 750,000 shares of Pure Cycle common stock and piggyback rights to register an additional 750,000 shares of Pure Cycle common stock (HP A&M exercised the piggyback rights in July 2007 and registered 750,000 shares of common stock); and
- A voting agreement, pursuant to which our President agreed to vote shares of Pure Cycle common stock owned by him for HP A&M's designated board member.

The Rangeview Water Supply and Related Agreements

Our Rangeview Water Supply is located at the Lowry Range. The Lowry Range is owned by the State Board of Land Commissioners (the "Land Board"), and is located in unincorporated Arapahoe County approximately 15 miles southeast of Denver and 12 miles south of the Denver International Airport. The Land Board acquired this property in the 1960's and has stated that the Lowry Range is one of the most valuable pieces of property in its nearly 2.5 million acre portfolio. The Lowry Range encompasses approximately 27,000 acres, of which approximately 24,000 acres are within our exclusive service area. In June 2007, the Land Board entered into a Development and Management Services Agreement with Australian based Lend Lease Communities, LLC (see www.lendlease.com for more information on Lend Lease Communities) for the development of approximately 3,900 acres of the Lowry Range. Of this 3,900 acres, we have the exclusive right to provide water and wastewater services to approximately 1,300 acres.

We acquired our Rangeview Water Supply in April 1996 pursuant to the following agreements (i) the Amended and Restated Lease Agreement (the "Lease") between the Land Board and the Rangeview Metropolitan District (the "District"), a quasi-municipal political subdivision of the State of Colorado, (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 Lowry Range (collectively these agreements are referred to as the “Rangeview Water Agreements”).

The Rangeview Water Supply is a combination of tributary surface water, nontributary groundwater rights, and storage rights associated with the Lowry Range. We own the rights to use 11,650 acre-feet of non-tributary groundwater that can be exported off the Lowry Range to serve area users. We also have the exclusive rights to use an additional 15,050 acre-feet of tributary surface water and nontributary groundwater to serve customers on the Lowry Range. The Export Water we own, together with water owned by the Land Board that we have contracted to utilize under our Service Agreement, includes over 26,700 acre-feet of water per year. Based on independent engineering estimates, the 15,050 acre-feet of water designated for use on the Lowry Range is capable of providing water service to approximately 44,500 SFE units, and the 11,650 acre-feet of Export Water we own can serve approximately 33,600 SFE units throughout the Denver metropolitan region, for a combined service capacity, of our Denver based water assets, of approximately 78,100 SFE units.

Pursuant to the Rangeview Water Agreements we will design, construct, operate and maintain the District's water system to provide water service to customers within the District’s service area, namely the Lowry Range, using approximately 15,050 acre-feet of water per year located on the Lowry Range. This 15,050 acre-feet of water is dedicated for use specifically on the Lowry Range per the Rangeview Water Agreements. In exchange for providing water service to customers within the District’s service area, we receive 95% of all amounts received by the District relating to water services, after deducting required royalties to the Land Board, which initially total approximately 12% of gross revenues received from water sales.

We will also design, finance, construct, operate and maintain the District’s wastewater system to provide wastewater service to customers within the District’s service area. In exchange for providing wastewater service, we receive 100% of the District’s wastewater tap fees and 90% of the District’s monthly wastewater fees, as well as the rights to use or sell the reclaimed water.

On the Lowry Range, we operate both the water and the wastewater systems during our contract period and the District owns both systems. However, after 2081, ownership of the water system infrastructure servicing customers on the Lowry Range reverts to the Land Board, with the District retaining ownership of the wastewater infrastructure. Off the Lowry Range, we will use our Export Water to provide water and wastewater services to our customers, along with the Arkansas River water described above, and we plan to own these facilities. We plan to contract with third parties for the construction of these facilities.

The sale of Export Water generates a royalty payment to the Land Board, which is described in greater detail in the Revenues – Export Water Customers section below. A portion of the proceeds from the sale of Export Water are subject to the Comprehensive Amendment Agreement No. 1 (the “CAA”), which is one of the agreements we used to purchase our Export Water and is more fully described in “*Item 6 – Critical Accounting Policies – Accounting for CAA Payments”* and Note 5 – Participating Interests in Export Water in the accompanying financial statements.

Arapahoe County Fairgrounds Agreement for Water Service

We entered into the County Agreement in August 2005 to design, construct, operate and maintain a water system for, and provide water services to, the Arapahoe County Fairgrounds (the “Fairgrounds”), which was constructed West of the Lowry Range. Pursuant to the County Agreement, we acquired approximately 363 acre-feet of water from the County, which we can use in conjunction with our Rangeview Water Supply to supply water to nearby communities. As of August 31, 2007, we have not received the water rights deed for approximately 336 acre-feet of groundwater, which is valued at approximately $240,000. Therefore, we have not capitalized the cost of this water and will not do so until the satisfactory transfer of this deed. Until the deed is transferred, the value of this water is included under the caption “*construction proceeds receivable*” on the balance sheet as the County would be required to pay us this amount in cash if the water rights deed is not transferred to us.

Pursuant to the County Agreement, the County purchased water taps for 38.5 SFEs for approximately $567,500 (which was comprised of $514,600 in cash and 27 acre-feet of water rights valued at approximately $52,900), or $14,740 per tap. The County also paid us, or will pay us, approximately $1.25 million (which can be lowered by the value of the 336 acre-feet of water rights we agreed to acquire as explained above, or approximately $240,000) to design and build certain Special Facilities (as defined below).

We are servicing the Fairgrounds using our Export Water, and therefore, the tap fees we received generated royalty payments to the Land Board totaling approximately $34,500, which was 10% of the net revenues we received from the sale of Export Water taps in fiscal 2006. The agreement with the Land Board requires royalty payments on Export Water sales based on the net revenues we receive. These net revenues are defined as proceeds from the sale of Export Water less direct and indirect costs, including reasonable overhead charges, associated with the withdrawal, treatment and delivery of Export Water. In addition, the tap fees, net of the Land Board royalty, were subject to the CAA. This resulted in us distributing approximately $533,000 of the tap fees received from the County to the escrow agent in September 2005. Based on our CAA ownership at the time, we received back $373,100, or 70% of this distribution. The tap fees we retained were used to construct the Wholesale Facilities required to provide water service to the Fairgrounds.

See also Note 3 – Water, Water Systems and Service Agreements in the accompanying financial statements for a discussion of the funding of the "Special Facilities" at the Fairgrounds as well as a proposed amendment to the County Agreement.

The construction of the Special and Wholesale facilities were completed in our fiscal 2006, and we began providing water service to the Fairgrounds at the opening of the 100th Annual Arapahoe County fair on July 21, 2006. This is when we started recognizing the tap fees and special facilities funding revenue in income (as described in the *Critical Accounting Policies* section in Item 7 below) and we started depreciating the facilities constructed to serve the Fairgrounds.

Sky Ranch Water Supply and Water Service Agreements

On October 31, 2003, and May 14, 2004, we entered into two Water Service Agreements (collectively the "Sky Ranch Agreements") with the developer of approximately 950 acres of property located 4 miles north of the Lowry Range along Interstate 70 in Colorado, known as Sky Ranch. Under the Sky Ranch Agreements, once the project commences, we are to provide water service to the homes and other buildings that are expected to be built at Sky Ranch, which could be as high as 4,850 SFEs.

As of the date of this filing, we have not received any payments for tap purchases from the developer and have no information on if or when the developer will begin developing the project and purchase water taps from us. As part of the Sky Ranch Agreements, the developer is required to dedicate approximately 537 acre-feet of water to us in exchange for a $3,400 per tap credit for the first 767 water taps purchased. Additionally, pursuant to the Sky Ranch Agreements, the developer is required to pay us $3.41 million for the construction of certain Special Facilities required to extend service to Sky Ranch. As of August 31, 2007, none of this water has been dedicated to us because Sky Ranch has not yet purchased any water taps, and construction of the Special Facilities has not occurred so therefore none of the $3.41 million for construction of the Special Facilities has been paid.

We also entered into a five year groundwater purchase agreement with Sky Ranch to acquire the 223 acre-feet of Denver Aquifer groundwater located at Sky Ranch, with the final $50,000 payment due in April 2008. As of the date of this filing, we have acquired 40% of this water, or 89.2 acre-feet for payments totaling $100,000. The 89.2 acre-feet of water we have acquired from Sky Ranch, for which we have the water rights deeds, does not have to be used at Sky Ranch, at our discretion it can be used throughout our target service area. We have also paid the developer an additional $100,000 to acquire the next 40% (89.2 acre-feet) of water pursuant to this groundwater purchase agreement, but the developer has not cashed our checks or remitted the water rights deed for this water to us. Therefore, we have not capitalized this 89.2 acre-feet of water purchased as a water asset yet. In addition to this, Sky Ranch is required to make annual option payments to us of $50,000 and $10,400 for the right to use our Export Water at Sky Ranch. As of the date of this filing, we have not received either of the option payments due in fiscal 2007 or 2006, and therefore Sky Ranch is in default on these payments (totaling $120,800). Notwithstanding Sky Ranch being in default on its option fees, our service agreements with Sky Ranch currently remain in effect. Pursuant to the Sky Ranch Agreements, we maintain responsibility to provide water service to up to 1,500 single family units at the Sky Ranch development using the water we have, or expect to acquire, from Sky Ranch. Continued default by Sky Ranch on payment of the option fees places the Sky Ranch development at risk of not being able to use our Export Water to service development in excess of the 1,500 single family units. There is currently no development occurring at Sky Ranch and the developer of Sky Ranch has listed the property for sale.

By combining the 537 acre-feet of water to be purchased from the developer of Sky Ranch together with the 89.2 acre-feet of water already purchased, and the 133.8 acre-feet anticipated to be purchased under the agreement to purchase Denver Aquifer groundwater, we will have acquired a total of 760 acre-feet of water from Sky Ranch, which we plan to use to provide water service to the first 1,500 SFEs at Sky Ranch.

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. Due to the nature of the Paradise water rights, 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. While we continue to identify potential new users for these rights, we cannot assure you that we will ever be able to make use of this asset or sell the water profitably. See discussion of impairment analysis in the *Critical Accounting Policies* section below.

Every six years our Paradise Water Supply is subject to a Finding of Reasonable Diligence review by the water court and the State Engineer to determine if we are diligently pursuing the development of the water rights. During fiscal 2005 the water court began the latest review. In 2007, we completed the due diligence review with the State Engineers office and received a Finding of Reasonable Diligence, but only after certain objectors came forward. The objectors were questioning our anticipated use of the conditional water rights outside of the Colorado River Basin and the western slope of Colorado. Following months of discussions, we reached an agreement with the objectors on our continued development activities as well as certain milestones to be met during our next diligence period for the Paradise Water Supply, and the objectors agreed to remove their objections from the review process. As a result, we acknowledged that we can only use our Paradise Water Supply in the Colorado River basin, we will consider alternative locations for constructing a reservoir, and we agreed the objectors can have the right to lease up to 10,000 acre-feet of water per year if we develop the Paradise Water Supply.

Revenues

We generate revenues predominately from three sources:

1. Water and wastewater tap fees,
2. Construction fees, and
3. Monthly service fees.

We negotiate the payment terms for tap fees, construction fees, and other water and wastewater service fees with each developer, builder or municipality before we commit to providing service and before construction of the project begins.

Water and Wastewater Tap Fees

Tap fees are paid by the developer in advance of construction activities. Tap fees are designed to fund construction of the "Wholesale Facilities" and defray the acquisition costs of obtaining water rights. Wholesale Facilities are facilities we design, construct, operate, maintain and repair. Wholesale Facilities serve our entire service area or major regions or portions thereof. Wells, treatment plants, pumping stations, tanks, reservoirs, transmission pipelines, and major sewage lift stations are typical examples of Wholesale Facilities. We own the Wholesale Facilities we construct off the Lowry Range. The District owns the Wholesale Facilities constructed on the Lowry Range.

Pursuant to our Rangeview Water Agreements with the District and the Land Board, pricing for water tap fees (as well as water usage charges described further below) is controlled through a market-driven pricing mechanism in which our rates and charges may not exceed the average of similar rates and charges of three nearby communities (referred to as the "rate-based districts"). Due to increases in tap fees at the rate-based districts, effective July 1, 2007, water tap fees increased to $20,000 per tap, which is an increase of 18.8% over the 2006 water tap fee of $16,840 per SFE. Wastewater tap fees remained unchanged at $4,883.

Table A provides a summary of our water tap fees since 2002:

Table A - Water System Tap Fees

	2007	2006	2005	2004	2003	2002
Water tap fees per SFE	$ 20,000	$ 16,840	$ 14,740	$ 12,420	$ 11,150	$ 10,500
Percentage Increase	18.8%	14.2%	18.7%	11.4%	6.2%	-

Developers owning rights to either surface water or groundwater underlying their properties can receive a credit against a portion of their water tap fees if they elect to sell their water to us, which is negotiated at the time of the service agreement.

Construction Fees

The development of water and wastewater systems typically requires the construction of facilities to extend services to an individual development. In cases where these facilities are not available for use by any other developments, these facilities are classified as "Special Facilities." Special Facilities can include items such as infrastructure required during the construction of the permanent water and wastewater systems, transmission pipelines to transfer water from one location to another, temporary storage facilities, etc. Generally we are not responsible for the design and construction of the Special Facilities; this is typically the developer's responsibility. However, we are typically responsible for the operation and maintenance of the Special Facilities upon completion. We will accept responsibility for the budgeting, design and construction of the Special Facilities if the developer provides the funding. If the developer constructs the Special Facilities, the facilities must be constructed to our design standards, and the developer is required to dedicate the Special Facilities to us at no charge upon completion. If we construct the Special Facilities, we capitalize the construction costs, and upon completion, we own the Special Facilities.

If we agree to build the Special Facilities, the funding received from the developer is deferred until construction is completed and the assets are placed into operation. At that time, the funding from the developer is recorded as income over the estimated service period, which is the estimated useful life of the assets constructed with those funds. The depreciation charges for the Special Facilities are recorded as costs of revenue over the estimated useful life of the assets.

Developers are usually responsible for the design and construction of "Retail Facilities," which are facilities that transport water throughout an individual subdivision or community. Retail Facilities are constructed pursuant to our design standards and are inspected by our engineers prior to completion. 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 of Colorado, such as the District, at no cost. At Sky Ranch, the developer is required to dedicate the Retail Facilities to the District. We, through our agreements with the District, are then responsible for the operation and maintenance of the Retail Facilities.

"Customer Facilities" consist of water service pipelines, plumbing, meters and other components that carry potable water and reclaimed water from the street to the customer's house and collect wastewater from the customer's house and transfer it to the collection system. In many cases, portions of the Customer Facilities are constructed by the developer, again pursuant to our design standards, but are owned and maintained by the customer.

Monthly Service Fees

Monthly water usage charges are assessed to customers connected to our water system. The charges are based on actual metered usage each month. Water usage pricing is based on a tiered pricing structure which is based on our rate-based districts. Due to increases at our rate-based districts, the tiered pricing structure has increased over the past several years as noted in Table B below:

Table B - Tiered Pricing Structure

Consumption (1,000 gallons / month)	Price ($ per thousand gallons) 2007	2006	2005	2004
Base charge per SFE	$ 25.11	$ 20.44	$ 20.28	$ 19.80
Zero to 10	$ 2.55	$ 2.58	$ 2.46	$ 2.40
more than 10 to 20	$ 3.35	$ 3.34	$ 3.17	$ 3.10
more than 20	$ 5.96	$ 5.90	$ 5.54	$ 5.40

Revenues are sensitive to timing and volume of water use, meaning the more water used by a customer in a given month, the higher the cost of additional incremental water deliveries to the customer. Based on this, for a typical residential customer using approximately 0.4 acre-feet of water annually, during a typical weather year, water usage fees would approximate $600 per year.

Wastewater customers are charged a flat monthly fee of $39.50 per SFE, or $474 per year per SFE, which was increased on July 1, 2007 from $34.80 per SFE, an increase of 13.5%.

We also collect other relatively small fees and charges from residential customers and other end users to cover miscellaneous administrative and service expenses, such as application fees, review fees and permit fees.

Land Board Royalties and District Fees

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 dedicated for use on the Lowry Range or Export Water. The calculation of royalties depends on whether the customer is located on the Lowry Range, or elsewhere, and whether the customer is a public or private entity. In addition, for water sales to customers located on the Lowry Range, the District is entitled to a 5% fee, which is calculated after the royalty payment to the Land Board, and the District is entitled to a fee of 10% of our wastewater fees (not including wastewater tap fees) from customers on the Lowry Range. The Land Board does not receive a royalty from wastewater services.

The Rangeview Water Agreements were written prior to any development of the Lowry Range or areas outside of the Lowry Range that could utilize our Export Water. The terms of the Rangeview Water Agreements did not fully anticipate the specific circumstances of development that have arisen and might arise in the future as we enter into and negotiate agreements for the sale of Export Water and the provision of service to the Lowry Range. Therefore, the Rangeview Water Agreements may not clearly delineate the rights and responsibilities for the forms of transactions that may arise. We anticipate that we will be required to enter into negotiations with the Land Board from time to time to clarify the applicability of contract terms to circumstances that were not anticipated at the time we entered into the Rangeview Water Agreements. We cannot assure you that the outcome of such negotiations will be favorable to us.

<u>Lowry Range Customers</u>

For services to customers located on the Lowry Range, the District collects fees from customers, pays the royalties to the Land Board, retains its own fee, and remits the remainder to us. Payments from customers who are 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 12% royalty payments, 50% of the aggregate net profits generated derived by the District and Pure Cycle from the sale or other disposition of water on the Lowry Range. To date neither of these conditions has been met.

Export Water Customers

Payments for Export Water also generate royalty payments to the Land Board. These royalties vary depending on a number of factors including whether the customer is a public or private entity.

When we withdraw, treat and deliver the water to the user and incur the costs related to this process, the royalty to the Land Board is based on our "Net Revenues," which are our gross revenues less costs, including reasonable overhead allocations, incurred as a direct or indirect result of incremental activity associated with the withdrawal, treatment and delivery of Export Water. Royalties payable to the Land Board for Export Water sold 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 C:

Table C - Roaylties for Export Water Sales

	Royalty Rate	
Net Revenues	Private Entity	Public Entity
$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%

Our Current Operations

We operate and maintain a water system that provides water and wastewater services to our customers on the Lowry Range. We also designed and constructed a water system that provides Export Water to the Fairgrounds. During fiscal 2007 we delivered approximately 44.4 million gallons of potable water to our customers, which equates to approximately 2 million gallons per month during the winter and over 6.5 million gallons per month during the summer.

We also operate a wastewater treatment plant, which we designed and built, that currently has a permitted capacity of 130,000 gallons per day and receives about 20,000 gallons per day.

We operate and maintain all our water and wastewater facilities with limited assistance from third party contractors. We design, construct and operate the facilities serving customers on the Lowry Range and plan to operate this system, together with facilities serving customers in areas outside the Lowry Range, in a unified manner to capitalize on economies of scale and ensure the most efficient use of our water.

In August 2005, we entered into the County Agreement to provide water services to the Fairgrounds. We commenced service to the Fairgrounds in July 2006.

In 1998, we entered into a water service agreement with the State of Colorado Department of Human Services to provide water and wastewater services to a juvenile correction facility on the northwestern edge of the Lowry Range known as the Ridge View Youth Services Center. This system is designed to provide water and wastewater services for approximately 200 SFEs. We commenced service to the Ridge View Youth Services Center in 2001.

Significant Customers

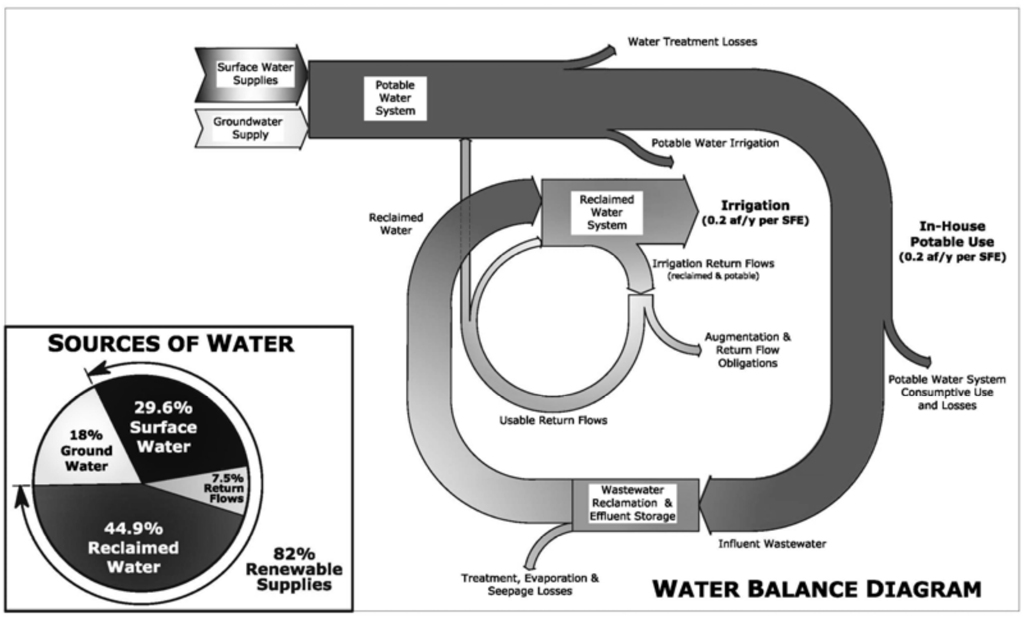
Ridge View Youth Services Center and Schmidt Aggregates provided approximately 91%, 96% and 98% of our total water and wastewater treatment revenues during the years ended August 31, 2007, 2006 and 2005, respectively.

Our Projected Operations

We design, construct and operate our water and wastewater facilities using advanced cleaning and treatment technologies. We also design our systems to use our water supplies in an efficient manner. We plan to develop our water and wastewater systems in stages to meet incremental demands in our service areas. We will use third party contractors to construct our facilities as needed. We employ licensed water and wastewater operators to operate our water and wastewater systems. At full build-out, we expect to employ professionals that will operate our systems, read meters, bill customers, and manage our operations. We plan to take advantage of advanced technologies to keep personnel requirements and operating costs low, such as systems that enable meter readings and billings to be done remotely, reducing associated handling and labor costs.

We plan to provide an environmentally responsible integrated water management system, as depicted in Table D below, that combines conservation efforts with effective water reuse planning and balanced water supply management. We plan to jointly utilize our surface water rights in the Arkansas River, our two surface water streams that flow through the Lowry Range, deep-well waters from our non-tributary water supplies and our stored reuse water in our irrigation water system, to provide an efficient, environmentally sound, long-term water solution for our customers.

Table D – Our Balanced Water Plan



We anticipate initially developing our Denver based water supplies located on the Lowry Range and phasing the development of our Arkansas River water as connections are added to our system. In order to deliver the Arkansas River water to the Front Range market, a 130 mile pipeline will have to be constructed with an estimated cost of over $400 million (this includes estimated costs of water treatment facilities). We are currently reviewing physical alignments and potential partnerships for construction of this pipeline. Converting the Arkansas Water to municipal use and constructing the pipeline will be a long-term process, which will give us the opportunity to work closely with those who might be impacted by any water transfers. The development of this water will require us to apply for a change of use in the Colorado water court which could take many years and require a significant amount of capital. However, we do not anticipate starting this process in the near term and anticipate that the tap fees and usage fees from taps sold utilizing our Rangeview Water Supply will be sufficient to fund these requirements. We ultimately anticipate being able to service over 100,000 SFE's with the Arkansas River water.

We expect the development of our Rangeview Water Supply to require between 250 and 300 high capacity water wells ranging in depth from 800 feet to over 2,500 feet. 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. We also intend to build structures to divert surface water to storage reservoirs to be located on the Lowry Range. Our plan is to divert the surface water when available and, prior to distribution to our customers, to treat the surface water with a separate water treatment facility built specifically to treat surface water. Based on preliminary independent engineering estimates, the full build-out of water facilities on the Lowry Range will cost in excess of $340 million and will accommodate water service from the Rangeview Water Supply for up to 80,000 SFE units, which includes both customers located in and outside the Lowry Range service area.

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 will utilize the 15,050 acre-feet of water leased to it by the Land Board located on the Lowry Range for service to customers on the Lowry Range.

The District is run by an elected board of directors. The only eligible voters and the only persons eligible to serve as directors are the owners of property within the boundaries of the District. We own certain rights to the real property which encompasses the current boundaries of the District. The current directors of the District are Mark W. Harding and Scott E. Lehman (employees of Pure Cycle), Ryan T. Clark (by reason of his role as manager of TPC Ventures, LLC, Ryan Clark is deemed an indirect beneficial owner of more than 5% of Pure Cycle common stock) and Tom Lamm.

We are party to a Right of First Refusal Agreement with the owners of the property comprising the District. Pursuant to a tenancy in common agreement, in the event of death, bankruptcy or incompetence of any tenant, that tenant's estate or representative must offer the property interest of that tenant to the remaining tenants for purchase. If the remaining tenants do not purchase all of such person's interest, the property must be offered to us pursuant to the Right of First Refusal Agreement. In addition, if any tenant wants to sell his interest in the parcel, such tenant must find a bona fide buyer and then offer the property to us. We have the right, at our option, to buy the property by matching the terms of the bona fide third party offer or by paying the appraised value of the property as determined by independent appraisers. A tenant may also negotiate a sale directly with us if he elects not to locate a bona fide buyer. Each of the directors listed above, as well as Pure Cycle, currently own an undivided interest in the land comprising the District. Under applicable Colorado law, entities are not qualified to serve as directors of municipal districts and may not vote. Our President and Corporate Secretary serve as elected members of the board of directors of the District. Pursuant to Colorado law, directors receive $75 for each board meeting or a maximum of $1,200 per year.

We and the board of directors of the District transact business on an arms-length basis. The conflicts of interest of the directors in transactions between us and the District are disclosed in filings with the Colorado Secretary of State. The District and we were each represented by separate legal counsel in negotiating the water service agreement and wastewater service agreement between the parties. The agreements were also approved by the two members of the District's board who were not our employees and by the Land Board.

It is likely that at some point in the future, the board of directors of the District will be comprised entirely of directors independent from us. As the Land Board develops the Lowry Range, landowners on the Lowry Range may petition to include their land within the District's boundaries. Provided such petition complies with applicable law, the District is required by its lease with the Land Board to proceed with due diligence to include the area designated in such petition within the District's boundaries. As the District's boundaries expand, the base of persons eligible to serve as directors and eligible to vote will also increase.

Water and Growth in Colorado

As the population in Colorado continues to grow, so does the need for obtaining new water sources. Despite the softening housing market that Colorado and the nation have experienced, the US Census Bureau estimated Colorado's 2006 population at nearly 4.8 million, a 10.5% increase from the census taken in 2000. The Denver Regional Council of Governments ("DRCOG"), a voluntary association of over 50 county and municipal governments in the Denver metropolitan area, estimates the Denver metropolitan area is expected to increase from 2.5 million people to 3.9 million people by the year 2030. With this estimated population increase comes increased demand for water services beyond what the municipal service providers are currently capable of providing. It is estimated that the population growth in the Denver metropolitan area will require an additional 140,000 acre-feet of water annually. This is why the U.S. Department of the Interior has identified the Denver metropolitan area as one region that is 'highly likely' to experience a 'water supply crisis' by 2025.

With these projected levels of growth, with interest heightened by droughts in Colorado, with most of Colorado’s water being located in the western half of the state while the majority of the population is in the eastern half of the state, water is one of the largest influences on development in Colorado. Due to wide fluctuations in snowfall from year to year and area to area, the amount of surface water that can be captured for use varies greatly. This has lead most water providers in Colorado to actively pursue additional water supplies, including the use of reclaimed wastewater for irrigation and other non-potable uses. Having participated in the Department of Public Health’s regulatory rule making process defining water quality standards for reuse water, we have helped lead the effort in the metropolitan area to design water reuse systems and set reuse water quality standards. In August 2005, the Colorado Department of Public Health and Environment adopted rules defining water quality standards for raw and reclaimed water uses for residential irrigation customers. These rules, as applicable, will be incorporated into our rules and regulations.

Our master plan for our service area, which includes the Lowry Range and all other areas in which we will provide services, calls for the installation of a dual pipe water distribution and reclamation system. A dual pipe distribution system is a system in which one pipe supplies the customer with high quality potable drinking water and a second pipe supplies raw or reclaimed water to homes for irrigation uses. About one-half of the water needed to meet Denver-area residential water demands is used for landscaping and outdoor irrigation of lawns. We, along with most major water providers, believe that raw or reclaimed water supplies provide the lowest cost water for irrigation purposes for customers. We expect to implement an extensive water reclamation system, in which essentially all wastewater treatment plant effluent water will be re-used to meet non-potable water demands. This will enhance our ability to provide quality water service and reinforce our philosophy that emphasizes the importance of water recycling and our commitment to environmentally responsible water management policies.

Competition

Although we have exclusive long term water and wastewater service contracts for the majority of the Lowry Range (we currently have the exclusive rights to serve two of the six initial development sections at the Lowry Range, but are negotiating with the developer to provide services to the entire initial development), providing water service using our Export Water and Arkansas River water is subject to competition. Alternate sources of water are available, principally from other private parties, such as farmers owning senior water rights that are no longer being economically used in agriculture, and municipalities seeking to annex newly developed areas in order to increase their tax base. Our principal competition in areas close to the Lowry Range is the neighboring City of Aurora. The 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 and the reliability of the water supply during drought periods. We believe the water assets we own and have the exclusive rights to use, which have a supply capacity of over 180,000 SFE units (or roughly 720,000 people), provide us a significant competitive advantage along the Front Range because our legal rights to the assets have been confirmed for municipal use (for our Rangeview Water Supply), 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 rights, groundwater rights, storage capacity and reclamation water. Further, the size of the Lowry Range and the amount of property that can be served by the Arkansas River water and Export Water will provide us with economies of scale that should give us advantages over our competitors.

Employees

We currently have three 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 report 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 SEC. They also 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.

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.

We are dependent on the development of Sky Ranch, the Lowry Range and other areas near our Rangeview Water Supply that are potential markets for our Export Water.

Our Rangeview Water Supply is one of our principal sources of future revenue. The timing and amount of these revenues will depend significantly on the development of the Lowry Range and Sky Ranch. The development of these areas is not within our control. The Lowry Range is owned by the Land Board, which has been considering various development alternatives, including proposals for conservation. In June 2007, the Land Board finalized an agreement with Lend Lease Communities LLC to develop approximately 3,900 acres of the Lowry Range. Of this, we have the right to provide water service to approximately 1,300 acres. The Land Board does not have any development proposals for the remaining approximately 23,100 acres. There is currently no development at Sky Ranch and it is our understanding that the developer of Sky Ranch is attempting to sell the property. 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. 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. There is often significant delay in adoption of development plans, as the political process involves many constituencies with differing 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. If the Land Board determines to limit the use of significant portions of the Lowry Range for conservation, it may limit our ability to fully develop our Rangeview Water Supply.

Our operations are significantly affected by the general economic conditions for real estate development and the pace and location of real estate development activities in the greater Denver metropolitan area, most particularly areas which are close to our Rangeview Water Supply. During 2006 and through August 31, 2007, the Colorado housing market has continued to see declines in new construction, which could continue for some time. Increases in the number of our water and wastewater connections, our connection fees and our billings and collections will depend on real estate development in this area. We have no ability to control the pace and location of real estate development activities which affect our business.

We expect to be involved in on-going negotiations with the Land Board to clarify our rights and obligations with respect to our Rangeview Water Supply and such negotiations may not be successful.

Our Rangeview Water Supply rights derive principally from the Lease between the Land Board and the District which 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 as we enter into and negotiate agreements for sale of water and the provision of service to the Lowry Range. We anticipate engaging in negotiations with the State Land Board from time to time to clarify the applicability of contract terms to circumstances that were not anticipated at the time the agreements were entered into. An unfavorable outcome in such negotiations could have a material adverse effect on our financial results. We cannot assure you that such negotiations will be successful.

In order to utilize the Arkansas River water acquired in fiscal 2006, we must apply for a change of use with the Colorado water court and this may take several years to complete.

The change of use of our Arkansas River water requires a ruling by the Colorado water courts, which could take several years and be a costly and contentious effort since it is anticipated that many parties will oppose 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.

Our Valuation of the Tap Participation Fee payable to HP A&M contains estimates and management assumptions. The actual results could differ significantly from those estimates.

As part of our acquisition of the Arkansas River water rights from HP A&M, we granted HP A&M a Tap Participation Fee entitling HP A&M to receive ten percent (10%) of the gross proceeds of our sales of forty thousand (40,000) water taps. We have estimated the fair value of the Tap Participation Fee payable to HP A&M using available historic market information and estimated future market information. We believe the estimates we used reasonably reflect the fair value of the Tap Participation Fee. Estimates involve matters of uncertainty and judgment and interpreting relevant market data is inherently subjective in nature. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at our rate-based districts, and other market forces beyond our control. The actual results could differ materially from our estimates which would result in significantly higher fees being paid to HP A&M than what are reflected in our balance sheet and significantly higher imputed interest being reflected on our future statements of operations associated with the Tap Participation Fee.

In the event of default by HP A&M on promissory notes secured by deeds of trust on our properties, we would be required to cure the defaults or lose the properties.

Certain of the properties we acquired from HP A&M are subject to promissory notes, aggregating $13.9 million in principal and interest as of August 31, 2007. The notes are secured by deeds of trust on the properties we own, but are the responsibility of HP A&M. Because the likelihood of HP A&M defaulting on the notes is deemed remote, these promissory notes are not reflected on our balance sheet. However, if HP A&M were to default on the notes, and we did not cure the defaults, we would lose approximately 60 of the 80 real property interests we acquired and the water rights associated with those properties.

Our net losses may continue and we may not have sufficient liquidity to pursue our business objectives.

We have experienced significant net losses and could continue to incur net losses. For the years ended August 31, 2007, 2006 and 2005, we had net losses of approximately $6.9 million, $793,000 and $1,051,000, respectively, on revenues of approximately $265,700, $271,700 and $234,700, in the respective periods. 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 approximately $21.5 million through the issuance of common stock to support our operations. Our ability to fund our operational needs and meet our business objectives will depend on our ability to generate cash from future operations. 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, which may not be available on acceptable terms, or at all.

The rates we are 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 we can charge for our water and wastewater services on the Lowry Range are subject to pricing regulations set in the Lease with the Land Board. Both the tap fees and our usage rates and charges are based on the average of the rates of our rate-based districts. Annually we survey the tap fees and rates of our rate-based districts and set our tap fees and rates and charges based on the average of those charged by this group. Our costs associated with the construction of water delivery systems and the production, treatment and delivery of our water are subject to market conditions and other factors, which may increase at a significantly greater rate than the prices charged by our rate-based districts. Factors beyond our control and which cannot be predicted, such as 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 our operations and maintenance contracts, creating additional differences from the costs of our rate-based districts. Increased customer demand may also increase the overall cost of our operations. If the costs for construction and operation of our water services, including the cost of extracting our groundwater, exceed our revenues, we may petition the Land Board for rate increases. There can be no assurance that the Land Board would approve a rate increase request beyond the average of the rate-based districts. Our profitability could be negatively impacted if we experience an imbalance of costs and revenues and are not successful in receiving approval for rate increases.

We only have three employees and may not be able to manage the increasing demands of our expanding operations.

We currently have only three 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. 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, among other things, for operational errors at the facilities, for improper billing and collection processes, and for 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 the public. The CPUC regulates many aspects of public utilities' operations, including the location and construction of facilities, 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 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.

There are many obstacles to our ability to sell our Paradise Water Supply.

We currently earn no revenues from our Paradise Water Supply, which as of August 31, 2007 has a recorded cost of approximately $5.5 million. Our ability to convert our Paradise Water Supply into an income generating asset is limited. Due to the nature of the Paradise Water rights and agreements with other western slope water interests, our use of the Paradise Water Supply is limited to opportunities along the western slope. As part of our water court decree for the Paradise Water Supply, we are permitted to construct a storage facility on the Colorado River. However, pursuant to a stipulation entered into with various objectors to our Paradise Water rights, and the strict regulatory requirements for constructing a reservoir on the main stem of the Colorado River, completing the storage facility at its decreed location will be difficult. We cannot assure you that we will ever be able to make use of this asset or sell the water profitably.

Our Paradise Water Supply is also conditioned on a Finding of Reasonable Diligence from the water court every six years. To arrive at that finding, the water court must determine that we continue to diligently pursue the development of the water rights, either directly or indirectly through a third party who has a contractual commitment for its use. If the water court is unable to make such a finding, our right to the Paradise Water Supply would be lost and we would be required to impair the Paradise Water Supply asset and incur a $5.5 million charge against earnings. The fiscal 2005 review was completed in 2007 but not without objectors and not without us having to agree to certain stipulations to remove the objections.

Conflicts of interest may arise relating to the operation of the District.

Our officers, employees and a majority shareholder constitute a majority of the directors of the Rangeview Metropolitan District. In addition, Pure Cycle, along with our officers and employees and one unrelated individual, own, as tenants in common, the 40 acres that form the District. Pursuant to State law, directors receive $75 for each board meeting or a maximum compensation of $1,200 per year. We have made loans to the District to fund its operations. At August 31, 2007, total principal and interest owed to us by the District was approximately $475,700. The District is a party to our agreements with the Land Board and receives fees of 5% of the revenues from the sale of water 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 stockholders. 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.

We are required to maintain stringent water quality standards and are subject to regulatory and environmental risks.

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. We face contamination and pollution issues regarding our water supplies. Improved detection technology, increasingly stringent regulatory requirements, and heightened consumer awareness of water quality issues contribute to an environment of increased focus on water quality. We cannot assure you that in the future we will be able to reduce the amounts of contaminants in our water to acceptable levels. In addition, the standards that we must meet are constantly changing and becoming more stringent. Future changes in regulations governing the supply of drinking water and treatment of wastewater may have a material adverse impact on our financial results.

We handle certain hazardous materials at our water treatment facilities, primarily sodium hypochlorite. Any failure of our operation of the facilities in the future, 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. 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 by increasing our costs for damages and cleanup.

Our contracts for the construction of water and wastewater projects may expose us to certain completion and performance 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 could 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 where required.

We may operate engineering and construction activities for water and wastewater facilities where 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 facilities so managed 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.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We currently occupy approximately 1,800 square feet of office space at a cost of $1,000 per month, which is leased from Ryan Clark, an indirect beneficial owner of greater than 5% of Pure Cycle common stock, at the address shown on the cover page. The lease is a month-to-month agreement that can be cancelled by either party at any time.

We own the following amounts of water and other items associated with the water rights – see *"Item 1. Description of Our Water Assets and Related Service Agreements*":

- We own the following assets in the Arkansas River valley in southeastern Colorado:

  a. Approximately 60,000 acre-feet of Arkansas River water represented by over 21,600 shares of the FLCC,

  b. Approximately 17,500 acres of real property land located in the counties of Bent, Otero and Prowers, Colorado, and mineral rights and personal property associated with the real property.

- We own the following assets located on the Lowry Range:
  a. We own a total gross volume of 1,165,000 acre-feet (approximately 11,650 acre-feet per year) of non-tributary groundwater, an option to substitute 1,650 acre-feet of tributary surface water in exchange for a total gross volume of 165,000 acre-feet of non-tributary groundwater, which we can export from the Lowry Range, and certain surface storage rights on the Lowry Range.

  b. Pursuant to the Rangeview Water Agreements, we have the exclusive right, through 2081, to use approximately 15,050 acre feet of water located at the Lowery Range to serve customers within the District's service area.

- We own approximately 70,000 acre-feet of conditional water rights in the Colorado River, water wells and related assets in the State of Colorado by assignment and quitclaim deed.

- We own 89.2 acre-feet of groundwater located in the Sky Ranch development. This represents 40% of the 223 acre-feet of groundwater we will own upon exercise of our rights under the Denver groundwater purchase agreement.

- We own 27 acre-feet of groundwater located near the Arapahoe County Fairgrounds site.

- We own an undivided 59.9% interest as a tenant-in-common in a 40-acre parcel of undeveloped land located in unincorporated Arapahoe County comprising the Rangeview Metropolitan District.

Item 3. <u>Legal Proceedings</u>

None

Item 4. <u>Submission of Matters to a Vote of Security Holders</u>

No matters were submitted to a vote of stockholders during the quarter ended August 31, 2007.

PART II

Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>

(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, 2007 and 2006 are presented with the Selected Quarterly Financial Information in Item 8 below.

(b) Holders

On October 31, 2007, there were 3,400 holders of record of our common stock.

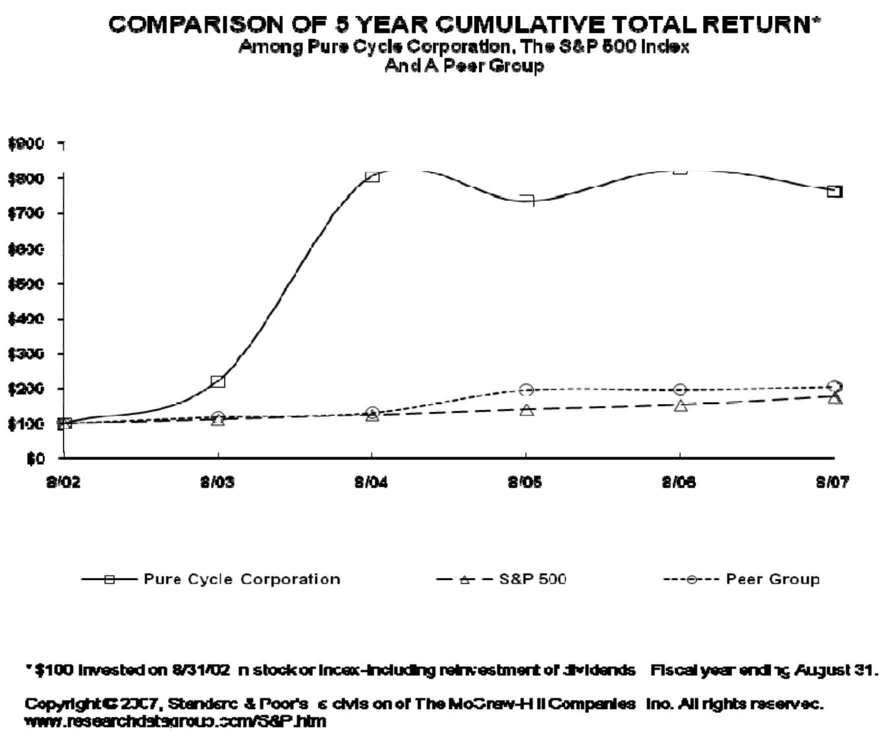
(c) Dividends

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.

(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	140,092	$ 8.60	1,460,000
Equity compensation plans not approved by security holders	–	–	–
Total	140,092	$ 8.60	1,460,000

(e) Performance Graph [1]



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.

(f) Recent Sales of Unregistered Securities

None

Item 6. <u>Selected Financial Data</u>

Basic and diluted loss per share and weighted average shares outstanding for the year ended August 31, 2003 reflects a 10-for-1 reverse split that was effective April 26, 2004.

In thousands (except per share data)	August 31,				
	2007	2006	2005	2004	2003
Summary of Statement of Operations items:					
Total revenues	$ 265.7	$ 271.7	$ 234.7	$ 205.0	$ 225.4
Gross margin	$ 100.5	$ 197.8	$ 171.5	$ 144.4	$ 187.9
Net loss	$ (6,914.7)	$ (792.9)	$ (1,050.9)	$ (1,975.7)	$ (321.0)
Basic and diluted loss per share	$ (0.37)	$ (0.05)	$ (0.08)	$ (0.22)	$ (0.04)
Weighted average shares outstanding	18,590	14,694	13,674	8,880	7,844
Summary Balance Sheet Information:					
Current assets	$ 7,288.4	$ 3,121.4	$ 5,740.3	$ 5,738.7	$ 593.5
Total assets	$ 111,891.9	$ 108,833.9	$ 26,046.5	$ 25,625.6	$ 20,413.4
Long-term liabilities	$ 53,863.7	$ 53,789.1	$ 10,004.4	$ 12,100.8	$ 15,980.2
Total liabilities	$ 54,047.1	$ 54,169.2	$ 10,693.7	$ 12,302.1	$ 16,032.0
Equity	$ 57,844.8	$ 54,664.7	$ 15,352.7	$ 13,323.5	$ 4,381.5

The following items had a significant impact on our operations:

- In fiscal 2006, we acquired water and real property interests in the Arkansas River Valley. The consideration for these assets consisted of equity valued at approximately $36.2 million, and a Tap Participation Fee agreement valued at approximately $45.6 million (at August 31, 2006), which is payable when we sell water taps. The total consideration of approximately $81.9 million was allocated to the acquired assets based on each asset's relative fair value. During our fiscal 2007, we imputed approximately $4.7 million of accrued interest on the Tap Participation Fee. See Note 3 – Water, Water Systems and Service Agreements in the accompanying financial statements for more details.

- In fiscal 2007, we recognized approximately $1.04 million of gain related to the acquisition of certain CAA interests, of which, approximately $765,000 was recorded as additional paid in capital because the CAA interests were acquired from parties that are deemed related to us. See Note 5 – Participating Interests in Export Water in the accompanying financial statements for more details.

- In fiscal 2006, we recognized $390,900 of gain related to the extinguishment of debt and the acquisition of certain CAA interests. See Note 5 – Participating Interests in Export Water in the accompanying financial statements for more details.

- In fiscal 2004, we recognized a $1.1 million dollar loss related to the acquisition of certain CAA interests.

- We did not declare or pay any cash dividends in any of the five years presented.

Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>

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 3.

General

Pure Cycle is an investor owned water and wastewater service provider engaged in the design, operation and maintenance of water and wastewater systems. We operate primarily in the Denver metropolitan area and own nearly 12,000 acre-feet of groundwater and/or certain surface water rights in the Denver area. We also own approximately 60,000 acre-feet of Arkansas River water, we have the exclusive rights to use over 15,000 acre-feet of groundwater located at the Lowry Range through the year 2081, and we own 70,000 acre-feet of conditional Colorado River water rights on the western slope of Colorado. We plan to utilize our Denver assets and our Arkansas River water to provide large scale residential/commercial water and wastewater services to customers located along the Front Range of Colorado. We are also exploring ways to use our western slope water for commercial or agricultural purposes along the western slope of Colorado.

Critical Accounting Policies

Our financial statements are prepared in accordance with Accounting Principles Generally Accepted in the United States of America (“GAAP”), which requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

We have identified certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies most often involve complex matters and are based on subjective judgments or decisions. In the opinion of management, our most critical accounting policies are those related to revenue recognition, impairment of water assets and other long-lived assets, depletion and depreciation, accounting for Participating Interests in Export Water, Tap Participation Fees, royalty and other obligations, and income taxes. Management periodically reviews its estimates, including those related to the recoverability and useful lives of assets. Changes in facts and circumstances may result in revised estimates.

Revenue Recognition

Our revenues consist mainly of tap fees, construction fees and monthly service fees. Emerging Issues Task Force Issue No. 00-21 *Revenue Arrangements with Multiple Deliverables* (“EITF 00-21”), governs how to identify when goods or services, or both, that are separately delivered but included in a single sales arrangement should be accounted for individually. Based on the criteria of EITF 00-21, we account for each of the items contained in our service agreements individually. That is, we determine the proper revenue recognition for tap fees, construction fees and services fees independent of one another.

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. Tap fees and construction fees derived from agreements for which we construct infrastructure the customer will own are recognized in accordance with Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, whereby we recognize tap fees and construction fees as revenue and costs of construction based on the percentage-of-completion method. Tap fees and construction fees derived from agreements for which we will own the infrastructure are recognized in accordance with Staff Accounting Bulletin No. 104 *Revenue Recognition (“SAB 104”),* whereby the up-front fees are recognized ratably over the estimated service life of the facilities constructed, starting at completion of construction. Because we own these facilities, we capitalize construction costs and amortize those as costs of revenue over the assets estimated useful life.

We recognize water and wastewater usage revenues upon delivery of water and collection of wastewater, in the month in which the services are performed. Water service fees are based upon metered water deliveries to customers plus base charges. Wastewater customers are charged flat monthly fees.

Impairment of Water Assets and Other Long-Lived Assets

In accordance with FASB Statement of Financial Accounting Standard No. 144**,** *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), we review our long-lived assets for impairment at least annually or whenever 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 future undiscounted net cash flows we expect to be generated by the eventual use of the asset (the fair value). For our Denver based assets and the Arkansas River Valley assets, we determined the undiscounted cash flows to be generated by estimating tap sales related to new home development in our service area, less costs to provide water services, including estimated engineering costs, over an estimated development period. Actual new home development in our service area, as well as future tap fees and future operating costs, could vary materially from our estimates which would have a material impact on our financial statements. If such assets are considered to be impaired, the impairment to be recognized would be measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets estimated as described above. For our Paradise Water Supply, we determined the undiscounted cash flows by estimating the proceeds we could derive from the leasing of the water rights to commercial and agricultural users along the western slope of Colorado. We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell.

Every six years the Paradise Water Supply is subject to a Finding of Reasonable Diligence review by the water court and the State Engineer to determine if we are diligently pursuing the development of the water rights. During fiscal 2005, the water court began this review. In fiscal 2006 we received objections from two parties to our Paradise Water rights. The objectors expressed concerns that we have not diligently pursued the development of the Paradise water rights and they sought additional assurances that we intend to develop this water in the future. In fiscal 2007, we reached an agreement with the objectors and agreed to various stipulations which are described in Note 3 – Water, Water Systems and Service Agreement in the accompanying financial statements. As a result, we received a Finding of Reasonable Diligence on our latest review.

Based on the SFAS 144 impairment analysis performed on our long-lived water assets, we believe there were no impairments in the carrying amounts of our investments in water and water systems at August 31, 2007.

Accounting for CAA Payments

The balance sheet liability captioned "Participating Interests in Export Water Supply" (the "Participating Interests") represents an obligation which arose under the Water Commercialization Agreement (the "WCA"), as amended by the CAA.

Upon entering into the CAA, we recorded an initial liability of approximately $11.1 million, which represents the cash we received and used to purchase our Export Water Supply. In return we agreed to remit a total of $31.8 million of proceeds received from the sale of Export Water to the Participating Interest holders. In accordance with EITF Issue No 88-18 *Sales of Future Revenues*, the obligation for the $11.1 million was recorded as debt, and the remaining $20.7 million contingent liability is not reflected on our balance sheet because the obligation to pay this is contingent on sales of Export Water, the amounts and timing of which are not reasonably determinable.

As of August 31, 2007, the remaining Participating Interests liability reflected on our balance sheet totaled approximately $2.9 million, and the contingent liability not reflected on our balance sheet totaled approximately $5.3 million. For more information see Note 5 – Participating Interests in Export Water in the accompanying financial statements.

Tap Participation Fee

On August 31, 2006, we acquired 60,000 acre-feet of Arkansas River water along with real property and other associated rights from HP A&M. Along with common stock issued to HP A&M, we agreed to pay HP A&M 10% of our tap fees on the sale of the next 40,000 water taps, of which 38,965 water taps remain to be paid at August 31, 2007. During the due diligence period specified in the Arkansas River Agreement, HP A&M sold certain property rights which pursuant to the terms of the agreement were deemed to be Tap Participation Fee payments. The value of these payments equated to 530 taps under the tap participation section of the Arkansas River Agreement. During our fiscal 2007 we sold 509 shares in the Lower Arkansas Water Management Authority (the "LAWMA Shares"), acquired pursuant to the Arkansas River Agreement, for approximately $850,000. Pursuant to the Arkansas River Agreement, the payments were deemed to be Tap Participation Fee payments, the value of which equated to 505 taps. The Tap Participation Fee is payable when we sell water taps and receive the funds from such water tap sales. The Tap Participation Fee payable to HP A&M was valued based on a discounted cash flow model using highly subjective assumptions and estimates. We will assess the value of the liability 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 Tap Participation Fee beginning September 1, 2006.

Obligations Payable by HP A&M

Certain of the properties we acquired pursuant to the Arkansas River Agreement are subject to outstanding promissory notes with principal and accrued interest totaling approximately $13.9 million at August 31, 2007. These notes are secured by deeds of trust on the properties. We did not assume any of these promissory notes and are not responsible for making any of the required payments under these notes. This responsibility remains solely with HP A&M. In the event of default by HP A&M, we may make payments on any or all of the notes and cure any or all of the defaults. If we do not cure the defaults, we will lose the properties securing the defaulted notes. If HP A&M defaults on the promissory notes, we can foreclose on a defined amount of Pure Cycle stock issued to HP A&M being held in escrow and reduce the Tap Participation Fee by two times the amount of notes defaulted on by HP A&M. Although the likelihood of HP A&M defaulting on the notes is deemed remote, we will continue to monitor the status of the notes for any indications of default. We are not aware of any defaults by HP A&M as of August 31, 2007.

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 fees retained by the District.

Depletion and depreciation of water assets

Water supplies that are being utilized are depleted on the basis of units produced divided by the total volume of water adjudicated in the water decrees. Water systems are depreciated on a straight line basis over their estimated useful lives.

Income taxes

We use the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets until realization is more likely than not.

Results of Operations

Executive Summary

The results of our operations for the years ended August 31, 2007, 2006 and 2005 were as follows:

Table E - Summary Results of Operations

	2007	2006	2005
Millions of gallons of water delivered	44.4	56.6	52.3
Water revenues generated	$ 149,500	$ 163,600	$ 152,300
Water delivery operating costs incurred	$ 54,600	$ 48,500	$ 43,900
Water delivery gross margin %	63%	70%	71%
Wastewater treatment revenues	$ 60,300	$ 59,000	$ 57,500
Wastewater treatment operating costs incurred	$ 22,800	$ 17,300	$ 15,700
Wastewater treatment gross margin %	62%	71%	73%
General and administrative expenses	$ 2,476,500	$ 1,544,500	$ 1,315,300
Net losses	$ 6,914,700	$ 792,900	$ 1,050,900

Water and Wastewater Usage Revenues

Water deliveries during fiscal 2007 dropped approximately 22% over water deliveries in fiscal 2006. This was a result of high precipitation experienced throughout the Front Range of Colorado starting in December 2006 and lasting into the spring of 2007. Increased precipitation results in our customers using less water for irrigation. Water usage fees in fiscal 2007 decreased 9% over fiscal 2006, despite the 22% decrease in gallons delivered. This is a result of increased usage fees on July 1, 2007.

Water deliveries in fiscal 2006 and 2005 were consistent, but usage fees in fiscal 2006 were much higher than fiscal 2005. This is due to increases in usage fees on July 1, 2006.

Our water service charges are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. Our rates and charges are established based on the average of three surrounding communities, referred to as our rate-based districts. Table B included above in *Item 1 – Description of Business*, outlines our tiered pricing structure and changes during fiscal 2007, 2006 and 2005, respectively.

Our wastewater customers are charged flat monthly fees based on the number of tap connections they have. Wastewater usage fees increased July 1, 2007, from $34.80 to $39.50 per wastewater tap per month and before that they increased July 1, 2005, from $33.70 to $34.80 per wastewater tap per month, which accounts for the changes in revenues between the fiscal years.

Gross margins for water and wastewater services declined in fiscal 2007 over fiscal 2006 and fiscal 2005. This is due to declines in the amount of water delivered. Decreased water deliveries does not typically equate to a decrease in the energy usage within the systems, and therefore, in reduced delivery years, gross margins will typically be lower. The decline is also due to certain testing and compliance expenses incurred during fiscal 2007 not experienced in the previous two years presented. Gross margins for water and wastewater operations remained consistent in fiscal 2006 and 2005.

General and Administrative and Other Expenses

General and administrative ("G&A") expenses for fiscal 2007 and 2006 were impacted by the adoption of SFAS No. 123 (revised 2004) *Share Based Payment* ("SFAS 123(R)"), as follows:

	Years ended August 31,		
	2007	**2006**	**Increase**
G&A expenses as reported	$ (2,476,500)	$ (1,544,500)	$ (932,000)
SFAS 123(R) expenses	287,300	209,600	77,700
G&A expenses less SFAS 123(R) expenses	$ (2,189,200)	$ (1,334,900)	$ (854,300)

We adopted SFAS 123(R) on the first day of our fiscal 2006, so fiscal 2005 was not impacted by SFAS 123(R).

The increase in G&A expenses for the three fiscal years ended August 31, 2007, is mainly attributable to the following:

- Salaries and related expenses (including SFAS 123(R) expenses and healthcare costs) totaled approximately $1.12 million, $944,800 and $690,500 for the fiscal years ended August 31, 2007, 2006 and 2005, respectively. Without the effects of SFAS 123(R), salary and related expenses in fiscal 2007 and 2006 would have been $833,000 and $735,200, respectively, an increase of $97,800. This increase is mainly attributable to employee bonuses totaling $330,000 in fiscal 2007, paid upon completion of the equity offering in July 2007, which exceeded the $250,000 of bonuses paid in fiscal 2006. Salaries for 2007 (without the impact of SFAS 123(R)) exceeded fiscal 2005 salaries by $142,500, which is mainly attributable to pay raises and the fact that bonuses in fiscal 2005 totaled $150,000.
- During fiscal 2007, we expensed approximately $256,000 related to water assessment charges payable to the FLCC. This represents our share (based on the number of FLCC shares we own) of FLCC's annual operating and maintenance expenditures. These charges were not incurred during fiscal 2006 or 2005 because we acquired the Arkansas Water Rights in the fourth quarter of fiscal 2006. Additionally, we expensed approximately $37,200 for work performed in the Arkansas River Valley on our behalf by HP A&M.
- Professional fees (legal and accounting) totaled approximately $470,300, $187,400 and $173,500, for the years ended August 31, 2007, 2006 and 2005, respectively. Approximately $190,000 of the increases from fiscal 2005 to fiscal 2007 was a result of services performed in connection with our consultations with the Staff of the Securities and Exchange Commission completed during fiscal 2007. The remaining increase was a result of the internal control audits as a result of the Sarbanes-Oxley Act of 2002 and related items.
- Franchise fees to the State of Delaware and NASDAQ listing fees increased approximately $113,500 since fiscal 2006 due to the increase in our total assets as a result of the Arkansas River water acquisition and the issuance of common stock as a result of the exercising of stock options.
- We paid approximately $40,000 in consulting fees related to our discussions with Lend Lease Communities LLC as it relates to the potential development of six sections of the Lowry Range.

Depreciation and depletion charges for the years ended August 31, 2007, 2006 and 2005 were approximately $366,100, $20,100 and $7,900, respectively. The year to year increases are mainly a result of depreciation charges associated with the water delivery fixtures acquired from HP A&M on August 31, 2006 (depreciation began on September 1, 2006) and depreciation of capitalized legal costs associated with the HP A&M asset acquisition. In addition, in late fiscal 2006 we began depreciating the costs incurred to extend the water system to the Arapahoe County Fairgrounds. We expect the depreciation and depletion charges going forward to remain consistent with the fiscal 2007 charges.

Interest income totaled approximately $155,700, $191,000 and $149,600 in fiscal 2007, 2006 and 2005, respectively. This represents interest earned on the temporary investment of capital in 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 for fiscal 2007 over 2006 is due to fewer funds being invested and earning interest as a result of the Arapahoe County construction project in fiscal 2006 and cash used in operations. Interest income in fiscal 2008 is expected to increase as we have increased our invested capital by approximately $4.0 million as a result of the equity offering in July 2007.

Imputed interest expense related to the Tap Participation Fee payable to HP A&M totaled approximately $4.7 million for the year ended August 31, 2007. This represents the expensed portion of the difference between the relative fair value of the liability and the net present value of the liability recognized under the effective interest method.

Interest expense – related parties was approximately $0, $7,100 and $21,400 in fiscal 2007, 2006 and 2005, respectively. All interest bearing debt – related parties, was paid off or extinguished as of August 31, 2006. The significant decrease from 2005 to 2006 was due to repayments of related party debt. In late fiscal 2004 we retired $3.6 million of related party debt (which included accrued interest) and in December 2005 we retired $558,800 of related party debt (which included accrued interest). See Note 7 – Long-Term Debt in the accompanying financial statements.

Interest expense – non-related parties was approximately $0, $19,300 and $12,600 in fiscal 2007, 2006 and 2005, respectively. All interest bearing debt was extinguished as of August 31, 2006. The increase from fiscal 2005 to fiscal 2006 was due to increases in interest rates.

Our net losses, as reported in our statements of operations in fiscal 2007, 2006 and 2005, were approximately $6.9 million, $792,900 and $1.05 million, respectively. Our reported net losses have been materially impacted by the imputed interest on the Tap Participation Fee and stock-based compensation expense recognized pursuant to SFAS 123(R). In the table below, we have presented a non-GAAP financial disclosure to provide a quantitative analysis of the impact of the imputed interest and stock-based compensation expenses on our reported net losses and loss per share. Because these items do not require the use of current assets, management does not include these items in its analysis of our financial results or how we allocate our resources. Because of this, we deemed it meaningful to provide this non-GAAP disclosure of the impact of these significant items on our financial results.

	Years ended August 31,			**Change**	
	2007	**2006**	**2005**	**2007-2006**	**2007-2005**
Net loss as reported	$ (6,914,700)	$ (792,900)	$ (1,050,900)	$ (6,121,800)	$ (5,863,800)
Interest imputed on Tap Participation Fees payable to HP A&M	4,669,700	-	-	4,669,700	4,669,700
SFAS 123(R) expenses	287,300	209,600	-	77,700	287,300
Net loss less imputed interest and SFAS 123'(R) expenses	$ (1,957,700)	$ (583,300)	$ (1,050,900)	$ (1,374,400)	$ (906,800)
Net loss per common share as reported	$ (0.37)	$ (0.05)	$ (0.08)	$ (0.32)	$ (0.30)
Interest imputed on Tap Participation Fees payable to HP A&M	0.25	-	-	$ 0.25	$ 0.25
SFAS 123(R) expenses	0.02	0.01	-	$ 0.00	$ 0.02
Net loss per common share less non-cash interest and SFAS 123'(R) expenses	$ (0.10)	$ (0.04)	$ (0.08)		
Weighted avererage common shares outstanding	18,589,737	14,693,585	13,674,156		

Liquidity and Capital Resources

At August 31, 2007, our working capital, defined as current assets less current liabilities, was approximately $7.1 million, and we had cash and cash equivalents and marketable securities on hand totaling approximately $6.9 million. We believe that at August 31, 2007, we have sufficient working capital to fund our operations for the next year. However, there can be no assurance that we will be successful in marketing the water from our primary water projects in the near term. In the event increased revenues and cash flows from providing water and wastewater services are not achieved, we may incur additional short or long-term debt or seek to sell additional equity securities to generate working capital to support our operations.

Development of the water that we own, have rights to use, or may seek to acquire, will require substantial capital investments. We anticipate that capital required for the development of the water and wastewater systems will be financed through the sale of water taps to developers and water delivery charges to users. A water tap charge refers to a charge we impose to fund construction of Wholesale Facilities and permit access to a water delivery system (e.g., a single-family home's tap into our water system), and a water service charge refers to a water customer's monthly water bill, generally including a base charge and consumption charges per 1,000 gallons of water delivered to the customer. We anticipate tap fees will be sufficient to generate funds with which we can design and construct the necessary Wholesale Facilities. However, once we receive tap fees from a developer, we are contractually obligated to construct the Wholesale Facilities for the taps paid, even if our costs are not covered by the fees we receive. We cannot assure you that our sources of cash will be sufficient to cover all our capital costs.

On August 31, 2006, we finalized the Arkansas River Agreement whereby we purchased approximately 60,000 acre-feet of Arkansas River water, real property and certain other related assets. Pursuant to the Arkansas River Agreement we agreed to pay HP A&M 10% of our tap fees received on the sale of the next 40,000 water taps. We have estimated the Tap Participation Fee payable to HP A&M at approximately $45.6 million (as of August 31, 2006, which is $49.5 million as of August 31, 2007, including $4.7 million of imputed interest) based on a discounted cash flow valuation analysis. The actual amount to be paid could exceed our estimates. See Note 3 – Water, Water Systems and Service Agreements in the accompanying financial statements. Tap participation payments are not payable to HP A&M until we receive water tap fees.

We are obligated to pay the FLCC water assessment charges which are the charges assessed to the FLCC shareholders for the upkeep and maintenance of the Fort Lyon Canal. The calendar 2007 charges totaled approximately $270,000, which we expect to remain relatively consistent for calendar 2008.

On August 3, 2005, we entered into the County Agreement to provide water service to the Fairgrounds. Pursuant to the County Agreement, funding of $1.25 million for the construction of the Special Facilities will come from the County and will be provided as follows: (i) an initial payment of $397,000 (received in August 2005), and (ii) $848,000 paid over ten years, which includes interest at 6%, which based on currently scheduled payments will result in us receiving $286,000 in interest. Upon the delivery of a water rights warranty deed by the County to us for approximately 336 acre-feet of groundwater, the amount payable over ten years will be reduced by approximately $240,000, which is the value of groundwater. Since we have not received this water rights deed, the value of the water to be conveyed to us is currently included in the construction proceeds receivable account on our balance sheet. See Note 3 – Water, Water Systems and Service Agreements in the accompanying financial statements for additional information regarding the County Agreement and a proposed amendment.

In accordance with SAB 104, upon completion of construction of the Fairgrounds facilities and the initiation of water service to the Fairgrounds in July 2006, we began ratably recognizing tap fee revenue as income. The tap fees received from the County are being recognized in income over the estimate useful life of the constructed assets, or 30 years. For the year ended August 31, 2007, we recognized water tap fee revenues of approximately $14,300.

On October 31, 2003, and then on May 14, 2004, we entered into the Sky Ranch Agreements with the developer of Sky Ranch. Pursuant to the Sky Ranch Agreements we are required to provide water for all homes and buildings to be constructed at Sky Ranch, which could go as high as 4,850 SFE units. Pursuant to the Sky Ranch Agreements, the developer must purchase at least 400 water taps before occupancy of the first home. The Sky Ranch Agreements permit the developer to add additional taps annually, with at least 310 taps to be purchased each year after construction begins. This schedule is designed to provide us with adequate funds with which to construct the Wholesale Facilities needed to provide water service to the areas being developed. We do not currently have any information regarding when or if Sky Ranch will begin development. See also Item 1. Business - *Sky Ranch Water*

Supply and Water Service Agreements above for information regarding the developer of Sky Ranch being in default on the Sky Ranch Agreements.

To the extent that water service is provided using Export Water, we are required to pay a royalty to the Land Board equal to 12% of the net revenue after deducting direct and indirect costs, including a reasonable charge for overhead, associated with the withdrawal, treatment and delivery of Export Water. The developer of Sky Ranch is currently in default on the option agreements. If the developer cures the defaults, we expect to dedicate approximately 1,200 acre-feet, or approximately 10%, of our Export Water supply (which is about 4.2% of our overall Rangeview Water Supply) for the Sky Ranch project. We estimate we will spend approximately $25.0 million for infrastructure costs related to the development and delivery of water to the Sky Ranch development.

At August 31, 2007, we had outstanding debt to one related party totaling approximately $26,500. All other interest bearing notes with scheduled maturities were repaid or extinguished during fiscal 2006 as described in the accompanying financial statements. The remaining note payable was paid in full in October 2007.

Operating Activities

Operating activities include revenues we receive from the sale of water and wastewater services to our customers, costs incurred in the delivery of those services, general and administrative expenses, and depletion/depreciation expenses.

Cash used by operating activities was approximately $2.4 million, $767,600 and $818,300 for the fiscal years ended August 31, 2007, 2006 and 2005, respectively. Cash used by operations in 2007 included the following significant cash payments:

- Approximately $833,000 in wages and related employee expenses, which is $98,000 higher than 2006 due mainly to additional bonuses to management and employees following the equity offering;
- Approximately $345,500 of FLCC water assessment charges since September 2006, this includes our fiscal 2007 assessments and a portion of the calendar 2006 assessments;
- Approximately $470,000 of professional fees, which is significantly higher than fiscal 2006, mainly due to approximately $180,000 for professional fees related to consultations with the Staff of the Commission of the SEC;
- Approximately $260,000 for Delaware franchise fees and NASDAQ listing fees, which is approximately $201,000 higher than the cash paid in 2006 mainly due to the increased assets and number of shares outstanding as a result of the Arkansas River water acquisition (the $260,000 paid in fiscal 2007 includes amounts expensed in fiscal 2007 and 2006);
- Approximately $136,000 for directors fees and expenses, which includes approximately $50,000 for insurance.

Cash used by operations decreased from fiscal 2005 to 2006 due to lower salaries following the passing away of our former CEO and decreased health insurance costs for the same reason and because we switched to a new insurance provider, offset by an increase in management bonuses and increased board of director fees, annual retainers, and insurance.

During fiscal 2007, 2006 and 2005, we accrued interest on the note receivable from the District of approximately $23,500, $21,500 and $16,900, respectively. The increase is caused by increases in interest rates. These amounts were offset by decreases in accrued interest on notes payable of approximately $0, $26,400 and $34,000 in fiscal 2007, 2006 and 2005, respectively. The decreases in interest expense are due to the extinguishment of all interest bearing debt as of August 2006, with the extinguishment of $896,000 of principal and accrued interest in August 2006, the repayment of $558,800 of notes payable to a related party in December 2005 and the repayment of $1.6 million of debt along with approximately $2.0 million of accrued interest in fiscal 2004.

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

Investing Activities

We continue to invest in the acquisition, development and maintenance of our water systems. On August 31, 2006 we acquired the Arkansas River water, represented by the shares in the FLCC and certain other real and personal property, in exchange for equity and a Tap Participation Fee payable when we sell water taps. In total, we expended $288,600 related to legal and engineering costs associated with this acquisition, which have been capitalized as part of the costs of the acquired assets.

During fiscal 2006, we invested approximately $2.4 million in the construction of the facilities required to provide water service to the Fairgrounds which were completed in July 2006, with minimal construction related expenditures continuing into fiscal 2007, which were accrued at August 31, 2006.

We intend to exercise our rights to acquire the final 20% of the Sky Ranch groundwater pursuant to the agreement for the purchase of Denver Aquifer groundwater for $50,000 in fiscal 2008. In fiscal 2007 and 2006 we paid $100,000 for the purchase of 40% of the groundwater, but the purchases have not been capitalized as part of our water assets because the developer has not cashed the checks and we have not received the water rights deeds. Because we have been unable to obtain any response from the developer, we do not know when we will obtain these deeds.

We also continue to invest in legal and engineering fees associated with certain water rights, and we continue to invest in the right-of-way permit fees to the Department of Interior Bureau of Land Management and legal and engineering costs for our Paradise Water Supply.

Cash provided by (used in) investing activities for fiscal 2007, 2006 and 2005 was approximately $2.5 million, ($1.64) million and $197,900, respectively. The most significant investing activities that generated cash flows were the sale or maturity of approximately $2.0 million of investments, the sale of $850,000 of LAWMA shares and the sale of certain non-irrigated land in the Arkansas Valley. These were offset by approximately $208,100 of temporary investments in marketable securities, $84,600 of expenditures for fixed assets, and $40,000 of cash invested in Well Enhancement and Recovery Systems, LLC (see Note 4 – Investment in Well Enhancement and Recovery Systems, LLC, to the accompanying financial statements). The most significant investments in fiscal 2006 related to the construction of the Fairgrounds water system and costs incurred in connection with the acquisition of the Arkansas River water. During fiscal 2005, we maintained temporary investments of funds generated from the equity offering in fiscal 2004 and capitalized approximately $404,500 of costs related to our water assets, which included approximately $223,000 related to the start of construction of the Fairgrounds water system. During fiscal 2005, we received option payments totaling $60,400 from the developer of Sky Ranch related to the potential use of Export Water (which were not received in fiscal 2007 or 2006). As of August 31, 2007, Sky Ranch option payments totaling $120,800 are past due. We have been unable to collect these amounts from Sky Ranch and we have no assurances as to when these amounts will be paid.

Financing Activities

Cash provided by financing during fiscal 2007, 2006 and 2005 was approximately $5.6 million, $807,500 and $1.0 million, respectively. In July 2007, we finalized our equity offering of 1.2 million shares of common stock and raised approximately $9.0 million. Concurrent with the equity offering, we acquired approximately $10.5 million of CAA interests for cash payments totaling approximately $2.6 million. Also in 2007, we made a Tap Participation Fee payment of approximately $850,000 to HP A&M as a result of the sale of the LAWMA shares described above, and we received approximately $57,300 from the County related to the construction proceeds receivable. In fiscal 2006 the main financing item was $1.18 million received from persons exercising outstanding options and warrants offset by $195,600 of debt payments to retire debt with our former CEO and $174,900 paid to CAA holders related to the County Agreement. Fiscal 2005 cash provided by financing activities included the receipt of approximately $676,500 related to exercises of stock options and the receipt of $397,200 of special facilities funding from the County.

Impact of Recently Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 allows companies the choice to measure many financial instruments and certain other items at fair value. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (September 1, 2008 for us). We are currently reviewing the impact of SFAS No. 159 on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurement*, ("FAS 157"), which establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years, and the interim periods within those fiscal years, beginning after November 15, 2007 (September 1, 2008 for us). We are currently evaluating the impact of this standard on our financial statements.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 31, 2006 (September 1, 2007 for us). We do not expect the adoption of FIN 48 to have a material impact on our financial statements.

Total Contractual Cash Obligations

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Long-term debt obligations	$ 26,542	$ 26,542	$ -	$ -	$ -
Operating lease obligations	12,000	12,000	(a)	(a)	(a)
Investment in Well Enhancement and Recovery Systems, LLC	30,000	-	-	-	-
Participating Interests in Export Water	2,851,037	(b)	(b)	(b)	(b)
Tap Participation Fee payable to HP A&M	104,582,000	(c)	(c)	(c)	(c)
Total	$ 107,501,579	$ 38,542	$ -	$ -	$ -

(a) Our only operating lease is related to our office space. The lease is month-to-month and is cancelable upon thirty days notice. Due to this not being a long-term lease, payments cannot be reasonably estimated beyond one year.

(b) 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.

(c) 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 approximately $55.1 million. The valuation of the *Tap Participation Fee payable to HP A&M* is a significant estimate based on available historic market information and estimated future market information. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at our rate-based districts, and other market forces beyond our control. Because the estimates and assumptions used to value the Tap Participation Fees payable to HP A&M are subjective, actual results could vary materially from the estimates.

7A. Quantitative and Qualitative Disclosures About Market Risk

General. Pure Cycle is exposed to market risks that may impact the *Balance Sheets*, *Statements of Operations*, and *Statements of Cash Flows* due primarily to changing interest rates and changes in tap fees and usage rates at our rate based districts. Additionally, due to the promissory notes on the land we acquired which we may elect to pay in the event of default by HP A&M, we are subject to market risks impacting the ability of HP A&M to make the required payments. The following discussion provides additional information regarding these market risks.

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 investments, consisting primarily of United States Treasury Obligations and other investment grade debt securities. As of August 31, 2007, the fair value of our marketable securities was approximately $800,000 with maturity dates through January 2008. A hypothetical 50 basis point change in interest rates would not result in a material decrease or increase in the fair value of our marketable securities . We have no investments denominated in foreign country currencies and therefore our investments are not subject to foreign currency exchange risk.

Rates and Charges. Our rates and charges are based on the average of our rate based districts and could vary dramatically from year to year. The rates charged by our rate based districts might not provide us sufficient funds to support our operations and capital required to fund construction activities. Based on the increases in taps fees and usage charges at our rate based districts over the last several years as noted in Table A above, we expect rates and charges to continue to be sufficient to meet our operational and construction needs.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Pure Cycle Corporation

We have audited the accompanying balance sheet of Pure Cycle Corporation as of August 31, 2007, and the related statements of operations, stockholders' equity, and cash flows for the year ended August 31, 2007. We also have audited Pure Cycle Corporation’s internal control over financial reporting as of August 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pure Cycle Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

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 and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pure Cycle Corporation as of August 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Pure Cycle Corporation maintained, in all material respects, effective internal control over financial reporting as of August 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ GHP HORWATH, P.C.

Denver, Colorado
November 12, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors
Pure Cycle Corporation:

We have audited the accompanying balance sheet of Pure Cycle Corporation (the "Company") as of August 31, 2006 and the related statements of operations, stockholders' equity, and cash flows for the years ended August 31, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audit 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pure Cycle Corporation at August 31, 2006, and the results of its operations and its cash flows for the years ended August 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Pure Cycle Corporation's internal control over financial reporting as of August 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated November 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and an adverse opinion on the effectiveness of internal control over financial reporting because of the existence of a material weakness.

As discussed in Note 1 to the financial statements included within the Form 10-K/A filed by the Company on April 16, 2007, the 2006 financial statements have been restated.

As discussed in Note 2, effective September 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) "Share–Based Payment."

/s/ Anton Collins Mitchell LLP

Denver, Colorado
November 10, 2006, except for the
effect of the restatement discussed in
Note 1 to the financial statements included
within the Form 10-K/A filed by the
Company on April 16, 2007, which is
dated April 10, 2007.

PURE CYCLE CORPORATION
BALANCE SHEETS

	August 31, 2007	August 31, 2006
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 6,095,075	$ 374,069
Marketable securities	799,802	2,529,406
Trade accounts receivable	70,217	65,420
Interest receivable	11,585	36,880
Prepaid expenses	246,968	50,825
Current portion of construction proceeds receivable	64,783	64,783
Total current assets	7,288,430	3,121,383
Investments in water and water systems, net	103,248,427	104,455,868
Construction proceeds receivable, less current portion, including $240,075 expected to be paid with water rights	792,719	800,172
Note receivable – Rangeview Metropolitan District, including accrued interest	475,734	452,230
Assets held for sale	77,940	–
Investment in Well Enhancement and Recovery Systems, LLC	4,431	–
Property and equipment, net	4,210	4,287
Total assets	$ 111,891,891	$ 108,833,940
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 15,056	$ 34,650
Accrued liabilities	85,919	289,596
Deferred revenues	55,800	55,800
Current debt – related party	26,542	–
Total current liabilities	183,317	380,046
Long-term debt – related party	–	26,542
Deferred revenues, less current portion	1,557,711	1,613,515
Participating Interests in Export Water Supply	2,851,037	6,514,116
Tap Participation Fee payable to HP A&M, net of discount of $55.1 million and $59.0 million	49,455,000	45,635,000
Total liabilities	54,047,065	54,169,219
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock:		
Par value $.001 per share, 25 million shares authorized; Series B – 432,513 shares issued and outstanding (liquidation preference of $432,513)	433	433
Common stock:		
Par value 1/3 of $.01 per share, 40 million shares authorized; 19,995,338 and 18,348,834 shares outstanding	67,512	61,602
Additional paid-in capital	91,650,897	80,609,875
Treasury stock, at cost, 256,800 and 130,279 shares of common stock	(1,979,447)	(1,009,534)
Accumulated comprehensive income (loss)	7,168	(10,654)
Accumulated deficit	(31,901,737)	(24,987,001)
Total stockholders' equity	57,844,826	54,664,721
Total liabilities and stockholders' equity	$ 111,891,891	$ 108,833,940

See accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF OPERATIONS

	For the Years Ended August 31,		
	2007	2006	2005
Revenues:			
Metered water usage	$ 149,539	$ 163,560	$ 152,247
Wastewater treatment fees	60,335	59,008	57,453
Special facility funding	41,508	3,494	–
Water tap fees	14,294	1,191	–
Sky Ranch options	–	44,416	21,619
Other	–	–	3,335
Total revenues	265,676	271,669	234,654
Expenses:			
Water service operations	(54,631)	(48,508)	(43,873)
Wastewater service operations	(22,817)	(17,312)	(15,684)
Depletion and depreciation	(87,739)	(8,078)	(743)
Other	–	–	(2,858)
Total cost of revenues	(165,187)	(73,898)	(63,158)
Gross margin	100,489	197,771	171,496
General and administrative expenses	(2,476,462)	(1,544,516)	(1,315,320)
Depreciation	(278,360)	(12,004)	(7,148)
Operating loss	(2,654,333)	(1,358,749)	(1,150,972)
Other income (expense):			
Interest income	155,712	190,987	149,611
Gain on extinguishment of contingent obligations and debt	271,127	390,866	–
Gain on sale of land	17,927	–	–
Gain (loss) on sales of marketable securities	142	10,414	(15,563)
Share of losses of Well Enhancement and Recovery Systems, LLC	(35,569)	–	–
Imputed interest expense related to the Tap Participation Fees payable to HP A&M	(4,669,742)	–	–
Interest expense - related parties	–	(7,120)	(21,359)
Interest expense	–	(19,258)	(12,598)
Net loss	$ (6,914,736)	$ (792,860)	$ (1,050,881)
Net loss per common share – basic and diluted	$ (.37)	$ (.05)	$ (.08)
Weighted average common shares outstanding – basic and diluted	18,589,737	14,693,585	13,674,156

See accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-in	Accumulated Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Income (loss)	Deficit	Total
August 31, 2004 balance:	432,513	$ 433	13,316,135	$ 44,387	-	$ -	$ 36,407,105	$ 14,834	$ (23,143,260)	$ 13,323,499
Reimbursement to former CEO	-	-	300,000	1,000	-	-	2,414,000	-	-	2,415,000
Warrants exercised	-	-	29,714	99	-	-	(99)	-	-	-
Stock options exercised	-	-	684,132	2,284	(73,154)	(554,939)	1,229,153	-	-	676,498
Unrealized loss on investments	-	-	-		-	-	-	(11,381)	-	(11,381)
Net loss	-	-	-		-	-	-	-	(1,050,881)	(1,050,881)
Comprehensive loss										(1,062,262)
August 31, 2005 balance:	432,513	433	14,329,981	47,770	(73,154)	(554,939)	40,050,159	3,453	(24,194,141)	15,352,735
Related party debt extinguishment gain	-	-	-	-	-	-	363,208	-	-	363,208
CAA acquired and debt extinguished	-	-	242,169	807	-	-	2,127,389	-	-	2,128,196
Arkansas River water acquisition	-	-	3,000,000	10,000	-	-	36,230,000	-	-	36,240,000
Warrants exercised	-	-	15,520	52	-	-	27,884	-	-	27,936
Stock options exercised	-	-	891,443	2,973	(57,125)	(454,595)	1,601,624	-	-	1,150,002
Stock based compensation	-	-	-	-	-	-	209,611	-	-	209,611
Unrealized loss on investments	-	-	-	-	-	-	-	(14,107)	-	(14,107)
Net loss	-	-	-	-	-	-	-	-	(792,860)	(792,860)
Comprehensive loss										(806,967)
August 31, 2006 balance:	432,513	433	18,479,113	61,602	(130,279)	(1,009,534)	80,609,875	(10,654)	(24,987,001)	54,664,721
CAA acquired	-	-	-	-	-	-	765,071	-	-	765,071
Equity offering (net of $275,000 expenses)	-	-	1,200,000	4,000	-	-	9,020,608	-	-	9,024,608
Stock options exercised	-	-	538,836	1,796	(126,521)	(969,913)	968,117	-	-	-
Restricted stock grant	-	-	34,189	114	-	-	(114)	-	-	-
Stock based compensation	-	-	-	-	-	-	287,340	-	-	287,340
Unrealized gain on investments	-	-	-	-	-	-	-	17,822	-	17,822
Net loss	-	-	-	-	-	-	-	-	(6,914,736)	(6,914,736)
Comprehensive loss		-								(6,896,914)
August 31, 2007 balance:	432,513	$ 433	20,252,138	$ 67,512	(256,800)	$(1,979,447)	$ 91,650,897	$ 7,168	$ (31,901,737)	$ 57,844,826

See accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF CASH FLOWS

	For the years ended August 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net loss	$ (6,914,736)	$ (792,860)	$ (1,050,881)
Adjustments to reconcile net loss to net cash used for operating activities:			
Imputed interest on Tap Participation Fees payable to HP A&M	4,669,742	–	–
Depreciation, depletion and other non-cash items	368,960	20,082	7,891
Stock based compensation expense included with general and administrative expenses	287,340	209,611	–
Share of losses of Well Enhancement and Recovery Systems, LLC	35,569	–	–
(Gain) loss on sales of marketable securities	(142)	(10,414)	15,563
Gain on sale of fixed assets	(17,927)	–	–
Interest added to note receivable – Rangeview Metropolitan District	(23,504)	(21,508)	(16,917)
Interest added to construction proceeds receivable	(49,877)	–	–
Extinguishment of contingent obligations and debt	(271,127)	(390,866)	–
Interest accrued on long-term debt – related parties	–	7,120	21,360
Interest accrued on long-term debt	–	19,258	12,597
Changes in operating assets and liabilities:			
Export water proceeds to be remitted to escrow agent	–	174,890	(174,890)
Trade accounts receivable	(4,797)	(15,361)	179
Interest receivable and prepaid expenses	(170,849)	(27,250)	(1,862)
Accounts payable and accrued liabilities	(223,271)	19,957	(124,235)
Deferred revenues	(55,804)	39,754	492,933
Net cash used for operating activities	(2,370,423)	(767,587)	(818,262)
Cash flows from investing activities:			
Sales and maturities of marketable securities	1,955,669	4,833,174	5,971,735
Sale of LAWMA shares	849,742	–	–
Sale of property and equipment	19,250	–	–
Purchase of property and equipment	(3,003)	(2,781)	(5,660)
Capitalized acquisition costs	(37,600)	(173,110)	–
Investment in Well Enhancement and Recovery Systems LLC	(40,000)	–	–
Investments in water and water systems	(46,983)	(2,411,746)	(404,519)
Purchase of marketable securities	(208,101)	(3,885,238)	(5,424,071)
Sky Ranch option payments received	–	–	60,400
Net cash provided (used) by investing activities	2,488,974	(1,639,701)	197,885
Cash flows from financing activities:			
Proceeds from the sale of common and preferred stock, net	9,024,608	1,177,938	676,498
Payments received on construction proceeds receivable	57,330	–	–
Payments to contingent liability holders	(4,516)	(174,890)	(3,120)
Tap Participation Fee payments to HP A&M	(849,742)	–	–
Payments to purchase contingent liabilities	(2,625,225)	–	–
Payments on long-term debt – related parties	–	(195,573)	–
Construction funding	–	–	397,235
Reimbursement to former CEO	–	–	(50,555)
Net cash provided by financing activities	5,602,455	807,475	1,020,058
Net change in cash and cash equivalents	5,721,006	(1,599,813)	399,681
Cash and cash equivalents – beginning of year	374,069	1,973,882	1,574,201
Cash and cash equivalents – end of year	$ 6,095,075	$ 374,069	$ 1,973,882

See accompanying Notes to Financial Statements

NOTE 1 – ORGANIZATION

Pure Cycle Corporation (the "Company") was incorporated in Delaware in 1976. The Company owns water assets in the Denver, Colorado metropolitan area, in the Arkansas River Valley in southern Colorado, and the Colorado River on the western slope of Colorado. The Company is currently using its water assets located in the Denver metropolitan area to provide water and wastewater services to customers located in and around its service area. The Company is a vertically integrated service provider owning water supplies and providing a full line of water and wastewater services including the design and construction of water and wastewater systems as well as the operation and maintenance of such systems. The Company's business focus is to provide water and wastewater service to customers within its service area and other areas throughout the Denver metropolitan area and the Front Range of Colorado.

The Company believes that at August 31, 2007, it has sufficient working capital and financing sources to fund its operations for at least the next year. However, there can be no assurances that the Company will be successful in marketing its water on terms that are acceptable to the Company. The Company's ability to generate working capital from its water and wastewater projects is dependent on its ability to successfully market the water, or in the event it is unsuccessful, to sell the underlying water assets. In the event increased sales are not achieved, the Company may incur additional short or long-term debt or seek to sell additional shares of the Company's common or preferred stock, as deemed necessary by the Company, to generate sufficient working capital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition. The Company generates revenues mainly from three sources; (i) water and wastewater tap fees, (ii) construction fees, and (iii) monthly water usage fees and wastewater service fees. Emerging Issues Task Force Issue No. 00-21 *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"), governs how to identify when goods or services, or both, that are separately delivered but included in a single sales arrangement should be accounted for separately. Based on the criteria of EITF 00-21, the Company accounts for each of the items addressed in its service agreements separately.

Proceeds from tap fees and construction fees are deferred upon receipt and recognized in income based on whether or not the Company owns the infrastructure constructed with the proceeds. Tap fees and construction fees derived from agreements in which the customer will own the assets constructed with the fees (for example the assets constructed for use on the Lowry Range pursuant to the Company's service agreement with the Rangeview Metropolitan District (the "District")) are recognized in accordance with Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, whereby the Company recognizes revenue and costs of construction using the percentage-of-completion method. Tap fees and construction fees derived from agreements for which the Company will own the infrastructure (for example the assets constructed for use at the Arapahoe County Fairgrounds (the "Fairgrounds")) are recognized in accordance with Staff Accounting Bulletin No. 104 *Revenue Recognition ("SAB 104"),* whereby the up-front fees are recognized ratably over the estimated service life of the facilities constructed, starting at completion of construction.

The Company recognizes water usage revenues upon delivering water to customers. The Company recognizes wastewater processing revenues monthly based on flat fees assessed per single family equivalent ("SFE") unit served. An SFE is defined in the Company's Rules and Regulations as the amount of water required each year by a family of four persons living in a single family house on a standard sized lot which is equivalent to the use of approximately 0.4 acre-feet of water per year.

The Company recognized approximately $14,300 and $1,200 of water tap fee revenues in fiscal 2007 and 2006, respectively, related to the Agreement for Water Services (the "County Agreement") signed with Arapahoe County (the "County") in August 2005. The Wholesale Facilities required to provide water service to the Fairgrounds were completed in fiscal 2006 in time for the Fairgrounds opening date on July 21, 2006. In accordance with SAB 104 and Accounting Principles Generally Accepted in the United States of America ("GAAP"), the Company began recognizing the water tap fees as revenue ratably over the estimated service period upon completion of the Wholesale Facilities. The water tap fees to be recognized over this period are net of the royalty payments to the

State of Colorado Board of Land Commissioners (the "Land Board") and amounts paid to third parties pursuant to the Comprehensive Amendment Agreement No. 1 (the "CAA") as further described in Note 5 below.

The Company recognized approximately $41,500 and $3,500 of Special Facilities funding as revenue in fiscal 2007 and 2006, respectively. This is the ratable portion of the Special Facilities funding paid and payable by the County as more fully described in Note 3 below.

No water tap fees or construction revenues were recognized during the year ended August 31, 2005.

As of August 31, 2007, the Company has deferred recognition of approximately $1.6 million of tap fee and construction fee revenue, which will be recognized as revenue ratably over the estimated life of the assets constructed with the construction proceeds as described above.

If costs meet the Company's capitalization criteria, costs to construct "Wholesale Facilities" and "Special Facilities" are capitalized as incurred, including interest, and depreciated over their estimated useful lives. Costs of delivering water and providing wastewater service to customers are recognized as incurred.

Use of Estimates. The preparation of financial statements in conformity with 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 and equity instruments with original maturities of three months or less. The Company's cash equivalents are comprised of money market funds, investments in debt securities and investments in commercial paper. As of August 31, 2007 and 2006, the Company has no investments in equity instruments.

Financial Instruments. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and investments in marketable securities. The Company places its cash equivalents and investments with a high quality financial institution. At various times throughout fiscal 2007, cash deposits have exceeded federally insured limits. The Company invests its excess cash primarily in 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.

Cash Flows. The Company did not pay any interest or income taxes during the three years ended August 31, 2007.

Marketable Securities. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations each reporting period.

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. The Company had no investments classified as held-to-maturity at August 31, 2007 or 2006. Debt securities for which the Company does not have the positive intent or ability to hold to maturity are classified as available-for-sale, along with any investments in equity securities. Securities classified as available-for-sale are marked-to-market at each reporting period. Changes in value on such securities are recorded as a component of *Accumulated comprehensive income.* The cost of securities sold is based on the specific identification method.

The following is a summary of marketable securities at August 31, 2007:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 95,500	$ –	$ –	$ 95,500
U.S. government debt securities with unrealized gains	597,984	2,197	–	600,181
U.S. corporate debt securities with unrealized gains	194,650	4,971	–	199,621
Total investments	888,134	7,168	–	895,302
Less cash equivalents	95,500	–	–	95,500
Total marketable securities	$ 792,634	$ 7,168	$ –	$ 799,802

The following is a summary of marketable securities at August 31, 2006:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 149,156	$ –	$ –	$ 149,156
U.S. government debt securities:				
With unrealized losses:				
Less than 12 months	993,129	–	(3,584)	989,545
Greater than 12 months	299,742	–	(2,109)	297,633
U.S. corporate debt securities:				
With unrealized gains	295,400	593	–	295,993
With unrealized losses:				
Less than 12 months	702,503	–	(4,529)	697,974
Greater than 12 months	249,286	–	(1,025)	248,261
Total investments	2,689,216	593	(11,247)	2,678,562
Less cash equivalents	(149,156)	–	–	(149,156)
Total marketable securities	$ 2,540,060	$ 593	$ (11,247)	$ 2,529,406

For the years ended August 31, 2007 and 2006 gross realized gains totaled approximately $100 and $10,400, respectively. For the year ended August 31, 2005 gross realized losses totaled approximately $15,600. The Company actively monitors the performance of its investments and adopted a new investment policy in fiscal 2005 to more closely align its investment portfolio with its expected capital requirements. Losses incurred during 2005 were the result of the Company shortening its average maturity in its investment portfolio to allow it more flexibility regarding anticipated capital needs in the short-term and to allow it to capitalize on rising interest rates.

The Company's marketable securities mature at various dates through January 2008.

Accounts receivable. The Company records accounts receivable net of allowances for uncollectible accounts (none as of August 31, 2007 or 2006). Any allowance for uncollectible accounts would be determined based on a review of past due accounts.

Fair value of financial instruments. The carrying value of all financial instruments potentially subject to valuation risk (principally consisting of cash, cash equivalents, accounts receivable, accounts payable, and notes receivable) approximates fair value based upon prevailing interest rates available to the Company. The fair value of the note receivable from the District is not practicable to estimate due to the District being a related party.

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 exceed 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. The Company believes there are no impairments in the carrying amounts of its long-lived assets at August 31, 2007.

Water and Wastewater Systems. 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.

Depletion and Depreciation of Water Assets. The Company depletes its water assets that are being utilized on the basis of units produced divided by the total volume of water adjudicated in the water decrees. Water systems are depreciated on a straight line basis over their estimated useful lives of 30 years.

Share-based Compensation. Effective September 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") for periods beginning on or after September 1, 2005. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

On November 10, 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 123(R)-3 *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has adopted the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R). Because the Company has a full valuation allowance on its deferred tax assets, the granting and exercise of stock options during the years ended August 31, 2007 and 2006 had no impact on the income tax provisions.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of September 1, 2005, the first day of the Company's fiscal 2006. In accordance with the modified prospective transition method, the Company's financial statements for periods prior to fiscal 2006 have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the years ended August 31, 2007 and 2006, was approximately $287,300 and $209,600, respectively.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing 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. Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's statements of operations for the years ended August 31, 2007 and 2006, included (i) compensation expense for share-based payment awards granted prior to, but not yet vested as of, September 1, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and (ii) compensation expense for the share-based payment awards granted subsequent to September 1, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with SFAS 123(R), stock-based compensation expense recognized in the statements of operations for the years ended August 31, 2007 and 2006, is based on awards ultimately expected to vest. The Company does not expect any forfeitures of its prior option grants and therefore the compensation expense has not been reduced for estimated forfeitures. No options were forfeited by option holders during the three years ended August 31, 2007. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006 presented below, the Company would have accounted for forfeitures as they occurred, if any had occurred. The Company attributes the value of stock-based compensation to expense using the straight-line single option method for all options granted.

Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's statements of operations for the year ended August 31, 2005. If the Company had recognized stock-based compensation expense pursuant to SFAS 123 for the year ended August 31, 2005 in its statements of operations, the results would have been as follows:

Net loss, as reported	$ (1,050,881)
Add back stock-based employee compensation expense included in reported net loss	–
Deduct: Total stock-based employee compensation expense determined under fair value based method for all options and warrants	(168,000)
Pro forma net loss	$ (1,218,881)
Weighted average common shares outstanding – basic and diluted	13,674,156
Pro forma net loss per share	$ (0.09)

The Company uses the Black-Scholes option-pricing model ("Black-Scholes model") for the pro forma information required under SFAS 123 as well as the compensation expense recorded pursuant to SFAS 123(R). The Company's determination of the estimated fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the following variables and assumptions:

- The grant date exercise price – which 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 – pursuant to the 2004 Incentive Plan, all option grants have a 10 year life;
- 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.

Income Taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryovers. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Accumulated Comprehensive Income (Loss). In addition to net loss, comprehensive income (loss) includes the cumulative unrecognized changes in the fair value of marketable securities that are classified as available-for-sale.

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 140,092, 661,428 and 1,523,391 common share equivalents as of August 31, 2007, 2006 and 2005, respectively, have been excluded from the calculation of loss per common share as their effect is anti-dilutive.

Reclassifications. Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE 3 – WATER, WATER SYSTEMS AND SERVICE AGREEMENTS

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

	2007		2006	
	Costs	Accumulated Depreciation and Depletion	Costs	Accumulated Depreciation and Depletion
Arkansas River Valley assets	$ 81,234,547	$ (265,466)	$ 82,125,952	$ –
Rangeview water supply	13,949,036	(4,408)	13,924,448	(3,768)
Rangeview water system	167,720	(38,032)	167,720	(28,862)
Paradise water supply	5,525,017	–	5,520,836	–
Fairgrounds water and water system	2,669,924	(94,325)	2,653,995	(7,225)
Sky Ranch water supply	100,000	–	100,000	–
Water supply – other	5,307	(893)	3,022	(250)
Totals	$ 103,651,551	$ (403,124)	$ 104,495,973	$ (40,105)
Net investments in water and water systems	$ 103,248,427		$ 104,455,868	

Depletion and Depreciation. The Company recorded approximately $600, $900 and $700 of depletion charges for the fiscal years ended August 31, 2007, 2006 and 2005, respectively. This related entirely to the use of the Rangeview Water Supply. No depletion is taken against the Arkansas River water, the Paradise Water Supply or Sky Ranch Water Supply because these assets have not been placed into service as of August 31, 2007.

The Company recorded approximately $365,500, $19,200 and $7,200 of depreciation expense during the years ended August 31, 2007, 2006 and 2005, respectively.

Arkansas River Valley Assets. The Company owns the following Arkansas River Valley assets, which were acquired when the Company entered into the Asset Purchase Agreement (the "Arkansas River Agreement") with High Plains A&M LLC ("HP A&M") in fiscal 2006:

- 60,000 acre-feet of senior water interests in the Arkansas River and its tributaries represented by approximately 21,600 shares of the Fort Lyon Canal Company ("FLCC") (collectively these are referred to as the "Water Rights"),

- Approximately 80 separate real estate properties (or approximately 17,500 acres of land) located in the counties of Bent, Otero and Prowers, Colorado, currently used for agricultural purposes (the "Properties") (certain of the Properties are subject to mortgages maintained by HP A&M as further described below), and

- Certain contract rights, tangible personal property, mineral rights, and other water interests related to the Water Rights and Properties (collectively the Water Rights, Properties, and related assets are referred to as the "Acquired Assets").

The Company acquired the Water Rights to enhance and better balance its water portfolio by increasing its rights to senior surface water which is being demanded by cities and municipalities granting land use approvals and to increase its inventory of water and capacity to serve additional customers. The Properties and other non-water assets were acquired because the rights to the Arkansas River water the Company seeks to transfer for use in the Denver market are based on the quantity of water historically used to irrigate crops grown on the Properties.

The shares in the FLCC acquired by the Company represent the amount of water the Company owns in the Fort Lyon Canal. The FLCC is a non-profit mutual ditch company that is responsible for the maintenance and operation of the 110 mile Fort Lyon Canal.

Each of the Properties acquired by the Company are subject to operating leases. The Company assumed title to the farm leases effective August 31, 2006. Pursuant to a property management agreement between HP A&M and the Company, HP A&M will manage the leases for a period of five years (through August 31, 2011) and will receive all lease payments from the lessees as a management fee. Because the Company does not have the risk of loss associated with the leases (HP A&M's management fee is equal to the lease income for the next five years, and contractually HP A&M has the risk of loss on the leases), in accordance with Emerging Issues Task Force No. 99-19 *Reporting Revenue Gross as Principal versus Net as an Agent*, the lease income and management fees are reflected on a net revenue basis throughout the term of the management agreement.

The $81.9 million value of the consideration paid to HP A&M (comprised of the equity and Tap Participation Fee described below) was allocated to the Acquired Assets based on estimates of each asset's, or group of assets', respective fair value. Because the estimated value of the consideration paid was less than the total fair value of the Acquired Assets, the relative values assigned to the Acquired Assets were ratably reduced. The relative fair value of the Water Rights of $97.5 million was determined by an independent third party appraisal. The relative fair value of the remaining assets of approximately $4.8 million was determined by internal studies. The amounts recorded as *other assets* consists of professional fees and other acquisition related costs.

The Water Rights will be depleted in accordance with the Company's depletion policies once the Water Rights are being utilized for their intended purpose. The remaining depreciable assets are being depreciated over their estimated useful lives of three to seven years consistent with the Company's depreciation policies.

<u>Tap Participation Fee</u>

As consideration for the Acquired Assets, on August 31, 2006, the Company issued HP A&M 3,000,000 shares of Pure Cycle common stock valued at approximately $36.2 million. The Company also granted HP A&M the right to receive ten percent (10%) of the Company's gross proceeds, or the equivalent thereof, from the sale of the next 40,000 water taps (the "Tap Participation Fee") (the 40,000 figure was reduced to 39,470 at the August 31, 2006, closing date because HP A&M sold certain assets and properties not related to the FLCC shares which were subject to the Arkansas River Agreement and were available for credit against the Tap Participation Fee), valued at approximately $45.6 million at the acquisition date. The Tap Participation Fee 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 year ended August 31, 2007. However, it did sell additional assets unrelated to the FLCC shares which were credited towards the Tap Participation Fee. See sale of Lower Arkansas Water Management Association shares ("LAWMA shares") below.

The $49.5 million estimated fair value of the Tap Participation Fee at August 31, 2007 (which includes imputed interest of approximately $4.7 million) was determined using a discounted cash flow analysis of the projected future payments to HP A&M. The Company determined this value by estimating new home development in the Company's 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, Colorado metropolitan area applied to an estimated development pattern supported by historical development patterns of certain master planned communities in the Denver, Colorado metropolitan area. This development pattern was then applied to future water tap fees that were calculated using historical water tap fees. The realizable value of the Tap Participation Fee payable to HP A&M was discounted to August 31, 2006, using a rate that approximates the prevailing rate the Company believes would be available to similar companies in its industry. Actual development may differ substantially from the estimated new home development in the Company's service area, which may have a material effect on the estimated fair value of the Tap Participation Fee payable to HP A&M, and such differences may have a material impact on the Company's financial statements. The valuation of the Tap Participation Fee payable to HP A&M is a significant estimate based on available historic market information and estimated future market information. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at our rate-based districts, and other market forces beyond the Company's control.

The Company imputes interest expense on the unpaid Tap Participation Fee using an effective interest method over the estimated development period utilized in the valuation of the liability. During the year ended August 31, 2007, the Company imputed interest of approximately $4.7 million related to the Tap Participation Fee.

After five years, under circumstances defined in the Arkansas River Agreement, the Tap Participation Fee can increase to 20% and the number of water taps subject to the Tap Participation Fee would be correspondingly reduced by half. The Tap Participation Fee is subject to acceleration in the event of a merger, reorganization, sale of substantially all assets, or similar transactions and in the event of bankruptcy and insolvency events.

Purchase Price Adjustment

During the second quarter of fiscal 2007, the Company completed its evaluation of the fair value of the LAWMA shares acquired from HP A&M on August 31, 2006. At August 31, 2006, the Company did not allocate any of the consideration issued to HP A&M to the LAWMA shares because the number of LAWMA shares acquired and the value of those shares was unknown at the date of the asset acquisition. Based on information obtained during the second quarter, the Company adjusted its allocation to reflect the acquisition of 554 LAWMA shares. The LAWMA shares were determined to have a value of approximately $927,700, which was based on the amount realized from the sale of 509 LAWMA shares as described below.

Because the Company intended to sell the LAWMA shares, the LAWMA shares should have been reflected as assets held for sale as of the acquisition date, if the Company would have been able to determine the fair value of the LAWMA shares at the date of the acquisition. Based on this, the Company re-allocated the purchase price, as of the date the value of the LAWMA shares became known, to the Acquired Assets. In the adjustment process, the LAWMA shares (which are assets held for sale) have been allocated their full net realizable value, approximately $927,700, and the remaining value of the consideration has been re-allocated to the remaining Acquired Assets based on each individual asset's relative fair value. The effect of this is a reduction in the value assigned to the Acquired Assets, which are held for use, of $927,700.

Sale of LAWMA Shares

During the year ended August 31, 2007, the Company sold 509 LAMWA shares for approximately $849,700. Pursuant to the Arkansas River Agreement, 100% of the proceeds from the sale of the LAWMA shares were required to be paid to HP A&M. This results in a credit to the Tap Participation Fee Payable to HP A&M equivalent to the sale of 505 water taps, which incorporates the full consideration of the LAWMA transaction credits based on the water tap fees charged by the Company at the date of sale. As of August 31, 2007, the remaining taps subject to the Tap Participation Fee are 38,965. Because the LAWMA shares were sold at their allocated fair value, the Company did not recognize any gain or loss on the transaction.

As of August 31, 2007, the Company owns 45 remaining LAWMA shares valued at approximately $77,900, which are valued based on the sales value of the 509 LAWMA shares sold. Because the Company plans to dispose of these LAWMA shares, pursuant to Statement of Financial Accounting Standards ("SFAS") 144, *Accounting for* *the Impairment of Long-Lived Assets*, the net book value of the remaining LAWMA shares has been reflected on the balance sheet as held for sale. The LAWMA shares are not currently being depleted. Management continues to evaluate offers and believes that the estimated selling price less estimated cost to sell equals or exceeds the net book value of the LAWMA shares remaining and therefore there is no impairment loss.

Promissory Notes Payable by HP A&M

Certain of the properties the Company acquired are subject to outstanding promissory notes with principal and accrued interest totaling approximately $13.9 million at August 31, 2007. These promissory notes are secured by deeds of trust on the Properties. The Company did not assume any of these promissory notes and is not responsible for making any of the required payments under these notes. This responsibility remains solely with HP A&M. In the event of default by HP A&M, at the Company's sole discretion, the Company may make payments pursuant to any or all of the notes and cure any or all of the defaults. If the Company does not cure the defaults, it will lose the properties securing the defaulted notes. If HP A&M defaults on the promissory notes, the Company can foreclose on a defined amount of stock issued to HP A&M and reduce the Tap Participation Fee by two times the amount of notes defaulted on by HP A&M. Because HP A&M would lose such a substantial amount of equity and Tap Participation Fee, and based on the financial stability of HP A&M and its owners and affiliated companies, the probability of HP A&M defaulting on the notes is deemed remote. As far as the Company is aware, HP A&M did not default on any of the promissory notes during the Company's fiscal 2007.

Because the outstanding notes are collateralized by the Company's Properties and Water Rights, HP A&M is deemed to be a Variable Interest Entity ("VIE") as defined by FASB Interpretation No. 46(R) *Consolidation of Variable Interest Entities (as amended)* ("FIN 46R"). However, because the Company will not absorb any of HP A&M's expected losses or receive any of HP A&M's expected gains, the Company is not deemed the "Primary Beneficiary" of HP A&M and therefore is not required to consolidate HP A&M. HP A&M became a VIE to the Company on August 31, 2006 when the Company acquired the Arkansas River Water Rights and Properties subject to the outstanding promissory notes. HP A&M is a holding company that acquires water rights and related properties for investment and sale purposes. If HP A&M were to default on the notes, the Company would lose approximately 60 of the 80 real property interests it acquired and the water rights associated with those Properties, unless the Company cured the notes in default.

Additional Agreements and Information

Upon the closing, the Company and HP A&M also entered into the following agreements:

- A pledge agreement related to the promissory notes, whereby HP A&M pledged, transferred, assigned and granted to the Company a security interest in and to (a) 1,500,000 shares of Pure Cycle common stock, (b) all shares of Pure Cycle Common Stock hereafter issued to HP A&M by means of any dividend or distribution in respect of the shares pledged hereunder (together with the shares identified in (a), the "Pledged Shares"), (c) the certificates representing the Pledged Shares, and (d) all rights to money or property which HP A&M now has or hereafter acquires in respect of the Pledged Shares;

- A pledge agreement, whereby the Company pledged to HP A&M: (i) one-half of the shares of FLCC 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 Properties 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;

- A five year property management agreement with HP A&M, pursuant to which, HP A&M holds the right to pursue leasing of the Properties and the Water Rights to interested parties. All lease income associated with leasing the Properties and Water Rights, together with all costs associated with these activities including but not limited to, overhead obligations, real property taxes, and personnel costs, are the sole opportunity and obligation of HP A&M;

- A non-solicitation agreement with each of the owners of HP A&M, pursuant to which each of the named parties agreed, for three years (i) not to solicit the Company's customers or potential customers to provide water in the Company's service areas or potential service areas, (ii) not to solicit employees of the Company, (iii) not to engage in certain activities competitive with the Company and (iv) not to engage in the purchase of water or water rights without first offering such water or water rights to the Company;

- A registration rights agreement, pursuant to which the Company granted HP A&M one demand right to register 750,000 shares of Pure Cycle common stock and piggyback rights to register an additional 750,000 shares of Pure Cycle common stock (HP A&M exercised its piggyback rights in July 2007 and therefore the Company registered 750,000 shares of common stock held by HP A&M); and

- A voting agreement, pursuant to which Mr. Mark Harding, the Company's President, agrees to vote shares of Pure Cycle common stock owned by him for HP A&M's designated board member.

The Company assigned no value to the management agreement based on the fact that the Company does not receive any of the lease payments and is not responsible for any of the operating expenses associated with the leases. The leases subject to the property management agreement expire at various dates through 2010, which is earlier than the expiration date of the management agreement.

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 courts 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 requiring them 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 Company will likely need to construct a pipeline, which would be approximately 130 miles long and cost in excess of $400 million, in order to transport the Arkansas River water to its potential customers along the Front Range. The cost for this pipeline is expected to be funded through tap sales utilizing the Company's existing Denver based assets, but there can be no assurances that the Company will be able to generate the funds necessary to complete the pipeline without additional debt or equity offerings.

Rangeview Water Supply and Water System. The Rangeview Water Supply and water system costs represent 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 includes 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 Company entered into the Agreement for Sale of Export Water with the District, a quasi-municipal political subdivision of the State of Colorado; (ii) the District entered into the Amended and Restated Lease Agreement with the Land Board, which owns the Lowry Range; and (iii) the Company entered into the Service Agreement with the District for the provision of water service to the Lowry Range (collectively these agreements are referred to as the "Rangeview Water Agreements").

The 26,700 acre-feet Rangeview Water Supply is a combination of tributary surface water and storage rights and nontributary groundwater rights associated with the Lowry Range, a 27,000 acre property owned by the Land Board, which is located approximately 15 miles southeast of Denver. The Rangeview Water Agreements require 15,050 acre-feet of water per year be used specifically on the Lowry Range, which the Company has the exclusive rights to use. 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 of non-tributary 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.

Based on independent engineering estimates, the 15,050 acre-feet of water designated for use on the Lowry Range is capable of providing water service to approximately 46,500 SFE units, and the 11,650 acre-feet of Export Water owned by the Company can serve approximately 33,600 SFE units throughout the Denver metropolitan region.

Pursuant to the Rangeview Water Agreements, the Company will design, finance, construct, operate and maintain the District's water and wastewater systems to provide service to the District's customers on the Lowry Range. On the Lowry Range, the Company will operate both the water and the wastewater systems during the contract period and the District will own both systems. After 2081, ownership of the water system servicing customers on the Lowry Range will revert to the Land Board, with the District retaining ownership of the wastewater system. The Company owns the Export Water and will use it to provide water and wastewater services to customers off the Lowry Range. The Company will also own all the facilities required to extend water and wastewater services off the Lowry Range. The Company plans to contract with third parties for the construction of these facilities.

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. The Company's rates and charges are reviewed annually and are based on the average of similar rates and charges of three surrounding municipal water and wastewater service providers. These represent gross fees and to the extent that water service is provided using 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. In exchange for providing water service to customers on the Lowry Range, the Company will receive 95% of all water service fees received by the District, after the District pays the required royalties to the Land Board totaling 12% of gross revenues received from water sales. In exchange for providing wastewater service for the District's customers, the Company will receive 100% of the District's wastewater tap fees and 90% of the District's wastewater usage fees.

The Company delivered approximately 44.4 million, 56.6 million and 52.3 million gallons of water to customers on the Lowry Range in fiscal 2007, 2006 and 2005, respectively.

Arapahoe County Fairgrounds Agreement for Water Service. Effective August 3, 2005, the Company entered into the County Agreement with the County to design and construct a water system for, and provide water services to, the Fairgrounds. Pursuant to the County Agreement: (i) the County purchased water taps for 38.5 SFEs for $567,490, or $14,740 per tap; (ii) the Company agreed to design and construct the required Special Facilities, for which the County agreed to provide funding of $1,245,168; and (iii) the Company agreed to acquire rights to approximately 363 acre-feet of groundwater from the County for $293,013. As of August 31, 2007, the water rights deed for 336 acre-feet of water has not been transferred to the Company, and therefore, the cost of this water has not been capitalized on the accompanying balance sheet. However, the value of approximately $240,000 is included in the construction proceeds receivable account until such time as the County transfers the water rights deed to the Company. The other 27 acre-feet of groundwater, valued at $52,938, has been capitalized in the accompanying balance sheet as of August 31, 2007.

Pursuant to the County Agreement, in August 2005 the Company received a net cash payment of $514,552 and the rights to 27 acre-feet of dedicated groundwater valued at $52,938. Since the Company will utilize Export Water to provide water service to the Fairgrounds, the sale of the water taps generated a royalty payment to the Land Board of $34,522. The agreement with the Land Board requires royalty payments on Export Water sales based on net revenues, which are defined as proceeds from the sale of Export Water less direct and indirect costs, including reasonable overhead charges, associated with the withdrawal, treatment and delivery of Export Water. Based on this, in September 2005, the Company made the required $34,522 royalty payment to the Land Board, which is 10% of the net tap fees received from the County.

In addition, tap fees under service agreements in which Export Water will be utilized are subject to the CAA, which is described in more detail in Note 5 below. Net tap fees subject to the CAA totaled $532,968, which were the tap fees received from the County less the $34,522 Land Board royalty. The $532,968 was distributed by the escrow agent as required by the CAA in September 2005. Based on the 2004 CAA acquisitions made by the Company, the Company received $373,078, or 70%, of the distribution and external parties received $159,890, or 30%.

The tap fees retained by the Company were used to fund construction of the Wholesale Facilities required to extend water service to the Fairgrounds. In July 2006 the Company completed construction of the Wholesale Facilities and in accordance with SAB 104 began ratably recognizing $428,000 of tap fees in income. The $428,000 is comprised of the tap fees received by the Company of $567,490, decreased by (i) royalties to the Land Board of $34,522; and (ii) 65% of the total payments made to external CAA holders (which is more fully described in Note 5 below) or $104,136. For the years ended August 31, 2007 and 2006, the Company recognized approximately $14,300 and $1,200 of tap fee revenue, respectively.

Pursuant to the County Agreement, the County is providing funding of approximately $1.245 million for the design and construction of the Special Facilities, to be paid as follows:

- An initial cash payment of approximately $397,000, which was paid in August 2005,
- The transfer of approximately 336 acre-feet of water, valued at approximately $240,000, and
- The balance of approximately $607,900 in monthly payments over 10 years (including interest at 6% per annum).

The monthly payments payable by the County were originally $6,850. However, pursuant to the County Agreement, because the County had not transferred the 336 acre-feet of water to the Company upon the completion of construction, the balance owed the Company was not reduced by the value of the water rights to be transferred (approximately $240,000) and is therefore still included in the construction proceeds receivable account. As a result, the monthly payments being charged to the County in fiscal 2007 was $9,555. The County made six payments of $9,555 each through December 2006, but then ceased making payments because the County disagreed with the increase. As a result, in October 2007, the Company and the County agreed in principal to amend the County Agreement, whereby the County would (i) make the principal and interest payments on the original $607,900 balance owed to the Company (or approximately $6,850 per month for ten years), (ii) pay half of the interest (at 6% per annum) calculated on the value of the water rights that have not been transferred to the Company as of yet, and (iii) transfer the water rights valued at approximately $240,000. In addition, the County made a one-time payment of approximately $54,800, which represents the amounts past due under the proposed amendment to the County Agreement. The County and the Company are diligently working to complete this amendment to the County Agreement, but as of the date of the filing of this Annual Report on Form 10-K for the year ended August 31, 2007, the amendment has not been finalized.

In accordance with GAAP, the total construction funding of $1.25 million is deferred and will be recognized as revenue over the expected service period, which is also the estimated useful life of the Special Facilities constructed with the funds. During the years ended August 31, 2007 and 2006, the Company recognized approximately $41,500 and $3,500 of Special Facilities revenue, respectively.

Sky Ranch Water Supply and Water Service Agreements. On October 31, 2003, and May 14, 2004, the Company entered into two Water Service Agreements (collectively the “Sky Ranch Agreements”) with the developer of approximately 950 acres of property located 4 miles north of the Lowry Range along Interstate 70 known as Sky Ranch. Pursuant to the Sky Ranch Agreements the Company will provide water for all homes and buildings to be constructed at Sky Ranch, which could go as high as 4,850 SFE units. The developer is obligated to purchase a minimum of 400 water taps from the Company before occupancy of the first house in Sky Ranch and a minimum of 310 annually thereafter. This tap purchase schedule is designed to provide the Company with adequate funds with which to construct the Wholesale Facilities required to provide water service. As additional water taps are acquired due to continued development of Sky Ranch, the Company will expand the infrastructure to meet demand as necessary. The Company has not received any payments for tap purchases from the developer as of August 31, 2007, and the Company does not know if or when Sky Ranch will purchase water taps.

As part of the Sky Ranch Agreements, the Company will purchase approximately 537 acre-feet of water through future tap credits totaling $2.6 million on the first 767 taps purchased by the developer. In lieu of the developer receiving these credits, the Company will utilize the funds to construct certain Special Facilities required in order for the Company to provide water service to Sky Ranch. As of August 31, 2007, this water has not been purchased by the Company because Sky Ranch has not purchased any water taps.

On October 31, 2003, the Company entered into the Denver Groundwater Purchase Agreement (the “DGPA”) with the developer of Sky Ranch. The DGPA provides the Company the right to purchase a total of 223 acre-feet of adjudicated decreed water rights owned by the developer for five payments of $50,000 each, totaling $250,000. Under the DGPA, the Company can acquire 44.6 acre-feet of water per year (or 20% of the total 223 acre-feet) for $50,000. In fiscal 2005 and 2004, the Company exercised its rights and purchased a total of 89.2 acre-feet of Denver aquifer groundwater for payments totaling $100,000, which was deeded to the Company at the dates of purchase. At the Company’s discretion, this water can be used either on Sky Ranch or elsewhere in the Company’s target service area. In fiscal 2007 and 2006, the Company exercised its rights to acquire another 40% (89.2 acre-feet) of water per the DGPA from Sky Ranch. However, as of August 31, 2007, Sky Ranch has not cashed the Company’s payments nor has the Company received the water rights deeds as required by the DGPA. The Company anticipates purchasing the remaining 20% of the Sky Ranch groundwater pursuant to the DGPA, by exercising its rights in fiscal 2008 for the final payment of $50,000. The Company will not capitalize any of these payments until it receives the water rights deeds from Sky Ranch.

The Company plans to initially develop the 760 acre-feet of water beneath the Sky Ranch property purchased from the developer of Sky Ranch under the DGPA and the Sky Ranch Agreements. The purchased water is sufficient to provide water service to approximately 1,500 taps. Any taps purchased by Sky Ranch in excess of 1,500 will be serviced utilizing Export Water and are subject to royalty payments to the Land Board and payments to the CAA holders.

The Sky Ranch Agreements provide the developer options to use a combined 1,200 acre-feet of Export Water per year at Sky Ranch after a defined number of taps have been purchased for use at Sky Ranch unless the developer allows the options to expire. The Sky Ranch Agreements call for two options: (i) annual installments of $50,000 over five years (the “Sky Ranch Option”), and (ii) annual installments of $10,400 over five years (the “Hills Option”). Option fees received before the options are exercised or allowed to expire will not be refunded and are deferred and recognized into income ratably until the next option payment is due.

In fiscal 2005 and 2004, the developer remitted the first two $50,000 Sky Ranch Option payments which were both distributed in order of priority to the CAA holders. The Company received $35,000 of the fiscal 2005 distribution in September 2005 and outside parties received $15,000. The Company received this distribution because it had repurchased certain CAA interests in fiscal 2004. Of the amounts paid to the outside parties, $5,231 was allocated to the *Participating Interests in Export Water supply* liability and $9,769 reduced the contingency under the CAA. The Company did not retain any of the fiscal 2004 distributions.

In February 2005, the developer remitted the first $10,400 Hills Option payment which was distributed in order of priority to the CAA holders. Of this distribution, the Company received $7,280 and outside parties received $3,120. Of the amounts paid to the outside parties, $1,088 was allocated to the *Participating Interests in Export Water supply* liability and $2,032 reduced the contingency under the CAA.

As of August 31, 2007, the developer of Sky Ranch has not remitted the Sky Ranch Option payments or the Hills at Sky Ranch Option payments due in our fiscal 2007 and 2006, and therefore the payments, which total $120,800, are past due. Notwithstanding Sky Ranch being in default on its option fees, the Sky Ranch and Hills at Sky Ranch Agreements remain in effect. Continued default by Sky Ranch on payment of option fees for Export Water places the Sky Ranch development at risk of not being able to use our Export Water to service development in excess of the 1,500 single family units. There is currently no development occurring at Sky Ranch and the developer of Sky

Ranch has listed the property for sale. Whether Sky Ranch exercises these options or not has no bearing on the DGPA and the Company fully intends to complete its purchase of the remaining water covered by the DGPA, and to pursue delivery of the deeds for the water acquired.

The Company has dedicated approximately 1,200 acre-feet, or 10%, of the Export Water supply (which is about 4.2% of the Company's overall Rangeview Water Supply) for this project under the Sky Ranch options.

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. The recorded costs of the Paradise water supply include the costs to acquire the Paradise water supply, as well as certain direct legal and engineering costs relating to improvements to the asset. The Paradise Water Supply includes 70,000 acre-feet of conditionally decreed tributary Colorado River water, a right-of-way permit from the United States Department of the Interior, Bureau of Land Management, for the construction of a 70,000 acre-foot dam and reservoir across federal lands, and four unrelated water wells. Due to the strict regulatory requirements for constructing an on-channel reservoir, completing this conditional storage right at its decreed location would be difficult. As a result, there can be no assurance that the Company will ever be able to make use of this asset or sell the water profitably.

Every six years the Paradise Water Supply is subject to a Finding of Reasonable Diligence review by the water court and the State Engineer to determine if the Company is diligently pursuing the development of the water rights. During fiscal 2005, the water court began the latest review. In fiscal 2006 the Company received objections from two parties to its Paradise Water rights. In fiscal 2007, the Company received a Finding of Due Diligence from the State Engineer because the Company and the objectors reached an agreement on the objections. The agreement called for the Company to acknowledge that, pursuant to agreements entered into prior to the Company's acquisition of the Paradise Water Supply, it is required to use the water along the western slope of Colorado, the Company will investigate reservoir sites that are not located directly on the main channel of the Colorado River, and the Company will lease up to 10,000 acre-feet of water to the objectors for a minimal annual lease payment subject to the parties ratable participation in the development costs of the reservoir project.

In accordance with FASB Statement of Financial Accounting Standard No. 144**,** *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), the Company reviews its long-term assets, including the Paradise water supply, for indicators of impairment. Consistent with SFAS 144, the Company compares the carrying amount of the Paradise Water Supply to the sum of the undiscounted cash flows from the expected eventual use of the asset. Assessment of the recoverability of the carrying value of the Paradise Water Supply assumes the Company generates cash flows from the leasing of the Paradise Water Supply to commercial and agricultural uses along the western slope of Colorado. Because the fair value exceeds the carrying value of the Paradise water supply no impairment was found to exist.

NOTE 4 – INVESTMENT IN WELL ENHANCEMENT AND RECOVERY SYSTEMS, LLC

Effective January 30, 2007, the Company entered into an Operating Agreement with Mr. Ryan Clark (who is deemed the indirect beneficial owner of approximately 7% of the Company's common stock by means of his role as manager of TPC Ventures, LLC) and Hydro Resources, Inc. (collectively the Company, Ryan Clark and Hydro Resources, Inc. are referred to as the "LLC Owners") to form Well Enhancement and Recovery Systems, LLC ("Well Enhancement LLC"). Well Enhancement LLC was established to develop a proprietary new deep water well enhancement tool which the LLC Owners believe will increase the efficiency of deep water wells in the Denver metropolitan area. Each of the LLC Owners holds a 1/3 interest in Well Enhancement LLC. The president of the Company will act as the manager of Well Enhancement LLC.

The Company accounts for its investment in Well Enhancement LLC under the equity method pursuant to Accounting Principles Board Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock (as amended)* and Emerging Issues Task Force Issue No. 03-16 *Accounting for Investments in Limited Liability Companies*. As of August 31, 2007, the Company's *Investment in Well Enhancement and Recovery Systems, LLC* account on its balance sheet includes $40,000 of capital contributions made to date by the Company (total initial capital contribution will be approximately $70,000 per LLC Owner) and its 1/3rd share of the $106,700 of net losses of Well Enhancement LLC through August 31, 2007. As of August 31, 2007, Well Enhancement LLC's balance sheet consisted entirely of approximately $13,300 of cash and its results of operations for the seven months ended August 31, 2007 consisted of $106,700 of expenses related to the design of the well enhancement tool.

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 Comprehensive Amendment Agreement No. 1 (the "CAA") in 1996. Upon entering into the CAA, the Company recorded an initial liability of approximately $11.1 million, which represents the cash the Company received and used to purchase its Export Water Supply. In return, 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 accordance with EITF Issue No 88-18 *Sales of Future Revenues*, the obligation for the $11.1 million was recorded as debt, and the remaining $20.7 million contingent liability is not reflected on the Company's balance sheet because the obligation to pay this is contingent on sales of Export Water, the amounts and timing of which are not reasonably determinable.

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. The amount allocated to the liability is approximately 35%, which is the percentage the $11.1 million represented of the original total $31.8 million obligation. The remaining portion, or approximately 65%, is allocated to the contingent obligation. The portion allocated to principal will be recorded as a reduction in the *Participating Interests in Export Water* liability account while the amounts applied to the contingency are recorded on a net revenue basis when funds are received.

In recent years the Company has repurchased various portions of the CAA obligations in priority. The table below summarizes the transactions impacting the CAA obligations since its signing, which are explained in greater detail below the table:

	Export Water Proceeds Received	Export Water Proceeds to Pure Cycle	Total Potential Obligation	Paticipating Interests Liability	Contingency
Original balances	$ -	$ 218,500	$ 31,807,732	$ 11,090,630	$ 20,717,102
Sky Ranch option payment	50,000	-	(50,000)	(17,435)	(32,565)
Acquisitions	-	8,199,333	(8,199,333)	(2,858,920)	(5,340,413)
Balance at August 31, 2004	50,000	8,417,833	23,558,399	8,214,275	15,344,124
Sky Ranch option payment	50,000	(35,000)	(15,000)	(5,231)	(9,769)
Hills at Sky Ranch option payment	10,400	(7,280)	(3,120)	(1,088)	(2,032)
Arapahoe County tap fees *	532,968	(373,078)	(159,890)	(55,754)	(104,136)
Balance at August 31, 2005	643,368	8,002,475	23,380,389	8,152,202	15,228,187
Acquisition	-	4,698,001	(4,698,001)	(1,638,086)	(3,059,915)
Balance at August 31, 2006	643,368	12,700,476	18,682,388	6,514,116	12,168,272
Export Water Sale payments	15,810	(11,067)	(4,743)	(1,655)	(3,088)
Acquisitions	-	10,500,900	(10,500,900)	(3,661,424)	(6,839,476)
Balance at August 31, 2007	$ 659,178	$ 23,190,309	$ 8,176,745	$ 2,851,037	$ 5,325,708

* The Arapahoe County tap fees are less the $34,522 royalty payment to the Land Board.

In July 2007, the Company acquired the rights to approximately $10.5 million of CAA interests in exchange for cash payments of approximately $2.6 million, which was raised in the Company's equity offering in July 2007. As a result, the Company now has the right to retain an additional $10.5 million of the initial $31.8 million of proceeds from the sale of Export Water. When combined with the CAA acquisitions described below and the payments made as a result of the sale of Export Water, the total remaining potential third party obligation as of August 31, 2007 is approximately $8.2 million. The Company recorded a gain on the acquisition of the CAA interests made in July 2007 of approximately $1.0 million. Of this, approximately $765,000 was recorded as a capital contribution because the CAA interests acquired by the Company for approximately $7.8 million were held by parties that are deemed related to the Company.

In August 2006, the Company acquired the rights to approximately $4.7 million of CAA interests, and retired approximately $896,000 of debt (which included approximately $471,500 of accrued interest) in exchange for the issuance of 242,169 shares of restricted common stock valued at approximately $2.1 million. The Company agreed to register these shares, which was completed in fiscal 2007. As a result, the Company recorded a gain on the extinguishment of debt and acquisition of the CAA of $390,900 during the fiscal year ended August 31, 2006.

During fiscal 2004, the Company acquired the rights to approximately $8.2 million of CAA obligations in exchange for cash payments of $2.75 million and the issuance of 40,512 shares of restricted common stock. As a result of these transactions, the Company recorded an extinguishment charge of approximately $217,000 related to this transaction during the fiscal year ended August 31, 2004.

Also see Note 14 – Subsequent Events, regarding the acquisition of approximately $4.7 million of CAA interests in October 2007.

The acquisition of these CAA obligations and debt reduction, reduces the long term impact of the CAA and provides the Company with additional cash flows to fund operations and pursue other business opportunities that may arise.

The CAA includes contractually established priorities. Following the CAA acquisition made by the Company, the Company's priority levels include $5.6 million in the highest priority level, $2.0 million in the third priority level, and the remaining $16.0 million at various other priority levels.

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.

NOTE 6 – ACCRUED LIABILITIES

At August 31, 2007, the Company had accrued liabilities of approximately $85,900, of which $79,500 was for professional fees with the remainder relating to operating payables. At August 31, 2006, the Company had accrued liabilities of approximately $289,600, of which $143,400 was for professional fees (of which $77,800 related to the Arkansas River Agreement as described in Note 3 above), $117,300 related to construction invoices for the County Agreement, and the remainder was for operating payables.

NOTE 7 - LONG-TERM DEBT

As of August 31, 2007, the only debt the Company has with a contractual maturity date is the $26,542 note payable to the estate of the Company's former CEO, which was paid in full in October 2007 and was non-interest bearing and un-secured.

The Participating Interest in Export Water supply and the Tap Participation Fees 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.

As further described in Note 5 above, in August 2006 the Company issued 242,169 shares of restricted common stock as consideration for the extinguishment of approximately $896,000 of debt and accrued interest and $4.7 million of CAA interests. The net gain on this transaction was approximately $390,900 which is reflected in the Company's statement of operations.

As further described in Note 13 below, in December 2005, the Company and the estate of its former CEO agreed to terms whereby the Company paid the estate approximately $195,600 in full consideration of notes payable and accrued interest totaling approximately $558,800.

NOTE 8 - STOCKHOLDERS' EQUITY

Preferred and Common Stock. On July 24, 2007, the Company completed the sale of 1.2 million shares of its common stock in a privately placed registered offering, which raised approximately $9.1 million (less commissions, fees and expenses totaling $275,400). Approximately $2.6 million of the funds raised in the equity offering were used to acquire the $10.5 million of CAA interests described in Note 5 above. The remaining funds will be used to fund the Company's operations.

The Company's non-voting Series B Preferred Stock have a preference in liquidation of $1.00 per share less any dividends previously paid. Additionally, the Series B Preferred Stock are 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 exceeds $36,026,232, the Series B Preferred Stock holders will receive the next $433,000 of proceeds in the form of a dividend.

Stock Options. The Company maintains two stock option plans, the 2004 Incentive Plan which was approved by stockholders in April 2004, and the Equity Incentive Plan which was approved by stockholders in June 1992, (collectively the "Option Plans") for executives, eligible employees and non-employee directors. Under the Option Plans, options to purchase shares of stock can be granted with exercise prices and vesting periods determined by the Compensation Committee of the Board and are exercisable over periods of up to ten years. The Company has 1.6 million shares of common stock reserved for issuance under the 2004 Incentive Plan, of which 1,460,000 options can still be granted. The Equity Incentive Plan expired in 2002 and no additional options can be granted under this plan.

The following table summarizes the stock option activity for the Option Plans for the year ended August 31, 2007:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Approximat e Aggregate Instrinsic Value
Oustanding at August 31, 2006:	661,336	$ 3.08		
Granted	17,500	7.84		
Exercised	(538,836)	1.80		
Forfeited or expired	-	-		
Outstanding at August 31, 2007:	140,000	$ 8.60	8.0	$ (131,700)
Options exercisable at August 31, 2007:	100,000	$ 8.70	7.4	$ (102,700)

The total intrinsic value of options exercised during the year ended August 31, 2007 was approximately $3.2 million.

The following table summarizes the activity and value of non-vested options as of and for the year ended August 31, 2007:

	Number of Options	Weighted-Average Grant Date Fair Value
Non-vested options oustanding at August 31, 2006	60,000	$ 8.10
Granted	17,500	6.62
Vested	(37,500)	8.35
Forfeited	-	-
Non-vested options outstanding at August 31, 2007	40,000	$ 7.22

The total fair value of options vested during the year ended August 31, 2007 was approximately $312,900.

At August 31, 2007, the Company has unrecognized SFAS 123(R) expenses relating to non-vested options that are expected to vest totaling approximately $259,400. The weighted-average period over which these options are expected to vest is approximately one year. The Company has not recorded any excess tax benefits to additional paid in capital.

During the year ended August 31, 2007, the Company issued 538,836 shares of common stock upon the exercise of stock options. The options were exercised at a price of $1.80 per share. The exercise price for the options exercised was paid for by the option holders utilizing 126,521 shares of Company common stock held by the option holders for more than six months with a combined market value at the dates of exercise totaling approximately $969,900, which is included on the line *Treasury Stock* on the accompanying balance sheet.

In August 2007, the Company granted one of its directors options to purchase 2,500 shares of the Company's common stock pursuant to the 2004 Incentive 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 pursuant to SFAS 123(R) at approximately $16,100 using the Black-Scholes model with the following variables: exercise price of $7.64; estimated option life of eight years; estimated dividend rate of 0%; weighted average risk-free interest rate of 4.75%; weighted average stock price volatility of 92.5%; and an estimated forfeiture rate of 0%. The $16,100 of stock-based compensation expense calculated pursuant to SFAS 123(R) will be expensed monthly over the vesting period.

Also in August 2007, the Company granted one of its directors options to purchase 5,000 shares of the Company's common stock pursuant to the 2004 Incentive Plan. The options vest 50% on the first anniversary date of the grant and 50% on the second anniversary date of the grant. The Company calculated the fair value of these options pursuant to SFAS 123(R) at approximately $32,100 using the Black-Scholes model with the following variables: exercise price of $7.61; estimated option life of eight years; estimated dividend rate of 0%; weighted average risk-free interest rate of 4.75%; weighted average stock price volatility of 92.6%; and an estimated forfeiture rate of 0%. The $32,100 of stock-based compensation expense calculated pursuant to SFAS 123(R) will be expensed monthly over the vesting period.

In April 2007, the Company granted four of its directors options to purchase a combined 10,000 shares of the Company's common stock pursuant to the 2004 Incentive 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 pursuant to SFAS 123(R) at approximately $67,700 using the Black-Scholes model with the following variables: approximate weighted average exercise price of $8.00; estimated option lives of eight years; estimated dividend rate of 0%; weighted average risk-free interest rate of 4.625%; weighted average stock price volatility of 93.4%; and an estimated forfeiture rate of 0%. The $67,700 of stock-based compensation expense calculated pursuant to SFAS 123(R) is being expensed monthly over the vesting period.

In August 2006, the Company granted a director an option to purchase 5,000 shares of the Company's common stock pursuant to the 2004 Incentive Plan. The option vests 50% on the first anniversary date of the grant and 50% on the second anniversary date of the grant. The Company calculated the fair value of these options pursuant to SFAS 123(R) at approximately $36,000 using the Black-Scholes model with the following variables: exercise price of $8.27; estimated option life of eight years; estimated dividend rate of 0%; weighted average risk-free interest rate of 4.875%; stock price volatility of 101.6%; and an estimated forfeiture rate of 0%. The $36,000 of stock-based compensation expense calculated pursuant to SFAS 123(R) is being expensed monthly over the vesting period.

Also in August 2006, the Company granted an employee an option to purchase 30,000 shares of the Company's common stock pursuant to the 2004 Incentive Plan. The option vests one-third on each of the next three anniversary dates of the grant. The Company calculated the fair value of these options pursuant to SFAS 123(R) at approximately $232,000 using the Black-Scholes model with the following variables: exercise price of $8.84; estimated option life of eight years; estimated dividend rate of 0%; weighted average risk-free interest rate of 4.875%; stock price volatility of 101.5%; and an estimated forfeiture rate of 0%. The $232,000 of stock-based compensation expense calculated pursuant to SFAS 123(R) is being expensed monthly over the vesting period.

In April 2006 the Company granted four of its directors options to purchase a combined 10,000 shares of the Company's common stock pursuant to the 2004 Incentive 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 pursuant to SFAS 123(R) at approximately $116,000 using the Black-Scholes model with the following variables: weighted average exercise price of $13.25; estimated option lives of eight years; estimated dividend rate of 0%; weighted average risk-free interest rate of 4.93%; weighted average stock price volatility of 101.8%; and an estimated forfeiture rate of 0%. The $116,000 of stock-based compensation expense calculated pursuant to SFAS 123(R) was expensed monthly over the vesting period.

Restricted stock. On August 27, 2007, the Company granted 34,189 shares of restricted common stock to the President of the Company. Pursuant to SFAS 123(R), the Company will recognize compensation expense on this grant based on the grant date fair value of the stock. The grant date fair value of the restricted stock was based upon the market price of the Company's common stock on the date of the grant. The grant date fair value will be amortized to compensation expense over the vesting term of two years.

A summary of the status of our restricted stock at August 31, 2007, and changes during fiscal 2007, are as follows:

	Shares	**Weighted-average grant date fair value**
Restricted stock outstanding at August 31, 2006	-	$ -
Restricted stock granted	34,189	7.59
Restricted stock vested and released	-	-
Restricted stock forfeited	-	-
Restricted stock outstanding at August 31, 2007	34,189	$ 7.59

As of August 31, 2007, there was approximately $259,000 of unrecognized compensation expense related to restricted stock awarded under the Company's 2004 Incentive Plan. This expense is expected to be recognized over a weighted-average period of 2 years.

Warrants. As of August 31, 2007, 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 2007. During fiscal 2006, the Company issued 15,520 shares of common stock upon the exercise of 15,520 warrants. The warrant holder paid the exercise price of $27,936 in cash.

Gain on extinguishment of related party CAA obligations and debt. See Note 13 – *Related Party Transactions* regarding gain on extinguishment of related party CAA obligations and debt recorded as additional paid in capital.

NOTE 9 - SIGNIFICANT CUSTOMERS

The Company had accounts receivable from two customers totaling approximately $61,200 and $60,600 as of August 31, 2007 and 2006, respectively. The same customers accounted for approximately 91%, 96% and 98% of the Company's revenues during the years ended August 31, 2007, 2006 and 2005, 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:

	2007	2006	2005
Deferred tax assets:			
Net operating loss carryforwards	$ 4,440,600	$ 3,366,200	$ 3,472,500
Imputed interest on Tap Participation Fee payable to HP A&M	1,753,000	–	–
Depreciation and depletion of water and water systems	462,400	479,200	77,900
Water tap revenues	154,200	159,500	–
Valuation allowance	(6,810,100)	(4,003,300)	(3,548,900)
Net deferred tax asset	100	1,600	1,500
Deferred tax liabilities:			
Depreciation on property and equipment	(100)	(1,600)	(1,500)
Net deferred assets	$ –	$ –	$ –

The Company has recorded a valuation allowance equal to the excess of the deferred tax assets over the deferred tax liability 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 years ended August 31:

	2007	2006	2005
Expected benefit from federal income taxes at statutory rate of 34%	$ (2,351,000)	$ (269,600)	$ (357,300)
State taxes, net of federal benefit	(228,200)	(26,200)	(34,700)
Expiration of net operating losses	393,900	160,500	176,900
Permanent differences	(621,500)	(319,100)	(215,000)
Change in valuation allowance	2,806,800	454,400	430,100
Total income tax expense	$ –	$ –	$ –

At August 31, 2007, the Company has approximately $11,905,100 of net operating loss carryforwards available for income tax purposes which expire between fiscal 2008 and 2027. 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 approximately $1.1 million, $430,000 and $474,000 expired during the years ended August 31, 2007, 2006 and 2005, 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 years ended August 31, 2007 and 2006, the Company paid fees of approximately $3,400 and less than $1,000, respectively, for the administration of the Plan.

NOTE 12 – SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

	Years Ended August 31,		
	2007	2006	2005
Adjustment to purchase price relating to LAWMA shares acquired from HP A&M	$ 927,682	$ –	$ –
Treasury stock accepted upon exercise of stock options with mature shares used as consideration	$ 969,913	$ 454,595	$ 554,939
Gain on extinguishment of related party debt accounted for as contributed capital	$ 765,071	$ 363,208	$ –
Tap Participation Fee issued to HP A&M pursuant to Arkansas River Agreement	$ –	$ 45,635,000	$ –
Common stock issued to HP A&M pursuant to the Arkansas River Agreement	$ –	$ 36,240,000	$ –
Common stock issued to acquire contingent obligations, and extinguish debt	$ –	$ 2,128,196	$ –
Construction proceeds receivable included in deferred revenue	$ –	$ 864,955	$ –
Investments in water and water systems included with accrued liabilities	$ –	$ 117,287	$ –
Capitalized legal and engineering fees incurred in connection with Arkansas River water acquisition included with accrued liabilities	$ –	$ 77,842	$ –
Water rights acquired with deferred tap fee credits	$ –	$ 52,938	$ –
Estimated common stock registration costs included with accrued liabilities	$ –	$ 15,000	$ –
Restricted common stock issued to former CEO in satisfaction of reimbursement obligation	$ –	$ –	$ 2,415,000

NOTE 13 – RELATED PARTY TRANSACTIONS

On July 30, 2007, the Company acquired approximately $10.5 million of CAA interests, for cash payments totaling approximately $2.6 million, resulting in a gain on extinguishment of approximately $1.02 million. Certain of these parties were deemed related to the Company and therefore, approximately $765,000 of this gain was recorded as a contribution of capital in fiscal 2007.

See "Sale of LAWMA Shares" in Note 3 above regarding Tap Participation Fee payments made to HP A&M pursuant to the Arkansas River Agreement.

On December 29, 2005, the Company and the estate of its former CEO agreed to terms whereby the Company paid the estate $195,573 in full consideration of notes payable and accrued interest totaling $558,781. Because the estate of our former CEO is deemed a related party, the Company recorded the $363,208 gain as a contribution of capital.

The Company leases office space from the son of its former CEO, who is also the sole manager of TPC Ventures, LLC which is a greater than 5% holder of the Company's common stock. The Company leases the office space on a month-to-month basis for $1,000 per month.

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% (10.25% at August 31, 2007) and matures on December 31, 2007. The approximately $475,700 balance of the note receivable at August 31, 2007 includes borrowings of approximately $229,300 and accrued interest of approximately $246,400. The Company extended the due date to December 31, 2008 and accordingly the note has been classified as non-current.

NOTE 14 – SUBSEQUENT EVENTS

On October 1, 2007, the Company acquired the rights to approximately $4.7 million of CAA interests in exchange for the issuance of 211,228 shares of the Company's restricted common stock, valued at approximately $1.9 million. As a result, the Company now has the right to retain an additional $4.7 million of the initial $31.8 million of proceeds from the sale of Export Water. This brings the Company's total to be retained per the CAA as of October 1, 2007 to $28.3 million. As a result of this acquisition, the Company will record a loss on the extinguishment of CAA interests of approximately $273,700 for the three months ended November 30, 2007.

In October 2007, the Company and the County agreed in principal to amend the County Agreement. As of the date of the filing of this Annual Report on Form 10-K, the amendment has not been finalized. See further discussion of proposed amendment to the County Agreement in the *Arapahoe County Fairgrounds Agreement for Water Service* section of Note 3 above.

NOTE 15 – SUPPLEMENTAL DATA: SELECTED QUARTERLY FINANCIAL INFORMATION (unaudited)

In thousands, except per share amounts

Fiscal 2007 quarters ended:	August 31	May 31	February 28	November 30
Total revenues	$ 87.6	$ 62.4	$ 52.0	$ 63.7
Gross margin	$ 43.5	$ 21.9	$ 12.8	$ 22.3
Net loss	$ (1,757.3)	$ (1,742.9)	$ (1,829.3)	$ (1,585.2)
Earnings per share - basic and diluted	$ (0.09)	$ (0.09)	$ (0.10)	$ (0.09)
Market price of common stock				
High	$ 8.66	$ 8.71	$ 9.32	$ 9.74
Low	$ 7.16	$ 6.47	$ 7.60	$ 6.41

Fiscal 2006 quarters ended:	August 31	May 31	February 28	November 30
Total revenues	$ 83.4	$ 67.7	$ 55.0	$ 65.6
Gross margin	$ 55.3	$ 54.8	$ 40.9	$ 46.8
Net loss	$ (79.1)	$ (201.9)	$ (306.8)	$ (205.1)
Earnings per share - basic and diluted	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)
Market price of common stock				
High	$ 11.23	$ 14.48	$ 11.88	$ 8.00
Low	$ 7.67	$ 9.57	$ 6.61	$ 5.56

*****

Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u>

As discussed in our Form 8-K filed with the Commission on December 18, 2006, certain of the properties we acquired from HP A&M pursuant to the Arkansas River Agreement, entered into on August 31, 2006, are subject to outstanding promissory notes (the "Promissory Notes") which are secured by deeds of trust on the properties. We did not assume the Promissory Notes and they remain the obligation of HP A&M. The Promissory Notes had principal and accrued interest totaling approximately $13.9 million and $14.6 at August 31, 2007 and 2006, respectively. Because we would lose a portion of the land and water rights acquired from HP A&M if any defaults on such Promissory Notes are not cured, we originally recorded the outstanding balance of the Promissory Notes as a liability on our balance sheet at August 31, 2006. In December 2006, we were informed by our former auditor, Anton Collins Mitchell LLP ("ACM") of their intent to not stand for re-election. At the time, it was ACM's position that for periods commencing after August 31, 2006, the acquisition date, interest accrued on the Promissory Notes should be treated as an expense paid by a principal shareholder in accordance with Staff Accounting Bulletin No. 79, *Accounting for Expenses or Liabilities by Principal Stockholder(s)*, whereby we would record interest expense, which would have been approximately $950,000 in fiscal 2007, with a corresponding increase to additional paid in capital. Since we did not concur with this position, we requested the Staff of the Office of the Chief Accountant of the Securities and Exchange Commission (the "Staff") to review our proposed treatment of the Promissory Notes. As described in our First Amendment to our August 31, 2006 Form 10-K, following this concurrence review, we removed the liability related to the Promissory Notes from our August 31, 2006 balance sheet. Further information can be obtained from the First Amendment to our August 31, 2006 Annual Report on Form 10-K filed with the Commission on April 16, 2007.

Item 9A. <u>Controls and Procedures.</u>

(a) Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Exchange Act Rule 13a–15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The President and Chief Financial Officer assessed the effectiveness of internal control over financial reporting as of August 31, 2007 based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, the President and Chief Financial Officer concluded that the Company's disclosure controls and procedures have been designed and are being operated in a manner that provides reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. 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

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Securities and Exchange Act of 1934 defines internal control over financial reporting as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's 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 accounting principles generally accepted in the United States of America 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 the assets of the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's 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 the Company's internal control over financial reporting as of August 31, 2007. 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, 2007, the Company's internal control over financial reporting was effective based on those criteria.

GHP Horwath P.C. ("GHP") our independent registered public accounting firm, has performed an audit of the effectiveness of the Company's internal control over financial reporting as of August 31, 2007. This audit is required to be performed in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our independent auditors were given unrestricted access to all financial records and related data. The report of the Company's independent registered public accounting firm is included in *Item 8. Financial Statements and Supplementary Data*.

(c) Changes in Internal Controls

During management's assessment of the effectiveness of our internal controls over financial reporting as reported in our 2006 Form 10-K/A, we identified certain material weaknesses. In an effort to improve our internal controls over financial reporting, we engaged a third party accounting firm to assist us in evaluating complex accounting issues which arose during fiscal 2007 and we implemented new procedures to ensure our filings with the SEC are made on time.

Item 9B. <u>Other Information.</u>

None

PART III

Information concerning Items 10 through Items 14 are contained in our definitive Proxy Statement pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the 2008 Annual Meeting of Stockholders and is incorporated herein by reference, which is expected to be filed on or about December 15, 2007.

PART IV

Item 15. <u>Exhibits, Financial Statement Schedules</u>

(a) Exhibits

3.1 Amended and Restated Certificate of Incorporation - Incorporated by reference from Exhibit 3.1 to Amendment No. 2 to Registration Statement on Form SB-2, filed June 10, 2004, Registration No. 333-114568

3.2 Amended and Restated Bylaws of Registrant - Incorporated by reference from Exhibit 3.2 to Amendment No. 2 to Registration Statement on Form SB-2, filed June 10, 2004, Registration No. 333-114568-.

4.1 Specimen Stock Certificate - Incorporated by reference to Registration Statement No. 2-62483.

10.1 Right of First Refusal Agreement dated August 12, 1992 between INCO Securities Corporation and Richard F. Myers, Mark W. Harding, Thomas P. Clark, Thomas Lamm and Rowena Rogers. Incorporated by Reference from Registration Statement on Form SB-2, filed April 19, 2004, Registration No. 333-114568.

10.2 2004 Equity Incentive Plan. Incorporated by reference from Proxy Statement for Annual Meeting held April 12, 2004

10.3 Service Agreement, dated April 11, 1996, by and between Pure Cycle Corporation and the Rangeview Metropolitan District. Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended May 31, 1996.

10.4 Wastewater Service Agreement, dated January 22, 1997, by and between Pure Cycle Corporation and the Rangeview Metropolitan District. Incorporated by reference from the Annual Report on Form 10-KSB for the fiscal year ended August 31, 1998.

10.5 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 from Quarterly Report on Form 10-QSB for the period ended May 31, 1996.

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

10.7 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 from Registration Statement on Form SB-2, filed April 19, 2004, Registration No. 333-114568.

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

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

10.10 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 30, 2004 pertaining to amendment of the Option Agreement for Export Water. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

10.11 Corrected Amendment to Water Service Agreement for the Sky Ranch PUD dated March 5, 2004. Incorporated by Reference from original Annual Report on Form 10-K for the fiscal year ended August 31, 2006, filed November 21, 2006.

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

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

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

10.15 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 from the Current Report on Form 8-K filed with the SEC on May 21, 2004.

10.16 Agreement for Water Service dated August 3, 2005 among Pure Cycle Corporation, Rangeview Metropolitan District and Arapahoe County incorporated by reference from Form 8-K filed on August 4, 2005.

10.17 Arkansas River Agreement dated May 10, 2006 among Pure Cycle Corporation and High Plains A&M, LLC incorporated by reference from Form 8-K filed on May 16, 2006.

10.18 Purchase and Sale Agreement dated as of August 28, 2006 between Pure Cycle Corporation and Inco Securities Corporation incorporated by reference from Form 8-K filed on September 1, 2006.

10.19 Placement Agent Agreement by and among Pure Cycle Corporation, certain selling stockholders, and Wm Smith Securities, Incorporated and Flagstone Securities, LLC, as Placement Agents, dated July 24, 2007 incorporated by reference from Form 8-K filed on July 25, 2007.

10.20 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Apex Investment Fund II, L.P. *

10.21 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Productivity Fund II, L.P.*

10.22 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Environmental Private Equity Fund II, L.P.*

10.23 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Environmental Venture Fund, L.P.*

10.24 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and the Estate of Thomas P. Clark.*

10.25 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Auginco.*

10.26 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Newell Augur, Jr.*

10.27 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Anders Brag.*

10.28 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Bill Peterson.*

10.29 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Gregory M. Morey.*

10.30 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Amy Leeds.*

10.31 Purchase and Sale Agreements dated July 31, 2007 between Pure Cycle Corporation and Margaret S. Hansson.*

10.32 Purchase and Sale Agreements dated October 1, 2007 between Pure Cycle Corporation and Landmark Water Partners, L.P.*

10.33 Purchase and Sale Agreements dated October 1, 2007 between Pure Cycle Corporation and Landmark Water Partners II, L.P.*

10.34 Purchase and Sale Agreements dated October 1, 2007 between Pure Cycle Corporation and Warwick Partners, L.P.*

10.35 Purchase and Sale Agreements dated October 1, 2007 between Pure Cycle Corporation and International Properties, Inc.*

10.36 Purchase and Sale Agreements dated October 1, 2007 between Pure Cycle Corporation and Fayyaz & Company, Inc.*

14 Code of Ethics as amended August 2, 2007. *

16.1 Letter from Anton Collins Mitchell LLP to the Securities and Exchange Commission, dated December 18, 2006, incorporated by reference from Form 8-K filed on December 18, 2006.

23.1 Consent of GHP Horwath, P.C. *

23.2 Consent of Anton Collins Mitchell LLP *

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

(b) Financial Statement Schedules

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has 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 14, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacity 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 14, 2007
/s/ Harrison H. Augur Harrison H. Augur	Chairman, Director	November 14, 2007
/s/ Mark D. Campbell Mark D. Campbell	Director	November 14, 2007
/s/ Arthur G. Epker III Arthur G. Epker III	Director	November 14, 2007
/s/ Richard L. Guido Richard L. Guido	Director	November 14, 2007
/s/ Peter C. Howell Peter C. Howell	Director	November 14, 2007
/s/ George M. Middlemas George M. Middlemas	Director	November 14, 2007

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. 333-142335) and Form S-8 (No. 333-115240) of Pure Cycle Corporation of our report dated November 12, 2007 (which expresses an unqualified opinion), which appears on page 35 of this annual report on Form 10-K for the year ended August 31, 2007.

/s/ GHP HORWATH, P.C.

Denver, Colorado
November 12, 2007

EXHIBIT 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Pure Cycle Corporation:

We hereby consent to the incorporation by reference in the registration statements on Form S-3 (No. 333-142335) and on Form S-8 (No. 333-114568) of our report on the financial statements of Pure Cycle Corporation dated November 10, 2006, except for the effect of the restatement discussed in Note 1 to the financial statements included within the Form 10-K/A filed by the Company on April 16, 2007, which is dated April 10, 2007. This report appears in the August 31, 2007 annual report on Form 10-K of Pure Cycle Corporation.

/s/ Anton Collins Mitchell LLP

Anton Collins Mitchell LLP
November 12, 2007

Pure Cycle Corporation Proxy Statement

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PURE CYCLE CORPORATION
8451 Delaware Street
Thornton, Colorado 80260
(303) 292-3456

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on January 15, 2008

TO OUR STOCKHOLDERS:

You are cordially invited to attend the annual meeting of the stockholders of Pure Cycle Corporation. 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, 2008 at 2 p.m. Mountain Time for the following purposes:

1. To elect a board of seven directors to serve until the next annual meeting of stockholders, or until their successors have been duly elected and qualified;

2. To approve a proposal to change the state of incorporation of Pure Cycle Corporation from the State of Delaware to the State of Colorado;

3. To ratify the appointment of GHP Horwath, P.C. as our independent registered public accounting firm for the 2008 fiscal year; and

4. To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

Only stockholders of record as of 5:00 p.m. Mountain Time on December 6, 2007 will be entitled to notice of or to vote at this meeting or any adjournment(s) thereof.

WHETHER OR NOT YOU PLAN TO ATTEND, PLEASE DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE. STOCKHOLDERS 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 14, 2007

PURE CYCLE CORPORATION
8451 Delaware Street
Thornton, Colorado 80260
(303) 292-3456

PROXY STATEMENT FOR THE
ANNUAL MEETING OF STOCKHOLDERS
To be held on January 15, 2008

ABOUT THE MEETING

This proxy statement is furnished to stockholders 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 stockholders 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, 2008 at 2 p.m. Mountain Time or at any adjournment thereof.

Proxies were first mailed to stockholders on or about December 14, 2007, and will be solicited primarily by mail. The cost of soliciting proxies is being paid by the Company. In addition to the mailings, the Company's officers, directors and other regular employees may, without additional compensation, solicit proxies personally or by other appropriate means.

What is the purpose of the Meeting?

At the Meeting, stockholders are asked to act upon the matters outlined above in the Notice of Annual Meeting of Stockholders and as described in this proxy statement. The matters to be considered are (i) the election of directors, (ii) the proposal to change the state of incorporation of the Company from Delaware to Colorado (the "reincorporation proposal"), (iii) the ratification of the appointment of the Company's independent auditors for the fiscal year ending August 31, 2008, and (iv) such other matters as may properly come before the Meeting. Additionally, management will be available to respond to appropriate questions.

Who is entitled to vote?

Only stockholders of record as of 5 p.m. Mountain Time on December 6, 2007 (the "Record Date"), are entitled to vote on matters presented at the Meeting. On December 6, 2007, there are 20,206,566 shares of the Company's 1/3 of $.01 par value common stock ("common stock") issued and outstanding.

What are my voting rights?

If you were a stockholder on December 6, 2007, you will be entitled to vote all of the shares that you held on that date at the Meeting or any postponements or adjournments thereof. Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Meeting.

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 you are the stockholder of record, 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 phone by calling the Company's transfer agent at the number listed on the proxy card. If your shares are held beneficially in street name, you may vote your shares by following the instructions provided by your broker.

Can I change or revoke my vote?

A proxy may be revoked by a stockholder any time prior to the exercise thereof by written notice to the Secretary of the Company, by submission of another proxy bearing a later date or by attending the Meeting and voting in person.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders 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 stockholders provide written comments on their proxy cards, which are forwarded to management of the Company.

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 Meeting.

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.

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.

- *Reincorporation of the Company in Colorado* – Approval of proposal 2 requires the affirmative vote of the majority of the shares of common stock issued and outstanding and entitled to vote at the Meeting. With respect to the reincorporation proposal, you may vote "FOR," "AGAINST," or you may "ABSTAIN." If you hold your shares through a nominee such as a broker or bank (i.e., in street name), you must provide your broker with instructions on how to vote the street name shares. Under the rules of The NASDAQ Stock Market ("NASDAQ"), if your broker holds your shares in its name, your broker may not vote your shares on the reincorporation proposal absent instruction from you. Consequently, without your voting instruction on this proposal, a broker non-vote will occur. An abstention, a failure to vote, and a failure to instruct your broker how to vote shares held for you in your broker's name will each have the same effect as a vote against the reincorporation proposal.

- *Ratification of Auditors and Other Matters* – An affirmative vote of the majority of the shares of common stock represented and entitled to vote at the Meeting, is necessary for the approval of proposal 3, the ratification of the appointment of independent auditors, and other matters. For proposal 3 and any other business matters to be voted on, you may vote "FOR," "AGAINST," or you may "ABSTAIN." For the purpose of determining whether such a proposal has received a majority vote, abstentions will be included in the vote totals. An abstention has the same effect as a negative vote. Broker non-votes will not be included in the vote totals and, therefore, will have no effect on the vote.

If no specification is made, then the shares will be voted "FOR" the directors nominated by the board of directors and "FOR" proposals 2 and 3 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 three items of business described in this proxy, 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 our 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.

What if multiple stockholders are at the same address?

The Company adopted a procedure approved by the Securities and Exchange Commission (the "SEC"), called "householding," which reduces printing and postage costs. Under this procedure, stockholders of record who have the same address and last name will receive one copy of the annual report and proxy statement unless one or more of these stockholders notify the Company that they wish to continue receiving individual copies. Stockholders who do not participate in householding will continue to receive separate copies of the annual report and proxy statement.

If a stockholder of record residing at such an address wishes to receive a separate document in the future, he or she may contact our transfer agent at Computershare Trust Company, Inc., 350 Indiana St., Suite #800, Golden, CO 80401, telephone (303) 262-0600, or write to the Company's Secretary at the Company's address set forth above. You also may request a copy of this annual report and proxy material by notifying us at the same address or phone number, and we will undertake to deliver such documents promptly. Stockholders of record receiving multiple copies of the annual report and proxy statement can request householding by contacting us in the same manner. If shares are owned through a bank, broker or other nominee, the holder may request householding by contacting the nominee.

When will the results of the voting being announced?

The Company intends to announce preliminary results at the Meeting and will publish final results in the Form 10-Q for the quarter ending February 28, 2008.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The following table presents the beneficial ownership of the Company's issued and outstanding common stock at December 1, 2007 for (i) each person who owns of record (or is known by 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. Except as otherwise indicated, the Company believes that each of the beneficial owners of the stock listed has sole investment and voting power with respect to such shares, based on information filed by such person with the Securities and Exchange Commission or based on information provided by such stockholders to the Company.

COMMON STOCK

Name and Address of Beneficial Owner	Amount and nature of beneficial ownership		Percent of Shares
Mark W. Harding 8451 Delaware St. Thornton, CO 80260	727,243	1	3.6%
Harrison H. Augur PO Box 4389 Aspen, CO 81611	99,051	2	*
Mark D. Campbell 7600 E. Orchard Road, Suite 370 S Greenwood Village, CO 80111	812,500	3	4.0%
Arthur G. Epker III One International Place, Suite 2401 Boston, MA 02110	-	4	*
Richard L. Guido 8451 Delaware St. Thornton, CO 80260	10,000	5	*
Peter C. Howell 15289 Russell Road Chagrin Falls, OH 44022	8,000	6	*
George M. Middlemas 225 W. Washington, #1500 Chicago, IL 60606	30,000	7	*
All officers and directors as a group (6 persons)	1,686,794	8	8.3%
High Plains A&M, LLC 7600 E. Orchard Road, Suite 370 S Greenwood Village, CO 80111	3,000,000	9	14.8%
Par Capital Management, Inc. Par Investment Partners, L.P. Par Group, L.P. One International Place, Suite 2401 Boston, MA 02110	2,620,439		13.0%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	2,382,500	10	11.8%
TPC Ventures, LLC 8451 Delaware Street Thornton, CO 80260	1,239,705	11	6.1%
Trigran Investments, Inc. 630 Dundee Road, Suite 230 Northbrook, IL 60062	1,147,231	12	5.7%

* Less than 1%

Proxy Statement

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

2) Includes 10,000 shares purchasable by Mr. Augur under currently exercisable options. Includes 10,000 shares of common stock held by Patience Partners, L.P., a limited partnership in which a foundation controlled by Mr. Augur is a 60% limited partner and Patience Partners LLC is a 40% general partner. Patience Partners LLC is a limited liability company in which Mr. Augur owns a 50% membership interest. 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 2,500 shares purchasable by Mr. Campbell under currently exercisable options. Excludes 2,190,000 shares owned by High Plains A&M, LLC ("HP A&M"). By reason of his status as a member and manager of HP A&M, Mr. Campbell has voting authority over the 3,000,000 shares issued to HP A&M, but does not have investment control. Mr. Campbell disclaims beneficial ownership of the shares held by HP A&M except to the extent of his pecuniary interest therein, which is 27% or 810,000 shares of common stock.

4) Excludes 2,620,439 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., which is the general partner of PIP, has investment discretion and voting control over shares held by PIP. No stockholder, director, officer or employee of PCM has beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of any shares held by PIP. The shares held by PIP are part of a portfolio managed by Mr. Epker. As an employee of PCM, Mr. Epker has the authority to trade the securities held by PIP, however, Mr. Epker disclaims beneficial ownership of the shares held by PIP.

5) Includes 10,000 shares purchasable by Mr. Guido under currently exercisable options.

6) Includes 7,500 shares purchasable by Mr. Howell under currently exercisable options.

7) Includes 10,000 shares purchasable by Mr. Middlemas under currently exercisable options.

8) Includes the following shares:

   a. 210,000 shares held by SMA Investments, LLLP as described in number 1 above,
   b. 40,000 shares purchasable by directors and officers under currently exercisable options, and
   c. 10,000 shares of common stock held by Patience Partners, L.P., and 46,111 shares of common stock held by Auginco, as described in number 2 above.

9) By reason of the status of each of H. Hunter White, Mark D. Campbell and M. Walker Baus as a member and manager of High Plains A&M, LLC, each of them is deemed a beneficial owner of these shares. Each of them disclaims beneficial ownership of the shares held by High Plains A&M, LLC, except to the extent of his pecuniary interest in the limited liability company.

10) This disclosure is based on a Schedule 13G filed by Wellington Management Company, LLP on August 10, 2007.

11) By reason of his role as manager of TPC Ventures, LLC, Ryan T. Clark is deemed the indirect beneficial owner of these shares.

12) This disclosure is based on a Schedule 13G filed by Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman and Steven G. Simon on October 10, 2007. By reason of their role as controlling shareholders and sole directors of Trigan Investments, Inc., each of Douglas Granat, Lawrence A. Oberman and Steven G. Simon may be considered the beneficial owners of shares beneficially owned by Trigran Investments Inc. Each of the parties' names above disclaims beneficial ownership of such shares.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the names, ages and titles of the persons who are currently our directors and executive officers, along with other positions they hold with us.

Name	Age	Position
Mark W. Harding	44	Director, President, CEO and CFO
Harrison H. Augur (1)(2)(3)	65	Chairman of the Board
Mark D. Campbell	52	Director
Arthur G. Epker III	45	Director
Richard L. Guido (1)(2)(3)	63	Director
Peter C. Howell (1)(3)	58	Director
George M. Middlemas (2)	61	Director

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Corporate Governance Committee

Code of Ethics

The Company has a code of business conduct and ethics for its directors, officers and employees, which can be viewed on our website at www.purecyclewater.com.

THE BOARD AND ITS COMMITTEES

Committees and Meetings

Audit Committee – The Company has a separately designated-standing Audit Committee, which consists of three non-employee directors, Mr. Howell (Chair) and Messrs. Augur and Guido. The board of directors has determined that the Audit Committee members meet the independence standards of NASDAQ established for audit committee members. 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 and his experiences in acquisitions and 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 our website at www.purecyclewater.com. The Audit Committee met nine (9) times during the fiscal year ended August 31, 2007.

Compensation Committee – Mr. Middlemas is the Chairman of the Compensation Committee and Messrs. Augur and Guido are members of the Compensation Committee. The functions to be performed by the Compensation Committee include establishing the compensation of officers and directors and administering management incentive compensation plans. The Compensation Committee held two (2) meetings during the year ended August 31, 2007. The Company's Compensation Committee Charter can be viewed at our website at www.purecyclewater.com.

Nominating and Corporate Governance Committee – The Nominating and Corporate Governance Committee (the "Nominating Committee") consists of Messrs. Guido (Chairman), Howell and Augur. The board of directors has determined that the members of the Nominating Committee meet the independence standards of NASDAQ. 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. Nominees must be at least 21 years of age and less than 70. The Nominating Committee will consider nominations for director made by stockholders of record entitled to vote. In order to make a nomination for election at the 2009 annual meeting, a stockholder must provide notice, along with supporting information regarding such nominee, to the Company's Secretary by August 15, 2008. The Nominating Committee evaluates nominees recommended by stockholders utilizing the same criteria it uses for other nominees. The Nominating Committee Charter is available on our website at www.purecyclewater.com. The Nominating Committee held two (2) meetings during the fiscal year ended August 31, 2007.

Director Attendance at Annual Meeting – All of our board members are expected to attend the annual meetings. All of our board members attended the 2007 Annual Meeting.

Board meetings held – During the fiscal year ended August 31, 2007, the board of directors held six (6) meetings. All board members were present at, at least 75% of the meetings except Mr. Campbell.

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.

Stockholder Communications with the Board

The board of directors has adopted a policy for stockholders to send communications to the board. The policy is available on the Company's website at www.purecyclewater.com. Stockholders wishing to send communications to the board may contact Mark W. Harding, President of Pure Cycle, at the Company's principal place of business. All such communications shall be shared with the members of the board, or if applicable, a specified committee or director.

Relationship 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.

Terms of Directors and Officers

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

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 separate 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 our non-employee directors in fiscal 2007 for services to the Company.

Summary Director Compensation Table

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Non-Equity Incentive Plan Compensation ($) (d)	Option Awards ($) (1) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All other Compensation ($) (g)	Total ($) (h)
Harrison H. Augur - Chair (2)	$18,500	$ -	$ -	$ 24,107	$ -	$ -	$ 42,607
Mark D. Campbell (3)	$ 1,500	$ -	$ -	$ 18,119	$ -	$ -	$ 19,619
Arthur G. Epker III (4)	$11,000	$ -	$ -	$ 1,337	$ -	$ -	$ 12,337
Richard L. Guido (5)	$18,500	$ -	$ -	$ 24,107	$ -	$ -	$ 42,607
Peter C. Howell (6)	$17,500	$ -	$ -	$ 33,049	$ -	$ -	$ 50,549
George M. Middlemas (7)	$14,000	$ -	$ -	$ 24,107	$ -	$ -	$ 38,107

(1) In addition to cash compensation, as part of the 2004 Incentive Plan approved by stockholders at the 2004 Annual Meeting, 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 2,500 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 dollar amount recognized as expense for financial reporting purposes with respect to the fiscal year ended August 31, 2007. The expense was calculated in accordance with Statement of Financial Accounting Standards No. 123 (revised) - *Share Based Payment (as amended)* ("SFAS 123(R)"). These amounts reflect options granted in fiscal 2007 as well as years prior to fiscal 2007. See *Note 8 – Stockholders' Equity* in our Annual Report on Form 10-K for the year ended August 31, 2007, for more information about how we account for stock based compensation.

(2) Mr. Augur received $14,000 for serving on the board, being the chairmen of the board, and serving on three committees. Mr. Augur also received $4,500, or $500 for each board and committee meeting he attended. Mr. Augur had 12,500 options outstanding as of August 31, 2007, of which 10,000 were exercisable.

(3) Mr. Campbell received $1,500, or $500 for each board and committee meeting he attended. Mr. Campbell had 7,500 options outstanding as of August 31, 2007, of which 2,500 were exercisable.

(4) Mr. Epker received $11,000 for joining the board on August 2, 2007, and joining the CAA Committee. Mr. Epker had 5,000 options outstanding as of August 31, 2007, of which none were exercisable.

(5) Mr. Guido received $14,000 for serving on the board and four committees (this includes the "CAA Committee" of the board which is not described above). Mr. Guido also received $4,500, or $500 for each board and committee meeting he attended. Mr. Guido had 12,500 options outstanding as of August 31, 2007, of which 10,000 were exercisable.

(6) Mr. Howell received $13,000 for serving on the board and three committees. Mr. Howell also received $4,500, or $500 for each board and committee meeting he attended. Mr. Howell had 10,000 options outstanding as of August 31, 2007, of which 7,500 were exercisable.

(7) Mr. Middlemas received $11,000 for serving on the board and one committee. Mr. Middlemas also received $3,000, or $500 for each board and committee meeting he attended. Mr. Middlemas had 12,500 options outstanding as of August 31, 2007, of which 10,000 were exercisable.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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 Guido, three non-employee directors. The Compensation Committee reviews the performance and compensation levels for the executive officers and determines equity grants under the 2004 Incentive Plan. The executive officers may provide information to the committee regarding their compensation; however, the Compensation Committee makes the final determination on executive compensation. Final compensation determinations, including equity awards, are generally made in August at the end of the Company's fiscal year end. The following outlines the philosophy and objectives of the Company's compensation plans.

Q. What are the objectives of the Company's Compensation Committee?

A. The objectives of the Compensation Committee are to correlate executive compensation with the Company's business objectives and performance and to enable the Company to attract, retain and reward executive officers who contribute to its long-term success.

Q. What is the Company's compensation plan designed to do?

A. The Company's compensation plan is designed to attract, retain and motivate high quality executive talent critical to the Company's success. The compensation plan is designed to reward the executive officers of the Company with competitive total pay opportunities through a compensation mix that emphasizes competitive cash and non-cash incentives and merit-based salary increases, while de-emphasizing entitlements and perquisites. The compensation plan is designed to create a mutuality of interest between executives and stockholders through equity ownership programs and to focus the executive's attention on overall corporate objectives, in addition to the executive's personal objectives.

Q. What are the goals of the Compensation Committee?

A. The goals of the Compensation Committee are to provide a total compensation package that considers the compensation practices of companies with which the Company competes, provides variable compensation that is linked to achievement of financial and individual performance goals, and aligns the interests of the executive officer and employees with those of the stockholders of the Company by providing them with an equity ownership in the Company. Compensation is designed to fall within the central tendency of the range of that paid to comparable executives in corporations of similar size and in like industry.

Q. What are the basic elements of the executive officers' pay and how do those fit into the Company's compensation plan?

A. Generally each executive officer receives a base cash salary, cash bonus, and long-term equity incentives. The mixture of these 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 our stockholders. The compensation plan for the President is described below.

Q. Does the Company offer any benefit plans to its executive officers?

A. Each 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.

Q. Does the Company offer any perquisites to its executive officers?

A. The Company's executive officers do not receive any perquisites or personal benefits.

Compensation of the Company's President

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

Base Salary—The Compensation Committee reviewed and approved a salary for the President during the year ending August 31, 2007. His base salary was established by the Compensation Committee based upon competitive compensation data for similarly sized public companies, job responsibilities, level of experience, individual performance and contribution to the business throughout his career with the Company. In making base salary decisions, the committee exercised its discretion and judgment based upon these factors. No specific formula was applied to determine the weight of each factor. While the committee reviewed competitive compensation data, it did not benchmark Mr. Harding's compensation to that of any other company. Base salary for fiscal year 2007 was unchanged from fiscal 2006; however, Mr. Harding was granted a $50,000 increase in his base salary effective September 1, 2007.

Incentive Bonus—The Compensation Committee approved the President's bonus. The Compensation Committee's goal in granting incentive bonuses is to tie a portion of the President's compensation to the performance of the Company and to the President's individual contribution to the Company. Mr. Harding's 2007 bonus was determined by the Compensation Committee based on the performance of Mr. Harding in completing the July 2007 registered equity offering, his continued commitment to the success of the Company and his efforts in marketing the Company to the investing public. Additionally, Mr. Harding's bonus in 2007 was granted to allow him to exercise his remaining stock options before they expired.

Long-Term Stock Incentives—The Compensation Committee provides the Company's President with long-term equity incentive compensation through grants of stock options and restricted stock. The goal of the long-term stock incentives is to align the interests of the President with those of the Company's stockholders and to provide the President 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 restricted stock grants directly motivate an executive to maximize long-term stockholder value. The philosophy of administering the long-term stock incentive plan is to tie the number of stock options and restricted stock awarded to each employee in the plan to the performance of the Company and to the individual contribution of each employee in the plan.

In August 2007, Mr. Harding was granted 34,189 shares of restricted common stock. The amount of restricted stock granted was based on the number of mature shares Mr. Harding utilized to exercise his remaining options. This restricted stock grant was done to maintain Mr. Harding's level of equity interest in the Company. Further details of the restricted stock are presented in the tables below.

Mr. Harding was not granted any stock options during the year ended August 31, 2007.

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 chief executive officer and its other four most highly compensated executive officers. The Company has not established a policy with regard to Section 162(m) of the 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.

Compensation Tables

The following tables set forth information required by Item 402 of Regulation S-K. The Company's President, Mr. Harding, is the Principal Executive Officer and the Principal Financial Officer of the Company. Therefore, all tables contained in this section relate solely to Mr. Harding.

Summary Compensation Table

Name and principal position (a)	Fiscal Year (b)	Base Salary ($) (c)	Bonus ($) (d)	Stock Awards (1) ($) (e)	Option Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Person Value and Non-Qualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (i)	Total ($) (j)
Mark W. Harding	2007	200,000	300,000	259,495	–	–	–	–	759,495
Principal Executive	2006	200,000	250,000	–	–	–	–	–	450,000
and Financial Officer	2005	200,000	150,000	–	–	–	–	–	350,000

(1) This represents the fair value of the 34,189 shares of restricted stock granted to the named executive officer on August 27, 2007. The restricted stock is subject to forfeiture if Mr. Harding ceases to be an employee of the Company. The forfeiture restriction lapses with respect to one half of the shares on the first anniversary date of the grant and with respect to the remaining one half on the second anniversary date of the grant. Pursuant to SFAS 123(R), the Company will recognize compensation expense on this grant based on the grant date fair value of the stock. The grant date fair value of the restricted stock was based upon the market price of the Company's common stock on the date of the grant. The grant date fair value will be amortized to compensation expense over the vesting term of two years, which is the period during which the forfeiture provisions lapse.

Grants of Plan Based Awards

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards:	All Other Option Awards:		
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	Number of Shares of Stock or Units (#) (i)	Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/sh) (k)	Grant Date Fair Value of Stock and Option Awards (l)
Mark W. Harding	August 27	$ -	$ -	$ -	$ -	34,189	34,189	-	-	$ -	$ 259,495

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Plan Incentive Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares of Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (1) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (2) (j)
Mark W. Harding	-	-	-	$ -	-	-	-	34,189	$ 261,204

(1) Forfeiture restrictions lapse with respect to one half of the restricted shares on the first anniversary date of the grant and the remaining one half on the second anniversary date of the grant.

(2) Based on the closing market price of the Company's common stock on August 31, 2007.

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name (a)	Number of shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of shares Acquired on Vesting (#) (d)	Value Realized on Vesting ($) (e)
Mark W. Harding	514,163	$ 2,146,012	-	$ -

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 Plans – The Company does have any Termination of Change in Control Plans. Therefore, the Company has eliminated the Termination of Change in Control Plans Table.

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/ Richard L. Guido

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the board of directors is comprised of three directors and operates under a written charter adopted by the board of directors. The charter is reassessed and updated at least annually, or as needed, in accordance with applicable rules of the Securities and Exchange Commission and NASDAQ. Each of the members of the Audit Committee is a non-employee director and is independent as defined by NASDAQ standards for independence.

Management is responsible for the Company's internal controls and financial reporting process. 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 (United States) and issuing a report thereon. The Audit Committee's primary responsibility is to monitor and oversee these processes and recommend to the board of directors the selection of 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, 2007 with 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 their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee discussed with GHP matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) to the extent applicable. GHP provided the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed 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 Annual Report on Form 10-K for the fiscal year ended August 31, 2007.

/s/ Peter C. Howell
/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

Comprehensive Amendment Agreement No. 1 ("CAA") – In July 2007, the Company acquired the rights to approximately $10.5 million of CAA interests in exchange for cash payments of approximately $2.6 million, which was raised in the registered equity offering in July 2007. Of the $10.5 million of CAA interests acquired, Mr. Middlemas (by reason of his role as partner of Apex Investment Fund II, L.P.) and Mr. Augur held approximately $7.2 million and $200,000, respectively. Because Mr. Middlemas and Mr. Augur are deemed related parties, the gains of approximately $706,000 and $18,000 recorded on these purchases, respectively, were recorded as capital contributions.

Tap Participation Fee Payments – On August 31, 2006, pursuant to an Asset Purchase Agreement (the "Arkansas River Agreement") with HP A&M, the Company purchased approximately 60,000 acre feet of water rights in the Arkansas River and other assets. As consideration for these assets, the Company issued HP A&M 3,000,000 shares of its common stock. 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"), 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. Although the Company did not sell any water taps during the year ended August 31, 2007, the Company did sell 509 Lower Arkansas Water Management Association shares ("LAWMA shares") in its second fiscal quarter. Pure Cycle received a credit towards the Tap Participation Fee from the sale of the LAWMA shares of approximately $849,700 or 505 taps. See *Note 3 – Water, Water Systems and Service Agreements* in the Company's Annual Report on Form 10-K for the year ended August 31, 2007, for more information on the LAWMA shares. As a result of the acquisition, HP A&M owns 14.8% of the outstanding shares of common stock of the Company. As a member and manager of HP A&M, our director, Mr. Campbell, is also deemed to own 14.8% of the common stock. Each of Mr. Campbell and HP A&M is deemed a related party.

Review and Approval of Related Party Transactions

It is our policy as set forth in writing in our 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.

We annually require each of our directors and executive officers to complete a directors' and officers' questionnaire that elicits information about related party transactions. Our 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 and Corporate Governance 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)

The current number of members of the board of directors is fixed at seven. The board of directors nominates the following persons currently serving on the board for reelection to the board: Mark W. Harding, Harrison H. Augur, Mark D. Campbell, Arthur G. Epker III, Richard L. Guido, Peter C. Howell and George M. Middlemas. The board of directors has determined that Messrs. Augur, Epker, Guido, Howell and Middlemas are independent as defined in the NASDAQ listing standards.

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 such persons during at least the last five years:

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. 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 general partner of CA Partners since 1987, and general partner 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.

Mark D. Campbell. Mr. Campbell joined the board on August 31, 2006. Mr. Campbell has spent the past eight years as President of Southwestern Investment Group, Inc. (and its predecessor), a developer of land, shopping centers, water assets and water storage facilities. Since August 2001, Mr. Campbell has also been a manager of High Plains A&M, LLC, a real estate and water rights investment company in the Denver metropolitan area. Mr. Campbell graduated in 1977 with a Bachelor of Science in Business Administration from Colorado State University and became a CPA in 1978. Mr. Campbell also serves as a director of several special districts in Colorado. Mr. Campbell is active in supporting the communities in which he does business, organizations that support people with disabilities, programs for troubled teens and areas that enhance education.

Arthur G. Epker III. Mr. Epker was appointed to the board on August 2, 2007. Upon his appointment, Mr. Epker was elected to chair the CAA Committee. Since 1992, Mr. Epker has been a partner with Par Capital Management, Inc., a private investment company located in Boston, MA. Mr. Epker received his Bachelor of Science from the University of Michigan and received a Master of Business Administration from Harvard Business School.

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 and was an employee of Inco Limited, a Canadian mining company (now known as Vale Inco), from 1980 through February 2004. He previously served on the Company's board pursuant to a voting agreement between Inco and the Company. That agreement is no longer in effect. Mr. Guido was Associate General Counsel of Inco Limited and President, Chief Legal Officer and Secretary of Inco United States, 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.

Peter C. Howell. Mr. Howell was appointed to fill a vacancy on the board on February 3, 2005. From 1997 to present, Mr. Howell has served as an 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. and a number of privately held companies. Mr. Howell received a Master of Arts degree in Economics from Cambridge University.

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 member of the Pennsylvania State University-Library Development Board and Athletic Committee and is a board member of the Joffrey Ballet of Chicago. Mr. Middlemas received a Bachelors 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.

The Proxy cannot be voted for more than the seven nominees named. Directors are elected for one-year terms or until the next annual meeting of the Stockholders 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.

Mr. Campbell was designated as a nominee to the board of directors pursuant to the Arkansas River Agreement, which agreement obligates the Company to nominate and solicit proxies for a director nominee designated by HP A&M through the earlier of (i) the annual meeting of the Company's stockholders held following the fiscal year ended August 31, 2010, (ii) the date on which the Company fully discharges its obligation to pay the Tap Participation Fee, or (iii) August 31, 2011. In addition, Mr. Harding agreed to vote his shares of common stock in favor of the director nominee of HP A&M pursuant to a Voting Agreement for the same period that the Company is obligated to solicit proxies for the HP A&M director nominee.

Mr. Middlemas was designated as a nominee to the board of directors pursuant to the Environmental Private Equity Fund II, L.P. ("EPEF") Voting Agreement, which agreement obligated TPC Ventures, LLC (by reason of the transfer of Mr. Clark's shares in the Company for estate planning purposes); Ms. Hansson, a former director of the Company; and Fletcher Byrom, a former director of the Company, to vote for the designee of the EPEF. This agreement terminated in July 2007, when EPEF sold all of its remaining shares of Company common stock.

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

CHANGE OF THE COMPANY'S STATE OF INCORPORATION FROM DELAWARE TO COLORADO (Proposal No. 2)

General

The board of directors has unanimously approved and recommends that the stockholders approve the change of the Company's state of incorporation from Delaware to Colorado. In order to change the Company's state of incorporation, the Company has formed a wholly owned subsidiary in Colorado named Pure Cycle Water Corporation ("Pure Cycle Colorado"). The Company will change its state of incorporation, *i.e.* reincorporate, pursuant to an Agreement and Plan of Merger, dated as of November 30, 2007 (the "Merger Agreement"), by and between the Company and Pure Cycle Colorado. The Merger Agreement is attached as **Appendix A** to this proxy statement.

No Change in Business, Jobs, Physical Location, Etc.

After the merger, the Company will be a Colorado corporation. The reincorporation merger will not result in any change in the Company's name, headquarters, business, jobs, management, location of any of the Company's offices or facilities, number of employees, taxes payable to the State of Colorado, assets, liabilities or net worth (other than as a result of the costs incident to the reincorporation merger). Company management, including all directors and officers, will remain the same in connection with the reincorporation merger and will assume identical positions with Pure Cycle Colorado. Upon the effective time of the reincorporation merger, your shares of the Company's common stock will be automatically converted into an equal number of shares of common stock in Pure Cycle Colorado, and such shares will continue to trade on the NASDAQ Capital Market under the symbol "PCYO."

Reasons for the Reincorporation

A principle reason for the proposed reincorporation is to save the Company money. Delaware charges an annual franchise tax on the Company which has been as high as $165,000 per year. Colorado does not have a franchise tax. Reincorporating in Colorado will enable the Company to devote more resources to activities directly related to growing the business.

In addition, all of the Company's business activities and assets are located in Colorado. While Delaware courts have a reputation for their expertise in business law, the Company's water rights are subject to laws unique to Colorado and the Colorado courts are better positioned to evaluate the decisions the Company makes with respect to its water rights and its water service activities.

It should be noted that in some instances shareholders of a Colorado corporation have greater rights and hence more protection under Colorado law than under Delaware law. After considering the advantages and disadvantages of the reincorporation proposal, the board of directors concluded that the benefits of being incorporated in Colorado outweighed the benefits of remaining in Delaware, including the continuing expense of Delaware's annual franchise tax.

Pure Cycle Colorado

Pure Cycle Colorado, the Company's wholly owned subsidiary, was incorporated under the Colorado Business Corporation Act ("CBCA" or "Colorado law") under the name "Pure Cycle Water Corporation" exclusively for the purpose of merging with the Company to change its state of incorporation. The address and phone number of Pure Cycle Colorado's principal office are the same as those of the Company. Prior to the reincorporation merger, Pure Cycle Colorado will have no material assets or liabilities and will not have carried on any business.

Upon completion of the reincorporation merger, your rights as a shareholder of the Company will be governed by Colorado law and the articles of incorporation and bylaws of Pure Cycle Colorado (the "Colorado Articles of Incorporation" and the "Colorado Bylaws," respectively). The Colorado Articles and Colorado Bylaws were modeled on the Company's Certificate of Incorporation and Bylaws currently in effect (the "Delaware Certificate of Incorporation" and the "Delaware Bylaws," respectively). The Colorado Articles of Incorporation and the Colorado Bylaws are attached to this proxy statement as **Appendices B** and **C**, respectively. There are some differences between the Colorado Articles of Incorporation and Bylaws and the Delaware Certificate of Incorporation and Bylaws, the most significant of which are described below under the heading "Comparison of Stockholder Rights Before and After the Reincorporation."

The Merger Agreement

The Merger Agreement provides that the Company will merge with and into Pure Cycle Colorado, with Pure Cycle Colorado being the surviving corporation. Pursuant to the Merger Agreement, Pure Cycle Colorado will change its name to Pure Cycle Corporation and it will own all assets and liabilities of the Company, including obligations under its outstanding contracts. The Company's existing board of directors and officers will become the board of directors and officers of Pure Cycle Colorado for identical terms of office.

At the effective time of the reincorporation merger, each outstanding share of the Company's common stock will automatically be converted into one share of one-third of $.01 par value common stock of Pure Cycle Colorado ("Colorado Common Stock"), and each outstanding share of the Company's Series B convertible preferred stock will automatically be converted into one share of $.001 par value Series B convertible preferred stock of Pure Cycle Colorado (the "Colorado Series B Preferred Stock"). You will not have to exchange your existing stock certificates of the Company for stock certificates of Pure Cycle Colorado. However, after consummation of the reincorporation merger, any stockholder desiring a new form of stock certificate (which will replace the word "Delaware" with "Colorado") may submit the existing stock certificate to our transfer agent for cancellation and obtain a new certificate.

Pursuant to the reincorporation merger, the Company's 2004 Incentive Plan will remain in effect. Each award of shares of the Company's common stock under the 2004 Incentive Plan will be converted into an award of shares of Colorado Common Stock on the same terms and conditions as in effect immediately prior to the reincorporation, and each outstanding option to purchase shares of the Company's common stock under the 2004 Incentive Plan will be converted into an option to purchase the same number of shares of Colorado Common Stock on the same terms and conditions as in effect immediately prior to the reincorporation. Options and rights granted under the 2004 Incentive Plan in the future will be for shares of Colorado Common Stock.

The Merger Agreement was unanimously approved by the board of directors of the Company and the board of directors of Pure Cycle Colorado (consisting of our President, Mr. Harding) and subsequently was adopted by the Company, as the sole stockholder of Pure Cycle Colorado. Approval of the reincorporation proposal (which constitutes approval of the Merger Agreement) requires the affirmative vote of the holders of a majority of all of the shares issued and outstanding and entitled to vote on the proposal.

A vote in favor of the reincorporation proposal is a vote to approve the Merger Agreement and therefore the reincorporation merger. A vote in favor of the reincorporation proposal is also effectively a vote in favor of the Colorado Articles of Incorporation and the Colorado Bylaws.

Effective Time

If the reincorporation proposal is approved, the reincorporation merger, and consequently the reincorporation will become effective at the time set forth in each of the Statement of Merger to be filed with the Secretary of State of Colorado in accordance with Section 7-111-104.5 of the CBCA and the Certificate of Ownership and Merger to be filed with the Secretary of State of Delaware in accordance with Section 253 of the Delaware General Corporation Law ("DGCL" or "Delaware law"). The Company anticipates filing these documents shortly after the Meeting. However, the Merger Agreement may be terminated and abandoned by action of the board of directors of the Company at any time prior to the effective time of the reincorporation merger, whether before or after the approval by holders of shares of the Company's common stock, if the board of directors determines for any reason, in its sole judgment and discretion, that the consummation of the reincorporation merger would be inadvisable or not in the best interests of the Company and its stockholders.

Effect of Not Obtaining the Required Vote for Approval

If the reincorporation proposal fails to obtain the requisite vote for approval, the reincorporation merger will not be consummated and the Company will continue to be incorporated in Delaware.

Comparison of Stockholder Rights Before and After the Reincorporation

Because of differences between Delaware law and Colorado law, as well as differences between the Company's governing documents before and after the reincorporation, the reincorporation will effect some changes in the rights of the Company's stockholders. Summarized below are the most significant differences between the rights of the stockholders of the Company before and after the reincorporation. The summary below is not an exhaustive list of all differences or a complete description of the differences described, and is qualified in its entirety by reference to the DGCL, the Delaware Certificate of Incorporation, the Delaware Bylaws, the CBCA, the Colorado Articles of Incorporation, and the Colorado Bylaws.

	Delaware	Colorado
Removal of Directors	Under Delaware law, directors may be removed by stockholders with or without cause by the affirmative vote of the holders of a majority of the issued and outstanding shares of capital stock entitled to vote for the election of directors.	The Colorado Articles of Incorporation are identical to Delaware with respect to the removal of directors by the shareholders without cause. However, under Colorado law, a lesser vote is required to remove directors with cause. Directors may be removed with cause if the number of votes cast in favor of removal exceeds the number of votes cast against removal.
Vacancies on the Board of Directors	Under Delaware law and the Delaware Bylaws, vacancies on the board of directors of the Company	Under Colorado law, because the Colorado Articles of Incorporation do not provide otherwise, any vacancies on

	Delaware	Colorado
	may be filled by the remaining directors or, if there are no remaining directors, by the stockholders.	the board of directors may be filled either by the remaining directors or the shareholders.
Stockholders' Power to Call Special Meetings	The Delaware Bylaws provide that a special meeting of shareholders must be called upon the request of holders of not less than 20% of the outstanding shares of the Company. The board of directors has the right to amend or remove this provision.	The Colorado Bylaws provide that a special meeting of shareholders must be called upon the request of holders of not less than 10% of the outstanding shares of Pure Cycle Colorado. This provision is required by Colorado law.
Notice of Stockholder Nominations for Directors and Business to be Brought Before Meetings	The Delaware Bylaws provide that no business may be brought before the annual meeting of stockholders, including the nomination or election of persons to the board of directors, by a stockholder unless the stockholder satisfies certain advance notice requirements.	The Colorado Bylaws contain identical provisions regarding advance notice of shareholder nominations of directors or notice of business to be brought before the annual meeting of shareholders, except that the Colorado Bylaws include a provision that the shareholder must be eligible to submit a proposal pursuant to Rule 14a-8 under the Securities Exchange Act of 1934. In order to be eligible under Rule 14a-8 to submit a proposal, a shareholder must have continuously held at least $2000 in market value, or 1%, of the securities entitled to be voted on the proposal at the meeting for at least one year prior to the date of submitting the proposal.
Indemnification	The Delaware Certificate of Incorporation provides for mandatory indemnification of officers and directors of the Company, provided they satisfy certain standards of conduct identified by the DGCL. Under Delaware law, a person seeking indemnification is generally required to have acted in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Company.	The Colorado Articles of Incorporation provide for mandatory indemnification of the officers and directors to the fullest extent permitted by Colorado law. Under Colorado law, a person seeking indemnification is generally required to have acted in a manner he or she reasonably believed to have been in the best interests of the corporation. In addition, Colorado law requires us to give shareholders, with or before the next shareholders' meeting, a notice of all indemnification of, or advancement of expenses to, directors in connection with a proceeding by or in the right of the corporation.
Amendment to the (Certificate) Articles of Incorporation	Under the DGCL, a proposed amendment to the Delaware Certificate of Incorporation may not be submitted to a vote of stockholders without the prior approval of the board of directors.	Pursuant to the CBCA, amendments to the Colorado Articles, other than ministerial amendments authorized by the directors without shareholder action, may be proposed either by the board of directors or by the holders of shares representing at least 10% of all of the votes entitled to be cast on the amendment.

	Delaware	**Colorado**
Business Combination Statute	Section 203 of the DGCL provides for a three-year moratorium on certain business combination transactions with "interested stock-holders" (generally, persons who beneficially own 15% or more of the corporation's outstanding voting stock).	The CBCA does not contain any business combination provisions.
Examination of Books and Records	Under Delaware law, any record holder of the Company may, upon written demand under oath stating the purpose, inspect certain records of the Company during usual business hours, provided the demand is made for a purpose reasonably related to such person's interest as a stockholder.	Under Colorado law, any record or beneficial shareholder of a corporation may, upon properly submitted demand, inspect the articles and bylaws of the corporation, and the past three (3) years of (i) minutes of shareholder actions and meetings, (ii) communications with shareholders, and (iii) financial statements. In addition, if a shareholder either (i) has been a shareholder for at least three (3) months or (ii) is a shareholder of at least 5% of all outstanding shares of any class of shares, such shareholder may inspect the list of shareholders and certain other corporate records, including excerpts of minutes of the meetings of the board of directors, provided that the demand is made in good faith for a proper purpose reasonably related to such person's interest as a shareholder.
Dissenters' (Appraisal) Rights	Delaware law provides appraisal rights only in the case of a stockholder objecting to certain mergers or consolidations. Thus, under the DGCL, stockholders have no appraisal rights in a sale, lease or exchange of all or substantially all of a corporation's assets. Appraisal rights in Delaware are available to record holders only. Appraisal rights are not applicable to the Merger.	Under Colorado law, shareholders are entitled to exercise dissenters' rights in the event of certain mergers, share exchanges, and sales, leases, exchanges or other dispositions of all or substantially all of the property of the corporation. Shareholders also may dissent in the case of a reverse stock split that reduces the number of shares owned to a fraction of a share or to scrip if such scrip is to be acquired for cash or voided. Dissenters' rights in Colorado are available to both record holders and beneficial holders. Appraisal rights are not applicable to the Merger.
Franchise Tax	The DGCL requires corporations to pay franchise tax annually (the current maximum is $165,000 per year).	There is no franchise tax in Colorado.

Federal Income Tax Consequences of the Reincorporation Merger

The following discussion addresses the material federal income tax consequences of the reincorporation merger that are applicable to holders of shares of the Company's common stock. The discussion does not address all federal income tax consequences that may be relevant to a particular holder of shares of the Company's common stock, or any foreign, state or local tax considerations. **Accordingly, holders of the Company's common stock are urged to consult their own tax advisors as to the specific federal, foreign, state and local tax consequences to them as a result of the reincorporation merger.**

The following discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury Regulations, judicial authority and administrative rulings and practice, all as of the date hereof. The Company has not and will not request a ruling from the Internal Revenue Service regarding the tax consequences of the reincorporation merger.

We believe that the reincorporation merger and the resulting reincorporation of the Company from Delaware to Colorado will constitute a tax-free reorganization within the meaning of Section 368(a) of the Code. Accordingly, for federal income tax purposes, (i) no gain or loss will be recognized by the holders of shares of the Company's common stock or Series B convertible preferred stock upon consummation of the reincorporation merger, (ii) the aggregate tax basis of shares of Colorado Common Stock and Colorado Series B Preferred Stock received in the reincorporation merger will be the same as the aggregate tax basis of shares of the Company's common stock and Series B convertible preferred stock exchanged in the reincorporation merger and (iii) the holding period of the shares of Colorado Common Stock and Colorado Series B Preferred Stock received in the reincorporation merger will include the period for which shares of the Company's common stock and Series B convertible preferred stock were held.

Accounting Treatment of the Reincorporation Merger

The historical financial statements of the Company, previously reported to the SEC on Forms 10-K and 10-Q, among others, as of and for all periods through the date of this proxy statement, will continue to be treated as the Company's financial statements following the merger.

Regulatory Approval

To the Company's knowledge, the only required regulatory or governmental approval or filing necessary to consummate the reincorporation merger will be the filing of the Statement of Merger with the Secretary of State of Colorado and the filing of the Certificate of Merger with the Secretary of State of Delaware.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE REINCORPORATION OF THE COMPANY IN COLORADO.

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS
(Proposal No. 3)

Action is to be taken by the stockholders 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 auditors of the Company for the fiscal year ending August 31, 2008. 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.

Change in Auditors – On December 15, 2006, the Company replaced Anton Collins Mitchell LLP ("ACM") as its independent registered public accountant. The decision to replace ACM was approved by the Audit Committee of the board of directors. ACM did not, for either of the fiscal years ended August 31, 2006 or 2005, or to the date of the change of auditors, produce a report on the Company's financial statements which contained an adverse opinion or disclaimer of opinion. ACM's reports were not modified as to uncertainty, audit scope or accounting principles.

For either of the two fiscal years ended August 31, 2006 and 2005, and to the date of the change in auditors, there were no reportable events as described in Regulation S-K 229.304(a)(1)(v). During the fiscal years ended August 31, 2006 and 2005, and the subsequent interim period through December 15, 2006 (the date of the change in auditors), there were (i) no disagreements with ACM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to ACM's satisfaction, would have caused ACM to make reference to the subject matter of such disagreement in connection with its reports on the financial statements of the Company except as described below, and (ii) no reportable events as listed in Item 304(a)(1)(v) of Regulation S-K.

As discussed in Item 9 in the Company's Annual Report on Form 10-K for the year ended August 31, 2007, certain of the properties acquired from HP A&M pursuant to the Arkansas River Agreement, entered into on August 31, 2006, are subject to outstanding promissory notes (the "Promissory Notes") which are secured by deeds of trust on the properties. The Company did not assume the Promissory Notes and they remain the obligation of HP A&M. The Promissory Notes had principal and accrued interest totaling approximately $13.9 million and $14.6 at August 31, 2007 and 2006, respectively. Because the Company would lose a portion of the land and water rights acquired from HP A&M if any defaults on such Promissory Notes are not cured, the Company originally recorded the outstanding balance of the Promissory Notes as a liability on its August 31, 2006 balance sheet. In December 2006, the Company was informed by ACM of their intent to not stand for re-election. At the time, it was ACM's position that for periods commencing after August 31, 2006, the acquisition date, interest accrued on the Promissory Notes should be treated as an expense paid by a principal shareholder in accordance with Staff Accounting Bulletin No. 79, *Accounting for Expenses or Liabilities by Principal Stockholder(s)*, whereby the Company would record interest expense, which would have been approximately $950,000 in fiscal 2007, with a corresponding increase to additional paid in capital. Since the Company did not concur with this position, the Company requested the Staff of the Office of the Chief Accountant of the Securities and Exchange Commission (the "Staff") to review its proposed treatment of the Promissory Notes. As described in the Company's First Amendment to its August 31, 2006 Form 10-K, following the consultations with the Staff, the Company removed the liability related to the Promissory Notes from its August 31, 2006 balance sheet. Further information can be obtained from the First Amendment to the August 31, 2006 Annual Report on Form 10-K filed with the Commission on April 16, 2007.

ACM's report on effectiveness of the Company's internal control over financial reporting as of August 31, 2006, identified a material weakness in that the Company's closing process failed to identify all necessary accounting adjustments for certain transactions.

On December 15, 2006, the Company engaged its new independent registered public accountant, GHP. The decision to engage GHP was approved by the Audit Committee of the Board. Since its appointment, the Company has not consulted with GHP on matters of the type contemplated by Item 304(a)(2) of Regulation S-K. GHP reported that the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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 or associate of the Company has any interest in GHP.

Fees – For the fiscal years ended August 31, the Company was billed the following audit, audit-related, tax and other fees by GHP and ACM. The Audit Committee approved 100% of these fees in accordance with the Audit Committee Charter. The audit related fees related to the internal control audits pursuant to the Sarbanes-Oxley Act of 2002, the registered equity offering in July 2007 and the consultations with the Staff of the SEC.

	Fiscal year ended August 31,	
	2007	2006
Audit Fees	$ 55,000	$ 52,000
Audit Related Fees	$ 146,300	$ 20,000
Tax	$ -	$ -
All Other Fees	$ -	$ -

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 INDEPENDENT AUDITORS.

ACTION TO BE TAKEN UNDER THE PROXY

The accompanying Proxy will be voted "FOR" approval of proposals 2 and 3 and "FOR" the directors nominated by the board, unless the Proxy is marked in such a manner as to withhold authority to so vote. The accompanying Proxy will also be voted in connection with the transaction of such other business as may properly come before the Meeting or any adjournment or adjournments 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 Securities and Exchange Commission and furnish the Company with such reports. Based solely upon the review of the copies received by the Company, or upon written representations from these persons, the Company believes that, during the fiscal year ended August 31, 2007, all the directors, executive officers, and 10% beneficial owners had complied with the applicable Section 16(a) filing requirements, except that Mr. Campbell and Mr. Epker each filed a late Form 3 and a late Form 4 for his option grant from the Company upon becoming a director, and Mr. Middlemas filed a late Form 4 for one transaction.

Stockholder Proposals

Stockholder proposals for inclusion in the Proxy Statement for the 2009 Annual Meeting of Stockholders must be received at the principal executive offices of the Company by August 15, 2008 but not before June 16, 2008. For more information refer to the Company's Bylaws which were filed as Appendix C to the Registration Statement on Form SB-2/A filed on June 10, 2004. The Company is not required to include proposals received outside of these dates in the proxy materials for the 2009 Annual Meeting of Stockholders, and any such proposals shall be considered untimely.

Form 10-K Exhibits

The Company has included with this Proxy Statement a copy of its Form 10-K which is part of the Annual Report for the fiscal year ending August 31, 2007, including the financial statements, schedules and list of exhibits. The Company will mail without charge, upon written request or by sending an email to info@purecyclewater.com**,** a copy of its Form 10-K exhibits. Requests should be sent to Pure Cycle Corporation, 8451 Delaware Street, Thornton, CO 80260. They are also available, free of charge, at the SEC's web site, www.sec.gov which can also be accessed through the Company's website at www.purecyclewater.com.

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of November 30, 2007 (this "Agreement"), is to provide for the merger of Pure Cycle Corporation, a Delaware corporation ("PCY Delaware"), into Pure Cycle Water Corporation, a Colorado corporation ("PCY Colorado"). PCY Delaware and PCY Colorado are sometimes hereafter together referred to as the "Constituent Corporations."

RECITALS

A. PCY Colorado is a corporation duly organized and existing under the laws of the State of Colorado, having an authorized capital stock of 65,000,000 shares consisting of 40,000,000 shares of common stock, one-third of one cent ($.00333) par value (the "PCY Colorado Common Stock"), and 25,000,000 shares of preferred stock, one-tenth of one cent ($.001) par value (the "PCY Colorado Preferred Stock").

B. 1,000 shares of PCY Colorado Common Stock are issued and outstanding and owned by PCY Delaware and are the only shares of capital stock of PCY Colorado issued and outstanding.

C. PCY Delaware is a corporation duly organized and existing under the laws of the State of Delaware, having an authorized capital stock of 65,000,00 shares consisting of 40,000,000 shares of common stock, one-third of one cent ($.00333) par value (the "PCY Delaware Common Stock"), and 25,000,000 shares of preferred stock, one-tenth of one cent ($.001) par value (the "PCY Delaware Preferred Stock").

D. The respective boards of directors of PCY Colorado and PCY Delaware have determined that it is advisable and in the best interests of such corporations that PCY Delaware merge with and into PCY Colorado as authorized by the statutes of the states of Delaware and Colorado and upon the terms and subject to the conditions of this Agreement.

E. The respective boards of directors of PCY Colorado and PCY Delaware have, by resolutions duly adopted, approved this Agreement, PCY Delaware has approved this Agreement as the sole stockholder of PCY Colorado, and the board of directors of PCY Delaware has directed that this Agreement be submitted to a vote of its stockholders.

AGREEMENT

In consideration of the premises and the mutual agreements and covenants set forth herein, the parties hereby agree as follows:

1. Merger. Upon the terms and subject to the conditions set forth in this Agreement, PCY Delaware shall be merged with and into PCY Colorado (the "Merger"), and PCY Colorado shall be the surviving corporation (sometimes hereafter referred to as the "Surviving Corporation"). The name of the Surviving Corporation shall be Pure Cycle Corporation.

2. Effective Time. The Merger shall become effective (the "Effective Time") upon the time and date of filing of such documents as required under applicable law.

3. Governing Documents.

(a) The articles of incorporation of PCY Colorado, as in effect immediately prior to the Effective Time, shall be the articles of incorporation of the Surviving Corporation without change or amendment until thereafter amended in accordance with applicable law, except that as of the Effective Time, the name of the Surviving Corporation shall be changed from Pure Cycle Colorado, Inc. to Pure Cycle Corporation.

(b) The bylaws of PCY Colorado, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation without change or amendment until thereafter amended in accordance with applicable law.

(c) References to "the Corporation" in Article VI of the bylaws of PCY Colorado shall include PCY Delaware, in addition to PCY Colorado, so that any person who was a director or officer of PCY Delaware or is or was serving at the request of PCY Delaware as a director, employee, or agent of another corporation, partnership, joint venture, trust, association, or other entity shall stand in the same position under the provisions of said Article VI with respect to PCY Colorado as such person would if such person had served PCY Colorado in the same capacity or is or was so serving such other entity at the request of PCY Colorado, as the case may be.

4. Effects of Merger; Officers and Directors.

(a) At the Effective Time, the separate corporate existence of PCY Delaware shall cease, and PCY Colorado as the Surviving Corporation shall possess all the rights, privileges, powers and franchises of a public and private nature and be subject to all the restrictions, disabilities and duties of PCY Delaware; and all rights, privileges, powers and franchises of PCY Delaware, and all property, real, personal and mixed, and all debts due to PCY Delaware on whatever account, as well as for share subscriptions and all other things in action belonging to PCY Delaware, shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectively the property of the Surviving Corporation as they were of PCY Delaware, and the title to any real estate vested by deed or otherwise in PCY Delaware, shall not revert or be in any way impaired by reason of the Merger; but all rights of creditors and all liens upon any property of PCY Delaware shall be preserved unimpaired, and all debts, liabilities and duties of PCY Delaware shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if such debts, liabilities and duties had been incurred or contracted by the Surviving Corporation. All corporate acts, plans, policies, agreements, arrangements, approvals and authorizations of PCY Delaware and its stockholders, board of directors and committees thereof, officers and agents which were valid and effective immediately prior to the Effective Time, shall be taken for all purposes as the acts, plans, policies, agreements, arrangements, approvals and authorizations of PCY Colorado and shall be as effective and binding thereon as the same were with respect to PCY Delaware.

(b) At the Effective Time, the officers and directors of PCY Delaware shall become the officers and directors of the Surviving Corporation to hold the positions in the Surviving Corporation to which they have been elected as officers of PCY Delaware and to serve in accordance with the bylaws of the Surviving Corporation.

5. Further Assurances. From time to time, as and when required by PCY Colorado, or by its successors and assigns, there shall be executed and delivered on behalf of PCY Delaware such deeds and other instruments, and there shall be taken or caused to be taken by it all such further and other action, as shall be appropriate or necessary in order to vest, perfect or confirm, of record or otherwise, in PCY Colorado the title to and possession of all property, interests, assets, rights, privileges, immunities, powers, franchises and authority of PCY Delaware, and otherwise to carry out the purposes of this Agreement, and the officers and directors of PCY Colorado are fully authorized in the name and on behalf of PCY Delaware or otherwise, to take any and all such action and to execute and deliver any and all such deeds and other instruments.

6. Conversion of Securities in the Merger. At the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof:

(a) Each one (1) share of PCY Delaware Common Stock issued and outstanding immediately prior to the Effective time (excluding shares of PCY Delaware Common Stock held by stockholders who have properly exercised their dissenters' rights under the General Corporation Law of Delaware) shall be converted (without the surrender of stock certificates or any other action) into one (1) fully paid and nonassessable share of PCY Colorado Common Stock.

(b) Each one (1) share of PCY Delaware Preferred Stock issued and outstanding immediately prior to the Effective time shall be converted (without the surrender of stock certificates or any other action) into one (1) fully paid and nonassessable share of PCY Colorado Preferred Stock with the same rights and preferences afforded to the PCY Delaware Preferred Stock prior to the Effective Time.

(c) Each option, warrant, purchase right or other security of PCY Delaware issued and outstanding immediately prior to the Effective Time shall be converted into and shall be an identical security of PCY Colorado. The same number of shares of PCY Colorado Common Stock shall be reserved for purposes of the exercise of such options, warrants, purchase rights, or other securities as is equal to the number of shares of the PCY Delaware Common Stock so reserved as of the Effective Time.

(d) The shares of PCY Colorado Common Stock issued in the name of PCY Delaware shall be cancelled and retired and shall resume the status of authorized and unissued shares of PCY Colorado Common stock and no securities of PCY Colorado shall be issued in respect thereof.

7. Certificates. At and after the Effective Time, all of the outstanding certificates which immediately prior thereto represented shares of PCY Delaware Common Stock, PCY Delaware Preferred Stock, or options, warrants, purchase rights or other securities of PCY

Delaware shall be deemed for all purposes to evidence ownership of and to represent the shares of the respective PCY Colorado Common Stock, PCY Colorado Preferred Stock, or options, warrants, purchase rights, or other securities of PCY Colorado, as the case may be, into which the shares of PCY Delaware Common Stock, PCY Delaware Preferred Stock, or options, warrants, purchase rights or other securities of PCY Delaware represented by such certificates have been converted as herein provided and shall be so registered on the books and records of the Surviving Corporation or its transfer agent. The registered owner of any such outstanding certificate shall, until such certificate shall have been surrendered for transfer or otherwise accounted for to the Surviving Corporation or its transfer agent, have and be entitled to exercise any voting and other rights with respect to, and to receive any dividends and other distributions upon, the shares of PCY Colorado Common stock, PCY Colorado Preferred Stock, or options, warrants, purchase rights or other securities of PCY Colorado, as the case may be, evidenced by such outstanding certificate, as above provided.

8. Amendment. Subject to applicable law, this Agreement may be amended, modified or supplemented by written agreement of the parties at any time prior to the Effective Time.

9. Abandonment. At any time prior to the Effective Time, this Agreement may be terminated and the Merger may be abandoned by the board of directors of either PCY Colorado or PCY Delaware, or both, notwithstanding approval of this Agreement by the stockholders of PCY Delaware, if circumstances arise which, in the opinion of the board of directors of either Constituent Corporation, make the Merger inadvisable.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and the same agreement.

11. No Third Party Beneficiaries. This Agreement is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder.

12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado without regard to the conflict of law principles thereof.

13. Agreement for Service of Process; Dissenting Stockholders. The surviving Corporation, from and after the Effective Time, agrees that it may be sued and served with process in the State of Colorado at 8451 Delaware Street, Thornton, Colorado 80260, in any proceeding for the enforcement of any obligation of PCY Delaware and in any proceeding for the enforcement of any obligation of the Surviving Corporation or PCY Delaware arising from the merger. The Surviving Corporation irrevocably appoints the Secretary of State of the State of Delaware as its agent to accept service of process in any such proceeding.

IN WITNESS WHEREOF, the parties have caused this Agreement and Plan of Merger to be signed by its duly authorized officers as of the date first above written.

ATTEST:

By /s/ Scott Lehman
Scott Lehman, Secretary

Pure Cycle Water Corporation

By /s/ Mark W. Harding
Mark W. Harding, President

ATTEST:

By /s/ Scott Lehman
Scott Lehman, Secretary

Pure Cycle Corporation, a Delaware corporation

By /s/ Mark W. Harding
Mark W. Harding, President

ARTICLES OF INCORPORATION

OF

PURE CYCLE WATER CORPORATION

ARTICLE I

NAME

The name of the corporation is Pure Cycle Water Corporation (the "Corporation").

ARTICLE II

ACT

This Corporation is incorporated under the Colorado Business Corporation Act (the "Act").

ARTICLE III

PURPOSES AND POWERS

The purposes for which the Corporation is organized and its powers are as follows:

Section 3.1 Purposes. To engage in the transaction of all lawful business or pursue any other lawful purpose or purposes for which a corporation may be organized under Colorado law.

Section 3.2 Powers. To have, enjoy, and exercise all of the rights, powers and privileges conferred upon corporations incorporated pursuant to Colorado law, whether now or hereafter in effect, and whether or not herein specifically mentioned.

The foregoing enumeration of purposes and powers shall not limit or restrict in any manner the transaction of other business, the pursuit of other purposes or the exercise of other and further rights and powers that may now or hereafter be permitted or provided by law.

ARTICLE IV

CAPITAL STOCK

Section 4.1 Authorized Shares. The number of shares of capital stock of all classes which the Corporation shall have authority to issue is sixty-five million (65,000,000) shares, of which forty million (40,000,000) shares shall be of a class designated as "common stock," with a par value of one-third of one cent ($.00333) per share, and twenty-five million (25,000,000) shares shall be of a class designated as "preferred stock," with a par value of one-tenth of one cent ($.001) per share.

Section 4.2 Designations, Powers and Preferences. The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions of the shares of each class of stock are as follows:

A. Common Stock. Except for and subject to those preferences, rights, and privileges expressly granted to the holders of preferred stock, and except as may be provided by the laws of the State of Colorado, the holders of common stock shall have exclusively all rights of shareholders of the Corporation, including, but not by way of limitation, (i) unlimited voting rights, (ii) the right to receive dividends, when and as declared by the board of directors out of assets lawfully available therefor, (iii) the right to vote for the election of directors and on all other matters requiring shareholder action, each share being entitled to one vote, and (iv) in the event of any distribution of assets upon the dissolution and liquidation of the Corporation, the right to receive ratably and equally the net assets of the Corporation remaining after the payment to the holders of preferred stock of the specific amounts, if any, which they are entitled to receive as may be provided herein or pursuant hereto.

B. Preferred Stock. Shares of preferred stock may be issued in one or more series at such time or times as the board of directors may determine. All shares of any one series of preferred stock shall be of equal rank and identical in all respects except as to the dates from and after which dividends thereon shall cumulate, if cumulative. Subject to the limitations hereof and the limitations prescribed by law, the board of directors is expressly authorized to fix from time to time, in whole or in part, by resolution or resolutions adopted prior to the issuance of and providing for the establishment and/or issuance of any series of preferred stock, the designation of such series and the powers, preferences, and rights of such series, and the qualifications, limitations or restrictions thereof. The authority of the board of directors with respect to each such series shall include, but shall not be limited to, determination of the following:

(i) The distinctive serial designation and number of shares comprising each such series (provided that the aggregate number of shares constituting all series of preferred stock shall not exceed twenty-five million (25,000,000)), which number may (except where otherwise provided by the board of directors in creating such series) be increased or decreased (but not below the number of shares of such series then outstanding) from time to time by action of the board of directors;

(ii) The rate of dividends, if any, on the shares of that series, whether dividends shall be non-cumulative, cumulative to the extent earned or cumulative (and, if cumulative, from which date or dates), whether dividends shall be payable in cash, property, or rights, or in shares of the Corporation's capital stock, and the relative priority, if any, of payment of dividends on shares of that series over shares of any other series;

(iii) Whether the shares of that series shall be redeemable and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, the event or events upon or after which they shall be redeemable or at whose option they shall be redeemable, and the amount per share payable in case of redemption (which amount may vary under different conditions and at different redemption dates) or the property or rights, including securities of any other corporation, payable in case of redemption;

(iv) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series and, if so, the terms and amounts payable into such sinking fund;

(v) The rights to which the holders of the shares of that series shall be entitled in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series in any such event;

(vi) Whether the shares of that series shall be convertible into or exchangeable for shares of stock of any other class or any other series and, if so, the terms and conditions of such conversion or exchange, including the rate or rates of conversion or exchange, the date or dates upon or after which they shall be convertible or exchangeable or at whose option they shall be convertible or exchangeable, and the method, if any, of adjusting the rates of conversion or exchange in the event of a stock split, stock dividend, combination of shares or similar event;

(vii) Whether the issuance of any additional shares of such series shall be subject to restrictions, or whether any shares of any other series shall be subject to restrictions as to issuance, or as to the powers, preferences or rights of any such other series;

(viii) Voting rights, if any, including, without limitation, the authority to confer multiple votes per share, voting rights as to specified matters or issues or, subject to the provisions of these Articles of Incorporation, voting rights to be exercised either together with holders of common stock as a single class, or independently as a separate class; and

(ix) Any other preferences, privileges and powers and relative, participating, optional or other special rights and qualifications, limitations or restrictions of such series, as the board of directors may deem advisable and as shall not be inconsistent with the provisions of these Articles of Incorporation and to the full extent now or hereafter permitted by the laws of the State of Colorado.

C. Series B Preferred Stock.

(i) Number of Shares and Designation. 432,514 shares of the preferred stock, $.001 par value, of the Corporation are hereby constituted as a series of preferred stock of the Corporation designated as Series B Convertible Preferred Stock (the "Series B Preferred Stock").

(ii) Liquidation.

1. Liquidation Value. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series B Preferred Stock will be entitled to be paid, before any distribution or payment is made upon any other equity securities of the Corporation, the amount of $1.00 per share less an amount equal to all dividends paid thereon (the "Liquidation Value").

2. Notice of Liquidation. The Corporation will mail written notice of any distribution in connection with such liquidation, dissolution or winding up, not less than 60 days prior to the payment date stated therein, to each record holder of Series B Preferred Stock. Neither the consolidation or merger of the Corporation into or with any other corporation or corporations, nor the sale or transfer by the Corporation of all or any part of its assets, nor the reduction of the capital stock of the Corporation, will be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section (ii).

(iii) Dividends.

1. General Obligations. The holders of the Series B Preferred Stock shall be entitled to receive cash dividends when and as declared by the board of directors out of funds legally available for such purpose in a total amount of $1.00 per share, and no more. Each share of Series B Preferred Stock shall earn and accrue a dividend if and when the Corporation receives proceeds from (i) the retirement of the Rangeview Bonds whether for cash or for new bonds or other debt obligations of the District or (ii) the marketing, sale or other distribution of the Rangeview Water Right or the water underlying such right in an amount greater than $35,000,000 plus PPI (a "Qualifying Sale"). Such dividend shall be paid when and as declared by the board of directors and upon completion of any Qualifying Rangeview Sale unless payment is prohibited by Colorado law. No dividends shall be paid on common stock unless all dividends accrued on the Series B Preferred Stock have been paid.

2. Distribution of Partial Dividend Payment. If at any time less than the total amount of dividends have accrued with respect to the Series B Preferred Stock, any payment of such dividends declared by the board of directors will be distributed ratably among the holders of the Series B Preferred Stock based upon the number of shares held by such holders, respectively.

(iv) Optional Redemption.

1. Redemption. The Series B Preferred Stock may be redeemed by the Corporation at its option on any date set by the board of directors, in whole or in part, out of funds legally available therefor, at any time or from time to time, at a redemption price equal to the Liquidation Value.

2. As Alternative to Dividend. In lieu of payment of a dividend accruing from a Qualifying Rangeview Sale, the board of directors may alternatively cause the Corporation to redeem shares of the Series B Preferred Stock, on any date set by the board of directors, in whole or in part, out of funds legally available therefor, at any time or from time to time, at a redemption price equal to the Liquidation Value. If the Corporation elects to redeem shares of Series B Preferred Stock in lieu of paying an accrued dividend, the Corporation must redeem the full number of shares purchasable with the aggregate dividend accrued.

3. Limitation on Use Rangeview Assets. The Series B Preferred Stock may not be redeemed utilizing the Rangeview Assets or proceeds therefrom unless it would be permissible under Section (iii)(3) hereof to use such assets to pay a dividend on the Series B Preferred Stock.

4. Notice of Redemption. Notice of any proposed redemption of shares of Series B Preferred Stock shall be sent to the holders of record of the shares of Series B Preferred Stock to be redeemed, at their respective addresses then appearing on the books of the Corporation, at least 20, but not more than 60 days prior to the date fixed for such redemption (herein referred to as the "Redemption Date"). Each such notice shall specify (i) the Redemption Date, (ii) the Redemption Price, (iii) the place for payment and for delivering the stock certificate(s) and transfer instrument(s) in order to collect the Redemption Price, and (iv) the number of shares to be redeemed. If less than all the outstanding shares of Series B Preferred Stock are to be redeemed, the Corporation shall redeem (or offer to redeem) the outstanding shares of Series B Preferred Stock on a pro rata basis. In order to facilitate the redemption of the shares of Series B Preferred Stock, the board of directors may fix a record date for determination of holders of Series B Preferred Stock to be redeemed, which date shall not be more than 60 (nor less than 10) days prior to the Redemption Date with respect thereto.

5. Return of Stock Certificates. The holder of any shares of Series B Preferred Stock that are redeemed shall not be entitled to receive payment of the Redemption Price for such shares until such holder shall cause to be delivered to the place specified in the notice given with respect to such redemption (i) the certificate(s) representing such shares of Series B Preferred Stock, and (ii) transfer instrument(s) satisfactory to the Corporation and sufficient to transfer such shares of Series B Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on the Redemption Price of any share of Series B Preferred Stock after its Redemption Date.

6. Extinguishment of Rights. At the close of business on the Redemption Date for any share of Series B Preferred Stock to be redeemed, such share shall (provided the Redemption Price of such share has been paid or properly provided for) be deemed to cease to be outstanding and all rights of any person other than the Corporation in such share shall be extinguished on the Redemption Date for such share except for the right to receive the Redemption

Price, without interest, for such share in accordance with the provisions of this Section (iv), subject to applicable escheat laws.

7. Open Market Purchases. The Corporation shall have the right to purchase shares of Series B Preferred Stock in the public market at such prices as may then be available in the public market for such shares and shall have the right at any time to acquire any Series B Preferred Stock from the owner of such shares on such terms as may be agreeable to such owner. Shares of Series B Preferred Stock may be acquired by the Corporation from any shareholder pursuant to this Section (iv)(7) without offering any other shareholder an equal opportunity to sell his or her stock to the Corporation, and no purchase by the Corporation from any shareholder pursuant to this Section (iv)(7) shall be deemed to create any right on the part of any shareholder to sell any shares of Series B Preferred Stock (or any other stock) to the Corporation. The purchase by the Corporation of shares of Series B Preferred Stock pursuant to this Section (iv)(7) shall not be deemed for any purpose to be a redemption. Such shares shall not be entitled to receive dividends while held by the Corporation.

8. Limitations on Redemption Right. Notwithstanding the foregoing provisions of this Section (iv), and subject to the provisions of Section (iii) hereof, if a dividend upon any shares of Series B Preferred Stock is past due, the Corporation shall not purchase or otherwise acquire any shares of Series A-1 Preferred Stock, except pursuant to a purchase or exchange offer made on the same terms to all holders of the Series A-1 Preferred Stock.

9. Mandatory Redemption. No holder of Series B Preferred Stock shall have any right to require the Corporation to redeem any or all of the shares of Series B Preferred Stock.

(v) Voting.

1. General. The holders of Series B Preferred Stock will not have any voting rights except as set forth below or as otherwise from time to time required by law. In connection with any right to vote, each holder of Series B Preferred Stock will have one vote for each such share held. Any shares of Series B Preferred Stock held by the Corporation or any entity controlled by the Corporation shall not have voting rights hereunder and shall not be counted in determining the presence of a quorum.

2. Default Voting Rights. Whenever dividends on the Series B Preferred Stock shall have accrued pursuant to Section (iii)(1), but have not been declared by the board of directors, the holders of the Series B Preferred Stock shall be entitled to vote with the holders of the common stock at any meeting of the shareholders of the Corporation held during the period such dividends remain in arrears. Each share of Series B Preferred Stock shall have one vote when voting with the common stock. The right of the holders of the Series B Preferred Stock to vote with the common stock shall terminate when all

accrued and unpaid dividends on the Series B Preferred Stock have been declared and paid or set apart for payment. Cumulative voting shall not be permitted in the election of directors or otherwise.

3. Class Voting Rights. So long as the Series B Preferred Stock is outstanding, the Corporation shall not, without the affirmative vote or consent of the holders of at least 66-2/3% (or such higher percentage, if any, as may then be required by applicable law) of all outstanding shares of the Series B Preferred Stock voting separately as a class, (i) amend, alter or repeal any provision of the Articles of Incorporation or the By-Laws of the Corporation, so as to affect adversely the relative rights, preferences, qualifications, limitations or restrictions of the Series B Preferred Stock or (ii) create, authorize, issue, or increase the amount of any class or series of stock, or any security convertible into stock of such class or series, ranking senior to the Series B Preferred Stock as to dividend or liquidation rights. A class vote on the part of the Series B Preferred Stock shall, without limitation, specifically not be deemed to be required (except as otherwise required by law or resolution of the board of directors) in connection with: (a) the authorization, issuance or increase in the authorized amount of any shares of any other class or series of stock which ranks junior to, or on a parity with, the Series B Preferred Stock in respect of the payment of dividends and distributions upon liquidation, dissolution or winding up of the Corporation; or (b) the authorization, issuance or increase in the amount of any notes, commercial paper, bonds, mortgages, debentures or other obligations of the Corporation.

4. Preemptive Rights. The holders of shares of Series B Preferred Stock are not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

(vi) Definitions.

1. "Option Agreements" shall mean a certain Option and Purchase Agreement between Inco Securities Corporation and OAR, Incorporated and a certain Option and Purchase Agreement between Inco Securities Corporation and Colorado Water Consultants, Incorporated, each dated November 8, 1990, and amended February 12, 1991, and further amended August 12, 1992, and as many be further amended from time to time.

2. "PPI" shall mean interest at the annual rate of 9% on $8,084,000.00 (which has been accruing since August 12, 1992) which represents the remaining adjusted purchase price of the Rangeview Bonds pursuant to the Option Agreements.

3. "Rangeview Assets" shall mean the Rangeview Bonds and Rangeview Water Rights which the Corporation has rights to market and develop pursuant to a Water Rights Commercialization Agreement (the "Commercialization Agreement") with Inco Securities Corporation dated as of

December 11, 1990, and amended February 12, 1991, and further amended August 12, 1992, and as may be further amended from time to time.

4. "Rangeview Bonds" shall mean the certain notes and bonds issued by the Rangeview Metropolitan District, a quasi-municipal corporation and political subdivision of the State of Colorado (the "District"), having a par value of $24,914,058.00, which Inco Securities Corporation and the Corporation have purchased in part and the remainder of which Inco Securities Corporation has an option to purchase pursuant to the Option Agreements as may be further amended from time to time.

5. "Rangeview Water Right" shall mean the certain 10,000 acre-foot water production right which Inco Securities Corporation has an option to acquire from the District pursuant to a certain Option Agreement For Sale and Operation of Production Right, dated as of November 14, 1990, and amended February 12, 1991, and as may be further amended from time to time.

(vii) Notices. Any notice required hereby to be given to the holders of shares of Series B Preferred Stock shall be sufficiently given if sent by telecopier, registered or certified mail, postage prepaid, by express mail or by other express courier addressed to each holder of record at his or her address appearing on the books of the Corporation. All notices and other communications shall be effective (i) if mailed, when received or three (3) days after mailing, whichever is earlier; (ii) if sent by express mail or courier, when delivered; and (iii) if telecopied, when received by the telecopier to which transmitted (a machine-generated transaction report produced by sender bearing recipient's telecopier number being prima facie proof of receipt).

Section 4.3 Cumulative Voting. Cumulative voting shall not be permitted in the election of directors or otherwise.

Section 4.4 Action Without a Meeting. Any action required or permitted to be taken by the shareholders may be taken without a meeting if shareholders holding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted consent to such action in writing.

ARTICLE V

DIRECTORS

Section 5.1 Initial Director. The initial board of directors shall consist of the following person, who shall serve until the next annual meeting of shareholders and until his successor is duly elected and qualified:

Mark W. Harding
8451 Delaware Street
Thornton, Colorado 80260

Section 5.2 Removal. The shareholders may not remove a director from office without cause, except by the affirmative vote of a majority of the capital stock issued and outstanding and entitled to vote on the election of directors at a meeting called for that purpose. The shareholders may remove a director from office with cause at a meeting called for that purpose if the number of votes cast in favor of removal exceeds the number of votes against removal. The shareholder meeting notice shall state that the purpose, or one of the purposes, of the meeting is removal of the director.

ARTICLE VI

INDEMNIFICATION

Section 6.1 Indemnity. The Corporation shall indemnify, to the fullest extent permitted by law, any person against all liability and expense (including attorneys' fees) incurred by reason of the fact that such person is or was a director or officer of the Corporation, or who, while a director or officer, is or was serving at the request of the Corporation as a director, officer, partner, manager, member, trustee, employee, fiduciary or agent of, or in any similar managerial or fiduciary position of, another domestic or foreign entity or of an employee benefit plan. The Corporation shall also indemnify any person who is serving or has served the Corporation as a director, officer, employee, fiduciary, or agent to the extent and in the manner provided in any bylaw, agreement, insurance policy, vote of shareholders or disinterested directors, or otherwise, so long as such provision is legally permissible.

Section 6.2 Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, fiduciary or agent of the Corporation, or who, while a director, officer, employee, fiduciary, or agent of the Corporation, is or was serving at the request of the corporation as a director, officer, partner, manager, member, trustee, employee, fiduciary or agent of another domestic or foreign entity or of an employee benefit plan, against any liability asserted against or incurred by the person in any such capacity or arising out of the person's status as such, whether or not the Corporation would have the power or would be required to indemnify the person against such liability under the provisions of this Article VI, the Act or under any other applicable law.

Section 6.3 Definition. For the purpose of this Article VI, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any person who is or was a director, officer, employee, fiduciary or agent of such a constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, partner, manager, member, trustee, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other entity or employee benefit plan shall stand in the same position under the provisions of this Article VI with respect to the resulting or surviving corporation as such person would if such person had served the resulting or surviving corporation in the same capacity.

ARTICLE VII

BYLAWS

The board of directors of the corporation shall have the power to adopt bylaws for the governance of the corporation and to amend the bylaws at any time to add, change or delete a provision, unless (i) the Act or the Articles of Incorporation reserve such power exclusively to the shareholders in whole or in part or (ii) a particular bylaw expressly prohibits the board of directors from doing so.

ARTICLE VIII

LIMITATION OF DIRECTOR LIABILITY

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for the liability of the director to the corporation or to its shareholders for monetary damages for: (i) any breach of the director's duty of loyalty to the Corporation or its shareholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) acts specified in Section 7-108-403 of the Act; or (iv) any transaction from which the director derived any improper personal benefit. If the Act hereafter is amended to eliminate or further limit the liability of a director, then the liability of each director shall be eliminated or limited to the fullest extent permitted by the Act, as so amended.

Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation under this Article, as in effect immediately prior to such repeal or modification, with respect to any liability that would have accrued, but for this Article, prior to such repeal or modification.

ARTICLE IX

REGISTERED OFFICE AND REGISTERED AGENT

The street address of the initial registered office of the Corporation is 8461 Delaware Street, Thornton, Colorado 80260. The name of the initial registered agent of the Corporation at such address is Mark W. Harding.

ARTICLE X

INITIAL PRINCIPAL OFFICE

The address of the initial principal office of the Corporation is 8451 Delaware Street, Thornton, Colorado 80260.

ARTICLE XI

INCORPORATOR

The individual named below, being over eighteen years of age, is the true Incorporator of the Corporation, may be contacted at the address provided and is the individual who causes this document to be filed with the Colorado Secretary of State:

Wanda J. Abel, Esq.,
1550 Seventeenth Street
Suite 500
Denver, Colorado 80202.

The powers of the Incorporator expire immediately upon the filing of these Articles of Incorporation with the Colorado Secretary of State.

BYLAWS
OF
PURE CYCLE WATER CORPORATION

ARTICLE I

OFFICES

1.1 Principal Office.

The principal office of Pure Cycle ("Corporation") shall be designated from time to time by the Corporation and may be within or outside the State of Colorado. The Corporation may have offices at such other places as the board of directors may from time to time determine.

1.2 Registered Office and Agent.

The registered office of the Corporation required by the Colorado Business Corporation Act (the "Act") to be maintained in Colorado may, but need not, be identical with the principal office. The initial registered office and initial registered agent of the Corporation in the State of Colorado are specified in the original Articles of Incorporation.

ARTICLE II

SHAREHOLDERS

2.1 Annual Meetings.

The annual meeting of shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on the date and at the time fixed, from time to time, by a resolution of the board of directors. Each such annual meeting shall be held at such place, within or without the State of Colorado, as shall be determined by the board of directors. The day, time, and place of each annual meeting shall be specified in the notice of such annual meeting. Any annual meeting of shareholders may be adjourned from day to day, time to time, and place to place until its business is completed.

2.2 Special Meetings.

Except as otherwise required by law or by the Articles of Incorporation of the Corporation (the "Articles of Incorporation"), special meetings of shareholders may be called by the chairman of the board, the chief executive officer, the president, or the board of directors pursuant to a resolution approved by a majority of the entire board of directors or a sole remaining director. The Corporation shall also hold a special shareholders' meeting if it receives one or more written demands for the meeting, signed and dated by the holders of shares representing at least ten (10%) percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting. A written request for a meeting delivered by shareholders shall state the purpose or purposes of the meeting, shall be delivered to the secretary, and shall comply with the requirements set forth in the third paragraph of Section 2.10 of these bylaws. The term "entire board of directors," as used in these bylaws, means the total number of directors which the Corporation would have if there were no vacancies. Only business within the purpose or purposes described in the notice of the meeting may be conducted at a special shareholders' meeting.

2.3 Shareholder Action.

Any action required or permitted to be taken by the shareholders of the Corporation shall be effected at a duly called annual or special meeting of such shareholders, or without a meeting, without prior notice and without a vote, if the requisite shareholders entitled to vote execute a consent in writing setting forth the action so taken.

No action taken by written consent shall be effective unless, within sixty days after the date the Corporation first receives a writing describing and consenting to the action and signed by a shareholder, the Corporation has received writings that describe and consent to the action, signed by shareholders holding at least the number of shares necessary to authorize or take the action (disregarding any consent that has been revoked as provided below). Action taken pursuant to this Section shall be effective as of the date the last writing necessary to effect the action is received by the Corporation, unless all of the writings necessary to effect the action specify another date, which may be before or after the date the writings are received by the Corporation. Such action shall have the same effect as action taken at a meeting of shareholders and may be described as such in any document. Any shareholder who has signed a writing describing and consenting to an action taken pursuant to this Section may revoke such consent by a writing signed by the shareholder describing the action and stating that the shareholder's prior consent thereto is revoked, if such writing is received by the Corporation before the effectiveness of the action.

If written action is taken with less than unanimous consent of all shareholders entitled to vote upon the action, the Corporation or shareholders taking the action shall, upon receipt by the Corporation of all writings necessary to effect the action, give notice of the action to all shareholders who were entitled to vote upon the action but who have not consented to the action as herein provided. The notice shall contain or be accompanied by the same material, if any, that would have been required under the Act to be given to shareholders in or with notice of the meeting at which the action would have been submitted to the shareholders.

2.4 Notice of Meeting.

Except as otherwise required by statute or the Articles of Incorporation, written notice stating the place, date and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, except that if the number of authorized shares is to be increased, at least thirty days' notice shall be given, either personally or by mail, prepaid telegram, telex, facsimile transmission, cablegram, overnight courier or radiogram, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, first class postage prepaid, addressed to the shareholder at the shareholder's address as it appears on the stock records of the Corporation. If given personally or otherwise than by mail, such notice shall be deemed to be given when either handed to the shareholder or delivered to the shareholder's address as it appears on the stock records of the Corporation.

2.5 Waiver of Notice.

Attendance of a shareholder of the Corporation, either in person or by proxy, at any meeting, whether annual or special, shall constitute a waiver (i) of lack of notice or defective notice of such meeting, except where a shareholder at the beginning of the meeting objects to the holding of the meeting or transacting business at the meeting because of lack of notice or defective notice and (ii) of objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented. A written waiver of notice of any such meeting waiver, signed by the shareholder or shareholders entitled to such notice, whether before, at or after the time for notice or the time of the meeting, shall be equivalent to notice. Neither the business to be transacted at, nor the purposes of, any meeting need be specified in any written waiver of notice. Waivers shall be delivered to the Corporation for inclusion in the minutes or filing with the corporate records, but such delivery and filing shall not be conditions of the effectiveness of the waiver.

2.6 Voting List.

After fixing a record date for a shareholders' meeting, the secretary shall prepare a complete list of the shareholders entitled to be given notice of the meeting. The list shall be arranged by voting groups, and within each voting group by class or series of shares, shall be alphabetical within each class or series, and shall show the address of and the number of shares of each such class and series that are registered in the name of each shareholder. Such list shall be available for inspection by any shareholder beginning at the earlier of ten (10) days before the meeting for which the list was prepared or two (2) business days after the notice is given and continuing through the meeting, and any adjournment thereof, during ordinary business hours either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the principal office of the Corporation. The list shall be produced and kept at the place of the meeting during the whole time of the meeting and may be inspected by any shareholder or an agent or attorney of the shareholder at any time during the meeting or any adjournment.

2.7 Quorum.

Except as otherwise required by law, the Articles of Incorporation or these bylaws, the holders of not less than a majority of the shares entitled to vote at any meeting of the shareholders, present in person or by proxy, shall constitute a quorum. If a quorum exists, action on a matter other than the election of directors by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless a greater number of affirmative votes is required by law or by the Articles of Incorporation. Cumulative voting shall not be permitted in the election of directors or otherwise. At each election for directors, each shareholder entitled to vote at such election has the right to vote all of the shareholder's votes for as many persons as there are directors to be elected and for whose election the shareholder has a right to vote. In an election of directors, that number of candidates equaling the number of directors to be elected, having the highest number of votes cast in favor of their election, are elected to the board of directors. Once a share is present for any purpose at a meeting, including the purpose of determining that a quorum exists, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of the meeting, unless otherwise provided in the Articles of Incorporation or unless a new record date is or shall be set for that adjourned meeting. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting from time to time, without notice if the time and place are announced at the meeting, until a quorum shall be present. At such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

2.8 Record Date.

In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting or at any adjournment of a meeting of shareholders; entitled to receive payment of any dividend or other distribution or allotment of any rights; entitled to exercise any rights in respect of any change, conversion or exchange of stock; or for the purpose of any other lawful action; the board of directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors. The record date shall not be fixed more than seventy (70) days before the date of the proposed action. If no record date is fixed: (i) the record date for determining shareholders entitled to notice of or to vote at any meeting shall be the close of business on the day immediately preceding the day on which notice is given or, if notice is waived by all shareholders, at the close of business on the day immediately preceding the day on which the meeting is held; and (ii) the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating to such other purpose. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting, and the board of directors shall set a new record date if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

Notwithstanding the above, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date a writing upon which the action is taken is first received by the Corporation. The record date for determining shareholders entitled to demand a special meeting shall be the date of the earliest of any of the demands pursuant to which the meeting is called, or the date that is sixty (60) days before the date the first of such demands is received by the corporation, whichever is later.

2.9 Procedure.

The order of business and all other matters of procedure at every meeting of the shareholders may be determined by the presiding officer.

2.10 Advance Notice of Shareholder Proposals and Director Nominations.

Shareholders may nominate one or more persons for election as directors at the annual meeting of shareholders or propose business to be brought before the annual meeting of shareholders, or both, only if (i) such business is a proper matter for shareholder action under applicable Colorado law, (ii) the shareholder has given timely notice in proper written form of such shareholder's intent to make such nomination or nominations or to propose such business, and (iii) the shareholder is eligible to submit a proposal pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or §7-107-102 of the Act.

To be timely, a shareholder's notice relating to the annual meeting shall be delivered to the secretary at the principal executive offices of the Corporation not less than 120 or more than 180 days prior to the first anniversary (the "Anniversary") of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of shareholders. However, if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the Anniversary of the preceding year's annual meeting, then notice by the shareholder to be timely must be delivered to the secretary at the principal executive offices of the Corporation not later than the close of business on the later of (i) the 90th day prior to such annual meeting or (ii) the 15th day following the day on which public announcement of the date of such meeting is first made.

To be in proper form a shareholder's notice to the secretary shall be in writing and shall set forth (i) the name and address of the shareholder who intends to make the nomination(s) or propose the business and, as the case may be, of the person or persons to be nominated or of the business to be proposed, (ii) a representation as to the number of shares held of record by such shareholder, that the shareholder intends to vote such stock at such meeting and, in the case of nomination of a director or directors, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (iii) in the case of nomination of a director or directors, a description of all arrangements or understandings between the shareholder and each nominee or any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder, (iv) such other information regarding each nominee or each matter of business to be proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission pursuant to the Exchange Act, had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed, by the board of directors of the Corporation and (v) in the case of nomination of a director or directors, the consent of each nominee to serve as a director of the Corporation if so elected.

The Chairman of a meeting of shareholders may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedures.

Notwithstanding the foregoing provisions of this section, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this section. Nothing in this section shall affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act. Nothing in this section shall affect any rights of shareholders, if any, to have any nominee included in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE III

DIRECTORS

3.1 Number.

Except as otherwise fixed pursuant to the provisions of the Articles of Incorporation, the number of directors shall be fixed from time to time exclusively by resolutions adopted by the board of directors; provided, however, that the number of directors shall at no time be less than three (3) nor more than fifteen (15); provided, however, that no decrease in the number of directors constituting the board of directors shall shorten the term of any incumbent director; and provided, further, that a newly created directorship established by the election of an additional member of the board by the board of directors shall be deemed to automatically increase the size of the board by one (1).

3.2 Chairman of the Board.

The chairman, if present, shall preside at all meetings of shareholders and of the board and shall perform all duties incident to the office of chairman of the board and all such other duties as may from time to time be assigned to the chairman by the board or by these bylaws.

3.3 Election and Terms.

A director shall hold office until the annual shareholders' meeting for the year in which the director's term expires and thereafter until a successor shall be elected and qualified, subject, however, to such director's prior death, resignation, retirement, disqualification or removal from office.

3.4 Newly Created Directorships and Vacancies.

Except as otherwise fixed pursuant to the provisions of the Articles of Incorporation, newly created directorships resulting from any increase in the number of directors and any vacancies on the board of directors resulting from death, resignation, disqualification, removal or other cause shall be filled by (i) the board of directors, (ii) the affirmative vote of a majority of the remaining directors then in office or a sole remaining director, even though less than a quorum of the board of directors, or (iii) by the shareholders at the next annual meeting or at a special meeting called for that purpose. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the new directorship which was created or the unexpired term of the director's predecessor in office in which the vacancy occurred and until such director's successor shall have been elected and qualified.

3.5 Regular Meetings.

The first meeting of each newly elected board of directors elected at the annual meeting of shareholders shall be held immediately after and at the same place as, the annual meeting of the shareholders, provided a quorum is present, and no notice of such meeting shall be necessary in order to legally constitute the meeting. Regular meetings of the board of directors shall be held at such times and places as the board of directors may from time to time determine.

3.6 Special Meetings.

Special meetings of the board of directors may be called at any time, at any place and for any purpose by the chairman of the board, the chief executive officer, the president or by a majority of the entire board of directors.

3.7 Notice of Meetings.

Notice of regular meetings of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director at his usual place of business or at such other address as shall have been furnished by him for such purpose. Such notice shall be properly and timely given if it is: (i) deposited in the United States mail not later than the third calendar day preceding the date of the meeting or (ii) personally delivered, telegraphed, sent by facsimile transmission or communicated by telephone at least twenty-four hours before the time of the meeting. Such notice need not include a statement of the business to be transacted at, or the purpose of, any such meeting.

3.8 Waiver.

Attendance of a director at a regular or special meeting of the board of directors shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and does not thereafter vote for or assent to action taken at the meeting. A written waiver of notice signed by a director or directors entitled to such notice, whether before, at, or after the time for notice or the time of the meeting, shall be equivalent to the giving of such notice. Such waiver shall be delivered to the secretary for filing with the corporate records, but such delivery and filing shall not be conditions of the effectiveness of the waiver.

3.9 Quorum and Voting.

Except as may be otherwise provided by law, the Articles of Incorporation or in these bylaws, the presence of a majority of the total number of directors then in office immediately before the meeting begins shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the board of directors, and the affirmative act of a majority of the directors present at a meeting at which a quorum is present shall be deemed the act of the board of directors. Less than a quorum may adjourn any meeting of the board of directors from time to time without notice. A director who is present at the meeting of the board of directors when corporate action is taken is deemed to have assented to all action taken at the meeting unless: (i) the director objects at the beginning of the meeting, or promptly upon his/her arrival, to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to any action taken at the meeting; (ii) the director contemporaneously requests that the director's dissent or abstention as to any specific action taken be entered in the minutes of the meeting; or (iii) the director causes written notice of the his/her dissent or abstention as to any specific action to be received by the presiding officer of the meeting before the adjournment of the meeting or by the secretary (or, if the director is the secretary, by another director) promptly after adjournment of the meeting. The right of dissent or abstention as to a specific action in not available to a director who votes in favor or the action taken.

3.10 Participation in Meetings by Telephone.

Members of the board of directors, or of any committee thereof, may participate in any meeting of such board or committee by means of conference telephone or other means of communication by which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

3.11 Powers.

The business, property and affairs of the Corporation shall be managed by or under the direction of its board of directors, which shall have and may exercise all the powers of the Corporation to do all such lawful acts and things as are not by law, by the Articles of Incorporation or by these bylaws, directed or required to be exercised or done by the shareholders.

3.12 Compensation of Directors.

Directors shall receive such compensation for their services as shall be determined by a majority of the entire board of directors, provided that directors who are serving the Corporation as officers or employees and who receive compensation for their services as such officers or employees shall not receive any salary or other compensation for their services as directors.

3.13 Action Without a Meeting.

Unless otherwise restricted by the Articles of Incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors or any committee thereof may be taken without a meeting if written consent thereto is signed by all members of the board of directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the board or committee. Any such consent may be signed in counterparts and shall be effective on the date of the last signature thereon unless otherwise provided therein or unless, before such time as the last director signs, any director has revoked his/her consent by a writing received by the secretary of the corporation. Action taken pursuant to written consent has the same effect as action taken at a meeting of directors and may be described as such in any document.

ARTICLE IV

COMMITTEES

4.1 Designation of Committees.

The board of directors may establish committees for the performance of delegated or designated functions to the extent permitted by law, each committee to consist of one or more members of the board of directors. The creation of a committee and appointment of members to it shall require approval by a majority of all the directors in office when the action is taken.

4.2 Committee Powers and Authority.

The board of directors may provide, by resolution or by amendment to these bylaws, that a committee may exercise all the power and authority of the board of directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, that a committee may not exercise the power or authority of the board of directors in reference to authorizing distributions; approving or proposing to shareholders action that the Act require to be approved by shareholders; amending the Articles of Incorporation; filling vacancies on the board of directors or on any of its committees; approving a plan of merger or conversion not requiring shareholder approval; authorizing or approving reacquisition of shares except according to a formula or method prescribed by the board of directors; authorizing or approving the issuance or sale of shares, or a contract for the sale of shares, or determination of the designation and relative rights, preferences, and limitations of a class or series of shares, except that the board of directors may authorize a committee or an officer to do so within limits specifically prescribed by the board of directors; or adopting, amending or repealing these bylaws.

4.3 Committee Procedures.

To the extent the board of directors or the committee does not establish other procedures for the committee, each committee shall be governed by the procedures established in Section 3.3 (except as they relate to an annual meeting of the board of directors) and Sections 3.4, 3.5, 3.6, 3.7, 3.9, 3.10, 3.12, and 3.13 of these bylaws, as if the committee were the board of directors.

4.4 Director Responsibility.

The creation of, delegation of authority to, or action by committee does not alone constitute compliance by a director with the standards of conduct described in section 7-108-401 of the Act.

ARTICLE V

OFFICERS

5.1 Number.

The officers of the Corporation shall be appointed or elected by the board of directors. The officers shall be a chief executive officer, a president, such number, if any, of executive vice presidents as the board of directors may from time to time determine, such number, if any, of vice presidents as the board of directors may from time to time determine, a secretary, such number, if any, of assistant secretaries as the board of directors may from time to time determine, and a chief financial officer. Any person may hold two (2) or more offices at the same time except the offices of chief executive officer and secretary and the offices of president and secretary.

5.2 Additional Officers.

The board of directors may appoint such other officers as it shall deem appropriate.

5.3 Term of Office, Resignation.

All officers, agents and employees of the Corporation shall hold their respective offices or positions at the pleasure of the board of directors and may be removed at any time by the board of directors with or without cause. Any officer may resign at any time by giving written notice of his resignation to the chief executive officer, the president, or to the secretary, and acceptance of such resignation shall not be necessary to make it effective unless the notice so provides. Any vacancy occurring in any office shall be filled by the board of directors.

5.4 Chief Executive Officer.

The chief executive officer shall be chief executive officer of the Corporation and, subject to the direction and control of the board of directors, shall manage the business of the Corporation. The chief executive officer shall preside at all meetings of the shareholders and directors at which such officer may be present unless the board of directors has appointed a chairman, vice chairman, or other officer of the board to preside at such meetings. The chief executive officer may execute contracts, deeds and other instruments on behalf of the Corporation. The chief executive officer shall have full authority on behalf of the Corporation to attend any meeting, give any waiver, cast any vote, grant any discretionary or directed proxy to any person, and exercise any other rights of ownership with respect to any shares of capital stock or other securities held by the Corporation and issued by any other corporation or with respect to any partnership, trust or similar interest held by the Corporation.

5.5 President.

The president, if any, shall be the officer next in rank after the chief executive officer. The president may execute contracts, deeds and other instruments on behalf of the Corporation. In the absence of the chief executive officer or in the event of his disability, inability or refusal to act, the president shall perform the duties and exercise the power of the chief executive officer. The president shall have full authority on behalf of the Corporation to attend any meeting, give any waiver, cast any vote, grant any discretionary or directed proxy to any person, and exercise any other rights of ownership with respect to any shares of capital stock or other securities held by the Corporation and issued by any other corporation or with respect to any partnership, trust or similar interest held by the Corporation.

5.6 Executive Vice President.

Each executive vice president, if any, shall perform such functions as may be prescribed by the board of directors, the chairman of the board, the chief executive officer or the president. Each executive vice president may execute contracts, deeds and other instruments on behalf of the Corporation. Each executive vice president shall have full authority on behalf of the Corporation to attend any meeting, give any waiver, cast any vote, grant any discretionary or directed proxy to any person, and exercise any other rights of ownership with respect to any shares of capital stock or other securities held by the Corporation and issued by any other corporation or with respect to any partnership, trust or similar interest held by the Corporation. Each executive vice president shall perform such other duties as the board, the chief executive officer or the president may from time to time prescribe or delegate to him.

5.7 Vice President.

Each vice president, if any, shall perform such functions as may be prescribed by the board of directors, the chief executive officer, the president, or any executive vice president. Each vice president may execute contracts, deeds and other instruments on behalf of the Corporation. The vice president shall have full authority on behalf of the Corporation to attend any meeting, give any waiver, cast any vote, grant any discretionary or directed proxy to any person, and exercise any other rights of ownership with respect to any shares of capital stock or other securities held by the Corporation and issued by any other corporation or with respect to any partnership, trust or similar interest held by the Corporation. Each vice president shall perform such other duties as the board, the chief executive officer, the president or any executive vice president may from time to time prescribe or delegate to him.

5.8 Secretary.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and, upon the request of a person entitled to call a special meeting of the board of directors, he shall give notice of any such special meeting. The secretary shall keep the minutes of all meetings of the shareholders, the board of directors or any committee established by the board of directors. The secretary shall be responsible for the maintenance of all records of the Corporation and may attest documents on behalf of the Corporation. The secretary shall perform such other duties as the board, the chief executive officer, the president or any vice president may from time to time prescribe or delegate to him.

5.9 Assistant Secretary.

Each assistant secretary, if any, shall, in general, perform the duties as may be prescribed by the secretary or by the chief executive officer, president, or by the board of directors from time to time. Any assistant secretary or secretaries, when authorized by the board of directors, may sign with the president or a vice president certificates for the Corporation's shares, the issuance of which have been authorized by a resolution of the board of directors.

5.10 Chief Financial Officer.

The chief financial officer shall also be the treasurer of the Corporation and shall be responsible for the control of the funds of the Corporation and the custody of all securities owned by the Corporation. The chief financial officer shall perform such other duties as the board, the chief executive officer or the president may from time to time prescribe or delegate to him.

5.11 Compensation.

Officers shall receive such compensation, if any, for their services as may be authorized or ratified by the board of directors. Election or appointment as an officer shall not of itself create a right to compensation for services performed as such officer.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

6.1 Definitions. As used in this Article VI:

(a) "Corporation" includes any domestic or foreign entity that is a predecessor of the Corporation by reason of a merger or other transaction in which the predecessor's existence ceased upon consummation of the transaction.

(b) "Director" means an individual who is or was a director of the Corporation or an individual who, while a director of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, manager, member, trustee, employee, fiduciary or agent of, or in any similar managerial or fiduciary position of, another domestic or foreign entity or of an employee benefit plan. A director is considered to be serving an employee benefit plan at the Corporation's request if his or her duties to the Corporation also impose duties on, or otherwise involve services by, the director to the plan or to participants in or beneficiaries of the plan. "Director" includes, unless the context requires otherwise, the estate or personal representative of a director.

(c) "Expenses" includes counsel fees.

(d) "Liability" means the obligation incurred with respect to a proceeding to pay a judgment, settlement, penalty, fine, including an excise tax assessed with respect to an employee benefit plan, or reasonable expenses.

(e) "Official capacity" means, when used with respect to a director, the office of director in the Corporation and, when used with respect to a person other than a director as contemplated in Section 6.7, the office in the Corporation held by the officer or the employment, fiduciary or agency relationship undertaken by the employee, fiduciary or agent on behalf of the

Corporation. "Official capacity" does not include service for any other domestic or foreign entity or employee benefit plan.

(f) "Party" includes a person who was, is or is threatened to be made, a named defendant or respondent in a proceeding.

(g) "Proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

6.2 Authority to Indemnify Directors.

(a) Except as provided in Section 6.2(d), the Corporation shall indemnify a person made a party to a proceeding because the person is or was a director against liability incurred in the proceeding if:

(i) The person conducted himself or herself in good faith; and

(ii) The person reasonably believed:

(A) In the case of conduct in an official capacity with the Corporation, that his or her conduct was in the Corporation's best interests; and

(B) In all other cases, that such conduct was at least not opposed to the Corporation's best interests; and

(iii) In the case of any criminal proceeding, the person had no reasonable cause to believe his or her conduct was unlawful.

(b) A director's conduct with respect to an employee benefit plan for a purpose the director reasonably believed to be in the interests of the participants in or beneficiaries of the plan is conduct that satisfies the requirement of Section 6.2(a)(ii)(B). A director's conduct with respect to an employee benefit plan for a purpose that the director did not reasonably believe to be in the interests of the participants in or beneficiaries of the plan shall be deemed not to satisfy the requirements of Section 6.2(a)(i).

(c) The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the director did not meet the standard of conduct described in this Section 6.2.

(d) Except to the extent authorized by a court as provided in the Act, the Corporation may not indemnify a director under this Section 6.2:

(i) In connection with a proceeding by or in the right of the Corporation in which the director was adjudged liable to the Corporation; or

(ii) In connection with any other proceeding charging that the director derived an improper personal benefit, whether or not involving action in an official capacity, in which proceeding the director was adjudged liable on the basis that he or she derived an improper personal benefit.

(e) Indemnification permitted under this Section 6.2 in connection with a proceeding by or in the right of the Corporation is limited to reasonable expenses incurred in connection with the proceeding.

6.3 Mandatory Indemnification of Directors.

The Corporation shall indemnify a person who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which the person was a party because the person is or was a director, against reasonable expenses incurred by the person in connection with the proceeding.

6.4 Advance of Expenses to Directors.

(a) The Corporation shall pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding, within ten (10) days after receipt by the Corporation of a statement or statements reasonably evidencing the expenses incurred, if:

(i) The director furnishes to the Corporation a written affirmation of the director's good faith belief that the director has met the standard of conduct described in Section 6.2.

(ii) The director furnishes to the Corporation a written undertaking, executed personally or on the director's behalf, to repay the advance if it is ultimately determined that the director did not meet the standard of conduct; and

(iii) A determination is made that the facts then known to those making the determination would not preclude indemnification under this Article VI.

(b) The undertaking required by Section 6.4(a)(ii) shall be an unlimited general obligation of the director but need not be secured and may be accepted without reference to financial ability to make repayment.

(c) Determinations and authorizations of payments under this Section 6.4 shall be made in the manner specified in Section 6.6.

6.5 Court-Ordered Indemnification of Directors. Notwithstanding a determination that the director did not meet the standard of conduct set forth in Section 6.2(a) or the fact that the director was adjudged liable in the circumstances described in Section 6.2(d), a director who is or was a party to a proceeding may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction. Neither the failure of the Corporation to have made a determination prior to the commencement of such action that the director is entitled to indemnification hereunder, nor an actual determination by the Corporation that the director is not entitled to indemnification hereunder, shall be a defense to the action or create any presumption that such person is not entitled to indemnification hereunder.

6.6 Determination and Authorization of Indemnification of Directors.

(a) Except to the extent authorized by a court as provided in the Act, the Corporation shall not indemnify a director under Section 6.2 unless authorized in the specific case after a determination has been made that indemnification of the director is permissible in the circumstances because the director has met the standard of conduct set forth in Section 6.2. The Corporation shall not advance expenses to a director under Section 6.4 unless authorized in the specific case after the written affirmation and undertaking required by Section 6.4(a)(i) and 6.4(a)(ii) are received and the determination required by Section 6.4(a)(iii) has been made.

(b) The determinations required by Section 6.6(a) shall be made:

(i) By the board of directors by a majority vote of those present at a meeting at which a quorum is present, and only those directors not parties to the proceeding shall be counted in satisfying the quorum; or

(ii) If a quorum cannot be obtained, by a majority vote of a committee of the board of directors designated by the board of directors, which committee shall consist of two or more directors not parties to the proceeding; except that directors who are parties to the proceeding may participate in the designation of directors for the committee.

(c) If a quorum cannot be obtained as contemplated in Section 6.6(b)(i), and a committee cannot be established under Section 6.6(b)(ii), or even if a quorum is obtained or a committee is designated, if a majority of the directors constituting such quorum or such committee so directs, the determination required to be made by Section 6.6(a) shall be made:

(i) By independent legal counsel selected by a vote of the board of directors or the committee in the manner specified in Section 6.6(b)(i) or 6.6(b)(ii), or, if a quorum of the full board cannot be obtained and a committee cannot be established, by independent legal counsel selected by a majority vote of the full board of directors; or

(ii) By the shareholders.

(d) Authorization of indemnification and advance of expenses shall be made in the same manner as the determination that indemnification or advance of expenses is permissible; except that, if the determination that indemnification or advance of expenses is required or permissible is made by independent legal counsel, authorization of indemnification and advance of expenses shall be made by the body that selected such counsel.

(e) Any indemnification requested by a director under Section 6.2 shall be made no later than forty-five (45) days after receipt of the written request of such person unless a determination is made within said forty-five (45) day period by the persons authorized pursuant to Section 6.6 that such director is not entitled to indemnification hereunder.

6.7 Indemnification of Officers, Employees, Fiduciaries, and Agents.

(a) The Corporation shall indemnify and advance expenses to an officer to the same extent as a director.

(b) The Corporation may indemnify and advance expenses to an employee, fiduciary or agent of the Corporation to the same extent as to a director.

(c) The Corporation may also indemnify and advance expenses to an officer, employee, fiduciary or agent who is not a director to a greater extent than is provided in these bylaws, if not inconsistent with public policy, and if provided for by general or specific action of its board of directors or shareholders or by contract.

6.8 Insurance. The Corporation may purchase and maintain insurance on behalf of a person who is or was a director, officer, employee, fiduciary or agent of the Corporation, or who, while a director, officer, employee, fiduciary or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, manager, member, trustee, employee, fiduciary or agent of another domestic or foreign entity or of an employee benefit plan, against liability asserted against or incurred by the person in that capacity or arising from his or her status as a director, officer, employee, fiduciary or agent, whether or not the Corporation would have power to indemnify the person against the same liability under Section 6.2, 6.3, or 6.7. Any such insurance may be procured from any insurance company designated by the board of directors, whether such insurance company is formed under the laws of the State of Colorado or any other jurisdiction of the United States or elsewhere, including any insurance company in which the Corporation has an equity or any other interest through stock ownership or otherwise.

6.9 Notice to Shareholders of Indemnification of Director. If the Corporation indemnifies or advances expenses to a director under this Article VI in connection with a proceeding by or in the right of the Corporation, the Corporation shall give written notice of the indemnification or advance to the shareholders with or before the notice of the next shareholders meeting. If the next shareholder action is taken without a meeting at the instigation of the board of directors, such notice shall be given to the shareholders at or before the time the first shareholder signs a writing consenting to such action.

6.10 Settlements. Costs, charges or expenses of investigating or defending a proceeding for which indemnity will be sought hereunder may be incurred without the Corporation's consent, provided that no settlement of any such proceeding may be made without the Corporation's consent, which consent shall not be unreasonably withheld.

6.11 Subrogation.

In the event of payment under these bylaws, the indemnifying party or parties shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified person therefor and such indemnified person shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the indemnifying party or parties to effectively bring suit to enforce such rights.

6.12 Presumptions.

In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that such person is entitled to indemnification under this Article VI, and the Corporation shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

6.13 Exception to Right of Indemnification or Advancement of Expenses.

Notwithstanding any other provision of these bylaws, no person shall be entitled to indemnification or advancement of expenses under these bylaws with respect to any proceeding brought by such person, unless the bringing of such proceeding or making of such claim shall have been approved by the board of directors.

6.14 Contract.

The foregoing provisions of this Article VI shall be deemed to be a contract between the Corporation and each director and officer who serves in such capacity at any time while this bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

The foregoing rights of indemnification shall not be deemed exclusive of any other rights to which any director or officer may be entitled apart from the provisions of this Article VI.

6.15 Surviving Corporation.

The board of directors may provide by resolution that references to “the Corporation” in this Article shall include, in addition to this Corporation, all constituent corporations absorbed in a merger with this Corporation so that any person who was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, partner, manager, member, trustee, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other entity shall stand in the same position under the provisions of this Article with respect to this Corporation as such person would if such person had served this Corporation in the same capacity or is or was so serving such other entity at the request of this Corporation, as the case may be.

ARTICLE VII

CAPITAL STOCK

7.1 Certificates.

Shares of stock of the Corporation shall be represented by certificates, or shall be uncertificated shares that may be evidenced by a book-entry system, or a combination of both.

Each certificate shall be signed by or in the name of the Corporation by (i) the chief executive officer, the president, or any executive vice president or vice president and (ii) the secretary or an assistant secretary. Any or all the signatures on the certificate may be a facsimile. The rights and obligations of shareholders are not affected by the fact that their shares are not represented by certificates. Within a reasonable time after the issuance or transfer of shares without certificates, the Corporation shall send to the shareholder a written statement of the information required on certificates by the Act.

7.2 Facsimile Signatures.

In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he, she or it was such officer, transfer agent, or registrar at the date of issue.

7.3 Registered Shareholders.

The Corporation shall be entitled to treat the holder of record of any share or shares of stock of the Corporation as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it has actual or other notice thereof, except as provided by law.

7.4 Cancellation of Certificates.

All certificates surrendered to the Corporation shall be canceled and, except in the case of lost, stolen or destroyed certificates, no new certificates shall be issued until the former certificate or certificates for the same number of shares of the same class of stock have been surrendered and canceled.

7.5 Lost, Stolen, or Destroyed Certificates.

The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed upon the making of an affidavit of that fact by the person claiming the certificate or certificates to be lost, stolen, or destroyed. In its discretion, and as a condition precedent to the issuance of any such new certificate or certificates, the board of directors may require that the owner of such lost, stolen or destroyed certificate or certificates, or such person's legal representative, give the Corporation and its transfer agent or agents, registrar or registrars a bond in such form and amount as the board of directors may direct as indemnity against any claim that may be made against the Corporation and its transfer agent or agents, registrar or registrars on account of the alleged loss, theft, or destruction of any such certificate or the issuance of such new certificate.

7.6 Transfer of Shares.

Certificated shares of stock shall be transferable on the books of the Corporation by the holder thereof, in person or by duly authorized attorney, upon the surrender of the certificate or certificates representing the shares to be transferred, properly endorsed, with such proof or guarantee of the authenticity of the signature as the Corporation or its agents may reasonably require. Uncertificated shares shall be transferable on the books of the Corporation upon the written instruction from the registered owner of such uncertificated shares or from a duly authorized attorney with such proof or guarantee of the authenticity of such instructions as the Corporation or its agents may reasonably require.

7.7 Transfer Agents and Registrars.

The Corporation may have one or more transfer agents and one or more registrars of its stock, whose respective duties the board of directors may, from time to time, define. No certificate of stock shall be valid until countersigned by a transfer agent, if the Corporation shall have a transfer agent, or until registered by the registrar, if the Corporation shall have a registrar. The duties of transfer agent and registrar may be combined.

ARTICLE VIII

SEAL

8.1 Seal.

The board of directors may adopt and provide a seal which shall be circular in form and shall bear the name of the Corporation and the words "Seal" and "Colorado," and which, if adopted, shall constitute the corporate seal of the Corporation.

ARTICLE IX

FISCAL YEAR

9.1 Fiscal Year.

The fiscal year for the Corporation shall be determined from time to time by the board of directors.

ARTICLE X

AMENDMENTS

10.1 Amendments.

Subject to the provisions of the Articles of Incorporation, these bylaws may be altered, amended, or repealed at any regular meeting of the shareholders (or at any special meeting thereof duly called for that purpose) by a majority vote of the shares represented and entitled to vote at such meeting, provided that in the notice of such special meeting, notice of such purpose shall be given. Subject to the laws of the State of Colorado, the Articles of Incorporation and these bylaws, the board of directors may, by majority vote of those present at any meeting at which a quorum is present, amend these bylaws or enact such other bylaws as in their judgment may be advisable for the regulation of the conduct of the affairs of the

Corporation. The board of directors shall have the power to amend or repeal any bylaw adopted by the shareholders unless such power is prohibited by the laws of the State of Colorado, the Articles of Incorporation or by a provision in these Bylaws adopted by shareholders specifying particular provisions of the Bylaws which may not be amended by the board of directors.

The undersigned secretary of the Corporation hereby certifies that the foregoing bylaws are the bylaws of the Corporation in effect as of November 30, 2007.

By: /s/ Scott Lehman
Scott Lehman, Secretary

CORPORATE DATA

Executive Officers and Directors

Mark W. Harding
President
Chief Executive and Chief Financial Officer
Director

Harrison H. Augur
Chairman of the Board

Mark D. Campbell
Director

Arthur G. Epker, III
Director

Richard L. Guido
Chairman of the Nominating and Governance Committee

Peter C. Howell
Chairman of the Audit Committee

George M. Middlemas
Chairman of the Compensation Committee

Pure Cycle's stock is traded on the NASDAQ Capital Market under the symbol "PCYO".

For more information please visit our website at www.purecyclewater.com.

Legal Counsel

Davis, Graham & Stubbs LLP
1550 17th Street, Suite 500
Denver, CO 80202
303.892.9400

Stock Transfer Agent & Register

Computershare Trust Services
350 Indiana Street, Suite 800
Golden, Colorado 80201
303.262.0600

Corporate Auditor

GHP Horwath, P.C.
1670 Broadway, Suite 3000
Denver, CO 80202
303.831.5000

This Annual Report to Stockholders, including the letter to the stockholders 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, as amended. The words "will", "expect", "should", "scheduled", "plan", "believe", "promise", "anticipate", "could" and similar expressions are intended to identify forward-looking statements. PureCycle 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 "PureCycle", "our", "we", and similar terms are not intended to describe or imply particular corporate organizations or relationships.

PureCycle Corporation

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